WHAT COULD HAVE PROMPTED KEYNES TO CALL MONTESQUIEU “THE REAL EQUIVALENT OF ADAM SMITH, THE GREATEST OF FRENCH ECONOMISTS”?  

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Montesquieu never presented a comprehensive economic theoretical system, unlike many of his contemporaries. He did, however, theorise on a diverse selection of economic topics: interest, inflation, the price level, taxation, globalisation, among others, and was evidently well-respected by Keynes. Joelle Grospellier analyses the contribution of this theorist to the political economy and seeks to justify the accolade bestowed on him by Keynes.

Introduction  

Montesquieu, a French political philosopher who lived at the height of the age of enlightenment, was a contemporary of economists such as John Law, Carl, Cantillon, Boisguilbert, and Melon (1689-1755). He influenced many political economy writers of his times, “Justi in Germany, Galiani, Beccaria, and Verri in Italy,…the physiocrats and Turgot in France, and, most significantly, in Scotland….Hume, Sir James Steuart, Ferguson, Smith and Millar” (Hutchison 1988: 221). Despite the extensive treatment Montesquieu gives to political economy in his major work, The Spirit of the Laws, he has not been considered worthy of note by modern economists. His greatest claim to fame as an economist seems to arise from Keynes’ laudatory comment in the preface to the French edition of The General Theory of Employment Interest and Money: “Montesquieu…was the real French equivalent of Adam Smith, the greatest of your economists,” a comment often presented as fanciful by economic theorists (1942). The purpose of this paper is to explore whether Keynes’ assessment should be taken seriously. In order to do so, a brief summary of Montesquieu’s work will help establish a context in which some of Montesquieu’s economic thoughts, namely taxation, money, prices, and the interest rate, can be examined. These building blocks will lead us to the theme of commerce that provides a
synthesis of Montesquieu’s thoughts, leading us to a broader perspective for assessing Keynes’ praise, in accord with the spirit of both authors’ work.

**Montesquieu’s work**

Charles Louis de Secondat, Baron de La Brède and de Montesquieu, was born into the provincial nobility of Bordeaux, under the reign of Louis XIV (1643-1715). He was a lawyer, a magistrate, and a wine producer. In his major writings, *The Persian Letters*, *Considerations on the Causes of the Grandeur of Rome and Its Decline*, *The Spirit of the Laws*, and in a considerable amount of other minor texts, he demonstrated his scholarship in numerous fields such as politics, science, industry, commerce, political economy, religion, philosophy, psychology, art, and education. He is best known for his staunch defence of liberty and his doctrine on the balance of powers that was later to inspire the constitution of the United States. Just as importantly, he introduced the concepts of relativism and historical causation in the analysis of society’s customs and institutions (Caillois 1996: xiv). Governments and their laws are not the expression of divine will, and “the classical quest for the best state, Thomistic natural law, and Lockean natural rights are all rejected as guides to the ordering of political society” (Strauss & Cropsey 1987: 516). Laws arise out of the universal principle of necessity and the vagaries of mechanical causes, and must therefore vary from country to country.

Montesquieu presents three types of government linked to the amount of liberty they encapsulate, the first two of which he calls “moderate”: republics, where sovereignty is in the hands of all people (democratic republic) or a group of them (aristocratic republic), and which are guided by the principle of political virtue (here, love of the homeland and of equality), and monarchy, where one person only is the sovereign but there are established laws, and where the guiding principle is honour, and despotism, where one person reigns, without fixed laws, and where the guiding principle is fear.

Montesquieu undoubtedly was an independent thinker. His writings paved the way for a host of new disciplines: “political economy, the history of commerce and of legislation, demography, formal sociology and its methodology, descriptive sociology and, within it, its different branches: comparative studies of laws, religions, institutions, regimes, and of the principles on which they rest, of the elements which consolidate them or lead them to destruction”\(^1\) (Caillois 1996: xi). Despite the presence of factual inaccuracies in his writing, his methodology lived on, and he left an enduring legacy to political thought and practice. After

\(^1\) My translation from the original French text.
this brief review of Montesquieu’s achievements, our enquiry will now turn to his specific contribution to the field of economics.

Montesquieu as an Economist

Five out of the thirty-one books of *The Spirit of the Laws* are dedicated to political economy (XIII and XX to XXIII), and many economic comments are scattered in the remainder of his work. According to Vernière, Montesquieu had to examine whether the factors he had considered so far (political, moral, climatic) remained valid in the context of political economy, which “is a framework, larger than the national framework, where the mechanisms derived from the typology of governments could no longer apply”² (1977: 86). Although Montesquieu wrote comprehensively on taxation, the role of money and the exchange rate, the scope of this article will only allow me to mention briefly a few salient points about them that will help further my present enquiry. The main focus will be on the quantity of money, price levels and the interest rate, all of which being directly relevant to Keynes’ comments on Montesquieu. The theme of commerce will be developed in the next section.

Taxation, money and exchange rate

Taxes are the price to be paid for the enjoyment of liberty. They should be set at the lowest possible level, as excessive taxes are a disincentive to work (Montesquieu 1989: 213-4). To be just, capitation taxes should be based on a sliding scale, but Montesquieu favoured indirect taxation: “the impost on commodities is more natural to liberty because it is related less directly to the person” (1989: 222) and “the least felt by the people” (1989: 217-8). Overall, strong similarities with Adam Smith’s four canons of taxation can be found. Fletcher points out how Smith, here and with regards to other economic concepts, borrowed substantially from Montesquieu (1939: 54-68).

With regards to money, Montesquieu advocated a stable currency, as “trade itself is very uncertain, and it is a great ill to add a new uncertainty” and laws against currency manipulations (1989: 401). Interestingly, Montesquieu considers work, and not money or property, as the true source of the wealth of a nation: “a man is not poor because he has nothing, but because he does not work”, and having a craft is a more valuable asset than owning land, concepts that would later be adopted by Adam Smith (Montesquieu 1989: 455).

² My translation from the original French text.
The exchange rate is highly variable; it is “fixed by the most general esteem of traders” and regulated according to the nation that has most silver. A relatively large money stock or a balance of payment surplus raises the exchange above par, and vice versa (ibid: 406). Montesquieu is eager to assert that the exchange is self-regulating, beyond the control of governments, who will suffer dearly if they delude themselves in thinking otherwise: “the exchange... has curtailed the great acts of authority,⁢ or at least (their) success” (ibid: 416).

The quantity of money and price levels

Montesquieu noted that the large influx of gold and silver from America from the 16th century onward had been beneficial when these were used as commodities, i.e. for barter in colonial trade, but not so as a sign, i.e. for domestic use, where their value rested on scarcity (ibid: 402). Prices are positively related to the quantity of money: “the mass of silver and gold in the world” is equal to “the total of the commodities there are” (ibid: 403); the price of commodities is a mathematical fact, beyond the influence of governments. As goods and signs circulate in and out of the market, price “depends fundamentally on the ratio of the total of things to the total of signs (ibid). The circulation of money is noticed, but ultimately Montesquieu’s quantity theory of money is of a very basic kind.

Montesquieu offers a way to curb inflation, succinctly enunciating a virtuous circle of constant economic growth based on trade: while increasing the quantity of money drives prices up, a simultaneous increase in the number of commodities drives them down and lessens the overall increase. The latter happens with an increase in commerce, which itself comes from the resulting increase in silver and from “new communications to new lands and new seas, which give us new produce and new commodities” (ibid: 404-5). Thus price stability and growth are linked to the production and consumption of new goods. Interestingly, in an example of early intuition of consumer choice theory, Montesquieu also mentions another determinant of prices, that is, the relative utility derived by people, which he describes as “the degree of esteem they have in mind for each commodity in proportion to their need for it” (ibid).

The theory of interest

Montesquieu’s comments on the interest rate appear to have had a strong impact on Keynes, as a literal reading of the preface to the French edition of his General Theory would lead one to believe. In it, Keynes states that:

⁢ That is, currency manipulations.
“it is the function of the rate of interest to preserve equilibrium, not between the demand and the supply of new capital goods, but between the demand and the supply of money, that is to say between the demand for liquidity and the means of satisfying this demand. I am here returning to the doctrine of the older, pre-nineteenth century economists. Montesquieu, for example, saw this truth with considerable clarity, - Montesquieu who was the real French equivalent of Adam Smith, the greatest of your economists, head and shoulders above the physiocrats in penetration, clear-headedness and good sense (which are the qualities an economist should have)…Perhaps I can best express to French readers what I claim for this book by saying that in the theory of production it is a final break-away from the doctrines of J.-B. Say and that in the theory of interest it is a return to the doctrines of Montesquieu” (1942).

So what is Montesquieu’s theory of interest? Prosperity and trade are linked to investments, which require a moderate interest rate (1989: 420). The large quantities of silver on the European market, besides affecting prices, had consequences on the level of interest rate, succinctly described in chapter 6 of Book XXII, and only there. The following passage could be pinpointed as the basis for Keynes’ praise:

“A great quantity of silver was suddenly brought to Europe: soon fewer persons had a need for silver; the price of all things increased and that of silver diminished; the proportion was therefore disrupted, all the old debts were annulled. One recalls the time of the System, when everything had great value except paper money. After the conquest of the Indies, those who had silver were obliged to lower the price or the rental on their merchandise, that is, the interest” (Montesquieu 1994: 655).

In this crucial quote, Montesquieu, albeit not clearly, attributes two different values to money on the domestic market: a value in exchange (prices) that depends on the quantity of money and a value in use (the interest rate) that depends on the demand for money. Fletcher points out that Adam Smith wrongly criticised Montesquieu for supposedly asserting “that a decrease in the value of silver
entailed a proportionate decrease in the rate (not the value) of interest” (1939: 65-6).

Keynes stated that mercantilist writers, such as Malynes, Misselden, Child and Petty, commonly associated the level of the rate of interest with liquidity preference and the quantity of money (1951: 341-2). Montesquieu himself does not therefore offer any original insight into the rate of interest in his brief treatment of it. He was merely representative of a time when pre-physiocrat “good sense” still prevailed as classical theory was only nascent. The question remains as to why Keynes was so generous in his praise. I believe the answer lies in Montesquieu’s views about commerce, his qualified liberalism and his deep respect for individual liberty. This implies departing from a narrow, purely technical economic standpoint, in line with Montesquieu’s approach to political economy: issued from mercantilist tradition, but an intrinsic part of a much larger political and social framework, and resolutely rooted in the modern world as we now know it.

Montesquieu and commerce

While recognizing the economic importance of agriculture and crafts in countries where land is unequally divided, Montesquieu favoured commerce above all, believing that trade had the greatest potential for improving the economic and social spheres (1989: 436). Mostly concerned with the international dimension of trade, Montesquieu placed it at the heart of progress and modernity.

The role of commerce

Montesquieu introduced the concept of “la douceur du commerce,” holding an absolute conviction that “the natural effect of commerce is to lead to peace” (1989: 338). It confers great moral benefits: “commerce cures destructive prejudices, and it is an almost general rule that everywhere there is commerce, there are gentle mores.” Trade creates interdependence amongst nations, and “if one has an interest in buying, the other has an interest in selling, and all unions are founded on mutual needs.” This rational interest replaces dangerous passions, such as the search for glory, that only lead to war and misery. Montesquieu’s concept of self-interest appears to be an anticipation of Adam Smith’s invisible hand, but Spector highlights a subtle but fundamental nuance: while the former’s anthropological science rests firmly on accepting the plurality of human mores, and making the best out of it, the latter relies on a science of man based on the
notion of the existence of a uniquely “best” human nature, heralding the birth of *homo oeconomicus* (Carrithers 2002: 157). In contrast, Montesquieu’s concept of global harmony can be viewed as untainted by judgement and quasi-religious idealism.

Although he holds the above desirable impact to be true of nations, he does recognise that the effects of a commercial spirit on individuals are not so positive, turning “all human activities and all moral virtues” into a traffic for monetary gain, hospitality being such an example (1989: 339). This is compensated by the benefits of trade, which offers “a thousand advantages for the state; there will be more consumption, more things on which the arts can be exercised, more men employed, more means of acquiring power” (ibid: 353).

Prices follow mathematical laws and the exchange is self-regulating: these independent influences allow commerce to be a safeguard against domestic abuses of political power. Nonetheless, Montesquieu’s assessment does appear to neglect the “fact that the development of trade on an international scale leads to the clash of rival imperialisms, particularly in the colonies” (Cavignac 1970: 59). Although he was aware that this was taking place, he was more concerned with demonstrating that the economy has a naturally global dimension which positively impacts on domestic affairs (social, economic and political), rather than with observing how global economics unavoidably lead to global politics, to the alteration of power distribution amongst the nations of the world, and to international abuses of power.

**The nature of commerce**

Montesquieu made the distinction between the *commerce de luxe* and the *commerce d’économie*, each of them best related to, although not practised exclusively by, different political regimes. The former is appropriate for a monarchy: *luxury commerce* procures “all that serves its arrogance, its delights, and its fancies” (1989: 340). Montesquieu had remarked on the fact that “luxury is always proportionate to the inequality of fortunes” and that it turns the spirit “to the interest of the individual” (ibid: 96, 98). In a perceptive analysis of the modern concepts of fashion and “keeping up with the Joneses,” he also noted that luxury was “proportional to the size of the towns and above all of the capital...The more men are together, the more vain they are” and wish to call attention to themselves. As luxury fulfils this wish, they “all become equal…; as everyone wants to be

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5 In a footnote, Spector cites Montesquieu: “Le mieux est le mortel ennemi du bien” (“What is best is the mortal enemy of what is good”), in *Mes Pensées*, 1007 (Montesquieu, 1996: 1151)
6 My translation.
looked at, no one is noticed”, resulting in a “general distress” and the inflation of prices of luxury goods and services (ibid: 97).

Hutchison has claimed that Keynes’ eulogy of Montesquieu “was forthcoming apparently because…Montesquieu supported luxury spending for its contribution to the maintenance of effective demand” (1988: 220). In reality, Montesquieu merely stated that luxury spending was necessary and appropriate to monarchies, because the production of luxury items and expenditure on them allow returning to the poor what was taken from them (1989: 99-100). His tone is not laudatory. Steeped into the values of his times, Montesquieu had a prejudice against luxury, and, in my opinion, did not fully grasp that values could change so much that luxury items could become common and necessary consumption, thus boosting economic growth through further demand.

Just as luxury commerce fits monarchies, economic commerce is appropriate for republics and the principle of public virtue. Dealing with necessary goods, it is “founded only on the practice of gaining little…and of being compensated only by gaining continually” (ibid: 340). It forms the basis of most of Montesquieu’s reflection on commerce as a tool towards political liberty, and it should not be hampered but facilitated by governments who must realise that commerce can deliver both prosperity and power, an opinion that earned Montesquieu his reputation as a precursor of liberalism.

A qualified liberalism

Montesquieu’s parallel dichotomies of commerce (luxury or economic) and of political constitutions (government by one or many) guide his thoughts on the freedom that trade should be accorded. Although broadly liberal in his approach and favouring the removal of obstacles detrimental to commerce, he also offers some essential reasons why not every aspect of trade should be left to pure laissez-faire. Cavignac says that Montesquieu’s concept of liberalism is political, not economic, and that he “is not a precursor of Quesnay, who, on the contrary, accepts enlightened despotism as long as it ensures economic liberty”7 (1970: 59). For Montesquieu, political liberty may justifiably override economic liberty. His arguments are still acutely relevant to economic theory in the modern world.

A nation should have many trading partners, because “it is competition that puts a just price on goods and establishes the true relations between them” (1989: 344). Trading companies and exclusive privileges hamper the liberty of commerce, and in a monarchy, their financial power is a threat to the monarch’s wealth (ibid). Port charges should be abolished for economic commerce: this loss

7 My translation.
of revenue is well compensated by the wealth generated by the subsequent increase in industriousness, but charges should apply to luxury commerce, as they represent the only wealth that is to be obtained from these already manufactured goods (ibid: 345). Overall, Montesquieu does advocate the freeing of trade and the removal of some obstacles such as privileges and counter-productive levies, but simultaneously, he puts forward a case for the necessity of protectionist measures.

The key element of Montesquieu’s justification for a dual stance lies in the existing divergence between private and public interests. The “liberty of commerce is not a faculty granted to traders to do what they want; this would instead be the servitude of commerce. That which hampers those who engage in commerce does not, for all that, hamper commerce” (ibid). For instance, he admires England’s opportunistic protectionist stance, always making “its political interests give way to the interests of its commerce,” but protectionist measures must be judiciously applied, or else the state “would do itself at least an equal wrong” (ibid: 343).

Further nuances apply to poor countries and colonies. For poor countries, unfortunate enough not to get their share of movable properties (which countries acquire “by their produce, by the labour of their workers, by their industry, by their discoveries, even by chance”), trading unavoidably means running a continuous balance of trade deficit, further increasing their poverty (ibid: 352). They should not engage in trading, and give priority to the sustenance of their citizens (ibid: 344). Liberalism is also irrelevant for colonies: it is natural that nations should establish trade monopolies with their colonies (ibid: 391). After all, “nations, which are to the entire universe what individuals are to a state, govern themselves as do the latter by natural right and by laws they have made for themselves” (ibid: 392). It must be noted that in the absence of international law, Montesquieu has in fact just described the inter-national anarchism that allowed some countries to carve out the world for themselves. Nonetheless, with his common sense blend of liberalism and protectionism, Montesquieu remarkably offers clues towards solving modern issues such as world poverty or the desirability of an international legal system.

**Keynes and Montesquieu**

Montesquieu suggests that in modern times, with monarchs having learnt the futility of great acts of authority, “only goodness of governments brings prosperity” (1989: 389). This goodness concerns government duties that must be fulfilled to ensure the good functioning of commerce. Governments must tax moderately. They must not inflate the money supply, thereby altering its
proportion to the total quantity of goods. They must only borrow as much as their credit allows. They must maintain the interest rate at a moderate level. Additionally, their trade policies must be an intelligent combination of liberalism and protectionism, as dictated by their country’s particular circumstances and by public, and not private, interest. In other words, policies must respect and enhance the independent mechanisms that influence the economy, namely the monetary system and commerce. Here we may begin to understand why Keynes was so favourably disposed towards Montesquieu. One will notice the similarity with Montesquieu in this description by Foley: “Keynes’s vision of the economic system is not that of a self-regulating entity which the economist seeks to understand, but a complex set of causal linkages that a policymaker seeks to guide” (1987: 524).

With the exception of public borrowing, which Keynes advised in order to boost aggregate demand and Montesquieu disapproved of, it is clear that Montesquieu’s perimeters for government intervention would have positively resonated with Keynes. That Montesquieu also happened to subscribe to a basic rate of interest theory that prevailed in mercantilist times, and correctly identified that the interest rate level depended on the demand for money, is, I would suggest, a convenient focus for Keynes, appropriate for the preface of a French edition, but not a major point. Keynes admires the qualities of “penetration, clear-headedness and good sense” in an economist, and Montesquieu undoubtedly displays these, while in his view, the physiocrats (and possibly, by implication, classical economists?) did not.

It also must be noted that when Keynes said that “in the theory of interest” he was returning “to the doctrines of Montesquieu,” the word “doctrines” is in the plural form. He may have been pointing to Montesquieu’s whole thesis (clear, penetrating, and sensible) of political economy. In this case, two issues common to both authors are worth highlighting: politics and peace.

Montesquieu emphasised the interdependence of economics and politics. Hutchison remarks that something was lost “in the transition from pre-classical political economy to that of the English classicals” that is “the political element, or input, in political economy” and a high “quality of realistic political insights” (1988: 381-2). Keynes was highly conscious of the intermingling of politics and economics. In addition to his writings that attest to this (he even used the pseudonym Politicus for some of his articles), he had first hand experience of it while working at the Treasury during the two World Wars. Milton Friedman is quoted as stating that Keynes left two legacies, “to technical economics and to politics,” with the latter having had the strongest “influence on the shape of the world today” (Hutchison 1988: 417).
Montesquieu believed trade to be a major factor towards peace in Europe and prosperity for all. Keynes shared his passion for peaceful economic cooperation between nations. He famously said that “it is better that a man should tyrannise over his bank balance than over his fellow-citizens” (1951: 374). Like many of his friends, he was a pacifist (on grounds of individual liberty and of the economic folly of war), who had applied to be a conscientious objector during the First World War (Keynes 1971, XVI: 157-61, 178). He had resigned from the British delegation to the Versailles Peace Conference, and from the Treasury in 1918, warning that the terms of the peace treaty would devastate the German economy and society and lead to further troubles (Keynes 1971: II). He was also a major contributor at the 1944 conference in Bretton Woods, the birthplace of the International Monetary Fund and the World Bank, institutions that would have delighted Montesquieu. Keynes died in 1946, too early to witness the economic union of Europe, but both he and Montesquieu would have fully backed its original peace aspirations.

Both Keynes and Montesquieu shared similar beliefs. Both men also took into account the Gordian knot of politics and economics, and this strongly contributed to their lasting relevance and influence. It is this fraternity of thought, I believe, that caused Keynes to honour Montesquieu in his preface to *La Théorie Générale*.

**Conclusion**

Montesquieu did not seek to present a perfect, unique, and independently functioning economic system, as the physiocrats, Adam Smith, and classical economists later did. If this is the criterion used to judge him as an economist, then his contribution is rather negligible. But this criterion is restricted, and using it implies that we believe that it is uniquely valid and based on some immutable truth, no less than an act of faith. This would betray a failure to grasp the very spirit of the author’s endeavour, something that Keynes was not guilty of. Because Montesquieu faces up to the fact that a multiplicity of factors impinge on economics, some of them mathematical, some of them elusively human or even just fated, because he accepts that economics and politics are inextricably linked, because he was enough of a visionary to anticipate the role of international trade, his contribution to economics is in fact considerable, still as relevant today as it was in the 18\textsuperscript{th} century, and may well outlive neo-liberalism. In my opinion, Keynes, whose mind walked the same path as Montesquieu’s, knew this and chose to honour it. Montesquieu’s ideas can be recognised in areas as diverse as international institutions, the question of appropriate economic policies for
developing countries, the process of globalisation, and controversies surrounding them all.

As he lived through the exalting times of an expanding horizon, new discoveries and social shifts, he could never have envisaged that international trade, once fully established, would be as much a factor of peace as the source of new forms of conflict and power struggles, of more inequality in the world, and of the breakdown of societies. Neither could he have imagined that his typology of political constitutions and their associated guiding principles would become so debased that in the 21st century, some “governments by many” would use fear in order to convince their citizens that a mutant form of “liberty” must violently be imposed on others. Interestingly, some kind of a return to Montesquieu’s doctrines on private versus public interest and his guiding principles for republics could yet prove to be a key to more global harmony and prosperity.

Bibliography


