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RESEARCH ARTICLE

Real and Nominal Prices in Smith

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Abstract

This essay investigates the meaning of "nominal prices" in Adam Smith's the Wealth of Nations, *its contraposition to "real prices," and the impact of Smith's nominal prices upon his assessment of the prices of wheat over the centuries. I also consider measure and value in the* Wealth of Nations *as well as Smith's threefold standard of measure: labor, wheat, money. Smith chose an unusual measure to investigate prices over time, with nominal prices being referred to a specific quantity of silver. This raises questions about the possible impact of centuries-old debates over debasement and the value of money on Smith's measurement of value across times.*

Keywords: Adam Smith; value; price; measure; money; intertemporal comparisons

Introduction

Adam Smith introduces the concept of value in the chapter "Of the Origin and Use of Money," in his *An Inquiry in the Nature and Causes of the Wealth of Nations* (WN I.iv).[1] He also anticipates that "[i]n order to investigate the principles which regulate the exchangeable value of commodities" (WN I.iv.14), he will first explain what the "real measure of this exchangeable value" or "real price" (WN I.iv.15) of all commodities is. He presents the explanation in the following chapter, which focuses on the real and nominal price of commodities, specifically the comparison between "price in labour" and "price in money" (WN I.v). In this chapter, Smith presents his perspectives on value, a theme to which we will return later and that has been widely reviewed.[2]

[1] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776; repr., Liberty Fund, 1981).

[2] See, e.g., Rory O'Donnell, *Adam Smith's Theory of Value and Distribution: A Reappraisal* (Palgrave Macmillan, 1990); Tony Aspromourgos, *The Science of Wealth: Adam Smith and the Framing of Political Economy* (Routledge, 2009); Terry Peach, "Adam Smith and the Labour Theory of (Real) Value: A Reconsideration," *History of Political Economy* 41, no. 2 (2009): 383–406; Nerio Naldi, "Adam Smith on Value and Prices," in *The Oxford Handbook of Adam Smith*, ed. Christopher Berry, Maria Pia Paganelli, and Craig Smith (Oxford University Press, 2013), 290–302.

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Smith embraces the distinction between "real price" or "real measure of value" (labor) and "nominal price" or price expressed in money. In normal commercial life, says Smith, value or prices are expressed in money. The money unit, in turn, is associated with pieces (coins) that embody a determinate weight of gold and silver. Smith drifts into a question that has assailed innumerable philosophers and economists: How do we take a variable standard, such as gold and silver, as a measure? It is widely acknowledged that gold and silver are commodities, thus their value varies over time. In Smith's formulation, whereas "[t]he same real price is always of the same value ... , the same nominal price is sometimes of very different values" (WN I.v.10).

Moreover, despite labor being "the only universal, as well as the only accurate measure of value, or the only standard by which we can compare the values of different commodities at all times and at all places" (WN I.v.17), money does not pose any embarrassment to trade. Commercial activities go on seamlessly with pieces of gold and silver stamped by an authority, meaning that the "money price" of commodities is a perfect instrument to carry on trade. The disjunction between nominal and real prices is a concern primarily within certain realms of theoretical speculation. "In such a work as this," Smith notes, it becomes necessary at times to assess the "real values" of a commodity "at different times and places," which implies recurring to intertemporal comparisons of quantities of labor, or comparisons of "the different degrees of power over the labour of other people," or labor commanded (WN I.v.22). In essence, philosophers engaged in explaining social phenomena and the economic evolution of societies cannot disregard the concept of "real value."

Smith's system encompasses three units of measure of value: labor, money, and corn. Labor is the "real measure," money expresses "nominal price," and corn is indicative of labor, embodying the subsistence of the laborer. Many passages display a confrontation involving money, labor, and corn—all in specific situations indicative of value.

To the nonnegligible problem of variation in the value of precious metals, we must add other elements involving money, namely, debasement, wearing out of coins, and clipping of coins. All these divorce the face value of coins from their weight, rendering the face value of a coin no longer indicative of the precise quantity of precious metal. Smith brings in debasement, a monetary maneuver practiced by many rulers that had been a central issue of economic and political discussions at least since Nicholas Oresme's time in the fourteenth century.[3] Two notable economists of Smith's time were also concerned with debasement: Joseph Harris and James Steuart.[4] Indeed, debasement constituted one of the foundational elements of the monetary debates in the seventeenth and eighteenth centuries, playing a crucial role in the development of political economy.

[3] Nicholas Oresme, *The De Moneta of Nicholas Oresme and English Mint Documents*, trans. Charles Johnson (Thomas Nelson and Sons, 1956).

[4] Joseph Harris, *An Essay upon Money and Coins* (1757–1758; repr., Cambridge University Press, 2017); James Steuart, *An Inquiry into the Principles of Political Oeconomy: Being an Essay on the Science of Domestic Policy in Free Nations*, two vols. (1767; repr., Gale Ecco, 2018).

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We will delve below into Smith's perspective on debasement. However, it is important to stress—and this is the guiding thread of this essay—that when Smith refers to "money prices" and to "nominal prices," he does not simply mean market prices, or "[t]he actual price at which any commodity is commonly sold" (WN I.vii.7). Market prices and natural prices are instrumental to Smith's compelling approach to competition and markets. When Smith speaks of "money prices," he indicates prices adjusted to a fixed quantity of gold or silver, attached to coins that keep their denomination throughout time. In real life, the gold or silver content of coins was often debased, without any change in their face value. Smith's "money-price" refers to the original gold and silver content of coins, as this passage makes very clear:

> By the money-price of goods ... I understand always the quantity of pure gold or silver for which they are sold, without any regard to the denomination of the coin. Six shillings and eight-pence, for example, in the time of Edward I, I consider as the same money-price with a pound sterling in the present times; because it contained, as nearly as we can judge, the same quantity of pure silver. (WN I.v.42)

In the table on the prices of wheat from 1202 to 1750 (immediately following WN I.xi.p.10), to which Smith paid meticulous attention, a specific column displays the adjustment of the contemporary prices in each period to prices "in Money of the present Times"; in other words, it was an adjustment of prices that considered the variations of the metallic content of the coins over the years. We will see below how deeply Smith is involved with "nominal prices," in the above stated sense, especially in his "Digressions on Silver" (WN I.xi).

This essay will examine the meaning of "measure" and the role performed by "nominal prices" in the *Wealth of Nations.* As I will argue, Smith's approach to "value" implies not only the exchange relation of commodities in each moment, but also the possibility of perusing intertemporal comparisons, or exchange relations along the time. "Nominal price" is Smith's instrument for intertemporal comparisons.

The arguments will be developed in four sections. The next section will provide evidence for Smith's uses of the disjunction between real and nominal prices. That section will also focus on "measure" as well as on the triple standard of value admitted in the *Wealth of Nations*: labor, corn, and money.

The section after that will delve into some aspects of Smith's perception of money. Far from reviewing Smith's monetary economics—excellently commented on by Hugh Rockoff, David Laidler, and David Vickers, among others[5]—that section will suggest that Smith's strong concern with "nominal prices" can be associated with some characteristics of his approaches to money. Because the

[5] Hugh Rockoff, "Adam Smith on Money, Banking, and the Price Level," in *The Oxford Handbook of Adam Smith*, ed. Berry, Paganelli, and Smith, 307–29; David Laidler, "Adam Smith as a Monetary Economist," *The Canadian Journal of Economics* 14, no. 2 (1981): 185–200; David Vickers, "Adam Smith and the Status of the Theory of Money," in *Essays on Adam Smith*, ed. Andrew S. Skinner and Thomas Wilson (Clarendon Press, 1975), 482–503.

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contrast between nominal and real price involves debasement, the dichotomy between "real" versus "nominal" prices raises an interesting question: To what extent was Smith's system strictly influenced by the previous, and in his times still existing, debates on debasement?

Next, I will provide preliminary speculation on Smith's intertemporal comparisons of value, which are prominently featured in the *Wealth of Nations.* Without engaging in an analysis or review of Smith's approaches to value, that section will advance some thoughts on the meaning (and possibility) of intertemporal measures of value. I conclude by putting together some pieces, connecting Smith's understanding of "measure" and "value" with his long-term approach to the evolution of societies.

Nominal and real prices: Evidence

Let us revisit some of Smith's arguments that may contribute to a more comprehensive understanding of the distinction between nominal and real prices. After emphasizing labor as "the real measure of the exchangeable value of all commodities" (WN I.v.1) and asserting that the "toil and trouble" of acquiring everything is its "real price" (WN I.v.2), Smith admits that the value of commodities is better estimated by some other commodity or, more usually, by the "quantity of money" (WN I.v.6).

This solution—namely, relying on money to estimate value—causes some problems. The first concern is the oscillation of the value of gold and silver. Faced with the Aristotelian dilemma of how to take a variable standard as a measure, Smith returns to labor: "Labour alone, ... never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price only" (WN I.v.7). Smith's "at all times and places" may suggest comparisons between commodities at any given time and between them at different times—for instance, bread versus meat in the year 1433 and in the year 1650—or intertemporal comparisons—for instance, meat in 1433 and meat in 1650, or corn and meat in both years.

In this specific context, Smith asserts that the distinction between real and nominal price is "sometimes ... of considerable use in practice" because "[t]he same real price is always of the same value; but on account of the variations in the value of gold and silver, the same nominal price is sometimes of very different values" (WN I.v.10). This statement appears to allude to intertemporal comparisons; for instance, the same price of bread in different years does not allow us to infer a constancy in its value. Anyway, Smith is here considering the oscillations in the value of gold and silver, and he promptly turns his attention to the common issue of long-term contracts, such as those governing land rental. If these contracts involve payments in money, the outcomes may be influenced by both the fluctuation in the value of the precious metals and debasement. Following other authors before him, Smith suggests attaching long-term agricultural contracts to corn, as the prices of corn are much more stable in the long term.

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Additionally, Smith stresses the association between corn and labor, and he presents his effective perspective on the value of labor:

> Equal quantities of labour will at distant times be purchased more nearly with equal quantities of corn, the subsistence of the labourer, than with equal quantities of gold and silver, or perhaps of any other commodity. Equal quantities of corn, therefore, will, at distant times, be more nearly of the same real value, or enable the possessor to purchase or command more nearly the same quantity of the labour of other people. (WN I.v.15)

To stress Smith's commitment to a long-term approach to value, let us recall that after presenting the dilemmas involving money and weighing the advantages and disadvantages of contracts established in money and in corn, Smith admits that "[a]t the same time and place the real and the nominal price of all commodities are exactly in proportion to one another" (WN I.v.19). In other words, instantaneous transactions can be performed by money without getting around real prices. In such situations, prices indicate real value. Commercial activities can rely on money without the real versus nominal distinction posing a practical problem. This distinction only becomes relevant in comparisons over time, examining how the real value of a "particular commodity" evolves or what "the different degrees of power over the labour of other people" proportioned by this commodity are over time. Moreover, given that historical information regarding the current price of labor is not always at hand, relying on corn is preferable because there are valid records of corn prices over time.

It is worth noting Smith's extensive observations on the evolution and characteristics of monetary systems (WN I.v.25–45). These observations encompass types of metal (copper, silver, gold), legal tender, difficulties concerning the value proportions of gold and silver, the disparity between mint price versus the market price of bullion, seignorage, the English monetary system and its reforms, as well as debasement and clipping. While these topics were familiar in the realm of monetary discussion—having been treated by Harris and Steuart, among others—our focus centers on the observation that "[t]he money of any particular country is, at any particular time and place, more or less an accurate measure of value according as the current coin is more or less exactly agreeable to its standard, or contains more or less exactly the precise quantity of pure gold or pure silver which it ought to contain" (WN I.v.41). This observation leads to the (already noted) conclusion: "By the money-price of goods, ... I understand always the quantity of pure gold or silver for which they are sold."

I will return below to the money standard and prices, but for now, I would like to emphasize that Smith's concept of money price is anchored in the metallic content of coins. Comparisons of prices over time imply establishing equality in the metallic content of the coins in which these prices are expressed. The value of gold and silver varies over time, and Smith will (especially in WN I.xi) pay attention to the price revolution brought about by the discovery of America or the increase in the price of commodities associated with the decrease in the value of gold and silver. Smith's money price is different from "market price." Keep in mind that Smith contrasts "market price" with "natural price" (WN I.vii

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and elsewhere), not to mention that "ordinary price" was also taken as indicating "market price."

Smith focuses on the evolution of prices for agricultural and mining products, particularly corn and other components of the food basket as well as gold and silver (WN I.xi). According to Smith's formulation, the permanent demand for food puts pressure on its prices, assuring land rent in areas utilized for producing food and even regulating the rent of different types of land. Without entering the dynamics of land rent in the *Wealth of Nations*, it is important to note that Smith introduces coal and wool in his discussion about "the produce of land which sometimes does, and sometimes does not, afford rent" (WN I.xi.c). The discussion transitions from coal mines to metals in general, eventually touching on the "silver mines of Peru."

In this examination of mining and, indirectly, money, Smith puts forward several propositions. The first involves the unique influence of scarcity and demand in determining the price of silver, alongside the impact of its "utility and beauty" on demand. The second proposition challenges expectations, highlighting the relatively modest rent and profits assured by silver mining. The third underscores the reasonable uniformity of the prices of silver across regions, taking into account the varying gold-silver ratios prevailing in Europe and eastern nations.

Smith introduces variations of the relative value of the produce that "always affords rent, and of that which sometimes does, and sometimes does not, afford rent" (WN I.xi.d). This section is decisive and extensive because in examining relative values and their fluctuations over centuries, Smith touches on subsistence and precious metals. He also engages, in "Digressions concerning the Variations in the Value of Silver during the Course of the Four Last Centuries," a long argument against the mercantile system, centered around the price of subsistence or its relation to silver. Smith's "Digressions on Silver" has been deeply examined by Maria Pia Paganelli,[6] the focal points of which are corn and silver. It is essential to recall that Smith considers corn, silver (as money), and labor (linked to corn) to be the three standards of value.

The three periods examined in Smith's "Digressions on Silver" are 1202–1570, predating the great inflow of precious metals from America; 1570–1640, linked with the price revolution; and 1640–1750, a phase marked by stabilization or even an increase in the price of silver. It is important to highlight that the adjustment of prices, considering the silver weight of the coins, is at stake from the beginning: "In 1350, and for some time before, the average price of the quarter of wheat in England seems not to have been estimated lower than four ounces of silver, Tower-weight, equal to about twenty shillings of our present money" (WN I.xi.e.1). Smith examines the evolution of wages, represented in those times by "liveries," particularly focusing on the price of grain. In the first period, the rise in the value of silver was offset by a reduction in the quantity of silver in coins without changes in their denomination. Smith remarks on the debasement of silver money in England for over two hundred years, until

[6] Maria Pia Paganelli, "Adam Smith's Digression on Silver: The Centerpiece of the *Wealth of Nations*," *Cambridge Journal of Economics* 46, no. 3 (2022): 531–44.

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Elizabeth's era. All in all, silver increases its value relative to corn. Progress enhanced the demand for corn, and the European mines underwent exhaustion. Smith challenges the "popular notion" that wealthy civilizations stimulate the circulation of silver, leading to a decrease in its value. According to him, the actual historical trend was quite the opposite: in England and France, grain prices decreased while silver prices effectively increased.

In "Digressions on Silver," several passages illustrate Smith's perception of the relation between labor and corn. A suggestive one is:

> In every state of society, in every stage of improvement, corn is the production of human industry. ... In every different stage of improvement ... the raising of equal quantities of corn in the same soil and climate, will, at an average, require nearly equal quantities of labour; or what comes to the same thing, the price of nearly equal quantities; the continual increase of the productive powers of labour in an improving state of cultivation, being more or less counter-balanced by the continually increasing price of cattle, the principal instruments of agriculture. Upon all these accounts, therefore, we may rest assured, that equal quantities of corn will, in every state of society, in every stage of improvement, more nearly represent, or be equivalent to, equal quantities of labour, than equal quantities of any other part of the rude produce of land. Corn, accordingly, it has already been observed, is, in all the different stages of wealth and improvement, a more accurate measure of value than any other commodity or sett of commodities. (WN I.xi.e.28)

For this reason, the "real value of silver" is measured by comparing it with corn, which, furthermore, "constitutes, in every civilized country, the principal part of the subsistence of the labourer" (WN I.xi.e.29). That is, labor—the "real measure of value"—is represented by corn or, as already quoted, "[e]qual quantities of corn ... will be more nearly of the same real value, or enable the possessor to purchase or command more nearly the same quantity of the labour of other people." This conclusion is derived from acknowledging stability in the productivity of labor in agriculture or counterbalancing occasional productivity improvements by the rising price of cattle, which is the primary tool in agriculture. Cattle and meat are deeply examined by Smith in other passages of this chapter.

It is important to note that, in the above passage, Smith introduces an argument that supplements connections between labor and corn. Besides the already stressed fact that corn corresponds to subsistence, and thus to labor, Smith admits a stable relation between corn and labor, a sort of stability in the productivity of labor in corn crops. I believe the acknowledged stability of productivity in corn crops is a rational argument for Smith's establishment of the relation between corn and labor. While more general arguments, such as the fundamental role of corn in human subsistence, are also in play, the pairing of corn and labor necessitates the robust argument of stability in the costs of producing corn despite improvements in the productivity of labor in agriculture.

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The effects of increasing demand for gold and silver, a typical by-product of a thriving economy, must be related to two elements essential to Smith's argument. One is the special or occasional access to new and more productive mines, for instance, the case of the discovery of America and access to rich sources of gold and silver. Precious metals are particular commodities in the sense that they do not depend only on effort, but also on finding mines and on their productivity. The other element is well-defined by Smith's proposition about money and circulation: "Gold and silver, like all other commodities, naturally seek the market where the best price is given for them" (WN I.xi.e.34). International circulation of bullion and coins, or difficulties in blocking access to gold and silver by any country able to outsell its competitors in external markets, is a decisive element in many approaches to circulation of money, paper money versus coins, commercial treaties, and international trade.

Indeed, once the discovery of America multiplied the supply of gold and silver, from 1570 to 1640, "[s]ilver sunk in its real value, or would exchange for a smaller quantity of labour than before; and corn rose in its nominal price" (WN I.xi.f.2). Smith admits that the reduction of the value of silver was completed by 1630 and that other events, such as the English Civil War, negatively impacted the production of corn. He also engages in a prolonged discussion about the effects of bounties upon the exportation of corn, a topic to be further developed (in WN IV.v). Bounties may impel the production of corn or of any product, but they will ultimately discourage producers and lead to reduced crops and increased prices.

More importantly, Smith comments extensively on the monetary events of 1695 that led to a proposal of debasement by William Lowndes, counteracted by John Locke, and aroused a huge debate on money and debasement, well-represented by Nicholas Barbon.[7] Locke's opposition to debasement won the day, so that Lowndes's proposal of debasing English silver coins was defeated at that time. Without recounting the details of this debate, it is important to note that, in arguing against debasement, Locke held the proposition that the value of money is determined by its metallic content, or by coins' weight: "Men in their bargains contract not for denominations or sounds, but for the intrinsic value which is the quantity of silver, by public authority warranted to be in pieces of such denomination."[8]

Smith holds two propositions that show his stand on important monetary economics issues. First, he holds that

> the nominal sum which constitutes the market-price of every commodity is necessarily regulated, not so much by the quantity of silver, which, according to the standard, ought to be contained in it, as by that which ... actually is

[7] William Lowndes, *A Report Containing an Essay for the Amendment of the Silver Coins* (1695; repr., Elibron Classics Reprint, 2005); John Locke, *Further Considerations Concerning Raising the Value of Money*, in *The Works of John Locke in Nine Volumes*, vol. 4 (1696; repr., Liberty Fund, 2011), http://oll.libertyfund.org;EBooks;Locke0128.04.pdf; Nicholas Barbon, *Discourse Concerning Coining the New Money Lighter in Answer to Mr. Lock's Considerations About Raising the Value of Money* (Richard Chiswell, 1696), https://quod.lib.umich.edu/e/eebo/A30882.0001.001?rgn=main;view=fulltext.

[8] Locke, *Further Considerations Concerning Raising the Value of Money*, 95.

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> contained in it. The nominal sum, therefore, is necessarily higher when the coin is much debased by clipping and wearing, than when near to its standard value. (WN I.xi.g.5)

In other words, prices rise whenever the silver weight of coins decreases. Alternatively, prices are not settled "according to the tale," but "according to the weight," to adhere to the formula of the late seventeenth century apparent, for instance, in the controversy between Barbon and Locke about debasement. It seems that, at least from the perspective of associating prices with the weight of existing coins, Smith followed Locke's stand and was even more specific, insisting on the average weight of coins under the same denomination.

Second, Smith reinforces the connections between gold and silver or between gold and silver coins: "though very much defaced, its [the silver coin's] value has been kept up by that of the gold coin for which it is exchanged" (WN I.xi.g.6). That is, the value of silver coins is also affected by its relations with gold coins. This was a typical problem of the English system at that time (referring to the period 1700–1764), exhaustively debated by contemporary theorists such as Harris. In short, the English monetary system had been built upon a silver standard, but in the eighteenth century some changes in the status of gold and the extension of the status of legal tender to gold were in process. Smith echoes in his "Digressions on Silver" controversies surrounding the English system concerning the English official standard—silver—and the mismatches between the relation between gold and silver accepted by the mint and the market.

In summary, Smith contrasts the stability or even the rise of the price of silver in the eighteenth century with the fall in the price of corn, the latter being affected by bounties and by ups and downs in production. Moreover, British prosperity throughout the eighteenth century drove wages upward. That is, the relation between corn and labor—or the real wage—was not so stable, and the effects (on prices) of the flood of American silver seemed to have come to an end. On the other hand, debasement ceased to be a recurring policy in eighteenth-century England. All possibilities remain open. Smith admits that, apart from corn and vegetables raised together,

> all other sorts of rude produce, cattle, poultry, game of all kinds, the useful fossils and minerals of the earth &c. naturally grow dearer as the society advances in wealth and improvement. ... Though such commodities ... come to exchange for a greater quantity of silver than before, it will not from thence follow that silver has become really cheaper, or will purchase less labour than before, but that such commodities have become really dearer, or will purchase more labour than before. It is not their nominal price only, but their real price which rises in the progress of improvement. (WN I.xi.i.3)

With this, we conclude that Smith, throughout this chapter and in his revision of the price of wheat, is trying to reinforce that "[t]he rise of their nominal price is the effect, not of any degradation of the value of silver, but of the rise in their real price" (WN I.xi.i.3). Such a conclusion shows that, in Smith's accounts of the evolution of society, the contraposition of nominal versus real remained crucial.

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Before proceeding to the next section, it is important to recall that even though the nominal price of wheat is related to a quantity of silver, the price of silver is also at stake, because it will necessarily affect the relation between wheat and silver. This issue will be taken up again in my concluding remarks.

Smith's perception of money: Basic elements

In the chapter "Of the Origin and Use of Money," Smith presents a conventional perspective on the nature and evolution of money. This view is grounded in the recognition of an exchange-based society and aligns with the traditional narrative of the transition from that to money. Ultimately, money emerges as the "universal instrument of commerce" (WN I.iv.11). (The editors of the Glasgow edition of the *Wealth of Nations* point out similar accounts by predecessors, from Aristotle to Harris.)

Without delving into Smith's monetary economics, let's recall some of Smith's points connected to assessing real price versus money price. First, Smith is interested in elucidating the rules governing the exchange of goods or the rules that determine the "relative or exchangeable value of goods" (WN I.iv.12). The quest for "value in exchange" leads him to real and nominal prices.

Let's also recall that this chapter contains a preliminary remark on debasement. According to Smith, in their origins, the denominations of coins followed their weight, or the quantity of metal in them, hence denominations in terms of pounds, shilling, livre, and so on. However, "the avarice and injustice of princes and sovereign states, abusing the confidence of their subjects, have by degrees diminished the real quantity of metal, which had been originally contained in their coins" (WN I.iv). The purpose was to pay the sovereign's debts and to fund the sovereign's expenses "with a smaller quantity of silver than would otherwise have been requisite" (WN I.iv.10). This privilege extended to all debtors, harming the creditors and producing a "revolution in the fortunes of private persons" (WN I.iv.10).

At this point, Smith does not go further in examining all aspects and consequences of debasement. For instance, he does not ask why sovereigns do not raise taxes instead of debasing the money—a topic that had been explored by Ferdinando Galiani[9]—or explore the broader consequences of debasement on prices in general. Smith seems to agree, in line with Locke, that debasement raises prices in general, but he does not delve deeply into the effects of debasement aside from acknowledging potential social disorder. Smith recognized that debasement was not standard policy in his century, at least not in England. Nevertheless, debasement reduces the metallic content of coins, a question related to money prices. In the eighteenth century, debasement remained part of Smith's arguments as he envisaged the reassessment of historical series of values, which requires going back to prices that were prevalent a long time ago and to the metallic content of coins in which the value of commodities was expressed.

[9] Ferdinando Galiani, *Della Moneta* (1751; repr., Segesta/Musa, 2000).

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Furthermore, in the *Wealth of Nations*, Smith is keenly aware that silver was the standard in England. In this context, prices refer to silver coins. The silver content of diverse coins as well as the value of silver take precedence in the historical analysis. Gold is presented in relation to silver and, as mentioned, the gold-silver ratio accepted by the market and by the mint needed to be considered, especially when examining the consequences of the absence of mint rates in England. Smith does raise issues such as the propensity to engage in silver evasion whenever the silver mint price was lower than the market price and the fact that in international trade the standard was gold (WN I.v, II.2).

Despite being attentive to international trade—and thus aware of the fact that the exchange rate was affected by the actual metallic content of the national coins as well as by the existence or non-existence of mint rates in the involved countries—Smith did not consider the possibility that the prices of some typical internal market goods may remain aligned with the face value of coins rather than with their actual metallic content.[10] In this case, how should one proceed in the reconstruction of historical series? Would it be reasonable to infer equivalences from the market price of corn or other types of food, adjusted by the variations in the metallic content of the coins?

Nevertheless, the relation between gold and silver upheld by the mint, and controversies around its changes in Smith's times, come up in the *Wealth of Nations* (I.v). It is worth remembering that all these issues—gold-silver ratio, exchange rates, and the role of gold—have an impact on the price of corn. Corn is simultaneously a decisive internal market product and an object of specific policies concerning its provision, prices, exports, and so on. If policies concerning corn, such as bounties or protections against foreign competition, are explicitly considered by Smith, why aren't typical monetary policies involved in the discussion?

It seems that Smith avoids intertwining his recurrent comments on mercantilist policies with comments on typical monetary policies, such as debasement, the official gold-silver ratio, and the underpricing of silver by the mint. From this perspective, his emphasis on critiquing the "mercantile system" may have led Smith away from exploring the interconnection between protective policies and specific monetary policies. In fact, the policies he considers in the chapter on money either concentrate on paper money, credit, and entanglements between paper money and coins or focus on the role of paper money in sparing metals, and thus on cheapening the circulating media or alleviating the weight of the "wheels of trade" (WN II.2).

Going back to debasement, it is clear that Smith was not only concerned with its arbitrary aspects or with the "revolution of fortunes" it gives way to, but also with its impact on the measure or on the silver weight of coins. This concern was not because debasement provokes any effect on relative prices measured instantaneously or on the exchange value of commodities at a given time. It is unlikely that debasement would affect relative prices, leaving aside its possible different impacts on internal and external market products, provided the

[10] Other economists did consider this possibility. See, e.g., Steuart, *An Inquiry into the Principles of Political Oeconomy*.

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internal prices do not adjust instantaneously to new exchange rates. Smith's concern was the time series of relative prices, especially the price of corn versus the price of any commodity. Among these commodities, gold and silver performed a special role because they were the material of the instrument of exchange—money—and were, as labor was, measures and instruments for commercial life, despite their possible variations in value.

However, long-standing debates on debasement, rich with social and political implications well-captured by Smith in his *Lectures on Jurisprudence*,[11] penetrated the *Wealth of Nations* under a distinct guise: measure or the potential for establishing intertemporal comparisons of value. The next section endeavors to go further into the realm of intertemporal comparisons.

Intertemporal comparisons of value

I mentioned above that Smith avoided introducing comments on typical monetary policies in his early scattered criticism of mercantilist policies (such as WN I.xi), predating his definite criticism of the "mercantile system" (in WN IV). In that earlier discussion Smith also offers suggestive comments on the effects of bounties, a policy primarily linked to agricultural products, corn, and consequently to labor and exchange value. Smith later revisits the topic of bounties and employs the distinction between real and nominal prices to criticize this policy. He argues that bounties on corn tend "in the long run, rather to diminish, than to augment, the whole market and consumption of corn" (WN IV.v.a.8). Bounties may increase the money price but fail to boost the real price of corn, thus providing little long-term stimulus to its production.

In short, bounties have no impact on the real value of corn; instead, they diminish the real value of silver. They "make an equal quantity of it [silver] exchange for a smaller quantity, not only of corn, but of all other home-made commodities: for the money price of corn regulates that of all other home-made commodities" (WN IV.v.a.11). This emphasizes the importance of corn, whose money prices regulate those of other products and, thus, of labor. Smith's direct conclusion is rooted in the contrast between real and nominal prices:

> The bounty, as it raises in the home market, not so much the real, as the nominal price of our corn, as it augments, not the quantity of labour which a certain quantity of corn can maintain and employ, but only the quantity of silver which it will exchange for, it discourages our manufactures, without rendering any considerable service either to our farmers or country gentlemen.... It puts, indeed, a little more money into the pockets of both ... . But if this money sinks in its value, in the quantity of labour, provisions, and home-made commodities of all different kinds which it is capable of purchasing, as much as it rises in its quantity, the service will be little more than nominal and imaginary. (WN IV.v.a.21)

[11] Adam Smith, *Lectures on Jurisprudence* (Liberty Fund, 1982), esp. LJA vi.

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This digression on real and nominal price reinforces the special role attributed to corn in Smith's system:

> The real value of every other commodity is finally measured and determined by the proportion which its average money price bears to the average money price of corn. The real value of corn does not vary with those variations in its average money price, which sometimes occur from one century to another. It is the real value of silver which varies with them. (WN IV.v.a.23)

It is notable to observe the association of "nominal" with "imaginary" in contrast to real. Money price is "imaginary" in a double sense. First, money price may fluctuate in its "value" or power to command labor or any other commodity. Second, the average money prices, even of corn, may vary over the centuries, as documented by the previously mentioned table (following WN I.xi.p.10). Smith assesses these variations, comparing them not only with the real value of silver, but, given that silver is money, also with a presumed unit of money (a coin with a specific face value) not subject to debasement or to changes in its silver weight.

In this context, Smith appears to distinguish between the two effects: the current average prices of corn at any given time and the fluctuations in their silver weight. Nevertheless, his distinction is not always explicitly articulated. For instance, as quoted above, when he states that the bounty "augments, not the quantity of labour ... but only the quantity of silver which it [corn] will exchange for," the fluctuation of the silver weight of coins is not under comment. It is simply referred to as "quantity of silver," indicating whether silver will be cheaper or more expensive in its exchange relation to corn. In this case, the variations (reduction) in the silver weight of the coin are not at stake. In many other instances, however, Smith has in mind possible (and existent) alterations in the silver content of money. When he examines the price of corn across the centuries (in WN I.xi), he clearly has in mind both effects: the value of silver (in terms of labor) and the material content of the coins.

All these possibilities lead us to the specific, hazardous, and I dare say Smithian problem of how to assess value over time. To face this problem, I begin by calling attention to the strict meaning of value: a relation. Galiani insists on the relational character of value, which implies an immediate evaluation of two objects; besides, he holds hypotheses on the elements behind this relation—according to him, utility and rarity.[12] Other authors, including Smith, also considered hypotheses on the elements underlying value. But leaving aside Galiani's, Smith's, or any other author's hypotheses on what underlies value, the relational character implies two commodities in confrontation. In the exchange, one of them may be, and usually is, accepted as an exchange instrument, usually a coin, which is in that moment also taken as a standard of value.

The relational character of value implies an instantaneous confrontation, as the factors influencing value judgments can change over time. In my view, while

[12] Galiani, *Della Moneta*, 73–74.

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Smith acknowledges the relational character of value, his emphasis on comparisons over time suggests a need to establish some stable element. This is not similar or even approximate to our modern view of an index number, as elaborated, among others, by Samuel Hollander.[13] In Smith's framework, prices are not a stable indicator due to their expression in money units, and we know all the problems connected to money units. My interpretation is that Smith admitted he could get around the specific problem of alterations in the silver weight of coins recurring to the standardization of weight inherent in his concept of "nominal value." Note that in the debates on the value of money, in which a "pledge," a standard, and measure are considered, Locke typically admitted its weight as the element behind its value.

For Smith, as for some of his predecessors and contemporaries, money entailed a list of problems to act as an intertemporal measure. These challenges included debasement, the relation between silver and gold, fluctuations in the value of metals (or their connections to labor), not to mention problems related to exchange rates (and thus to gold). Additionally, there were problems tied to the sensibility of internal prices to the standard or the real coins or—to make use of Steuart's formula[14]—the problems inherent in the "realization" of money (a unit of account) in coins.

Let's also consider that, apart from the monetary setting, labor is the typical invariable standard for Smith. In this case, it is not merely a standard of value but rather a sort of principle of sociability, linked to the division of labor, even when regarded as a measure. Accepting labor as a standard requires providing a good solution to questions about varieties and intensities of labor, questions to which Smith and other authors who took labor as a standard were attentive. Smith takes a step further on this standardization of labor, evident in two additional elements: wages (how labor is paid) and the intersection between corn and labor.

Regarding the first element, Smith reports that, although "equal quantities of labour are always of equal value to the labourer" (WN I.v.8), to the employer the value of labor seems to fluctuate, for more or fewer commodities are demanded in exchange for it. In this "popular sense," proceeds Smith, labor seems to have a real and a nominal price, namely, the amount of subsistence and the quantity of money paid to the laborer. However, "[t]he labourer is rich or poor ... in proportion to the real, not to the nominal price of labour" (WN I.v.9), a formula entirely compatible with Smith's perception of wealth as profusion of commodities, and in fact already present in Smith's *Lectures on Jurisprudence.*

It is important to reinforce that in Smith's discussion of the wages of labor in the *Wealth of Nations*, he takes into consideration subsistence and the ups and downs of demand and supply of labor. The "real price" of labor seems to be associated with subsistence, a notion that, despite its nuclear character, allows variability, evolution, national patterns, and so on. Subsistence is also associated with corn not only due to its historical role as a fundamental staple in the population's consumption for centuries, but also because it serves as a standard —an unchangeable element—in various respects. As discussed above, Smith

[13] Samuel Hollander, *The Economics of Adam Smith* (University of Toronto Press, 1973).
[14] Steuart, *An Inquiry into the Principles of Political Oeconomy*, Book III, chaps. 1–5.

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acknowledges the stable productivity of corn crops or admits that the rising costs of crops counterbalance their increasing productivity. Additionally, corn, or food in a broader sense, is associated with individuals, given that each human being eats more or less the same amount of corn. This is why a certain amount of corn can represent an average human being. The consumption of staples seems to be rather uniform across individuals and over time, despite the diversity of access to non-necessities.

Possibly for all these reasons, corn maintains a special status in Smith's system. It is also a standard measure in two distinct ways. First, it represents labor. Second, due to the reasons just mentioned, it can be taken as a stable or invariable element in the sense of requiring the same amount of labor to be produced. Over time, a bushel of corn not only signifies a specific amount of labor, but it can be adopted as a consistent standard. In essence, corn is a measure.

"Measure" requires a degree of invariability not because a bushel of corn is always a bushel of corn, but rather because corn indicates labor, the quintessential invariable in Smith's system. Corn indicates labor in a double sense. The more straightforward one is its role as subsistence and the more intricate one is the stability in the effort required for corn cultivation throughout the centuries. Labor is the "real price" and corn is the element that denotes labor, both in the immediate context and across intertemporal perspectives.

As far as transactions require money, it becomes imperative to establish a measure (in money) capable of transcending time and enabling intertemporal comparisons. Current prices or prices measured on specific occasions do not serve as this comparable element. It is necessary to go into "nominal prices," which is a synonym of comparable prices or comparable measures. Given all the vicissitudes of money, Smith recurs to the weight of coins or to a sort of constant silver weight coin.

Smith's solution takes into account the centrality of labor in his system as well as in the system of many other economists. To facilitate intertemporal comparisons of instantaneous measures (prices), he recurs to the adjustment of the weight of coins. It is crucial to emphasize that Smith not only employs various senses of labor—such as cost, a unit of measure, the pair of nature and labor—but also incorporates terms and theoretical alternatives from centuries-long debates on money and debasement into his approach to measure and value. Nominal and real prices constitute Smith's solution for dilemmas concerning measurement.

Final remarks

The *Wealth of Nations* provides exemplary evidence of Smith's approach to value (WN I.xi). In this chapter he collects evidence of the evolution of wheat prices over five centuries. At the forefront of his account, we have grain (and thus labor) and evidence or even conjectures concerning the evolution of wheat prices, the state of the crops, the relation between labor and wheat, and the ups and downs of the value of silver. The special character of silver's supply and demand,

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associated with its double character of metal for sophisticated objects and money, explains the fluctuation of the price of silver and the exchange relation between silver and wheat.

As already mentioned, having no access to labor, Smith opts for wheat and converts the available evidence on ordinary prices of wheat into nominal prices or prices adjusted to a stable quantity of silver. As far as debasement reduces the quantity of silver in coins under the same denomination, nominal prices are not related to real coins or to current money. Ultimately, Smith is confronting the ordinary prices of wheat each year with a specific amount of silver. Indeed, when Smith presents the evolution of the prices of wheat in the "First Period" (1350–1570), the prices of wheat are presented both in ounces of silver and in shillings of "our present money," as the following passage shows: "In 1350, and for some time before, the average price of the quarter of wheat in England seems not to have been estimated lower than four ounces of silver, Tower-weight, equal to about twenty shillings of our present money" (WN I.xi.e.1). Nominal prices are indicative of quantities of silver.

The prices of silver are influenced by the confrontation between supply and demand. "Real prices," or prices expressed in labor, are not available. It may be assumed that they are a more theoretical principle underpinning the analysis of human interaction and exchanges—value, in this sense—than any information to be collected. Ordinary prices, on the other hand, do not allow us to establish intertemporal comparisons, because they express prices related to different instruments of exchange in terms of quantity of silver. In short, nominal and money prices are instruments that envisage suppression of the mismatch between available information (ordinary or market prices) and the silver content of the exchange instrument, a mismatch produced most of all by debasement.

In the estimate of nominal prices, the ups and downs of the prices of silver certainly influence the ordinary prices of commodities. In fact, the ups and downs of the price of silver, combined with the evolution of wheat crops, are the main facts behind Smith's analysis of this issue (WN I.xi). Here, Smith assesses the price of wheat and variations in the value of silver over the centuries, adjusting or expressing wheat prices in a nontypical unit of account: coins of a determinate silver weight (under a fixed denomination), despite the historical debasement of the real coins. The ordinary prices of wheat, which oscillate over the years, are contrasted not with a fixed value coin—an impossible entity—but with an imagined entity: a coin that keeps its silver weight despite oscillations in the real value of silver. We do not confront the ordinary prices of wheat with real coins, real exchange instruments, or an effective unit of account, but with a certain quantity of silver. For this reason, it seems to me inappropriate to consider that Smith is recurring to an indexation process, that is, making prices comparable over time in the face of general price changes.

As far as Smith envisages intertemporal comparisons, nominal price seems to him an instrument to perform the role of annulling variations in the measuring instrument. The questions are: Why is Smith so attracted by intertemporal comparisons, and what are the reasons behind his choice of the stability of the metallic content of coins as the instrument to accomplish these comparisons? As already noted, variation of the prices of gold and silver, inherent in any metallic monetary system, is incorporated in Smith's analysis.

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First, intertemporal comparisons are an essential component of Smith's framework. Not only is his exposition dependent on abundant historical evidence and comparisons across centuries, but the evolution of societies is part of Smith's system. I do not refer to great societal stages or to the evolution from savage societies to state-organized and commercial societies, which are constitutive parts of his system, but to several examples and comparisons extracted from different historical settings, such as American primitive indigenous populations, ancient Egypt, classical Greece and Rome, China, and European society since the fall of the Roman rule until the emergence of liberty and trade. The rise of commercial societies transforms prices into a reliable indicator of progress and transformation. Let us not forget that the time series on nominal prices of wheat presented at the end of the first book of the *Wealth of Nations* covers the period specifically related to the emergence and consolidation of commercial societies in England and in parts of Europe. Changes and, most of all, decreases in real prices (or real value) related to labor are true evidence of progress, given the division of labor and the consequent evolution of productivity. In short, Smith's political economy is concerned with progress, blockages of progress, and decadence. The exchange relations (value) express these downfalls and upturns, and Smith is interested in long-term perspectives and comparisons.

In simultaneous or instantaneous comparisons, ordinary prices of commodities are indicative of real value. To make prices comparable over time, Smith opts for stabilizing the metallic content of coins. We have here two major problems. First, it is arguable that prices do not react uniformly or even immediately to changes in the metallic content of coins, that is, to debasement. In this case, ordinary prices will not reveal value and Smith's nominal-prices solution would simply sink. Effectively, if debasement unsettles relative prices, Smith's nominal-price solution is untenable—and this is a good reason to consider that Smith admits a convergence of all commodities to the new situation or to the debased money. However, let us not forget that Smith is attentive to the prices of a special product—namely, wheat—given the admitted interconnection between wheat and human beings, or between wheat and labor. Would Smith submit any commodity to nominal-prices time series? We cannot answer this question.

Second, stabilizing the silver content of coins does not evade the fact that the price of silver oscillates. Thus, a constant weight of silver may represent different and fluctuating values or different exchange relations with labor to remain in the domain of real values. Why is Smith so insistent on a solution—namely, nominal prices—that does not take into account the largely considered (in WN I.xi) oscillations in the value of silver, and thus on the ordinary prices of all commodities?

My guess is that resorting to a coin with a persistent silver weight—that is, to deconstruct debasement—is reminiscent of Locke's solution of attaching the value of the coins to their silver weight.[15] Smith's system is non-Lockean in many senses, most of all in its conception of society and even of money. Nonetheless,

[15] Locke, *Further Considerations Concerning Raising the Value of Money*, 82.

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disruption of the social relations provoked by debasement, also Locke's concern, possibly brought about the weight of silver as a reliable criterion in Smith's framework not to explain the value of coins, but to allow the comparison of prices over time. Intertemporal comparisons are one of Smith's main purposes. Nominal prices emerge as a solution to frame some aspects of the historical evolution of commercial societies, namely, those related to debasement.

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