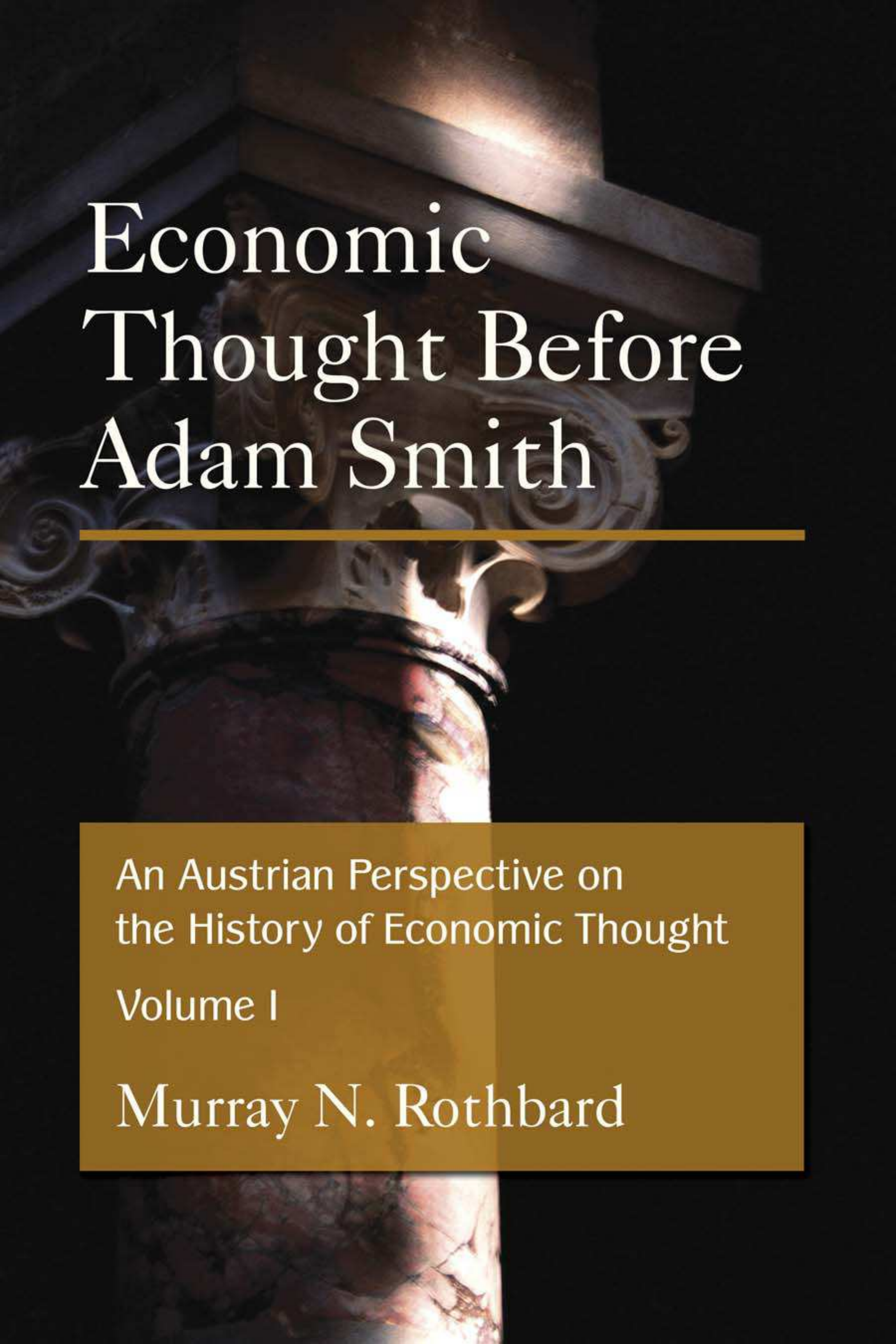

Economic Thought Before Adam Smith

An Austrian Perspective on the History of Economic Thought

Volume I

Murray N. Rothbard

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To my mentors,
Ludwig von Mises and Joseph Dorfman

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Ludwig von Mises Institute
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Introduction

As the subtitle declares, this work is an overall history of economic thought from a frankly 'Austrian' standpoint: that is, from the point of view of an adherent of the 'Austrian School' of economics. This is the only such work by a modern Austrian; indeed, only a few monographs in specialized areas of the history of thought have been published by Austrians in recent decades.[1] Not only that: this perspective is grounded in what is currently the least fashionable though not the least numerous variant of the Austrian School: the 'Misesian' or 'praxeologic'.[2]

But the Austrian nature of this work is scarcely its only singularity. When the present author first began studying economics in the 1940s, there was an overwhelmingly dominant paradigm in the approach to the history of economic thought – one that is still paramount, though not as baldly as in that era. Essentially, this paradigm features a few Great Men as the essence of the history of economic thought, with Adam Smith as the almost superhuman founder. But if Smith was the creator of both economic analysis and of the free trade, free market tradition in political economy, it would be petty and niggling to question seriously any aspect of his alleged achievement. Any sharp criticism of Smith as either economist or free market advocate would seem only anachronistic: looking down upon the pioneering founder from the point of view of the superior knowledge of today, puny descendants unfairly bashing the giants on whose shoulders we stand.

If Adam Smith created economics, much as Athena sprang full-grown and fully armed from the brow of Zeus, then his predecessors must be foils, little men of no account. And so short shrift was given, in these classic portrayals of economic thought, to anyone unlucky enough to precede Smith. Generally they were grouped into two categories and brusquely dismissed. Immediately preceding Smith were the mercantilists, whom he strongly criticized. Mercantilists were apparently boobs who kept urging people to accumulate money but not to spend it, or insisting that the balance of trade must 'balance' with each country. Scholastics were dismissed even more rudely, as moralistic medieval ignoramuses who kept warning that the 'just' price must cover a merchant's cost of production plus a reasonable profit.

The classic works in the history of thought of the 1930s and 1940s then proceeded to expound and largely to celebrate a few peak figures after Smith. Ricardo systematized Smith, and dominated economics until the 1870s; then the 'marginalists', Jevons, Menger and Walras, marginally corrected Smith–

Ricardo 'classical economics' by stressing the importance of the marginal unit as compared to whole classes of goods. Then it was on to Alfred Marshall, who sagely integrated Ricardian cost theory with the supposedly one-sided Austrian–Jevonian emphasis on demand and utility, to create modern neoclassical economics. Karl Marx could scarcely be ignored, and so he was treated in a chapter as an aberrant Ricardian. And so the historian could polish off his story by dealing with four or five Great Figures, each of whom, with the exception of Marx, contributed more building blocks toward the unbroken progress of economic science, essentially a story of ever onward and upward into the light.[3]

In the post-World War II years, Keynes of course was added to the Pantheon, providing a new culminating chapter in the progress and development of the science. Keynes, beloved student of the great Marshall, realized that the old man had left out what would later be called 'macroeconomics' in his exclusive emphasis on the micro. And so Keynes added macro, concentrating on the study and explanation of unemployment, a phenomenon which everyone before Keynes had unaccountably left out of the economic picture, or had conveniently swept under the rug by blithely 'assuming full employment'.

Since then, the dominant paradigm has been largely sustained, although matters have recently become rather cloudy. For one thing, this kind of Great Man ever-upward history requires occasional new final chapters. Keynes's *General Theory*, published in 1936, is now almost sixty years old; surely there must be a Great Man for a final chapter? But who? For a while, Schumpeter, with his modern and seemingly realistic stress on 'innovation', had a run, but this trend came a cropper, perhaps on the realization that Schumpeter's fundamental work (or 'vision', as he himself perceptively put it) was written more than two decades before the *General Theory*. The years since the 1950s have been murky; and it is difficult to force a return to the once-forgotten Walras into the Procrustean bed of continual progress.

My own view of the grave deficiency of the Few Great Men approach has been greatly influenced by the work of two splendid historians of thought. One is my own dissertation mentor Joseph Dorfman, whose unparalleled multi-volume work on the history of American economic thought demonstrated conclusively how important allegedly 'lesser' figures are in any movement of ideas. In the first place, the stuff of history is left out by omitting these figures, and history is therefore falsified by selecting and worrying over a few scattered texts to constitute The History of Thought. Second, a large number of the supposedly secondary figures contributed a great deal to the development of thought, in some ways more than the few peak thinkers. Hence, important features of economic thought get omitted, and the developed theory is made paltry and barren as well as lifeless.

Furthermore, the cut-and-thrust of history itself, the context of the ideas and movements, how people influenced each other, and how they reacted to and against one another, is necessarily left out of the Few Great Men approach. This aspect of the historian's work was particularly brought home to me by Quentin Skinner's notable two-volume *Foundations of Modern Political Thought*, the significance of which could be appreciated without adopting Skinner's own behaviourist methodology.[4]

The continual progress, onward-and-upward approach was demolished for me, and should have been for everyone, by Thomas Kuhn's famed *Structure of Scientific Revolutions*.[5] Kuhn paid no attention to economics, but instead, in the standard manner of philosophers and historians of science, focused on such ineluctably 'hard' sciences as physics, chemistry, and astronomy. Bringing the word 'paradigm' into intellectual discourse, Kuhn demolished what I like to call the 'Whig theory of the history of science'. The Whig theory, subscribed to by almost all historians of science, including economics, is that scientific thought progresses patiently, one year after another developing, sifting, and testing theories, so that science marches onward and upward, each year, decade or generation learning more and possessing ever more correct scientific theories. On analogy with the Whig theory of history, coined in mid-nineteenth century England, which maintained that things are always getting (and therefore must get) better and better, the Whig historian of science, seemingly on firmer grounds than the regular Whig historian, implicitly or explicitly asserts that 'later is always better' in any particular scientific discipline. The Whig historian (whether of science or of history proper) really maintains that, for any point of historical time, 'whatever was, was right', or at least better than 'whatever was earlier'. The inevitable result is a complacent and infuriating Panglossian optimism. In the historiography of economic thought, the consequence is the firm if implicit position that every individual economist, or at least every school of economists, contributed their important mite to the inexorable upward march. There can, then, be no such thing as gross systemic error that deeply flawed, or even invalidated, an entire school of economic thought, much less sent the world of economics permanently astray.

Kuhn, however, shocked the philosophic world by demonstrating that this is simply not the way that science has developed. Once a central paradigm is selected, there is no testing or sifting, and tests of basic assumptions only take place after a series of failures and anomalies in the ruling paradigm has plunged the science into a 'crisis situation'. One need not adopt Kuhn's nihilistic philosophic outlook, his implication that no one paradigm is or can be better than any other, to realize that his less than starry-eyed view of science rings true both as history and as sociology.

But if the standard romantic or Panglossian view does not work even in the hard sciences, *a fortiori* it must be totally off the mark in such a 'soft science' as economics, in a discipline where there can be no laboratory testing, and where numerous even softer disciplines such as politics, religion, and ethics necessarily impinge on one's economic outlook.

There can therefore be no presumption whatever in economics that later thought is better than earlier, or even that all well-known economists have contributed their sturdy mite to the developing discipline. For it becomes very likely that, rather than everyone contributing to an ever-progressing edifice, economics can and has proceeded in contentious, even zig-zag fashion, with later systemic fallacy sometimes elbowing aside earlier but sounder paradigms, thereby redirecting economic thought down a total erroneous or even tragic path. The overall path of economics may be up, or it may be down, over any give time period.

In recent years, economics, under the dominant influence of formalism, positivism and econometrics, and preening itself on being a hard science, has displayed little interest in its own past. It has been intent, as in any 'real' science, on the latest textbook or journal article rather than on exploring its own history. After all, do contemporary physicists spend much time poring over eighteenth century optics?

In the last decade or two, however, the reigning Walrasian–Keynesian neoclassical formalist paradigm has been called ever more into question, and a veritable Kuhnian 'crisis situation' has developed in various areas of economics, including worry over its methodology. Amidst this situation, the study of the history of thought has made a significant comeback, one which we hope and expect will expand in coming years.[6] For if knowledge buried in paradigms lost can disappear and be forgotten over time, then studying older economists and schools of thought need not be done merely for antiquarian purposes or to examine how intellectual life proceeded in the past. Earlier economists can be studied for their important contributions to forgotten and therefore new knowledge today. Valuable truths can be learned about the content of economics, not only from the latest journals, but from the texts of long-deceased economic thinkers.

But these are merely methodological generalizations. The concrete realization that important economic knowledge had been lost over time came to me from absorbing the great revision of the scholastics that developed in the 1950s and 1960s. The pioneering revision came dramatically in Schumpeter's great *History of Economic Analysis*, and was developed in the works of Raymond de Roover, Marjorie Grice-Hutchinson and John T. Noonan. It turns out that the scholastics were not simply 'medieval', but began in the thirteenth century and expanded and flourished through the sixteenth and into the seventeenth century. Far from being cost-of-production moralists, the scholastics believed that the just price was whatever price was established on the 'common estimate' of the free market. Not only that: far from being naive labour or cost-of-production value theorists, the scholastics may be considered 'proto-Austrians', with a sophisticated subjective utility theory of value and price. Furthermore, some of the scholastics were far superior to current formalist microeconomics in developing a 'proto-Austrian' dynamic theory of entrepreneurship. Moreover, in 'macro', the scholastics, beginning with Buridan and culminating in the sixteenth century Spanish scholastics, worked out an 'Austrian' rather than monetarist supply and demand theory of money and prices, including interregional money flows, and even a purchasing-power parity theory of exchange rates.

It seems to be no accident that this dramatic revision of our knowledge of the scholastics was brought to American economists, not generally esteemed for their depth of knowledge of Latin, by European-trained economists steeped in Latin, the language in which the scholastics wrote. This simple point emphasizes another reason for loss of knowledge in the modern world: the insularity in one's own language (particularly severe in the English-speaking countries) that has, since the Reformation, ruptured the once Europe-wide community of scholars. One reason why continental economic thought has often exerted minimal, or at least delayed, influence in England and the United States is simply because these works had not been translated into English.[7]

For me, the impact of scholastic revisionism was complemented and strengthened by the work, during the same decades, of the German-born 'Austrian' historian, Emil Kauder. Kauder revealed that the dominant economic thought in France and Italy during the seventeenth and especially the eighteenth centuries was also 'proto-Austrian', emphasizing subjective utility and relative scarcity as the determinants of value. From this groundwork, Kauder proceeded to a startling insight into the role of Adam Smith that, however, follows directly from his own work and that of the scholastic revisionists: that Smith, far from being the founder of economics, was virtually the reverse. On the contrary, Smith actually took the sound, and almost fully developed, proto-Austrian subjective value tradition, and tragically shunted economics on to a false path, a dead end from which the Austrians had to rescue economics a century later. Instead of subjective value, entrepreneurship, and emphasis on real market pricing and market activity, Smith dropped all this and replaced it with a labour theory of value and a dominant focus on the unchanging long-run 'natural price' equilibrium, a world where entrepreneurship was assumed out of existence. Under Ricardo, this unfortunate shift in focus was intensified and systematized.

If Smith was not the creator of economic theory, neither was he the founder of *laissez-faire* in political economy. Not only were the scholastics analysts of, and believers in, the free market and critics of government intervention; but the French and Italian economists of the eighteenth century were even more *laissez-faire*-oriented than Smith, who introduced numerous waffles and qualifications into what had been, in the hands of Turgot and others, an almost pure championing of *laissez-faire*. It turns out that, rather than someone who should be venerated as creator of modern economics or of *laissez-faire*, Smith was closer to the picture portrayed by Paul Douglas in the 1926 Chicago commemoration of the *Wealth of Nations*: a necessary precursor of Karl Marx.

Emil Kauder's contribution was not limited to his portrayal of Adam Smith as the destroyer of a previously sound tradition of economic theory, as the founder of an enormous 'zag' in a Kuhnian picture of a zig-zag history of economic thought. Also fascinating if more speculative was Kauder's estimate of the essential *cause* of a curious asymmetry in the course of economic thought in different countries. Why is it, for example, that the subjective utility tradition flourished on the Continent, especially in France and Italy, and then revived particularly in Austria, whereas the labour and cost of production theories developed especially in Great Britain? Kauder attributed the difference to the profound influence of religion: the scholastics, and then France, Italy and Austria were Catholic countries, and Catholicism emphasized consumption as the goal of production and consumer utility and enjoyment as, at least in moderation, valuable activities and goals. The British tradition, on the contrary, beginning with Smith himself, was Calvinist, and reflected the Calvinist emphasis on hard work and labour toil as not only good but a great good in itself, whereas consumer enjoyment is at best a necessary evil, a mere requisite to continuing labour and production.

On reading Kauder, I considered this view a challenging insight, but essentially an unproven speculation. However, as I continued studying economic thought and embarked on writing these volumes, I concluded that Kauder was being confirmed many times over. Even though Smith was a 'moderate' Calvinist, he was a staunch one nevertheless, and I came to the conclusion that the Calvinist emphasis could account, for example, for Smith's otherwise puzzling championing of usury laws, as well as his shift in emphasis from the capricious, luxury-loving consumer as the determinant of value, to the virtuous labourer embedding his hours of toil into the value of his material product.

But if Smith could be accounted for by Calvinism, what of the Spanish–Portuguese Jew-turned-Quaker, David Ricardo, surely no Calvinist? Here it seems to me that recent research into the dominant role of James Mill as mentor of Ricardo and major founder of the 'Ricardian system' comes strongly into play. For Mill was a Scotsman ordained as a Presbyterian minister and steeped in Calvinism; the fact that, later in life, Mill moved to London and became an agnostic had no effect on the Calvinist nature of Mill's basic attitudes toward life and the world. Mill's enormous evangelical energy, his crusading for social betterment, and his devotion to labour toil (as well as the cognate Calvinist virtue of thrift) reflected his lifelong Calvinist world-outlook. John Stuart Mill's resurrection of Ricardianism may be interpreted as his fileopietist devotion to the memory of his dominant father, and Alfred Marshall's trivialization of Austrian insights into his own neo-Ricardian schema also came from a highly moralistic and evangelical neo-Calvinist.

Conversely, it is no accident that the Austrian School, the major challenge to the Smith–Ricardo vision, arose in a country that was not only solidly Catholic, but whose values and attitudes were still heavily influenced by Aristotelian and Thomist thought. The German precursors of the Austrian School flourished, not in Protestant and anti-Catholic Prussia, but in those German states that were either Catholic or were politically allied to Austria rather than Prussia.

The result of these researches was my growing conviction that leaving out religious outlook, as well as social and political philosophy, would disastrously skew any picture of the history of economic thought. This is fairly obvious for the centuries before the nineteenth, but it is true for that century as well, even as the technical apparatus takes on more of a life of its own.

In consequence of these insights, these volumes are very different from the norm, and not just in presenting an Austrian rather than a neoclassical or institutionalist perspective. The entire work is much longer than most since it insists on bringing in all the 'lesser' figures and their interactions as well as emphasizing the importance of their religious and social philosophies as well as their narrower strictly 'economic' views. But I would hope that the length and inclusion of other elements does not make this work less readable. On the contrary, history necessarily means narrative, discussion of real persons as well as their abstract theories, and includes triumphs, tragedies, and conflicts, conflicts which are often moral as well as purely theoretical. Hence, I hope that, for the reader, the unwonted length will be offset by the inclusion of far more human drama than is usually offered in histories of economic thought.

Murray N. Rothbard
Las Vegas, Nevada

Notes

1. Joseph Schumpeter's valuable and monumental *History of Economic Analysis* (New York: Oxford University Press, 1954), has sometimes been referred to as 'Austrian'. But while Schumpeter was raised in Austria and studied under the great Austrian Böhm-Bawerk, he himself was a dedicated Walrasian, and his *History* was, in addition, eclectic and idiosyncratic.
2. For an explanation of the three leading Austrian paradigms at the present time, see Murray N. Rothbard, *The Present State of Austrian Economics* (Auburn, Ala.: Ludwig von Mises Institute, 1992).
3. When the present author was preparing for his doctoral orals at Columbia University, he

had the venerable John Maurice Clark as examiner in the history of economic thought. When he asked Clark whether he should read Jevons, Clark replied, in some surprise: 'What's the point? The good in Jevons is all in Marshall'.

4. Joseph Dorfman, *The Economic Mind in American Civilization* (5 vols, New York: Viking Press, 1946–59); Quentin Skinner, *The Foundations of Modern Political Thought* (2 vols, Cambridge: Cambridge University Press, 1978).
5. Thomas S. Kuhn, *The Structure of Scientific Revolutions* (1962, 2nd ed., Chicago: University of Chicago Press, 1970).
6. The attention devoted in recent years to a brilliant critique of neoclassical formalism as totally dependent on obsolete mid-nineteenth century mechanics is a welcome sign of this recent change of attitude. See Philip Mirowski, *More Heat than Light* (Cambridge: Cambridge University Press, 1989).
7. At the present time, when English has become the European *lingua franca*, and most European journals publish articles in English, this barrier has been minimized.

Acknowledgements

These volumes were directly inspired by Mark Skousen, of Rollins College, Florida, who urged me to write a history of economic thought from an Austrian perspective. In addition to providing the spark, Skousen persuaded the Institute for Political Economy to support my research during its first academic year. Mark first envisioned the work as a standard Smith-to-the-present moderately sized book, a sort of contra-Heilbroner. After pondering the problem, however, I told him that I would have to begin with Aristotle, since Smith was a sharp decline from many of his predecessors. Neither of us realized then the scope or length of the ensuing research.

It is impossible to list all the persons from whom I have learned in a lifetime of instruction and discussion in the history of economics and all its cognate disciplines. Here I shall have to slight most of them and single out a few. The dedication acknowledges my immense debt to Ludwig von Mises for providing a mighty edifice of economic theory, as well as for his teaching, his friendship, and for the inspiring example of his life. And to Joseph Dorfman for his path-breaking work in the history of economic thought, his stress on the importance of the stuff of history as well as of the theories themselves, and his painstaking instruction in historical method.

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1 The first philosopher–economists: the Greeks

It all began, as usual, with the Greeks. The ancient Greeks were the first civilized people to use their reason to think systematically about the world around them. The Greeks were the first philosophers (*philo sophia* – lovers of wisdom), the first people to think deeply and to figure out how to attain and verify knowledge about the world. Other tribes and peoples had tended to attribute natural events to arbitrary whims of the gods. A violent thunderstorm, for example, might be ascribed to something that had irritated the god of thunder. The way to bring on rain, then, or to curb violent thunderstorms, would be to find out what acts of man would please the god of rain or appease the thunder god. Such people would have considered it foolish to try to figure out the natural causes of rain or of thunder. Instead, the thing to do was to find out what the relevant gods wanted and then try to supply their needs.

The Greeks, in contrast, were eager to use their reason – their sense observations and their command of logic – to investigate and learn about their world. In so doing, they gradually stopped worrying about the whims of the gods and to investigate actual entities around them. Led in particular by the great Athenian philosopher Aristotle (384–322 B.C.), a magnificent and creative systematizer known to later ages as The Philosopher, the Greeks evolved a theory and a method of reasoning and of science which later came to be called the *natural law*.

1.1 The natural law

Natural law rests on the crucial insight that *to be* necessarily means to be *something*, that is, some particular thing or entity. There is no Being in the abstract. Everything that *is*, is some particular thing, whether it be a stone, a cat, or a tree. By empirical fact there is more than one kind of thing in the universe; in fact there are thousands, if not millions of kinds of things. Each thing has its own particular set of properties or attributes, its own *nature*, which distinguishes it from other kinds of things. A stone, a cat, an elm tree; each has its own particular nature, which man can discover, study and identify.

Man studies the world, then, by examining entities, identifying similar kinds of things, and classifying them into categories each with its own properties and nature. If we see a cat walking down the street, we can immediately include it into a set of things, or animals, called 'cats' whose nature we have already discovered and analysed.

If we can discover and learn about the natures of entities *X* and *Y*, then we can discover what happens when these two entities *interact*. Suppose, for example, that when a certain amount of *X* interacts with a given amount of *Y* we get a certain quantity of another thing, *Z*. We can then say that the effect, *Z*, has been *caused* by the interaction of *X* and *Y*. Thus, chemists may discover that when two molecules of hydrogen interact with one molecule of oxygen, the result is one molecule of a new entity, water. All these entities –

hydrogen, oxygen and water – have specific discoverable properties or natures which can be identified.

We see, then, that the concepts of *cause* and *effect* are part and parcel of natural law analysis. Events in the world can be traced back to the interactions of specific entities. Since natures are given and identifiable, the interactions of the various entities will be replicable under the same conditions. The same causes will always yield the same effects.

For the Aristotelian philosophers, logic was not a separate and isolated discipline, but an integral part of the natural law. Thus, the basic process of identifying entities led, in 'classical' or Aristotelian logic, to the Law of Identity: a thing is, and cannot be anything other than, what it is: *a* is *a*.

It follows, then, that an entity cannot be the negation of itself. Or, put another way, we have the Law of Non-Contradiction: a thing cannot be both *a* and *non-a*. *a* is not and cannot be *non-a*.

Finally, in our world of numerous kinds of entities, anything must be either *a* or it won't be; in short, it will either be *a* or *non-a*. Nothing can be both. This gives us the third well-known law of classical logic: the Law of the Excluded Middle: everything in the universe is either *a* or *non-a*.

But if every entity in the universe – if hydrogen, oxygen, stone, or cats – can be identified, classified, and its nature examined, then so too can man. Human beings must also have a specific nature with specific properties that can be studied, and from which we can obtain knowledge. Human beings are unique in the universe because they can and do study themselves, as well as the world around them, and try to figure out what goals they should pursue and what means they can employ to achieve them.

The concept of 'good' (and therefore of 'bad') is only relevant to *living* entities. Since stones or molecules have no goals or purposes, any idea of what might be 'good' for a molecule or stone would properly be considered bizarre. But what might be 'good' for an elm tree or a dog makes a great deal of sense: specifically, 'the good' is whatever conduces to the life and the flourishing of the living entity. The 'bad' is whatever injures such an entity's life or prosperity. Thus, it is possible to develop an 'elm tree ethics' by discovering the best conditions: soil, sunshine, climate, etc., for the growth and sustenance of elm trees; and by trying to avoid conditions deemed 'bad' for elm trees: elm blight, excessive drought, etc. A similar set of ethical properties can be worked out for various breeds of animals.

Thus, natural law sees ethics as living-entity- (or *species*-) relative. What is good for cabbages will differ from what is good for rabbits, which in turn will differ from what is good or bad for man. The ethic for each species will differ according to their respective natures.

Man is the only species which can – and indeed must – carve out an ethic for himself. Plants lack consciousness, and therefore cannot choose or act.

The consciousness of animals is narrowly perceptual and lacks the conceptual: the ability to frame concepts and to act upon them. Man, in the famous Aristotelian phrase, is uniquely the *rational animal* – the species that uses reason to adopt values and ethical principles, and that acts to attain these ends. Man *acts*; that is, he adopts values and purposes, and chooses the ways to achieve them.

Man, therefore, in seeking goals and ways to attain them, must discover and work within the framework of the natural law: the properties of himself and of other entities and the ways in which they may interact.

Western civilization is in many ways Greek; and the two great philosophic traditions of ancient Greece which have been shaping the Western mind ever since have been those of Aristotle and his great teacher and antagonist Plato (428–347 BC). It has been said that every man, deep down, is either a Platonist or an Aristotelian, and the divisions run throughout their thought. Plato pioneered the natural law approach which Aristotle developed and systematized; but the basic thrust was quite different. For Aristotle and his followers, man's existence, like that of all other creatures, is 'contingent', i.e. it is not necessary and eternal. Only God's existence is necessary and transcends time. The contingency of man's existence is simply an unalterable part of the natural order, and must be accepted as such.

To the Platonists, however, especially as elaborated by Plato's follower, the Egyptian Plotinus (204–270 AD), these inevitable limitations of man's natural state were intolerable and must be transcended. To the Platonists, the actual, concrete, temporal factual existence of man was too limited. Instead, this existence (which is all that any of us has ever seen) is a fall from grace, a fall from the original non-existent, ideal, perfect, eternal being of man, a god-like being perfect and therefore without limits. In a bizarre twist of language, this perfect and never-existent being was held up by the Platonists as the *truly* existent, the true essence of man, from which we have all been alienated or cut off. The nature of man (and of all other entities) in the world is to be *some thing* and to exist in time; but in the semantic twist of the Platonists, the *truly* existent man is to be eternal, to live outside of time, and to have no limits. Man's condition on earth is therefore supposed to be a state of degradation and alienation, and his purpose is supposed to be to work his way back to the 'true' limitless and perfect self alleged to be his original state. Alleged, of course, on the basis of no evidence whatever – indeed, evidence itself identifies, limits, and therefore, to the Platonic mind, corrupts.

Plato's and Plotinus's views of man's allegedly alienated state were highly influential, as we shall see, in the writings of Karl Marx and his followers. Another Greek philosopher, emphatically different from the Aristotelian tradition, who prefigured Hegel and Marx was the early pre-Socratic philosopher Heraclitus of Ephesus (c.535–475 BC). He was pre-Socratic in the sense of predating Plato's great teacher Socrates (470–399 BC), who wrote nothing but has come down to us as interpreted by Plato and by several other followers. Heraclitus, who was aptly given the title 'The Obscure' by the Greeks, taught that sometimes opposites, *a* and *non-a*, can be identical, or, in other words, that *a* can be *non-a*. This defiance of elemental logic can perhaps be excused in someone like Heraclitus, who wrote before Aristotle developed classical logic, but it is hard to be so forbearing to his later followers.

1.2 The politics of the *polis*

When man turns the use of his reason from the inanimate world to man himself and to social organization, it becomes difficult for pure reason to avoid giving way to the biases and prejudices of the political framework of the age. This was all too true of the Greeks, including the Socratics, Plato and Aristotle. Greek life was organized in small city-states (the *polis*) some of which were able to carve out overseas empires. The largest city-state, Athens, covered an area of only about one thousand square miles, or half the size of modern Delaware. The key facet of Greek political life was that the city-state was run by a tight oligarchy of privileged citizens, most of whom were large landowners. Most of the population of the city-state were slaves or resident foreigners, who generally performed the manual labour and commercial enterprise respectively. The privilege of citizenship was reserved to descendants of citizens. While Greek city-states fluctuated between outright tyrannies and democracies, at its most 'democratic' Athens, for example, reserved the privileges of democratic rule to 7 per cent of the population, the rest of whom were either slaves or resident aliens. (Thus, in Athens of the fifth century BC, there were approximately 30 000 citizens out of a total population of 400 000.)

As privileged landowners living off taxes and the product of slaves, Athenian citizens had the leisure for voting, discussion, the arts and – in the case of the particularly intelligent – philosophizing. Although the philosopher Socrates was himself the son of a stonemason, his political views were ultra-elitist. In the year 404 BC, the despotic state of Sparta conquered Athens and established a reign of terror known as the Rule of the Thirty Tyrants. When the Athenians overthrew this short-lived rule a year later, the restored democracy executed the aged Socrates, largely on suspicion of sympathy with the Spartan cause. This experience confirmed Socrates's brilliant young disciple, Plato, the scion of a noble Athenian family, in what would now be called an 'ultra-right' devotion to aristocratic and despotic rule.

A decade later, Plato set up his Academy on the outskirts of Athens as a think-tank not only of abstract philosophic teaching and research, but also as a fountainhead of policy programmes for social despotism. He himself tried three times unsuccessfully to set up despotic regimes in the city state of

Syracuse, while no less than nine of Plato's students succeeded in establishing themselves as tyrants over Greek city-states.

While Aristotle was politically more moderate than Plato, his aristocratic devotion to the *polis* was fully as evident. Aristotle was born of an aristocratic family in the Macedonian coastal town of Stagira, and entered Plato's Academy as a student at the age of 17, in 367 BC. There he remained until Plato's death 20 years later, after which he left Athens and eventually returned to Macedonia, where he joined the court of King Philip and tutored the young future world conqueror, Alexander the Great. After Alexander ascended the throne, Aristotle returned to Athens in 335 BC and established his own school of philosophy at the Lyceum, from which his great works have come down to us as lecture notes written by himself or transcribed by his students. When Alexander died in 323 BC, the Athenians felt free to vent their anger at Macedonians and their sympathizers, and Aristotle was ousted from the city, dying shortly thereafter.

Their aristocratic bent and their lives within the matrix of an oligarchic *polis* had a greater impact on the thought of the Socratics than Plato's various excursions into theoretical right-wing collectivist Utopias or in his students' practical attempts at establishing tyranny. For the social status and political bent of the Socratics coloured their ethical and political philosophies and their economic views. Thus, for both Plato and Aristotle, 'the good' for man was not something to be pursued by the individual, and neither was the individual a person with rights that were not to be abridged or invaded by his fellows. For Plato and Aristotle, 'the good' was naturally not to be pursued by the individual but by the *polis*. Virtue and the good life were *polis*- rather than individual-oriented. All this means that Plato's and Aristotle's thought was statist and elitist to the core, a statism which unfortunately permeated 'classical' (Greek and Roman) philosophy as well as heavily influencing Christian and medieval thought. Classical 'natural law' philosophy therefore never arrived at the later elaboration, first in the Middle Ages and then in the seventeenth and eighteenth centuries, of the 'natural rights' of the individual which may not be invaded by man or by government.

In the more strictly economic realm, the statism of the Greeks means the usual aristocratic exaltation of the alleged virtues of the military arts and of agriculture, as well as a pervasive contempt for labour and for trade, and consequently of money-making and the seeking and earning of profit. Thus Socrates, openly despising labour as unhealthy and vulgar, quotes the king of Persia to the effect that by far the noblest arts are agriculture and war. And Aristotle wrote that no good citizens 'should be permitted to exercise any low mechanical employment or traffic, as being ignoble and destructive to virtue.'

Furthermore, the Greek elevation of the *polis* over the individual led to their taking a dim view of economic innovation and entrepreneurship. The entrepreneur, the dynamic innovator, is after all the locus of individual ego and creativity, and is therefore the harbinger of often disturbing social change, as well as economic growth. But the Greek and Socratic ethical ideal for the individual was not an unfolding and flowering of inner possibilities, but rather a public/political creature moulded to conform to the demands of the *polis*. That kind of social ideal was designed to promote a frozen society of politically determined status, and certainly not a society of creative and dynamic individuals and innovators.

1.3 The first 'economist': Hesiod and the problem of scarcity

No one should be misled into thinking that the ancient Greeks were 'economists' in the modern sense. In the course of pioneering in philosophy, their philosophizing on man and his world yielded fragments of politico-economic or even strictly economic thoughts and insights. But there were no modern-style treatises on economics *per se*. It is true that the term 'economics' is Greek, stemming from the Greek *oikonomia*, but *oikonomia* means not economics in our sense but 'household management', and treatises on 'economics' would discuss what might be called the technology of household management – useful perhaps, but certainly not what we would regard today as economics. There is furthermore a danger, unfortunately not avoided by many able historians of economic thought, of eagerly reading into fragments of ancient sages the knowledge gained by modern economics. While we surely should not overlook any giants of the past, we must also avoid any 'presentist' seizing upon a few obscure sentences to hail alleged but non-existent forerunners of sophisticated modern concepts.

The honour of being the first Greek economic thinker goes to the poet Hesiod, a Boeotian who lived in the very early ancient Greece of the middle of the eighth century BC. Hesiod lived in the small, self-sufficient agricultural community of Ascra, which he himself refers to as a 'sorry place...bad in winter, hard in summer, never good'. He was therefore naturally attuned to the eternal problem of scarcity, of the niggardlinesss of resources as contrasted to the sweep of man's goals and desires. Hesiod's great poem, *Works and Days*, consisted of hundreds of verses designed for solo recitation with musical accompaniment. But Hesiod was a didactic poet rather than a mere entertainer, and he often broke out of his story line to educate his public in traditional wisdom or in explicit rules for human conduct. Of the 828 verses in the poem, the first 383 centred on the fundamental economic problem of scarce resources for the pursuit of numerous and abundant human ends and desires.

Hesiod adopts the common religious or tribal myth of the 'Golden Age', of man's alleged initial state on earth as an Eden, a Paradise of limitless abundance. In this original Eden, of course, there was no economic problem, no problem of scarcity, because all of man's wants were instantaneously fulfilled. But now, all is different, and 'men never rest from labour and sorrow by day and from perishing by night.' The reason for this low state is an all-encompassing scarcity, the result of man's ejection from Paradise. Because of scarcity, notes Hesiod, labour, materials and time have to be allocated efficiently. Scarcity, moreover, can only be partially overcome by an energetic application of labour and of capital. In particular, labour – work – is crucial, and Hesiod analyses the vital factors which may induce man to abandon the god-like state of leisure. The first of these forces is of course basic material need. But happily, need is reinforced by a social disapproval of sloth, and by the desire to emulate the consumption standards of one's fellows. To Hesiod, emulation leads to the healthy development of a spirit of competition, which he calls 'good conflict', a vital force in relieving the basic problem of scarcity.

To keep competition just and harmonious, Hesiod vigorously excludes such unjust methods of acquiring wealth as robbery, and advocates a rule of law and a respect for justice to establish order and harmony within society, and to allow competition to develop within a matrix of harmony and justice. It should already be clear that Hesiod had a far more sanguine view of economic growth, of labour and of vigorous competition, than did the far more philosophically sophisticated Plato and Aristotle three and a half centuries later.

1.4 The pre-Socratics

Man is prone to error and even folly, and therefore a history of economic thought cannot confine itself to the growth and development of economic truths. It must also treat influential error, that is, error that unfortunately influenced later developments in the discipline. One such thinker is the Greek philosopher Pythagoras of Samos (c.582–c.507 BC) who, two centuries after Hesiod, developed a school of thought which held that the *only* significant reality is *number*. The world not only *is* number, but each number even embodies moral qualities and other abstractions. Thus justice, to Pythagoras and his followers, *is* the number four, and other numbers consisted of various moral qualities. While Pythagoras undoubtedly contributed to the development of Greek mathematics, his number-mysticism could well have been characterized by the twentieth century Harvard sociologist Pitirim A. Sorokin as a seminal example of 'quantophrenia' and 'metromania'. It is scarcely an exaggeration to see in Pythagoras the embryo of the burgeoning and overweeningly arrogant mathematical economics and econometrics of the present day.

Pythagoras thus contributed a sterile dead-end to philosophy and economic thought, one that later influenced Aristotle's pawky and fallacious attempts to develop a mathematics of justice and of economic exchange. The next important positive development was contributed by the pre-Socratic (actually contemporary of Socrates) Democritus (c.460–c.370 BC).

This influential scholar from Abdera was the founder of 'atomism' in cosmology, that is, the view that the underlying structure of reality consists of interacting atoms. Democritus contributed two important strands of thought to the development of economics. First, he was the founder of subjective value theory. Moral values, ethics, were absolute, Democritus taught, but economic values were necessarily subjective. 'The same thing', Democritus writes, may be 'good and true for all men, but the pleasant differs from one and another'. Not only was valuation subjective, but Democritus also saw that the usefulness of a good will fall to nothing and become negative if its supply becomes superabundant.

Democritus also pointed out that if people restrained their demands and curbed their desires, what they now possess would make them seem relatively wealthy rather than impoverished. Here again, the relative nature of the subjective utility of wealth is recognized. In addition, Democritus was the first to arrive at a rudimentary notion of time preference: the Austrian insight that people prefer a good at present to the prospect of the good arriving in the future. As Democritus explains, 'it is not sure whether the young man will ever attain old age; hence, the good on hand is superior to the one still to come'.

In addition to the adumbration of subjective utility theory, Democritus's other major contribution to economics was his pioneering defence of a system of private property. In contrast to Oriental despotisms, in which all property was owned or controlled by the emperor and his subordinate bureaucracy, Greece rested on a society and economy of private property. Democritus, having seen the contrast between the private property economy of Athens and the oligarchic collectivism of Sparta, concluded that private property is a superior form of economic organization. In contrast to communally owned property, private property provides an incentive for toil and diligence, since 'income from communally held property gives less pleasure, and the expenditure less pain'. 'Toil', the philosopher concluded, 'is sweeter than idleness when men gain what they toil for or know that they will use it'.

1.5 Plato's right-wing collectivist utopia

Plato's search for a hierarchical, collectivist utopia found its classic expression in his most famous and influential work, *The Republic*. There, and later in *The Laws*, Plato sets forth the outline of his ideal city-state: one in which right oligarchic rule is maintained by philosopher–kings and their philosophic colleagues, thus supposedly ensuring rule by the best and wisest in the community. Underneath the philosophers in the coercive hierarchy are the 'guardians' – the soldiers, whose role is to aggress against other cities and lands and to defend their *polis* from external aggression. Underneath them are to be the body of the people, the despised producers: labourers, peasants and merchants who produce the material goods on which the lordly philosophers and guardians are to live. These three broad classes are supposed to reflect a shaky and pernicious leap if there ever was one – the proper rule over the soul in each human being. To Plato, each human being is divided into three parts: 'one that craves, one that fights, and one that thinks', and the proper hierarchy of rule within each soul is supposed to be reason first, fighting next, and finally, and the lowest, grubby desire.

The two ruling classes – the thinkers and the guardians – that really count are, in Plato's ideal state, to be forced to live under pure communism. There is to be no private property whatsoever among the elite; all things are to be owned communally, including women and children. The elite are to be forced to live together and share common meals. Since money and private possessions, according to the aristocrat Plato, only corrupt virtue, they are to be denied to the upper classes. Marriage partners among the elite are to be selected strictly by the state, which is supposed to proceed according to the scientific breeding already known in animal husbandry. If any of the philosophers or guardians find themselves unhappy about this arrangement, they will have to learn that their personal happiness means nothing compared to the happiness of the *polis* as a whole – a rather murky concept at best. In fact, those who are not seduced by Plato's theory of the essential reality of ideas will not believe that there *is* such a real living entity as a *polis*. Instead, the city-state or community consists only of living, choosing *individuals*.

To keep the elite and the subject masses in line, Plato instructs the philosopher–rulers to spread the 'noble' lie that they themselves are descended from the gods whereas the other classes are of inferior heritage. Freedom of speech or of inquiry was, as one might expect, anathema to Plato. The arts are frowned on, and the life of the citizens was to be policed to suppress any dangerous thoughts or ideas that might come to the surface.

Remarkably, in the very course of setting forth his classic apologia for totalitarianism, Plato contributed to genuine economic science by being the first to expound and analyse the importance of the division of labour in society. Since his social philosophy was founded on a necessary separation between classes, Plato went on to demonstrate that such specialization is grounded in basic human nature, in particular its diversity and inequality. Plato has Socrates say in *The Republic* that specialization arises because 'we are not all alike; there are many diversities of natures among us which are adapted to different occupations'.

Since men produce different things, the goods are naturally traded for each other, so that specialization necessarily gives rise to exchange. Plato also points out that this division of labour increases the production of all the goods. Plato saw no problem, however, in morally ranking the various occupations, with philosophy of course ranking highest and labour or trade being sordid and ignoble.

The use of gold and silver as money greatly accelerated with the invention of coinage in Lydia in the early seventh century BC and coined money quickly spread to Greece. In keeping with his distaste for money-making, trade and private property, Plato was perhaps the first theorist to denounce the use of gold and silver as money. He also disliked gold and silver precisely because they served as international currencies accepted by all peoples. Since these precious metals are universally accepted and exist apart from the imprimatur of government, gold and silver constitute a potential threat to economic and moral regulation of the *polis* by the rulers. Plato called for a government fiat currency, heavy fines on the importation of gold from outside the city-state, and the exclusion from citizenship of all traders and workers who deal with money.

One of the hallmarks of an ordered utopia sought by Plato is that, to remain ordered and controlled, it must be kept relatively static. And that means little or no change, innovation or economic growth. Plato anticipated some present-day intellectuals in frowning on economic growth, and for similar reasons: notably, fear of collapse of the domination of the state by the ruling élite. Particularly difficult in trying to freeze a static society is the problem of population growth. Quite consistently, therefore, Plato called for freezing the size of the population of the city-state, keeping the number of its citizens limited to 5 000 agricultural landlord families.

1.6 Xenophon on household management

A disciple and contemporary of Plato was the Athenian landed aristocrat and army general, Xenophon (430–354 BC). Xenophon's economic writings were scattered throughout such works as an account of the education of a Persian price, a treatise on how to increase government revenue, and a book on 'economics' in the sense of thoughts on the technology of household and farm management. Most of Xenophon's adumbrations were the usual Hellenic scorn for labour and trade, and admiration for agriculture and the military arts, coupled with a call for a massive increase in government operations and interventions in the economy. These included improving the port of Athens, building markets and inns, establishing a governmental merchant fleet and greatly expanding the number of government-owned slaves.

Interspersed in this roll of commonplace bromides, however, were some interesting insights into economic matters. In the course of his treatise on household management, Xenophon pointed out that 'wealth' should be defined as a resource that a person can use and knows how to use. In this way, something that an owner has neither the ability nor the knowledge to use cannot really constitute part of his wealth.

Another insight was Xenophon's anticipation of Adam Smith's famous dictum that the extent of the division of labour in society is necessarily limited by the extent of the market for the products. Thus, in an important addition to Plato's insights on the division of labour, written 20 years after *The Republic*, Xenophon says that 'In small towns the same workman makes chairs and doors and plows and tables, and often the same artisan builds houses...' whereas in the large cities 'many people have demands to make upon each branch of industry', and therefore 'one trade alone, and very often even less than a whole trade, is enough to support a man'. In large cities', we find one man making men's boots only; and another, women's only'... one man lives by cutting out garments, another by fitting together the pieces'.

Elsewhere, Xenophon outlines the important concept of general equilibrium as a dynamic tendency of the market economy. Thus, he states that when there are too many coppersmiths, copper becomes cheap and the smiths go bankrupt and turn to other activities, as would happen in agriculture or any other industry. He also sees clearly that an increase in the supply of a commodity causes a fall in its price.

1.7 Aristotle: private property and money

The views of the great philosopher Aristotle are particularly important because the entire structure of his thought had an enormous and even dominant influence on the economic and social thought of the high and late Middle Ages, which considered itself Aristotelian.

Although Aristotle, in the Greek tradition, scorned moneymaking and was scarcely a partisan of *laissez-faire*, he set forth a trenchant argument in favour of private property. Perhaps influenced by the private-property arguments of Democritus, Aristotle delivered a cogent attack on the communism of the ruling class called for by Plato. He denounced Plato's goal of the perfect unity of the state through communism by pointing out that such extreme unity runs against the diversity of mankind, and against the reciprocal advantage that everyone reaps through market exchange. Aristotle then delivered a point-by-point contrast of private as against communal property. First, private property is more highly productive and will therefore lead to progress. Goods owned in common by a large number of people will receive little attention, since people will mainly consult their own self-interest and will neglect all duty they can fob off on to others. In contrast, people will devote the greatest interest and care to their own property.

Second, one of Plato's arguments for communal property is that it is conducive to social peace, since no one will be envious of, or try to grab the property of, another. Aristotle retorted that communal property would lead to continuing and intense conflict, since each will complain that he has worked harder and obtained less than others who have done little and taken more from the common store. Furthermore, not all crimes or revolutions, declared Aristotle, are powered by economic motives. As Aristotle trenchantly put it, 'men do not become tyrants in order that they may not suffer cold'.

Third, private property is clearly implanted in man's nature: His love of self, of money, and of property, are tied together in a natural love of exclusive ownership. Fourth, Aristotle, a great observer of past and present, pointed out that private property had existed always and everywhere. To impose communal property on society would be to disregard the record of human experience, and to leap into the new and untried. Abolishing private property would probably create more problems than it would solve.

Finally, Aristotle wove together his economic and moral theories by providing the brilliant insight that only private property furnishes people with the opportunity to act morally, e.g. to practise the virtues of benevolence and philanthropy. The compulsion of communal property would destroy that opportunity.

While Aristotle was critical of money-making, he still opposed any limitation – such as Plato had advocated – on an individual's accumulation of private property. Instead, education should teach people voluntarily to curb their rampant desires and thus lead them to limit their own accumulations of wealth.

Despite his cogent defence of private property and opposition to coerced limits on wealth, the aristocrat Aristotle was fully as scornful of labour and trade as his predecessors. Unfortunately, Aristotle stored up trouble for later centuries by coining a fallacious, proto-Galbraithian distinction between 'natural' needs, which should be satisfied, and 'unnatural' wants, which are limitless and should be abandoned. There is no plausible argument to show why, as Aristotle believes, the desires filled by subsistence labour or barter are 'natural', whereas those satisfied by far more productive money exchanges are artificial, 'unnatural' and therefore reprehensible. Exchanges for monetary gain are simply denounced as immoral and 'unnatural', specifically such activities as retail trade, commerce, transportation and the hiring of labour. Aristotle had a particular animus toward retail trade, which of course directly serves the consumer, and which he would have liked to eliminate completely.

Aristotle is scarcely consistent in his economic lucubrations. For although monetary exchange is condemned as immoral and unnatural, he also praises such a network of exchanges as holding the city together through mutual and reciprocal give-and-take.

The confusion in Aristotle's thought between the analytic and the 'moral' is also shown in his discussion of money. On the one hand, he sees that the growth of money greatly facilitated production and exchange. He sees also that money, the medium of exchange, represents general demand, and 'holds all goods together'. Also money eliminates the grave problem of 'double coincidence of wants', where each trader will have to desire the other man's goods directly. Now each person can sell goods for money. Furthermore, money serves as a store of values to be used for purchases in the future.

Aristotle, however, created great trouble for the future by morally condemning the lending of money at interest as 'unnatural'. Since money cannot be used directly, and is employed only to facilitate exchanges, it is 'barren' and cannot itself increase wealth. Therefore the charging of interest, which Aristotle incorrectly thought to imply a direct productivity of money, was strongly condemned as contrary to nature.

Aristotle would have done better to avoid such hasty moral condemnation and to try to figure out why interest is, *in fact*, universally paid. Might there not be something 'natural', after all, about a rate of interest? And if he had discovered the economic reason for the charging – and the paying – of interest, perhaps Aristotle would have understood why such charges are moral and not unnatural.

Aristotle, like Plato, was hostile to economic growth and favoured a static society, all of which fits with his opposition to money-making and the accumulation of wealth. The insight of old Hesiod into the economic problem as the allocation of scarce means for the satisfying of alternative wants was virtually ignored by both Plato and Aristotle, who instead counselled the virtue of scaling down one's desires to fit whatever means were available.

1.8 Aristotle: exchange and value

Aristotle's difficult but influential discussion of exchange suffered grievously from his persistent tendency to confuse analysis with instant moral judgement. As in the case of charging interest, Aristotle did not remain content to complete a study of why exchanges take place in real life before leaping in with moral pronouncements. In analysing exchanges, Aristotle declares that these mutually beneficial transactions imply a 'proportional reciprocity', but it is characteristically ambivalent in Aristotle whether *all* exchanges are by nature marked by reciprocity, or whether only proportionately reciprocal exchanges are truly 'just'. And of course Aristotle was never one to raise the question: why do people voluntarily engage in 'unjust' exchanges? In the same way, why should people voluntarily pay interest charges if they are really 'unjust'?

To muddle matters further, Aristotle, under the influence of the Pythagorean number-mystics, introduced obscure and obfuscating mathematical terms into what could have been a straightforward analysis. The only dubious benefit of this contribution was to give many happy hours to historians of economic thought attempting to read sophisticated modern analysis into Aristotle. This problem has been aggravated by an unfortunate tendency among historians of thought to regard great thinkers of the past as necessarily consistent and coherent. That of course is a grievous historiographic error; however great they may have been, any thinkers can slip into error and inconsistency, and even write gibberish on occasion. Many historians of thought do not seem able to recognize that simple fact.

Aristotle's famous discussion of reciprocity in exchange in Book V of his *Nichomachean Ethics* is a prime example of descent into gibberish. Aristotle talks of a builder exchanging a house for the shoes produced by a shoemaker. He then writes: 'The number of shoes exchanged for a house must therefore correspond to the ratio of builder to shoemaker. For if this be not so, there will be no exchange and no intercourse'. Eh? How can there possibly be a ratio of 'builder' to 'shoemaker'? Much less an equating of that ratio to shoes/houses? In what *units* can men like builders and shoemakers be expressed?

The correct answer is that there is no meaning, and that this particular exercise should be dismissed as an unfortunate example of Pythagorean quantophrenia. And yet various distinguished historians have read tortured constructions of this passage to make Aristotle appear to be a forerunner of the labour theory of value, of W. Stanley Jevons, or of Alfred Marshall. The labour theory is read into the unsupportable assumption that Aristotle 'must have meant' labour hours put in by the builder or shoemaker, while Josef Soudek somehow sees here the respective skills of these producers, skills which are then measured by their products. Soudek eventually emerges with Aristotle as an ancestor of Jevons. In the face of all this elaborate wild goose chase, it is a pleasure to see the verdict of gibberish supported by the economic historian of ancient Greece, Moses I. Finley, and by the distinguished Aristotelian scholar H.H. Joachim, who has the courage to write, 'How exactly the values of the producers are to be determined, and what the ratio between them can mean is, I must confess, in the end unintelligible to me'.[1]

Another grave fallacy in the same paragraph in the *Ethics* did incalculable damage to future centuries of economic thought. There Aristotle says that in order for an exchange (*any* exchange? a *just* exchange?) to take place, the diverse goods and services 'must be equated', a phrase Aristotle emphasizes several times. It is this necessary 'equation' that led Aristotle to bring in the mathematics and the equal signs. His reasoning was that for *A* and *B* to exchange two products, the value of both products must be equal, otherwise an exchange would not take place. The diverse goods being exchanged for one another must be made equal because only things of equal value will be traded.

The Aristotelian concept of equal value in exchange is just plain wrong, as the Austrian School was to point out in the late nineteenth century. If *A* trades shoes for sacks of wheat owned by *B*, *A* does so because he prefers the wheat to the shoes, while *B*'s preferences are precisely the opposite. If an exchange takes place, this implies not an equality of values, but rather a *reverse inequality* of values in the two parties making the exchange. If I buy a newspaper for 30¢ I do so because I prefer the acquisition of the newspaper to keeping the 30 cents, whereas the newsagent prefers getting the money to keeping the newspaper. This double inequality of subjective valuations sets the necessary precondition for any exchange.

If the equation of ratio of builder to labourer is best forgotten, other parts of Aristotle's analysis have been seen by some historians as predating parts of the economics of the Austrian School. Aristotle clearly states that money represents human need or demand, which provides the motivation for exchange, and 'which holds all things together'. Demand is governed by the use-value or desirability of a good. Aristotle follows Democritus in pointing out that after the quantity of a good reaches a certain limit, after there is 'too much', the use value will plummet and become worthless. But Aristotle goes beyond Democritus in pointing out the other side of the coin: that when a good becomes scarcer, it will become subjectively more useful or valuable. He states in the *Rhetoric* that 'what is rare is a greater good than what is plentiful. Thus gold is a better thing than iron, though less useful'. These statements provide an intimation of the correct influence of different levels of supply on the value of a good, and at least a hint of the later fully formed Austrian marginal utility theory of value, and its solution of the 'paradox' of value.

These are interesting allusions and suggestions; but a few fragmentary sentences scattered throughout different books hardly constitute a fully fledged precursor of the Austrian School. But a more interesting harbinger of Austrianism has only come to the attention of historians in recent years: the groundwork for the Austrian theory of marginal productivity – the process by which the value of final products is imputed to the means, or factors, of production.

In his little-known work, the *Topics*, as well as in his later *Rhetoric*, Aristotle engaged in a philosophical analysis of the relationship between human ends and the means by which people pursue them. These means, or 'instruments of production', necessarily derive their value from the final products useful to man, 'the instruments of action'. The greater the desirability, or subjective value, of a good, the greater the desirability, or value of the means to arrive at that product. More important, Aristotle introduces the marginal element into this imputation by arguing that if the acquisition or addition of a good *A* to an already desirable good *C* creates a more desirable result than the addition of good *B*, then *A* is more highly valued than *B*. Or, as Aristotle put it: 'judge by means of an addition, and see if the addition of A to the same thing as B makes the whole more desirable than the addition of B'. Aristotle also introduces an even more specifically pre-Austrian, or pre-Böhm-Bawerkian, concept by stressing the differential value of the *loss*, rather than the addition of a good. Good *A* will be more valuable than *B*, if the loss of *A* is considered to be worse than the loss of *B*. As Aristotle clearly phrased it: 'That is the greater good whose contrary is the greater evil, and whose loss affects us more.'

Aristotle also took note of the importance of the complementarity of economic factors of production in imputing their value. A saw, he pointed out, is more valuable than a sickle in the art of carpentry, but it is not more valuable everywhere and in all pursuits. He also pointed out that a good with many potential uses will be more desirable, or valuable, than a good with only one use.

Critics of the economic importance of Aristotle's analysis charge that, with the exception of the saw-and-sickle passage, Aristotle made no economic application of his broad philosophical treatment of imputation. But this charge misses the crucial Austrian point – made with particular force and elaboration by the twentieth century Austrian economist Ludwig von Mises – that economic theory is but a part, a subset, of a broader, 'praxeological' analysis of human action. By analysing the logical implications of the employment of means to the pursuit of ends in all human action, Aristotle brilliantly began to lay the groundwork for the Austrian theory of imputation and marginal productivity over two millennia later.

1.9 The collapse after Aristotle

It is remarkable that the great burst of economic thinking in the ancient world covered only two centuries – the fifth and the fourth BC – and only in one country, Greece. The rest of the ancient world, and even Greece before and after these centuries, was essentially a desert of economic thought. Nothing of substance came out of the great ancient civilizations in Mesopotamia and India, and very little except political thought in the many centuries-long civilization of China. Remarkably, little or no economic thought emerged out of those civilizations, even though the economic institutions: trade, credit, mining, crafts, etc. were often far advanced, and even more so than in Greece. Here is an important indication that, contrary to Marxists and other economic determinists, economic thought and ideas do not simply emerge as a reflex of the development of economic institutions.

There is no way that historians of thought can ever completely penetrate the mysteries of creativity in the human soul, and thus completely explain this relatively brief flowering of human thought. But it is surely no accident that it was the Greek philosophers who provided us with the first fragments of systematic economic theory. For philosophy, too, was virtually non-existent in the rest of the ancient world or before this era in Greece. The essence of philosophic thought is that it penetrates the *ad hoc* vagaries of day-to-day life in order to arrive at truths that transcend the daily accidents of time and place. Philosophy arrives at truths about the world and about human life that are absolute, universal and eternal – at least while the world and humanity last. It arrives, in short, at a system of natural laws. But economic analysis is a subset of such investigation, because genuine economic theory can only advance beyond shifting day-to-day events by penetrating truths about human action which are absolute, unchanging and eternal, which are unaffected by changes of time and place. Economic thought, at least correct economic thought, is itself a subset of natural laws in its own branch of investigation.

If we remember the snatches of economic thought contributed by the Greeks: Hesiod on scarcity, Democritus on subjective value and utility, the influence of supply and demand on value, and on time-preference, Plato and Xenophon on the division of labour, Plato on the functions of money, Aristotle on supply and demand, money, exchange, and the imputation of value from ends to means, we see that all of these men were focusing on the logical implications of a few broadly empirical axioms of human life: the existence of human action, the eternal pursuit of goals by employing scarce means, the diversity and inequality among men. These axioms are certainly empirical, but they are so broad and pervasive that they apply to all of human life, at any time and place. Once articulated and set forth, they impel assent to their truth by a shock of recognition: once articulated, they become *evident* to the human mind. Since these axioms are then established as certain and apodictic, the processes of logic – themselves universal and apodictic and transcending time and place – can be used to arrive at absolutely true conclusions.

While this method of reasoning – of philosophy and of economics – is both empirical, being derived from the world, and true, it runs against the grain of modern philosophies of science. In modern positivism, or neopositivism, for example, 'evidence' is much narrower, fleeting and open to change. In much of modern economics, using the positivist method, 'empirical evidence' is a congeries of isolated and narrow economic events, each of which is conceived as homogeneous bits of information, supposedly used to 'test', to confirm or refute, economic hypotheses. These bits, like laboratory experiments, are supposed to result in 'evidence' to test a theory. Modern positivism is unequipped to understand or handle a system of analysis – whether classical Greek philosophy or economic theory – grounded on deductions from fundamental axioms so broadly empirical as to be virtually self-evident – evident to the self – once they are articulated. Positivism fails to understand that the results of laboratory experiments are only 'evidence' because they too *make evident* to the scientists (or to others who follow the experiments), that is, make evident *to the self*, facts or truths not evident before. The deductive processes of logic and mathematics do the same thing: they compel assent by making things evident to people which were not evident before. Correct economic theory, which we have named as 'praxeological' theory, is another way by which truths are made evident to the human mind.

Even politics, which some scoff at as not purely or strictly economics, impinges heavily on economic thought. Politics is of course an aspect of human action, and much of it has a crucial impact on economic life. Eternal natural law truths about economic aspects of politics may be and have been arrived at, and cannot be neglected in a study of the development of economic thought. When Democritus and Aristotle defended a regime of private property and Aristotle demolished Plato's portrayal of an ideal communism, they were engaging in important economic analysis of the nature and consequences of alternative systems of control and ownership of property.

Aristotle was the culmination of ancient economic thought as he was of classical philosophy. Economic theorizing collapsed after the death of Aristotle, and later Hellenistic and Roman epochs were virtually devoid of economic thought. Again, it is impossible to explain fully the disappearance of economic thought, but surely one reason must have been the disintegration of the once proud Greek *polis* after the time of Aristotle. The Greek city-states were subjected to conquest and disintegration beginning with the empire of Alexander the Great during the life of his former mentor Aristotle. Eventually Greece, much diminished in wealth and economic prosperity, became absorbed by the Roman Empire.

Small wonder, then, that the only references to economic affairs should be counsels of despair, with various Greek philosophers futilely urging their followers to solve the problem of aggravated scarcity by drastically curbing their wants and desires. In short, if you're miserable and poverty-stricken, accept your lot as man's inevitable fate and try to want no more than you have. This counsel of hopelessness and despair was preached by Diogenes (412–323 BC) the founder of the school of Cynics, and by Epicurus (343–270 BC), the founder of the Epicureans. Diogenes and the Cynics pursued this culture of poverty to such length as to adopt the name and the life of dogs; Diogenes himself made his home in a barrel. Consistent with his outlook, Diogenes denounced the hero Prometheus, who in Greek myth stole the gift of fire from the gods and thus made possible innovation, the growth of human knowledge, and the progress of mankind. Prometheus, wrote Diogenes, was properly punished by the gods for this fateful deed.

As Bertrand Russell summed up:

> ...Aristotle is the last Greek philosopher who faces the world cheerfully; after him, all have, in one form or another, a philosophy of retreat. The world is bad; let us learn to be independent of it. External goods are precarious; they are the gift of fortune, not the reward of our own efforts.

The most interesting and influential school of Greek philosophers after Aristotle was the Stoics, founded by Zeno of Clitium (c.336–264 BC), who appeared about the year 300 BC in Athens to teach at a painted porch (*stoa poikile*) after which he and his followers were called Stoics. While the Stoics began as an offshoot of Cynicism, preaching the quenching of desire for worldly goods, it took on a new and more optimistic note with Stoicism's second great founder, Chrysippus (281–208 BC). Whereas Diogenes had preached that the love of money was the root of all evil, Chrysippus countered with the quip that the 'wise man will turn three somersaults for an adequate fee'. Chrysippus was also sound on the inherent inequality and diversity of man: 'Nothing', he pointed out, 'can prevent some seats in the theatre from being better than others'.

But the most important contribution of Stoic thought was in ethical, political and legal philosophy, for it was the Stoics who first developed and systematized, especially in the legal sphere, the concept and the philosophy of natural law. It was precisely because Plato and Aristotle were circumscribed politically by the Greek *polis* that their moral and legal philosophy became closely intertwined with the Greek city-state. For the Socratics, the city-state, not the individual, was the locus of human virtue. But the destruction or subjugation of the Greek *polis* after Aristotle freed the thought of the Stoics from its admixture with politics. The Stoics were therefore free to use their reason to set forth a doctrine of natural law focusing not on the *polis* but on each individual, and not on each state but on all states everywhere. In short, in the hands of the Stoics, natural law became absolute and universal, transcending political barriers or fleeting limitations of time and place. Law and ethics, the principles of justice, became transcultural and transnational, applying to all human beings everywhere. And since every man possesses the faculty of reason, he can employ right reason to understand the truths of the natural law. The important implication for politics is that the natural law, the just and proper moral law discovered by man's right reason, can and should be used to engage in a moral critique of the positive man-made laws of any state or *polis*. For the first time, positive law became continually subject to a transcendent critique based on the universal and eternal nature of man.

The Stoics were undoubtedly aided in arriving at their cosmopolitan disregard for the narrow interests of the *polis* by the fact that most of them were Easterners who had come from outside the Greek mainland. Zeno, the founder, described as 'tall, gaunt, and swarthy', came from Clitium on the island of Cyprus. Many, including Chrysippus, came from Tarsus, in Cilicia, on the Asia Minor mainland near Syria. Later Greek Stoics were centred in Rhodes, an island off Asia Minor.

Stoicism lasted 500 years, and its most important influence was transmitted from Greece to Rome. The later Stoics, during the first two centuries after the birth of Christ, were Roman rather than Greek. The great transmitter of Stoic ideas from Greece to Rome was the famous Roman statesman, jurist, and orator Marcus Tullius Cicero (106–43 BC). Following Cicero, Stoic natural law doctrines heavily influenced the Roman jurists of the second and third centuries AD, and thus helped shape the great structures of Roman law which became pervasive in Western civilization. Cicero's influence was assured by his lucid and sparkling style, and by the fact that he was the first Stoic to write in Latin, the language of Roman law and of all thinkers and writers in the West down to the end of the seventeenth century. Moreover, Cicero's and other Latin writings have been far better preserved than the fragmentary remains we have from the Greeks.

Cicero's writings were heavily influenced by the Greek Stoic leader, the aristocratic Panaetius of Rhodes (c.185–110 BC) and as a young man he travelled there to study with his follower, Posidonius of Rhodes (135–51 BC), the greatest Stoic of his age. There is no better way to sum up Cicero's Stoic natural law philosophy than by quoting what one of his followers called his 'almost divine words'. Paraphrasing and developing the definition and insight of Chrysippus, Cicero wrote:

> There is a true law, right reason, agreeable to nature, known to all men, constant and eternal, which calls to duty by its precepts, deters from evil by its prohibition ... This law cannot be departed from without guilt ... Nor is there one law at Rome and another at Athens, one thing now and another afterward; but the same law, unchanging and eternal, binds all races of man and all times; and there is one common, as it were, master and ruler – God, the author, promulgator and mover of this law. Whoever does not obey it departs from [his true] self, contemns the nature of man and inflicts upon himself the greatest penalties...

Cicero also contributed to Western thought a great anti-statist parable which resounded through the centuries, a parable that revealed the nature of rulers of state as nothing more than pirates writ large. Cicero told the story of a pirate who was dragged into the court of Alexander the Great. When Alexander denounced him for piracy and brigandage and asked the pirate what impulse had led him to make the sea unsafe with his one little ship, the pirate trenchantly replied, 'the same impulse which has led you [Alexander] to make the whole world unsafe'.

But despite their important contributions to moral and legal philosophy, neither the Stoics nor other Romans contributed anything else of significance to economic thought. Roman law, however, heavily influenced and pervaded later legal developments in the West. Roman private law elaborated, for the first time in the West, the idea of property rights as absolute, with each owner having the right to use his property as he saw fit. From this stemmed the right to make contracts freely, with contracts interpreted as transfers of titles to property. Some Roman jurists declared that property rights were required by the natural law. The Romans also founded the law merchant, and Roman law strongly influenced the common law of the English-speaking countries and the civil law of the continent of Europe.

1.10 Taoism in ancient China

The only other body of ancient thought worth mentioning is the schools of political philosophy in ancient China. Though remarkable for its insights, ancient Chinese thought had virtually no impact outside the isolated Chinese Empire in later centuries, and so will be dealt with only briefly.

The three main schools of political thought: the Legalists, the Taoists, and the Confucians, were established from the sixth to the fourth centuries BC. Roughly, the Legalists, the latest of the three broad schools, simply believed in maximal power to the state, and advised rulers how to increase that power. The Taoists were the world's first libertarians, who believed in virtually no interference by the state in economy or society, and the Confucians were middle-of-the-roaders on this critical issue. The towering figure of Confucius (551–479 BC), whose name was actually Ch'iu Chung-ni, was an erudite man from an impoverished but aristocratic family of the fallen Yin dynasty, who became Grand Marshal of the state of Sung. In practice, though far more idealistic, Confucian thought differed little from the Legalists, since Confucianism was largely dedicated to installing an educated philosophically minded bureaucracy to rule in China.

By far the most interesting of the Chinese political philosophers were the Taoists, founded by the immensely important but shadowy figure of Lao Tzu. Little is known about Lao Tzu's life, but he was apparently a contemporary and personal acquaintance of Confucius. Like the latter he came originally from the state of Sung and was a descendant of lower aristocracy of the Yin dynasty. Both men lived in a time of turmoil, wars and statism, but each reacted very differently. For Lao Tzu worked out the view that the individual and his happiness was the key unit of society. If social institutions hampered the individual's flowering and his happiness, then those institutions should be reduced or abolished altogether. To the individualist Lao Tzu, government, with its 'laws and regulations more numerous than the hairs of an ox', was a vicious oppressor of the individual, and 'more to be feared than fierce tigers'. Government, in sum, must be limited to the smallest possible minimum; 'inaction' became the watchword for Lao Tzu, since only inaction of government can permit the individual to flourish and achieve happiness. Any intervention by government, he declared, would be counterproductive, and would lead to confusion and turmoil. The first political economist to discern the systemic effects of government intervention, Lao Tzu, after referring to the common experience of mankind, came to his penetrating conclusion: 'The more artificial taboos and restrictions there are in the world, the more the people are impoverished... The more that laws and regulations are given prominence, the more thieves and robbers there will be'.

The worst of government interventions, according to Lao Tzu, was heavy taxation and war. 'The people hunger because their superiors consume an excess in taxation' and, 'where armies have been stationed, thorns and brambles grow. After a great war, harsh years of famine are sure to follow'.

The wisest course is to keep the government simple and inactive, for then the world 'stabilizes itself'.

As Lao Tzu put it: 'Therefore, the Sage says: I take no action yet the people transform themselves, I favor quiescence and the people right themselves, I take no action and the people enrich themselves...'

Deeply pessimistic, and seeing no hope for a mass movement to correct oppressive government, Lao Tzu counselled the now familiar Taoist path of withdrawal, retreat, and limitation of one's desires.

Two centuries later, Lao Tzu's great follower Chuang Tzu (369–c.286 BC) built on the master's ideas of *laissez-faire* to push them to their logical conclusion: individualist anarchism. The influential Chuang Tzu, a great stylist who wrote in allegorical parables, was therefore the first anarchist in the history of human thought. The highly learned Chuang Tzu was a native of the state of Meng (now probably in Honan province), and also descended from the old aristocracy. A minor official in his native state, Chuang Tzu's fame spread far and wide throughout China, so much so that King Wei of the Ch'u kingdom sent an emissary to Chuang Tzu bearing great gifts and urging him to become the king's chief minister of state. Chuang Tzu's scornful rejection of the king's offer is one of the great declarations in history on the evils underlying the trappings of state power and the contrasting virtues of the private life:

> A thousand ounces of gold is indeed a great reward, and the office of chief minister is truly an elevated position. But have you, sir, not seen the sacrificial ox awaiting the sacrifices at the royal shrine of state? It is well cared for and fed for a few years, caparisoned with rich brocades, so that it will be ready to be led into the Great Temple. At that moment, even though it would gladly change places with any solitary pig, can it do so? So, quick and be off with you! Don't sully me. I would rather roam and idle about in a muddy ditch, at my own amusement, than to be put under the restraints that the ruler would impose. I will never take any official service, and thereby I will [be free] to satisfy my own purposes.

Chuang Tzu reiterated and embellished Lao Tzu's devotion to *laissez-faire* and opposition to state rule: 'There has been such a thing as letting mankind alone; there has never been such a thing as governing mankind [with success]'. Chuang Tzu was also the first to work out the idea of 'spontaneous order', independently discovered by Proudhon in the nineteenth century, and developed by F.A. von Hayek of the Austrian School in the twentieth. Thus, Chuang Tzu: 'Good order results spontaneously when things are let alone'.

But while people in their 'natural freedom' can run their lives very well by themselves, government rules and edicts distort that nature into an artificial Procrustean bed. As Chuang Tzu wrote, 'The common people have a constant nature; they spin and are clothed, till and are fed...it is what may be called their "natural freedom"'. These people of natural freedom were born and died themselves, suffered from no restrictions or restraints, and were neither quarrelsome nor disorderly. If rulers were to establish rites and laws to govern the people, 'it would indeed be no different from stretching the short legs of the duck and trimming off the long legs of the heron' or 'haltering a horse'. Such rules would not only be of no benefit, but would work great harm. In short, Chuang Tzu concluded, the world 'does simply not need governing; in fact it should not be governed'.

Chuang Tzu, moreover, was perhaps the first theorist to see the state as a brigand writ large: 'A petty thief is put in jail. A great brigand becomes a ruler of a State'. Thus, the only difference between state rulers and out-and-out robber chieftains is the size of their depredations. This theme of ruler-as-robber was to be repeated, as we have seen, by Cicero, and later by Christian thinkers in the Middle Ages, though of course these were arrived at independently.

Taoist thought flourished for several centuries, culminating in the most determinedly anarchistic thinker, Pao Ching-yen, who lived in the early fourth century AD, and about whose life nothing is known. Elaborating on Chuang-Tzu, Pao contrasted the idyllic ways of ancient times that had had no rulers and no government with the misery inflicted by the rulers of the current age. In the earliest days, wrote Pao 'there were no rulers and no officials. [People] dug wells and drank, tilled fields and ate. When the sun rose, they went to work; and when it set, they rested. Placidly going their ways with no encumbrances, they grandly achieved their own fulfillment'. In the stateless age, there was no warfare and no disorder:

> Where knights and hosts could not be assembled there was no warfare afield...Ideas of using power for advantage had not yet burgeoned. Disaster and disorder did not occur. Shields and spears were not used; city walls and moats were not built...People munched their food and disported themselves; they were carefree and contented.

Into this idyll of peace and contentment, wrote Pao Ching-yen, there came the violence and deceit instituted by the state. The history of government is the history of violence, of the strong plundering the weak. Wicked tyrants engage in orgies of violence; being rulers they 'could give free rein to all desires'. Furthermore, the government's institutionalization of violence meant that the petty disorders of daily life would be greatly intensified and expanded on a much larger scale. As Pao put it:

> Disputes among the ordinary people are merely trivial matters, for what scope of consequences can a contest of strength between ordinary fellows generate? They have no spreading lands to arouse avarice...they wield no authority through which they can advance their struggle. Their power is not such that they can assemble mass followings, and they command no awe that might quell [such gatherings] by their opponents. How can they compare with a display of the royal anger, which can deploy armies and move battalions, making people who hold no enmities attack states that have done no wrong?

To the common charge that he has overlooked good and benevolent rulers, Pao replied that the government itself is a violent exploitation of the weak by the strong. The system *itself* is the problem, and the object of government is not to benefit the people, but to control and plunder them. There is no ruler who can compare in virtue with a condition of non-rule.

Pao Ching-yen also engaged in a masterful study in political psychology by pointing out that the very existence of institutionalized violence by the state generates imitative violence among the people. In a happy and stateless world, declared Pao, the people would naturally turn to thoughts of good order and not be interested in plundering their neighbours. But rulers oppress and loot the people and 'make them toil without rest and wrest away things from them endlessly.' In that way, theft and banditry are stimulated among the unhappy people, and arms and armour, intended to pacify the public, are stolen by bandits to intensify their plunder. 'All these things are brought about because there are rulers.' The common idea, concluded Pao, that strong government is needed to combat disorders among the people, commits the serious error of confusing cause and effect.

The only Chinese with notable views in the more strictly economic realm was the distinguished second century B.C. historian, Ssu-ma Ch'ien (145–c.90 BC). Ch'ien was an advocate of *laissez-faire*, and pointed out that minimal government made for abundance of food and clothing, as did the abstinence of government from competing with private enterprise. This was similar to the Taoist view, but Ch'ien, a worldly and sophisticated man, dismissed the idea that people could solve the economic problem by reducing desires to a minimum. People, Ch'ien maintained, preferred the best and most attainable goods and services, as well as ease and comfort. Men are therefore habitual seekers after wealth.

Since Ch'ien thought very little of the idea of limiting one's desires, he was impelled, far more than the Taoists, to investigate and analyse free market activities. He therefore saw that specialization and the division of labour on the market produced goods and services in an orderly fashion:

> Each man has only to be left to utilize his own abilities and exert his strength to obtain what he wishes...When each person works away at his own occupation and delights in his own business, then like water flowing downward, goods will naturally flow ceaselessly day and night without being summoned, and the people will produce commodities without having been asked.

To Ch'ien, this was the natural outcome of the free market. 'Does this not ally with reason? Is it not a natural result?' Furthermore, prices are regulated on the market, since excessively cheap or dear prices tend to correct themselves and reach a proper level.

But if the free market is self-regulating, asked Ch'ien perceptively, 'what need is there for government directives, mobilizations of labor, or periodic assemblies?' What need indeed?

Ssu-ma Ch'ien also set forth the function of entrepreneurship on the market. The entrepreneur accumulates wealth and functions by anticipating conditions (i.e. forecasting) and acting accordingly. In short, he keeps 'a sharp eye out for the opportunities of the times.'

Finally, Ch'ien was one of the world's first monetary theorists. He pointed out that increased quantity and a debased quality of coinage by government depreciates the value of money and makes prices rise. And he saw too that government inherently tended to engage in this sort of inflation and debasement.

1.11 Note

1. H.H. Joachim, *Aristotle: The Nichomachean Ethics* (Oxford: The Clarendon Press, 1951), p. 50. Also see Moses I. Finley, 'Aristotle and Economic Analysis', in *Studies in Ancient Society* (London: Routledge and Kegan Paul, 1974), pp. 32–40.

2 The Christian Middle Ages

2.1 The Roman law: property rights and *laissez-faire*

One of the most powerful influences in the legal and political thought and institutions of the Christian West during the Middle Ages was the Roman law, derived from the Republic and Empire of ancient Rome. Roman law classically developed in the first to the third centuries AD. Private law developed the theory of the absolute right of private property and of freedom of trade and contract. While Roman public law theoretically allowed state interference in the life of the citizen, there was little such interference in the late Republic and early Empire. Private property rights and *laissez-faire* were therefore the fundamental heritage of the Roman law to later centuries, and much of it was adopted by countries of the Christian West. Though the Roman Empire collapsed in the fourth and fifth centuries, its legal heritage continued, as embodied in two great collections of the Roman law: influential in the West, the Theodosian Code, promulgated by the Emperor Theodosius in 438 AD and in the East the great four-volume *Corpus Juris Civilis*, promulgated by the Byzantine Christian Emperor Justinian in the 530s.

Both collections emphasized strongly that the 'just' price (*justum pretium*) was simply any price arrived at by free and voluntary bargaining between buyer and seller. Each man has the right to do what he wants with his property, and therefore has the right to make contracts to give away, buy, or sell such property; hence, whatever price is freely arrived at is 'just'. Thus in the *Corpus*, several leading Roman jurists of the third century quoted the early second century jurist Pomponius in a classic expression of the morality of *laissez-faire*: 'In buying and selling natural law permits the one party to buy for less and the other to sell for more than the thing is worth; thus each party is allowed to outwit the other'; and 'it is naturally permitted to parties to circumvent each other in the price of buying and selling'. The only problem here is the odd phrase, 'the thing is worth', which assumes that there is some value *other* than free bargaining that expresses some 'true worth', a phrase that would prove to be an unfortunate harbinger of the future.

More specifically, the Theodosian Code was crystal-clear: any price set by free and voluntary bargaining is just and legitimate, the only exception being a contract made by children. Force or fraud, as infringements on property rights, were of course considered illegal. The code held explicitly that ignorance of the value of a good by either buyer or seller was insufficient ground for authorities to step in and rescind the voluntarily agreed contract. The Theodosian Code was carried forward in western Europe, e.g. the Visigothic law set forth in the sixth and seventh centuries, and the Bavarian law of the early eighth century. Bavarian law added the explicit provision that a buyer may not rescind a sale because he later decides that the agreed price was too high. This *laissez-faire* aspect of the Theodosian Code later became incorporated into Christian canon law by being included in the collection of 'capitularies' (decrees) by St Benedictus Diaconus in the ninth century AD.

While the Justinian *Corpus*, promulgated in the East, was equally devoted to *laissez-faire*, it included a minor element that was later to grow and justify attacks upon free bargaining. As part of the Justinian discussion of how courts can appraise property for payment of damages, the code mentioned that if a seller has sold his property for less than half 'the just price', then he suffers 'great loss' (*laesio enormis*), and the seller is then entitled either to get back the difference between the original price and the just price from the buyer, or else get his property back at that original price. This clause was apparently meant only to apply to real estate and to compensations for damages, where authorities must somehow assess the 'true' price, and it had no influence on the laws of the next centuries. But it was to yield unfortunate effects in the future.

2.2 Early Christian attitudes towards merchants

Roman law was not the only influence on economic ideas in the Middle Ages. Ambivalent attitudes in the early Christian tradition also proved highly important.

Economic matters were of course scarcely central to either the Old or New Testament, and scattered economic pronouncements are contradictory or subject to ambivalent interpretation. Fulminations against excessive love of money do not necessarily imply hostility to commerce or wealth. One remarkable aspect of the Old Testament, however, is its repeated, almost pre-Calvinist, extolling of work for its own sake. In contrast to the contemptuous attitude toward labour of the Greek philosophers, the Old Testament is filled with exhortations in favour of work: from the 'be fruitful and multiply' of Genesis to 'Enjoy life in your toil at which you toil under the sun' of Ecclesiastes. Oddly, these calls to labour are often accompanied by admonitions against the accumulation of wealth. Later, in the second century BC, the Hebrew scribe who wrote the Apocryphal book Ecclesiasticus goes so far as to extol labour as a sacred calling. Manual workers, he writes, 'keep stable the fabric of the world, and their prayer is in the practice of their trade'. Yet the pursuit of money is condemned, and merchants are habitually treated with deep suspicion: 'A merchant can hardly keep from wrong doing, and a tradesman will not be declared innocent of sin'. And yet, in the same book of Ecclesiasticus, the reader is instructed not to be ashamed of profit or success in business.

The attitude of the early Christians, including Jesus and the Apostles, toward work and trade was coloured by their intense expectation of the imminent end of the world and of the coming of the Kingdom of God. Obviously, if one expects the impending end of the world, one is inclined to have little patience for such activities as investing or accumulating wealth; rather the tendency is to act as the lilies of the field, to follow Jesus, and forget about mundane matters. It was in this context that we must understand St Paul's famous 'the love of money is the root of all evil.'

By approximately 100 AD, however, the books of the New Testament written by St John make it clear that the Christian Church had abandoned the idea of the imminent end of the world. But the Hellenistic and the Gospel heritage fused to lead the early Church Fathers into a retreatist view of the world and its economic activities, combined with fulminations against wealth and merchants who tend to amass such wealth. The Church Fathers railed against mercantile activities as necessarily stamped with the sin of greed, and as almost always accompanied by deceit and fraud. Leading the parade was the mystical and apocalyptic Tertullian (160–240), a prominent Carthaginian lawyer who converted late in life to Christianity and eventually formed his own heretical sect. To Tertullian, attack on merchants and money-making was part and parcel of a general philippic against the secular world, which he expected at any moment to founder on the shoals of excess population, so that the earth would soon suffer from 'epidemics, famines, wars, and the earth's opening to swallow whole cities' as a grisly solution to the overpopulation problem.

Two centuries later, the fiery St Jerome (c.340–420), educated in Rome but also influenced by the eastern Fathers, took up the theme, proclaiming the fallacy that in trade, one man's gain must be achieved by means of the other man's loss: 'All riches come from iniquity, and unless one has lost, another cannot gain. Hence that common opinion seems to me to be very true, 'the rich man is unjust, or the heir of an unjust one". And yet there was another, contradictory strain even in Jerome, who also declared that 'A wise man with riches has greater glory than one who is wise only', for he can accomplish more good things; 'wealth is not an obstacle to the rich man who uses it well'.

Probably the most intelligent attitude toward wealth and money-making among the early Church Fathers was that of the Athenian-born eastern Father Clement of Alexandria (c.150–215). While Clement counselled that property be used for the good of the community, he endorsed private property and the accumulation of wealth. He attacked as foolish the ascetic ideal of divesting oneself of one's possessions. As Clement wisely put it, employing a natural law theme:

> We must not cast away riches which can benefit our neighbor. Possessions were made to be possessed; goods are called goods because they do good, and they have been provided by God for the good of men: they are at hand and serve as the material, the instruments for a good use in the hand of him who knows how to use them.

Clement also took a hard-nosed attitude toward the rootless poor. If living without possessions was so desirable, he pointed out,

> then that whole swarm of proletarians, derelicts and beggars who live from hand to mouth, all those wretched cast out upon the streets, though they live in ignorance of God and of his justice, would be the most blessed and the most religious and the only candidates for eternal life simply because they are penniless...

The early Church Fathers culminated in the great Saint Augustine (354–430) who, living at the time of the sack of Rome in 410 and of the collapse of the Roman Empire, had to look ahead to a post-ancient world which he was greatly to influence. Born in Numidia in Africa, Aurelius Augustinus was educated in Carthage, and became a professor of rhetoric in Milan. Baptized a Christian at the age of 32, St Augustine became bishop of Hippo in his native North Africa. The Roman Empire under Constantine had embraced Christianity a century earlier, and Augustine wrote his great work, *The City of God*, as a rebuttal to the charge that the embrace of Christianity had resulted in the fall of Rome.

Augustine's economic views were scattered throughout *The City of God* and his other highly influential writings. But he definitely, and presumably independently of Aristotle, arrived at the view that people's payments for goods, the valuation they placed on them, was determined by their own needs rather than by any more objective criterion or by their rank in the order of nature. This was at least the basis of the later Austrian theory of subjective value. He also pointed out that it was the common desire of all men to buy cheap and to sell dear.

Furthermore, Augustine was the first Church Father to have a positive attitude towards the role of the merchant. Rebutting the common patristic charges against the merchants, Augustine pointed out that they perform a beneficial service by transporting goods over great distances and selling them to the consumer. Since, according to Christian principle, 'the labourer is worthy of his hire', then the merchant too deserved compensation for his activities and labour.

To the common charge of endemic deceit and fraud in the mercantile trades, Augustine cogently replied that any such lies and perjuries were the fault not of the trade but of the trader himself. Such sins originated in the iniquity of the person, not in his occupation. After all, Augustine pointed out, shoemakers and farmers are also capable of lies and perjuries, and yet the Church Fathers had not condemned *their* occupations as being *per se* evil.

Clearing the merchants of the stain of inherent evil proved enormously influential in the following centuries, and was quoted time and again in the flowering of Christian thought in the twelfth and thirteenth centuries.

A less tangible but still important contribution to social thought was St Augustine's recasting of the ancient world's view of the human personality. To the Greek philosophers, the individual personality was to be moulded to conform to the needs and desires of the *polis*. Dictation by the *polis* necessarily meant a static society, with discouragement directed towards any innovating entrepreneurs trying to break out of the contemporary mould. But St Augustine's stress was on the individual's personality unfolding itself and therefore progressing over time. Hence Augustine's profound emphasis on the individual at least set the stage indirectly for an attitude favourable to innovation, economic growth and development. That aspect of Augustine's thought, however, was not really stressed by the thirteenth century Christian theologians and philosophers who built on Augustine's thought. It is ironic that the man who set the stage for optimism and a theory of human progress should, on his death-bed, find the barbarian hordes besieging his beloved city of Hippo.

If St Augustine looked benignly on the role of the merchant, he was also favourable, though not as warmly, towards the social role of rulers of state. On the one hand, Augustine took up and expanded Cicero's parable demonstrating that Alexander the Great was simply a pirate writ large, and that the state is nothing but a large-scale and settled robber band. In his famous *City of God*, Augustine asks:

> And so if justice is left out, what are kingdoms except great robber bands? For what are robber bands except little kingdoms? The band also is a group of men governed by the orders of a leader, bound by a social compact, and its booty is divided according to a law agreed upon. If by repeatedly adding desperate men this plague grows to the point where it holds territory and establishes a fixed seat, seizes cities and subdues people, then it more conspicuously assumes the name of kingdom, and this name is now openly granted to it, not for any subtraction of cupidity, but by addition of impunity. For it was an elegant and true reply that was made to Alexander the Great by a certain pirate whom he had captured. When the king asked him what he was thinking of, that he should molest the sea, he said with defiant independence: 'The same as you when you molest the world! Since I do this with a little ship I am called a pirate. You do it with a great fleet and are called emperor'.[1]

Yet Augustine ends by approving the role of the state, even though it is a robber band on a large scale. For while he stressed the individual rather than the *polis*, in pre-Calvinist fashion Augustine emphasized the wickedness and depravity of man. In this fallen, wicked and sinful world, state rule, though unpleasant and coercive, becomes necessary. Hence, Augustine supported the forcible crushing by the Christian Church in North Africa of the Donatist heresy, which indeed believed, in contrast to Augustine, that all kings were necessarily evil.

The likening of the head of state to a large-scale brigand, however, was resurrected in its original anti-state context by the great Pope Gregory VII, in the course of his struggle with the kings of Europe over his Gregorian reforms in the late eleventh century. This strain of bitter anti-statism, then, emerges from time to time in the early Christian era and in the Middle Ages.

2.3 The Carolingians and canon law

'Canon law' was the law governing the Church, and during the early Christian era and the Middle Ages the intertwining of Church and state often meant that canon law and state law were one and the same. Early canon law consisted of papal decretals, decrees of church councils, and the writings of the Church Fathers. We have seen that later canon law also incorporated much of the Roman law. But canon law also included something else basically pernicious: the decrees and regulations ('capitularies') of the Carolingian Empire in the latter eighth and ninth centuries.

From the fifth to the tenth centuries, the economic and political chaos of the Dark Ages prevailed throughout Europe, and there was consequently little or no room for the development of political, legal or economic thought. The only exception was the activities of the Carolingian Empire, which burgeoned in western Europe. The most important Carolingian Emperor was Charlemagne (742–814) and his rule devolved on to his successors during the remainder of the ninth century. In capitulary after capitulary, Charlemagne and his successors laid down detailed regulations for every aspect of economic, political and religious life throughout the empire. Many of these regulations became incorporated into the canon law of later centuries, thereby remaining influential well after the crumbling of the Carolingian Empire itself.

Charlemagne built his despotic network of regulations on a shaky foundation. Thus the important Church council of Nicaea (325) had forbidden any clergymen from engaging in any economic activities leading to 'shameful gain' (*turpe lucrum*). In his council at Nijmegen (806) Charlemagne revived, greatly broadened and imposed the old doctrine of *turpe lucrum*. But now the prohibition was extended from the clergy to everyone, and the definition broadened from fraud to all greed and avarice, and included any disobedience of Charlemagne's extensive price regulations. Any market deviations from these fixed prices were accused of being profiteering by either buyers or sellers and hence *turpe lucrum*. As a corollary, all speculative buying and selling in foodstuffs was prohibited. Moreover, in foreshadowing the English common law prohibition of 'forestalling', any sale of goods outside and at higher prices than the regular markets was prohibited. Since the English common law was motivated, not by a misguided attempt to aid the poor but in order to confer monopoly privileges on local owners of market sites, it is highly probable that Charlemagne, too, was trying to cartelize markets and confer privileges on market owners.

Every arbitrary price decree of the Carolingian officialdom was of course revered by the Carolingians as the 'just price.' Probably this coerced price was often near what had been a customary or current price in the neighbourhood; otherwise it would be difficult to conceive how the Carolingian officials would discover what price was supposed to be just. But this meant a futile and uneconomic attempt to freeze all prices on the basis of some past market *status quo*.

The problem, then, is that later canon law incorporated the idea of the just price as being the state-decreed price. The banning of any price higher than the current market price was reimposed by the late Carolingian Emperor Carloman in 884, and incorporated into the canon law collection of Regino of Prum in 900, and over a century later into that of Burchard of Worms.

Remarkably, the two contradictory legal strains: the *laissez-faire* theme of the Theodosian Code, and the statist Carolingian *motif*, both found their way into the great collection at the basis of the medieval discipline of the canon law: that of Bishop Ivo of Chartres, at the turn of the twelfth century. There, in the same collection, we find the view that the just price is any price voluntarily arrived at by buyer and seller, *and* also the contradictory view that the just price is one decreed by the state, especially if it be the common price in general markets.

2.4 Canonists and Romanists at the University of Bologna

The High Middle Ages were established by the commercial revolution of the eleventh to thirteenth centuries, in which trade, production and finance flourished, living standards rose markedly, and the institutions of commercial capitalism developed in western Europe. With the advent of economic growth and prosperity, canon and Roman law, learning and social thought, also began to flourish once again.

The fountainhead and great centre of both canon and Roman law studies during the High Middle Ages was the University of Bologna, in Italy, flourishing from the early twelfth century to the latter part of the thirteenth. During those two centuries, both canon and Roman law, including the Justinian Code, were revived at Bologna, influenced each other, and penetrated to the rest of western Europe.

The great and definitive collection of canon law, the *Decretum*, was published around the year 1140 by the Italian monk, Johannes Gratian, who founded canon law studies at the University of Bologna. The *Decretum* was the definitive canon law work from that point on, and for the remainder of the twelfth century Bolognese scholars, known as the decretists, elaborated, discussed, and wrote glosses on Gratian's work.

Gratian himself and his early glossators took a traditional zealous anti-merchant position. Speculation, buying cheap to sell dear – purely mercantile activities – were *turpe lucrum* and inevitably involved fraud.

The first decretist to begin to take an intelligent position on the activities of the merchant was Rufinus, a professor at Bologna who later became bishop of Assisi and then archbishop of Sorrento. In his *Summa* (1157–59) to the *Decretum*, Rufinus pointed out that artisans and craftsmen could buy materials cheaply, work on them and transform them, and then sell the product at a higher price. This form of buying cheap and selling dear was justified by the craftsmen's expenses and labour, and is permissible even to the clergy as well as to the laity. However, another activity, practised by the pure merchant or speculator, who buys cheap and sells dear without transforming the product is, according to Rufinus, absolutely forbidden to the clergy. The lay merchant, however, could honourably engage in these transactions provided that he had either made heavy expenditures or was fatigued by hard labour. But a pure entrepreneurial cheap purchase to be followed by a sale when market prices were higher was condemned unconditionally by Rufinus.

This partial rehabilitation of the merchant by the decretists was included in the important *Summa* of 1188 of Huguccio, professor at Bologna, later chosen bishop of Ferrara. Huguccio repeated the views of Rufinus, but shifted the justification of the merchant from labour or expenses to actions that provide for the needs of the merchant's family. Huguccio's stress, then, was not on objective costs but on the subjective intentions of the merchant, supposing that they could be discovered: was it mere greed or was it a desire to fulfil his family's needs? Clearly, Huguccio allowed considerable room for mercantile activities.

Moreover, Huguccio began a radical reconstruction of Patristic teachings about private property. From the time of Huguccio, private property was to be considered a sacrosanct right derived from the natural law. The property of individuals and communities was, at least in principle, supposed to be free from arbitrary invasion on the part of the state. As 'moderator and arbiter' of his own goods, an individual owner could use and dispose of them as he saw fit, provided that he did not violate general legal rules. A ruler could only expropriate the property of an innocent subject if 'public necessity' required it. This, of course, was a hole in the system of rights, since 'public necessity' could be and was an elastic concept. But this concept of private property was an enormous advance over patristic teachings.

After the late twelfth century, the decretist movement in canon law gave way to the decretalists, who based themselves on a stream of papal edicts or decretals, from the late twelfth to the thirteenth century. Since the pope is supreme in the Catholic Church, the decretals pronounced by him and his

Vatican *curia* automatically became incorporated into the body of canon law. In this way, canon law came to differ from that of Gratian and the Decretists, who built the law chiefly on ancient sources. But the new decretals were scarcely arbitrary; they built on and elaborated previous canon law. The continuity of the building process was greatly aided by the fact that several of these popes were former Bolognese. Thus, Pope Alexander III (Roland Bandinelli), who initiated the new decretal process and who enjoyed a long papal reign from 1159 to 1181, had studied both law and theology at Bologna, was probably a professor there, and had direct contact with the great Gratian. A distinguished legal scholar, who himself had written an early *Summa* to Gratian's *Decretum*, Alexander became cardinal and chancellor before being elected to the papacy. Another significant papal decretalist, Pope Innocent II (Lothaire de Segni), who reigned from 1198 to 1216, had studied canon law under Huguccio at Bologna. Finally, Pope Gregory IX (Ugolino de Segni), a pontiff from 1227 to 1241, commissioned and published the momentous *Decretals* in 1234, incorporating Gratian's *Decretum* of a century before in addition to the various papal decretals. Gregory IX's *Decretals* became the standard work of canon law from that point on.

The decretalists had a far more favourable attitude towards merchants and the free market than had the early decretists. In the first place, instead of the negative patristic attitude toward merchants and trade, the decretalists, beginning with Pope Alexander III and continuing through Gregory IX, incorporated the free market attitude of the Roman law. Unfortunately, it was not the pure *laissez-faire* attitude of the Theodosian or even Justinian law. For when the Justinian Code came to Bologna and western Europe at the beginning of the twelfth century, the French author of the *Brachylogus* took up the *laesio enormis* principle of the Justinian Code and greatly changed its meaning. Instead of applying the concept of 'just price' differing from the actual price to the assessment of damages as in the Justinian Code, the *Brachylogus* expanded the concept from real estate to all goods, and from assessing damages to actual sales. In the hands of the *Brachylogus*, if any sale, even a voluntary one, had been made at less than half the 'just price', the seller could present the buyer with the choice: either pay me the difference between the sale price and the just price, or else rescind the contract, with the buyer returning the goods and the seller returning the payment. It has been pointed out that this was not a cartelizing device, since neither third parties nor the state could step in to enforce *laesio enormis*; the enforcement had to be done on a charge made by the seller himself.

The Roman law developing during the twelfth and thirteenth centuries was largely the product of the University of Bologna, where Roman law studies had been founded by Irnerius in the late eleventh century. In the mid-twelfth century, the Bolognese Roman jurists began to incorporate the broader concept of *laesio enormis* of the *Brachylogus*. About 1150, the Provençal *Lo Codi*, a popular adaptation of a recent Bolognese *Summa*, added another fateful expansion of *laesio enormis*. For the first time, this Provençal work included *buyers* as well as sellers as suffering from *laesio enormis*, when the sale price was significantly higher than the just price. In the *Lo Codi*, if a buyer had paid more than twice the true value, or just price, of a product, then the seller had the option either to pay the buyer the difference between the just and the sale price, or else rescind the contract. Remarkably, when the *Lo Codi* was translated back into Latin, this new extended restriction on *laissez-faire* was added to the Roman law, particularly by Albericus, professor of Roman law at Bologna, in his canon law collection at the end of the twelfth century.

The burgeoning principle of *laesio enormis* reached its final extension in the late twelfth century work of the Bolognese-trained Petrus Placentinus. Placentinus lowered the maximum permissible price to 1.5 times the just price, beyond which the principle of *laesio enormis* went into effect. This final expansion was incorporated into the works of the three great Bolognese Roman law professors of the thirteenth century: Azo (c.1210); Azo's highly influential student and follower Accursius (c.1228–60), a native of Florence; and the culmination of the Bolognese school in Odofredus, in the mid-thirteenth century.

While it is true that the twelfth and thirteenth century Romanists took the trivial concept of *laesio enormis* and made it a significant restriction on freedom of bargaining and *laissez-faire*, at least by the late twelfth century they also made clear that there was to be full freedom of bargaining and freedom to outwit the other, *within* the matrix of *laesio enormis*. The decretalists, beginning with Pope Alexander III, incorporated much of this developing Roman law. This meant that Church law now included not only the patristic fulminations against merchants *per se*, but also the contrasting Romanist tradition of full freedom of bargaining within the *laesio enormis* matrix. The decretalists reached their culmination, after building on and glossing the *Decretals* of Gregory IX, in the works of Cardinal Henricus Hostiensis de Segusio, first in the late 1250s and finally in 1271, the year of his death. Hostiensis had studied canon and Roman law at Bologna, had taught in England and France and was cardinal–archbishop of Ostia.

The decretalists justified speculative buying and selling, freeing it from the sin of *turpe lucrum*, by adopting and expanding the Huguccian line that speculation was permissible if the speculator was acting to fulfil the needs of his family. In the *Gloss* of the French Dominican canonist William of Rennes (c.1250), this area of freedom was broadened still further. A merchant's or speculator's actions were not considered sinful unless he was driven by 'a wanton desire for having temporal riches, not for necessary use or utility, but for curiosity, so that the fancy is charmed by such, just as a magpie or a crow is enticed by coins, which they discover and hide away'. Surely this kind of stricture, which can only apply to a few persons in the real world, had come very far from the patristic denunciations of merchants and traders *per se*.

Another loosening of restrictions came with Alanus Anglicus, an English-born professor of canon law at Bologna, writing in the first two decades of the thirteenth century. Alanus declared that no *turpe lucrum* (or usury, for that matter) could exist if the future price of a good was uncertain in the mind of the merchant. Not only is uncertainty always present in the market, but also it is impossible for outside courts or authorities to prove that a merchant did *not* feel uncertain when he bought or sold. In effect, all *turpe lucrum* restrictions on trade or speculation had now been removed.

In analysing business profits, the later thirteenth century canonists added to the older justification of profit as covering labour plus expenses. This was the element of risk, present in every business situation. Increase of price as a consequence of risk was first justified in the prominent canon law commentaries of Pope Innocent IV (Sinibaldo Fieschi), published between 1246 and 1253. Before becoming pope, Innocent had been a native of Genoa and a student of Roman and canon law at Bologna, a professor of Roman law at that university, and finally a cardinal and a famous statesman.

If transactions were to be sinful and illegal beyond a certain zone above or below the just price, then the Church and the authorities had to find some way of figuring out *what* the just price was supposed to be. This had not been a problem before the twelfth and thirteenth centuries, since the doctrine of *laesio enormis* had not really been applied before. The Romanist and canonist solution, reminiscent of Carolingian doctrine, was that the just price was the going, current, common market price (the *communis aestimatio*). This meant *either* the competitive, general market price as contrasted to single isolated transactions, *or* it could refer to prices fixed by governments or government-privileged guilds, since such controls, by strict legality, would *be* the going *de jure* price. Perhaps it would have been beneath the dignity of these jurists to sanction or even recognize any black market prices that violated such regulations.

Placentinus used this criterion in late twelfth century Roman jurisprudence, as did in particular Azo in the early thirteenth. Azo was liberal enough to refer to the price of a sale equalling that of any other comparable sale as being a 'just price', but Accursius, and after him Odofredus, explicitly referred to the general or common market price as being the standard of justice. As Accursius put it, 'a thing was valued at that for which it could be commonly sold'.

The canon lawyers adopted the same criterion for the just price. Influenced by Carolingian practice, and by hints from the sixth century Rule of St

Benedict, the late twelfth century canonist and student of Gratian, Simon of Bosignano, first described the true value of goods as the price for which they commonly sold. The same position was then taken by the decretalists in the thirteenth century. Canonists and Romanists alike were now agreed on the common price of a good as the just one.

But still the developed canonists of the thirteenth century had a problem. On the one hand, they had adopted the Roman law view that all free bargaining was legitimate except for a zone more than a certain degree above or beyond the 'just price', which they held to be the going, common market price. But on the other hand, they had inherited from the Church Fathers and the earlier decretists a hostility toward mercantile, especially speculative, transactions. How could they square this contradiction?

Partly, as we have seen, they were able to weaken the extent of shameful speculation. Also, from the thirteenth century on, the Church and its canon lawyers largely solved the problem through the highly sensible doctrine of the 'two forums' over which the Church exercised jurisdiction. The 'external forum' – the *jus fori* – judged the social activities of Christians in public ecclesiastical courts. There the courts judged offences against the Church and her common law in much the same procedures as the secular courts. On the other hand, the 'internal forum' – the *jus poli* – was the confessional, in which the priest judged individual Christians on the basis of their personal relation to God. The two forums were separate and distinct, the respective judgements on two different levels. While the Church presumed to rule over both, the one was external and social, the other private and personal.

The doctrine of the two forums enabled the canonists to resolve the seeming contradiction in canon law. The free-bargaining, *laesio enormis*, common market principle was the realm of external law and the open court, where, in other words, a roughly free market could prevail. On the other hand, the strictures against mercantile profits going beyond labour, costs, and risk were a matter not for the state and external law, but for conscience in the confessional. Even more obviously for the confessional alone were the injunctions against trade or speculation based on avarice as going beyond honourable need to support one's family. Clearly, only the man himself, internally in his conscience, could know his intentions; they were scarcely observable by external law.

2.5 The canonist prohibition of usury

The great relaxation of moral and legal restrictions and prohibitions against trade that permeated the canonists and Romanists in the Middle Ages, unfortunately did not apply to the stern prohibitions levelled against usury. Modern people think of 'usury' as very high interest rates charged on a loan, but this was by no means the meaning until recent times. Classically 'usury' means *any* rate whatsoever charged on a loan, no matter how low. The prohibition of usury was a prohibition against any interest charge on a loan.

With one exception, no one in the ancient world – whether in Greece, China, India or Mesopotamia – prohibited interest. That exception was the Hebrews who, in an expression of narrow tribal morality, permitted charging interest to non-Jews but prohibited it among Jews.

The fierce medieval Christian assault on usury is decidedly odd. For one thing, there is nothing in the Gospels or the early Fathers, despite their hostility to trade, that can be construed as urging the prohibition of usury. In fact, the parable of the talents in Matthew (25:14–30) can easily be taken as approval for earning interest on commercial loans. The campaign against usury begins with the first Church council, in Nicaea in 325, which itself prohibited only the clergy from charging interest on a loan. But the Nicene council grabbed on to one phrase of Psalm 14 in the Old Testament, 'Lord, who shall dwell in thy tabernacle? He that hath not put out his money to usury', and this was to become the favourite – and virtually the only – biblical text against usury during the Middle Ages. The Nicene injunctions were repeated in later fourth century councils at Elvira in Spain and at Carthage, and then in the fifth century Pope Leo I extended the prohibition to the laity as well, condemning lay usurers as indulging in *turpe lurcum*. Several local councils in Gaul in the seventh century repeated Leo's denunciation, as did Pope Adrian and several English church synods in the eighth century.

But the prohibition of all usury enters secular legislation for the first time in the all-embracing totalitarian regime of the Emperor Charlemagne. At the fateful imperial synod of Aachen in 789, Charlemagne prohibited usury to everyone in his realm, lay and cleric alike. The prohibition was renewed and elaborated in the later council at Nijmegen in 806, where usury is defined for the first time, as an exchange where 'more is demanded back than what is given'. So that, from the time of Charlemagne, usury was intensely held to be a special and particularly malevolent form of *turpe lucrum*, and attempts to relax this ban were fiercely resisted. The sweeping definition, 'more demanded than what is given', was repeated intact by canonists from the tenth century Regino of Prum through Ivo of Chartres to Gratian.

But oddly, though the hostility towards usury continued and was indeed greatly strengthened among the canonists, the explicit *basis* for the antagonism changed considerably. During the first centuries of the Christian era, usury was shameful as a form of avarice or lack of charity; it was not yet considered a vicious sin against justice. As commerce began to revive and flourish in eleventh century Europe, indeed, denouncing interest-taking as a form of lack of charity began to be considered wide of the mark, since charity had little to do with commercial loans. It was the Italian monk St Anselm of

Canterbury (1033–1109) who first shifted the ground of attack to rail against usury as 'theft'. This new doctrine was developed by St Anselm's disciple Anselm of Lucca, a fellow Italian and native of a city with a burgeoning textile industry. In his collection of canons, made about 1066, Anselm of Lucca explicitly condemned usury as theft and a sin against the Seventh Commandment, and demanded restitution of usuries to the borrower as 'stolen goods'. This expansion of 'theft' to a voluntary contract where no coercion was used was surely bizarre, and yet this outrageous new concept caught hold and was repeated by Hugh of St Victor (1096–1141) and by the collections of Ivo of Chartres.

In 1139, the second lateran council of the Church explicitly prohibited usury to all men, laity as well as clergy, and held all usurers to be infamous. The council vaguely declared that the Old and New Testaments mandated such a prohibition, but gave no explicit reference. Nine years later, Pope Eugene III moved against the common practice of monasteries charging interest on mortgages.

Finally, the canon law reached mature form with the *Decretum* of Gratian. Gratian hammers away against usury with whatever weapons he can find from Psalm 14 to the new view that usury is theft and therefore requires restitution. Expounding on the strict prohibition of usury, Gratian extended it to the loan of goods as well as money, so long as anything is demanded beyond the principal, and he expressly declared that, in such a case, the 'just price' was *not* the common market price but zero, i.e. the exact equivalent of the goods or money lent.

The great decretalist Pope Alexander III might have been inclined towards a free market in other areas, but on the usury question he merely deepened and extended the ban, applying the condemnation to charging higher prices for credit than for cash sales. This practice was denounced as implicit usury, even though it was not explicitly interest on a loan. The third lateran council, presided over by Pope Alexander III in 1179, condemned usury, and excommunicated and denied Christian burial to all manifest usurers. The next pope, Urban III (1185–87), in his decretal *Consoluit*, dredged up a previously unused citation from Jesus, 'Lend freely, hoping nothing thereby' (Luke 6: 35), which from then on became the centrepiece of the theological condemnation of usury as a mortal sin; and not only that: even the very *hope* of obtaining usury was supposed to be a virtually equivalent sin.

So pervasive was the canonist obsession with usury that Gratian, his predecessors and his successors, largely worked out their theories of sale, profit, or just price in terms of whether or not any particular transaction fell under the dread rubric of 'usury'. Thus, late twelfth century decretists like Simon of Bosignano in 1179 and the great Huguccio in 1188, maintained the strict prohibition of any interest charged on a loan as usury, while allowing the renting of a good or buying cheap in order to sell dear as *not* being cases of usury. Huguccio's tortured moral distinction maintained that a *commodatum* – a rental contract that transferred only the *use* of a good – was somehow morally very different from a *mutuum* – a pure loan where *ownership* was transferred for a time. Charging for a lease, a *commodatum* was all right because the owner retains ownership and charges for the use of his own good; but somehow it becomes sinful when a lender charges for the use of a good which he no longer (temporarily) owns. Profits on trade, too, could be legitimate and lawful as a reward for risk, but interest on a loan – where the risk is borne by the borrower and not the lender – was always usury.

The later decretalists, attempting to combat practices of merchants in disguising usury in various contracts, pressed on to condemn such contracts as 'implicit usury', provided, as we have seen in treatment of sales contracts, that there is no uncertainty on the future price in the minds of buyer and seller. The early thirteenth century canonist Alanus Anglicus declared that if there was uncertainty in such a contract, and buyer and seller stood equal chance to gain or lose, usury did not exist. Providing the first real, if small, loophole in the sweeping prohibition against usury, Anglicus explained that this form of implicit usury could exist only in the mind and could not be subject to legal enforcement. This uncertainty loophole was widened slightly in the *Decretals* of Gregory IX.

On the other hand, the canonists persisted in cracking down on evasions of the usury ban which the market kept creatively inventing. Contracts providing for deferred payment on a sale were treated with suspicion, and very high prices in such a contract were taken by the canonists to prove intent to commit usury beyond a reasonable doubt. The *Decretals* also went so far as to condemn creditors charging interest for loans to travelling merchants, even though the canonists realized that the interest was a direct compensation for risks. Although canonists after Innocent IV began to talk of risks justifying profits, so that a profit on risky investments was considered perfectly justified, any interest on a pure loan (or *mutuum*) was condemned as usury despite reasonably mitigating circumstances.

The usury prohibition was the tragic flaw in the economic views of medieval jurists and theologians. The prohibition was economically irrational, depriving marginal borrowers and high credit risks of any borrowed capital whatever. It had no groundwork in natural law and virtually none in Old or New Testament teachings. And yet it was clung to fiercely throughout the Middle Ages, so that jurists and theologians had to engage in ingenious and artful twists in reasoning in order to make exceptions from the prohibition and to accommodate the growing practice of lending money and charging interest on a loan. And yet the medievalists, especially the later philosophers and theologians, had a fascinating and important point: for what *was* the moral or economic justification for interest on a pure loan? As we will see, medieval scholastics came to understand full well the economic and moral justifications for almost every aspect of interest charges: as an implicit profit on risk, as an opportunity foregone for making profits on investments, and many others. But why is there still interest charged on a simple, riskless, non-opportunity-foregone loan? That answer was not to come fully until the Austrian School of the late nineteenth century. Where the scholastics were gravely lacking was in not realizing that if interest was paid as well as charged voluntarily, that in itself is sufficient moral justification. And further that there *must have been* an economic explanation, even though economic science had not yet discovered it.

The first systematic breach in the usury prohibition came with the last of the thirteenth century canonists, Cardinal Hostiensis. In addition to having been a distinguished law professor, Hostiensis was a worldly cosmopolite, having been the ambassador of Henry III to his friend Pope Innocent IV. First Hostiensis reverted to the old milder tradition that usury is uncharitable, but not a sin against justice. Then he listed no less than 13 instances in which the usury prohibition could be broken and interest charged on a loan. One is as surety required by the guarantor of a loan; another that a seller may charge a higher price for a good sold on credit than for cash, provided that there is uncertainty (as indeed there always is) about the future price of the commodity. Another important exception allowed a creditor to write a penalty clause into a loan so that the debtor would have to pay a penalty above the principal if he did not repay on the date due. This of course paved the way for covert agreement on both sides to delay payment so as to allow the 'penalty'. Another exception was that the creditor might charge for labour which he undertook in making the particular loan.

These were all some form of penalty or special payment. But, in addition, Hostiensis provided the first path-breaking argument for charging a rate of interest on a loan from the very beginning, a charge that does not involve delay or guarantees. This is *lucrum cessans* (profit ceasing), a legitimate interest charge by the creditor to compensate him for profit foregone in investing the money himself. In short, *lucrum cessans* anticipated the Austrian concept of opportunity cost, of income foregone, and applied it to the charging of interest. Unfortunately, however, Cardinal Hostiensis's use of *lucrum cessans* was limited to non-habitual lenders who lend money out of charity to a debtor. Thus lenders could not be in the business of charging money on a loan, even on the ground of *lucrum cessans*.

Another exception made by Hostiensis also provided an open channel for the charging of interest on loans. He allowed the debtor to give a free gift to the creditor, so long as the 'gift' was not required by the creditor. But in that case debtors, in particular Florentine bankers who received deposits, felt obliged to make 'gifts' to their depositors, else the depositors would shift their funds to competitors who habitually made such 'gifts'. The making of a fake gift became an important mechanism in allowing the *de facto* charging of interest.

2.6 Theologians at the University of Paris

Theology, in the Middle Ages, was the queen of the 'sciences': i.e. the intellectual disciplines offering truth and wisdom. But theology had fallen on bad times during the Dark Ages, and the Roman and canon lawyers were left to apply ethical systems to law and human affairs. Theology began to flourish again in the early twelfth century at the University of Paris, under the famous Peter Abelard. From then on, Paris was the equivalent centre for theology during the High Middle Ages that Bologna was for Roman and canon law. But during the remainder of the twelfth century, the theologians were content to ponder and work out metaphysical and ontological questions and to leave social ethics to the jurists. It was typical of twelfth century theologians when Peter of Poitiers, later to become the dominant Regent of theology at the cathedral school of Notre Dame in Paris, declared that such doubtful questions as usury should be left to the canon lawyers.

After the turn of the thirteenth century, however, when canon and Roman law theories were already far advanced, the new university-trained philosopher–theologians turned to problems of social ethics with a will. Even before the turn of the thirteenth century, such influential theologians at the University of Paris as Radulphus Ardens and the Englishman – later Cardinal – Stephen Langton, began to write on problems of justice. Unfortunately, in dealing with the concept of 'just price', the theologians did not follow the Romanists and canonists in the sensible view that the free bargaining or market price is legitimate so long as it stays within a broad zone of the 'just price'. To the Paris theologians, it was immoral, sinful and illicit for the market price to be anything other than the just price. This of course meant that the just price became a weapon of compulsion instead of a broadly held standard. Ardens included a just price as a crucial criterion of a 'just sale'. More emphatically, his colleague and author of the first constitution of the University of Paris, the Englishman and later Cardinal Robert of Courçon (d. 1219), writing about 1204, termed selling goods above the just price an illicit practice, and the eminent Stephen Langton sternly called any seller who accepts more than the just price guilty of a mortal sin.

The theologians were well aware of their profound disagreement with the jurists, but clung to their new and extreme views. Thus, William of Auxerre (1160–1229), professor of theology at Paris, in 1220 wrote that divine law, which commanded that no sale be higher than the just price, must supersede human law, which followed *laesio enormis*. And his colleague, the Englishman Thomas Chabham, also writing about 1220, fanatically insisted that divine law demanded restitution from the seller even if the seller were only mistaken, and the mistake was only a penny.

If the theologians insisted that the just price must be strictly obeyed, then what in the world *was* it? While few of the theologians addressed this critical matter directly, it is clear that what they had in mind was the same just price as the canonists and Romanists, namely the current price at the particular place, either the common market or the government-fixed price, if such a regulation existed. The late twelfth century Paris theologian Peter Cantor (d. 1197), in treating the function of royal assessors, asserted that the just value of goods is their current price. More succinctly, the great Franciscan theologian at Paris in the first half of the thirteenth century, the Englishman Alexander of Hales (1168–1245) declared concisely that a 'just estimation of the goods' is 'as it is sold commonly in that city or place in which the sale occurs'. Even more clearly, the renowned thirteenth century German Dominican professor at Paris, Saint Albert the Great (1193–1280) put it thus: 'A price is just which can equal the value of the goods sold according to the estimation of the market place at that time'.

While the theologians, in wishing to enforce the current common price, were more restrictive than the canon or Roman jurists, they did constructive work in rehabilitating the image of the merchants from the low level to which they had sunk in the writings of the Church Fathers.

As late as Peter Lombard (d. 1160), Italian professor of theology at Paris and later bishop of Paris, the theologians had held the older view that a merchant could not perform his duties without sinning. The beginning of the full rehabilitation of the merchant came in the form of commentaries on the *Sentences* of Peter Lombard (strictly, the *Sententiarum quator libri*, 1150–51). The commentators, particularly after the turn of the thirteenth century, engaged in a systematic justification of the merchant and of mercantile profit-making. In the first place, the leading *Sentence* commentators, including the Dominican professors at Paris, St Albert the Great (*Commentary*, 1244–49), Peter of Tarentaise (later Pope Innocent V, d. 1276) (*Commentary*, 1253–57), as well as the Italian theologian at Paris, St Bonaventure (1221–74) a student of Alexander of Hales, general of the Franciscan Order and later cardinal (*Commentary*, 1250–51), all declared that merchants were essential to society. This conception was strengthened by the rediscovery of the works of Aristotle by the early thirteenth century, and the incorporation of Aristotelian philosophy into theology – first by Albert the Great and most especially by his great student Thomas Aquinas. To these new Aristotelians, and also to the English Franciscan Alexander of Hales, the division of labour was necessary to society as was the concomitant mutual exchange of goods and services. This was the path of the natural law in society.

More specifically, Thomas Chabham, despite his insistence on every penny of the just price, observed correctly that merchants performed the function of taking goods from areas of abundance and distributing them to areas of deficiency. Albert the Great repeated this insight later in the thirteenth century.

If trading is a useful and even necessary activity, it follows that profits for maintaining such activity are justifiable. Hence the theologians reiterated the twelfth century doctrine of the merchant being allowed to gain profits for the support of himself and his family. To the needs justification, the twelfth century theologians added the lawful nature of making profits in order to give to charity. The Franciscan Alexander of Hales was perhaps the first to call it a just and pious motive for trading to perform works of charity and mercy. It was unworthy, however – echoing the Huguccian doctrine – to gain profits for the sake of avarice or endless and insatiable cupidity.

If the labourer in the Christian tradition was 'worthy of his hire' (Luke 10:7), then profits from the useful activities of the merchant could be justified as covering his 'labour', or rather his labour and expenses as the jurists had already declared. Aquinas considered the earnings of the merchant a stipend for labour. For the theologians, 'labour' consisted of several types: transporting goods; storage and care; and – as had come in with the thirteenth century canonists – the assumption of risk. Thus mercantile profits were a payment or reward for the merchant's labour of transportation and storage, and his assumption of risk. The risk factor was stressed particularly by Alexander of Hales and St Thomas Aquinas. It should be noted, in contrast to many later historians, that the purpose of the jurists' and theologians' discussions of labour, cost, and risk was *not* to use these factors in determining the just price (which was simply the current common price) but to justify the profits obtained by the merchant.

Robert of Courçon was the first thirteenth century theologian to add a natural law angle to the traditional though flimsily grounded theological denunciations of usury. Courçon simply appropriated the canonist Huguccio's sophistical moral distinction between a lease and a loan, with the former being licit and the latter illicit because ownership of the money had temporarily been shifted to the borrower. More influential was fellow Parisian theologian William of Auxerre, who added a string of new fallacies to the mounting intensity of the Church's assault upon usury. William ranted that usury was intrinsically evil and monstrous, without really explaining why; he also did one better on the standard likening of usury to theft by actually comparing usury to murder, to the detriment of the former. Killing, he said can sometimes be licit, since only certain forms of killing are sinful, but usury is sinful everywhere and can never be licit. Since usury, according to William of Auxerre, is sinful by its very nature, this made it a violation of the natural law in addition to its other alleged iniquities.

On *why* usury was a sin against the natural law William was unclear; one of his innovative arguments in the anti-usury parade was that a man who charges interest on a loan is trying to 'sell time', which is properly the common property of all creatures. Since time is supposed to be common and free, William of Auxerre and later theologians could therefore use this argument to condemn as 'usury' not merely a loan but also charging a higher price for credit than for cash sales. In adding the 'free time' argument, William unwittingly touched on the later Austrian solution to the problem of pure interest on a riskless loan: the sale not of 'time', to be sure, but of 'time-preference', where the creditor is selling the debtor money, a present good (a good useful now), in exchange for an IOU for the future which is a 'future good' (a good only available at some point in the future). But since everyone prefers a present good to an equivalent future good (the universal fact of time-preference), the lender will charge, and the borrower will be willing to pay, interest on a loan. Interest is, then, the price of time-preference. The failure of the scholastics to understand or arrive at the concept of time preference was to do more than anything else to discredit scholastic economics, because of its implacable hostility to and condemnation of the universal practice of 'usury'.

William of Auxerre also tried to grapple with the voluntarist argument: how could the usury charge be evil and unjust if paid voluntarily by the borrower? In surely one of the silliest arguments in the history of economic thought, William of Auxerre conceded that the borrower's payment of interest was voluntary, but added that the borrower would have preferred a free loan still more, so that in an 'absolute' rather than a 'conditional' sense, the interest charge was *not* voluntary. William somehow failed to see that the same could be said of the buyer of *any* product; since any buyer would prefer a free good to the charge of any price, we could then conclude that all free exchanges are involuntary and sinful in an 'absolute' sense.

Despite the manifest absurdity of this argument, the 'conditional' voluntary as well as the other new arguments of William of Auxerre were highly influential and immediately incorporated into the standard theological arguments against usury.

The German Dominican St Albert the Great performed the enormous service to philosophy of bringing Aristotle and Aristotelianism back to Western thought. Born in Bavaria to an aristocratic family, Albert was for a time German provincial of the Dominican Order and bishop of Regensburg, but for most of his long life he taught at the Universities of Paris and Cologne.

Unfortunately, Albert was not nearly as good an economist as he was a philosopher, and in many ways he took scholastic economics down the wrong road. It is true that he performed the service of teaching his great pupil, St Thomas Aquinas, that the just price is the common market price, and that the merchant is performing a legitimate social role. On the other hand, Albert unfortunately added the Aristotelian attack on usury as an unnatural breeding of a 'barren metal' to the accumulated hodge-podge of all the other arguments against interest. St Albert did not realise that Aristotle's attack on usury was only part and parcel of the latter's denunciation of all retail trade, since the Latin translation of Aristotle available to Albert rendered the Greek term for retail trade as a Latin word meaning 'money-changing'. Hence, Albert adopted this argument by mistake, since he would certainly not have gone along with the Aristotelian idea that all retail trade was unnatural and sinful.

Albert also did great damage to future thought in another of his misinterpretations of Aristotle's *Nichomachean Ethics*. Somehow he interpreted the Aristotelian determinant of value not as consumer needs or utility, but as 'labour and expenses', thus at least partially prefiguring the later labour theory of value.

2.7 The philosopher–theologian: St Thomas Aquinas

St Thomas Aquinas (1225–74) was the towering intellect of the High Middle Ages, the man who built on the philosophical system of Aristotle, on the concept of natural law, and on Christian theology to forge 'Thomism', a mighty synthesis of philosophy, theology and the sciences of man. This young Italian was born an aristocrat, son of Landulph, count of Aquino at Rocco Secca in the kingdom of Naples. Thomas studied at an early age with the Benedictines, and later at the University of Naples. At the age of 15 he tried to enter the new Dominican Order, a place for Church intellectuals and scholars, but was physically prevented from doing so by his parents, who kept him confined for two years. Finally, St Thomas escaped, joined the Dominicans, and then studied at Cologne and finally at Paris under his revered teacher, Albert the Great. Aquinas took his doctorate at the University of Paris, and taught there as well as at other university centres in Europe. Aquinas was so immensely corpulent that it was said that a large section had to be carved out of the round dinner table so that he could sit at it. Aquinas wrote numerous works, beginning with his *Commentary* on Peter Lombard's *Sentences* in the 1250s, and ending with his masterful and enormously influential three-part *Summa Theologica*, written between 1265 and 1273. It was the *Summa*, more than any other work, that was to establish Thomism as the mainstream of Catholic scholastic theology in centuries to come.

Until recently, historical studies of the just price typically began with St Thomas, as if the entire discussion had suddenly leapt into being in the ample person of Aquinas in the thirteenth century. We have seen, however, that Aquinas worked in a long and rich canonist, Romanist and theological tradition. It is not surprising that Aquinas followed his revered teacher, St Albert, and the other theologians of the previous century in insisting on the just price for all exchanges and, not being content with the more liberal legist creed of free bargaining up to the alleged point of *laesio enormis*, in asserting that divine law, which must take precedence over human law, demands complete virtue, or the precise just price.

Unfortunately, in discussing the just price, St Thomas stored up great trouble for the future by being vague about what precisely the just price is supposed to be. As a founder of a system built on the great Aristotle, Aquinas, following St Albert before him, felt obliged to incorporate the Aristotelian analysis of exchange into his theory, with all the ambiguities and obscurities that that entailed. St Thomas was clearly an Aristotelian in adopting the latter's trenchant view that the determinant of exchange value was the need, or utility, of consumers, as expressed in their demand for products. And so, this proto-Austrian aspect of value based on demand and utility was reinstated in economic thought. On the other hand, Aristotle's erroneous view of exchange as 'equating' values was rediscovered, along with the indecipherable shoemaker–builder ratio. Unfortunately, in the course of the *Commentary to the* (Nichomachean) *Ethics*, Thomas followed St Albert in seeming to add to utility, as a determinant of exchange value, labour plus expenses. This gave hostage to the later idea that St Thomas had either added to Aristotle's utility theory of value a cost of production theory (labour plus expenses), or even replaced utility by a cost theory. Some commentators have even declared that Aquinas had adopted a labour theory of value, capped by the notorious and triumphant sentence by the twentieth century Anglican socialist historian Richard Henry Tawney: 'The true descendant of the doctrines of Aquinas is the labour theory of value. The last of the Schoolmen is Karl Marx.'[2]

It has taken historians several decades to recover from Tawney's disastrous misinterpretation. Indeed, the scholastics were sophisticated thinkers and social economists who favoured trade and capitalism, and advocated the common market price as the just price, with the exception of the problem of usury. Even in value theory, the labour plus expenses discussion in Aquinas is an anomaly. For labour plus expenses (*never* just labour) appears only in Aquinas's *Commentary* and not in the *Summa*, his *magnum opus*.[3] Moreover, we have seen that labour plus expenses was a formula generally used in Aquinas's times to justify the profits of merchants rather than as a means of determining economic value. It is therefore likely that Aquinas was using the concept in this sense, making the sensible point that a merchant who failed in the long run to cover his costs and not to make profits would go out of business.

In addition, there are many indications that Aquinas adhered to the common view of the Churchmen of his and previous times that the just price was the common market price. If so, then he could scarcely *also* hold that the just price equalled cost of production, since the two can and do differ. Thus his conclusion in the *Summa* was that 'the value of economic goods is that which comes into human use and is measured by a monetary price, for which purpose money was invented.' Particularly revealing was a reply Aquinas made as early as 1262 in a letter to Jacopo da Viterbo (d. 1308), a lector of the Dominican monastery in Florence and later archbishop of Naples. In his letter, Aquinas referred to the common market price as the normative and just price with which to compare other contracts. Moreover, in the *Summa*, Aquinas notes the influence of supply and demand on prices. A more abundant supply in one place will tend to lower price in that place, and vice versa. Furthermore, St Thomas described without at all condemning the activities of merchants in making profits by buying goods where they were abundant and cheap, and then transporting and selling them in places where they are dear. None of this looks like a cost-of-production view of the just price.

Finally, and most charmingly and crucially, Aquinas, in his great *Summa*, raised a question that had been discussed by Cicero. A merchant is carrying grain to a famine-stricken area. He knows that soon other merchants are following him with many more supplies of grain. *Is* the merchant obliged to tell the starving citizenry of the supplies coming soon and thereby suffer a lower price, or is it all right for him to keep silent and reap the rewards of a high price? To Cicero, the merchant was duty-bound to disclose his information and sell at a lower price. But St Thomas argued differently. Since the arrival of the later merchants was a future event and *therefore* uncertain, Aquinas declared justice did not require him to tell his customers about the impending arrival of his competitors. He could sell his own grain at the prevailing market price for that area, even though it was extremely high. Of course, Aquinas went on amiably, if the merchant wished to tell his customers anyway, that would be especially virtuous, but justice did not require him to do so. There is no starker example of Aquinas's opting for the just price as the current price, determined by demand and supply, rather than the cost of production (which of course did not change much from the area of abundance to the famine area).

A piece of indirect evidence is that Giles of Lessines (d. c.1304), a student of Albert and Aquinas and a Dominican professor of theology at Paris, analysed the just price similarly, and flatly declared that it was the common market price. Giles stressed, furthermore, that a good is properly worth as much as it can be sold for without coercion or fraud.

It should come as no surprise that Aquinas, in contrast to Aristotle, was highly favourable towards the activities of the merchant. Mercantile profit, he declared, was a stipend for the merchant's labour, and a reward for shouldering the risks of transportation. In a commentary to Aristotle's *Politics* (1272), Aquinas noted shrewdly that greater risks in sea transportation resulted in greater profits for merchants. In his *Commentary to the Sentences* of Peter Lombard, written in the 1250s, Thomas followed preceding theologians in arguing that merchants could ply their trade without committing sin. But in his later work, he was far more positive, pointing out that merchants perform the important function of bringing goods from where they are abundant to where they are scarce.

Particularly important was Aquinas's brief outline of the mutual benefit each person derives from exchange. As he put it in the *Summa*: 'buying and selling seems to have been instituted for the mutual advantage of both parties, since one needs something that belongs to the other, and conversely'.

Building on Aristotle's theory of money, Aquinas pointed out its indispensability as a medium of exchange, a 'measure' of expression of values, and a unit of account. In contrast to Aristotle, Aquinas was not frightened at the idea of the value of money fluctuating on the market. On the contrary, Aquinas recognized that the purchasing power of money was bound to fluctuate, and was content if it fluctuated, as it usually did, more stably than did particular prices.

It was the peculiar fate of the usury prohibition in the Middle Ages that every time it seemed to be weakening in the face of reality, theorists would strengthen the ban. At a time when the highly sophisticated and knowledgeable Cardinal Hostiensis was seeking to soften the prohibition, St Thomas Aquinas unfortunately tightened it once more. Like his teacher St Albert, Aquinas added the Aristotelian objection to the medieval ban on usury, except that Aquinas also inserted something new. In the medieval tradition of starting with the conclusion – the crushing of usury – and seizing any odd argument to hand which might lead to it, Aquinas added a new twist to Aristotelian doctrine. Instead of stressing the barrenness of money as a major argument against usury, Aquinas seized on the term 'measure' and stressed that since money, in terms of money, of course, has a fixed legal face value, this means that the formal nature of money must be to remain fixed. The purchasing power of money can fluctuate due to changes in the supply of goods; that is legitimate and natural. But when the holder of money sets out to produce variations in its value by charging interest, he violates the nature of money and is therefore sinful and mindless of the natural law.

That such arrant nonsense should swiftly assume a central place in all later scholastic prohibitions of usury is testimony to the way that irrationality can seize the thought of even so great a champion of reason as Aquinas (and his followers). Why the fixed legal face value of a coin should mean that its value in exchange – at least from the side of money – should not change; or why the charging of interest should be confused with a change in the purchasing power of money, simply testifies to the human propensity for fallacy, especially when prohibiting usury had already become the overriding goal.

But Aquinas's argument against usury involved another invention of his own. Money, to him, is totally 'consumed'; it 'disappears' in exchange. Therefore money's use is equivalent to its ownership. Hence, when one charges interest on a loan, one is charging twice, for the money itself and for its use, although they are one and the same. Highlighting this odd thesis was Aquinas's discussion of why it was legitimate for an owner of money to charge rent for someone to display a coin. In that case, there is a bailment, a charge for keeping one's money in trust. But the reason why this charge is licit, for Aquinas, is that the display of money is only a 'secondary' use, a use separate from its ownership, since money is not 'consumed' or does not disappear in the process. The primary use of money is to disappear in the purchase of goods.

There are several grave problems with this new weapon invented by Aquinas with which to beat usury. First, what is *wrong* with charging 'twice', for ownership and use? Second, even if somehow wrong, this act scarcely bears the weight of sin and excommunication that the Catholic Church had loaded for centuries upon the hapless usurer. And third, if Aquinas had looked beyond the legal formalism of money, and at the goods which the borrower purchased with his loan, he might have seen that these purchased goods were in an important sense 'fruitful', so that while the money 'disappeared' in purchases, in an economic sense the goods-equivalent of money was retained by the borrower.

St Thomas's stress on consumption of money led to a curious shift on the usury question. In contrast to all theorists since Gratian, the sin now became not charging interest on a loan *per se*, but only on a good – money – that disappears. Therefore, for Aquinas, charging interest on a loan of goods in kind would not be condemned as 'usury'.

But if the usury prohibition on money was tightened with new arguments, Aquinas continued and strengthened the previous tradition of justifying investments in a partnership (*societas*). A *societas* was licit because each partner retained ownership of his money, and ran the risk of loss; hence profit on such risky investments was legitimate. In the late eleventh century, Ivo of Chartres had already briefly distinguished a *societas* from a usurious loan, and the distinction was elaborated in the early thirteenth century by the theologian Robert of Courçon (c.1204), and in John Teutonicus' *Gloss* on Gratian (1215). Courçon had made it clear that even an inactive partner risked his capital in an enterprise. This of course meant that types of inactive partnerships, such as sea loans for specific voyages, slid over into actual loans, and the lines were often fuzzy. Besides, and this was a problem that no one at the time would face, wasn't *any* lender necessarily risking his capital, since a borrower could always turn out to be unable to repay even the principal of a loan?

Aquinas now lent his enormous authority to the view that the *societas* was perfectly licit and not usurious. He succinctly declared that the investor of money does not transfer ownership to a working partner; that ownership is retained by the investor; so that he risks his money and can legitimately earn a profit on the investment. The trouble with this, however, is that Aquinas here abandons his own thesis that the ownership of money is the same thing as its use. For the use of the money was transferred to the working partner, and therefore on St Thomas's own grounds he should have condemned all partnerships, as well as the *societas*, as illicit and usurious. Confronting a thirteenth century world in which the *societas* flourished and was crucial to commercial and economic life, it was unthinkable to Aquinas that he should throw the economy into chaos by condemning this well-established instrument of trade and finance.

Instead of ownership going with the use of a consumable item, then, Aquinas now advanced the idea of ownership going with incidence of risk. The investor risks his capital; therefore, he retains ownership of his investment. A seemingly sensible way out, but flimsy; not only did Aquinas thereby contradict his own bizarre ownership theory, he also failed to realize that, after all, not *all* ownership need be particularly risky. Another problem is that the risk-taker is making a profit on the investment of money, which is supposed to be sterile. Instead of stating that all profit should go to the working partner, St Thomas explicitly says that the capitalist rightly receives the 'gain coming thence', i.e. from the use of his money, 'as from his own property.' It looks very much as if St Thomas is here treating money as fertile and productive, providing an independent reward to the capitalist.

Yet, despite the inner contradictions rife in St Thomas's treatment of usury and the *societas*, his entire doctrine continued to be dominant for 200 years.

Finally, Aquinas was a firm believer in the superiority of private to communal property and resource ownership. Private ownership becomes a necessary feature of man's earthly state. It is the best guarantee of a peaceful and orderly society, and it provides maximum incentive for the care and efficient use of property. Thus, in the *Summa*, St Thomas keenly writes: 'every man is more careful to procure what is for himself alone that that which is common to many or to all since each one would shirk the labour and leave to another that which concerns the community, as happens where there are a great number of servants'.

Furthermore, developing the Roman law theory of acquisition, Aquinas, anticipating the famous theory of John Locke, grounded the right of original acquisition of property on two basic factors: labour and occupation. The initial right of each person is to ownership over his own self, in Aquinas's view in a 'proprietary right over himself'. Such individual self-ownership is based on the capacity of man as a rational being.

Next, cultivation and use of previously unused land establishes a just property title in the land in one man rather than in others. St Thomas's theory of acquisition was further clarified and developed by his close student and disciple, John of Paris (Jean Quidort, c.1250–1306), a member of the same Dominican community of St Jacques in Paris as Aquinas. Championing the absolute right of private property, Quidort declared that lay property

> is acquired by individual people through their own skill, labour and diligence, and individuals, as individuals, have right and power over it and valid lordship; each person may order his own and dispose, administer, hold or alienate it as he wishes, so long as he causes no injury to anyone else; since he is lord.

This 'homesteading' theory of property has been held by many historians to be the ancestor of the Marxian labour theory of value. But this charge confuses two very different things: determination of the *economic value* or price of a good, and a decision on how unused resources are to go over into private hands. The Aquinas–John of Paris–Locke view is the 'labour theory' (defining 'labour' as the expenditure of human energy rather than working for a wage) of the origin of property, *not* a labour theory of value.

In contrast to his forerunner Aristotle, labour for Aquinas was scarcely to be despised. On the contrary, labour is a dictate of positive, natural and divine law. Aquinas is very much aware that God in the Bible gave the dominion over all the earth to man for his use. Man's function is to take the materials provided by nature and, by discerning natural law, to mould that reality to achieve his purposes. While Aquinas scarcely has any conception of economic growth or capital accumulation, he clearly posits man as active moulder of his life. Gone is the passive Greek ideal of conforming to given conditions or to the requirements of the *polis*.

Perhaps St Thomas's most important contribution concerned the underpinning or framework of economics rather than strictly economic matters. For in reviving and building on Aristotle, St Thomas introduced and established in the Christian world a philosophy of natural law, a philosophy in which human reason is able to master the basic truths of the universe. In the hands of Aquinas as in Aristotle, philosophy, with reason as its instrument of knowledge, became once again the queen of the sciences. Human reason demonstrated the reality of the universe, and of the natural law of discoverable classes of entities. Human reason could know about the nature of the world, and it could therefore know the proper ethics for mankind. Ethics, then, became decipherable by reason. This rationalist tradition cut against the 'fideism' of the earlier Christian Church, the debilitating idea that only faith and supernatural revelation can provide an ethics for mankind. Debilitating because if the faith is lost, then ethics is lost as well. Thomism, in contrast, demonstrated that the laws of nature, including the nature of mankind, provided the means for man's reason to discover a rational ethics. To be sure, God created the natural laws of the universe, but the apprehension of these natural laws was possible whether or not one believed in God as creator. In this way, a rational ethic for man was provided on a truly scientific rather than on a supernatural foundation.

In the subset of natural law theory that deals with rights, St Thomas led a swing back from the twelfth century concept of a right as a claim on others rather than as an inviolable area of property right, of the dominion of an individual, to be defended from all others. In a brilliant work, Professor Richard Tuck[4] points out that early Roman law was marked by an 'active' property right/dominion view of rights, while the later twelfth century Romanists at Bologna converted the concept of 'right' to the passive listing of claims on other men. This 'passive' as opposed to 'active' concept of rights reflected the network of interwoven, customary and status claims that marked the Middle Ages. This is, in an important sense, the ancestor of the modern assertion of such 'claim-rights' as 'the right to a job', the 'right to three square meals a day', etc., all of which can only be fulfilled by coercing others to obtain them.

At thirteenth century Bologna, however, Accursius began a swing back to an active property rights theory, with the property of each individual a dominion which must be defended against all others. Aquinas adopted the idea of a natural dominion without, however, going all the way to a genuine natural rights theory, which asserts that private property is natural and not a convention created by society or government. Aquinas was moved to adopt the dominion theory because of the mighty late thirteenth century ideological battles between the Dominican and Franciscan Orders. The Franciscans, committed to total poverty, claimed that their subsistence use of resources was not really private property; this pleasant fiction enabled the Franciscans to claim that, in their state of voluntary poverty, they had risen above the ownership or possession of property. They maintained oddly that purely *consumption* use of resources, such as they engaged in, did not imply the possession of property. Supposedly, the sale or giving away of a resource was necessary to qualify it as property. Self-sufficiency or isolation did not, according to the Franciscan view, allow property to exist. The rival Dominicans, including Aquinas, understandably upset by this claim, began to insist that *all use* necessarily implied dominion, the possession and control of resources, and therefore property.

2.8 Late thirteenth century scholastics: Franciscans and utility theory

The first victory in the struggle over property right concepts was won by the Franciscans, whose theory was upheld by their protector, Pope Nicholas III, in his bull *Exiit*, issued in 1279. This dominant theory was elaborated by the first great critic of Thomism, the British Franciscan scholastic John Duns Scotus (1265–1308), professor of theology at Oxford and later at Paris. Aquinas had maintained that neither private nor communal property was a necessary feature of the state of nature, so that one condition was no more natural than the other. Scotus, on the contrary, boldly maintained that in a state of natural innocence both natural and divine law decree that all resources be held in common, so that no private property or dominion may exist. In this supposedly idyllic primitive communism, each person may take what he needs from the common store.

Rights theory was scarcely the only Franciscan deviation from mainline Thomism. As fideists, the Franciscans harked back to earlier Christian tradition before it had been superseded by the rationalism of St Thomas. They began, therefore, to deprecate the idea of a rational ethics and hence of natural law.

In the matter of rights theory, at least, the Franciscans were soon smashed. Reacting against the Franciscans, Pope John XXII issued his famous bull *Quia vir reprobus* (1329). *Quia* asserted trenchantly that God's dominion over the earth was reflected in man's dominion or property over his material possessions. Property rights, therefore, were *not*, as even Aquinas had believed, a product of positive law or social convention; they were rooted in man's nature, as created by divine law. Property rights were therefore natural and coextensive with man's actions in the material world. The Franciscans were effectively routed on this point; it was now established, as Richard Tuck puts it, that property 'was a basic fact about human beings, on which their social and political concepts had to be posited'.[5]

In more strictly economic matters, Franciscans could either adhere to or deviate from the mainline Thomist concept of the just price. Scotus himself set forth a deviationist view. In his commentary on Peter Lombard's *Sentences*, Scotus elaborated a minority view that many historians have wrongly attributed to scholasticism as a whole: that the just price was the merchant's cost of production plus compensation for the industry, labour and risk involved in bringing his product to market. The compensation, furthermore, was supposed to provide adequate support for the family of the merchant. In this way, labour plus expenses plus risk, previously employed to justify whatever profits the merchant might obtain, was now transformed into the determinant of the just price. Scotus made this cost-of-production a theory of just price, in contrast to the long-standing mainstream scholastic view that the just price was the common price on the market.

Although a Franciscan, the British scholastic at the University of Paris, Richard of Middleton (c.1249–1306), followed the economic doctrine of Aquinas and stressed need and utility as the determinants of economic value. The just price, following the main scholastic line, was equivalent to the common market price determined by these needs. Middleton also underlined Aquinas's vitally important concept that both parties to an exchange benefit. Becoming more precise than Aquinas, Middleton pointed out that, say, when a horse is sold for money, both the buyer and the seller gain from the transaction, since the buyer demonstrates that he needs the horse more than the money while the seller prefers the money to the horse.

In addition to developing this crucial concept of mutual benefit, Richard of Middleton was the first to apply that concept to international trade. International trade, as well as individual exchange, brings mutual benefits. Middleton illustrated this idea by postulating two countries: country *A* which has a superabundance of grain but a dearth of wine, and country *B* which has an abundance of wine but little grain. Both countries will then benefit by exchanging their respective surpluses. The merchants will also profit by transporting grain from country *A*, where it is abundant and its price is therefore cheap, to country *B*, where it is scarce and commands a high price. Merchants will also profit by the reverse traffic: shipping wine from country *B*, where its price is low, to *A*, where its price is high. By buying and selling at current market prices, the merchants are trading at the just price, and make a profit yet exploit no one. The merchants are justly compensated for performing a useful service and for taking trouble and risks. The only point missed by Middleton in this sophisticated analysis is that the actions of the various merchants will move toward equalizing prices in the two countries.

An even more dazzling contribution to economic thought was made by a Provençal Franciscan friar, for many years lector at Florence. Pierre de Jean Olivi (1248–98), in two treatises on contracts, one on usury and the other on purchases and sales, pointed out that economic value was determined by three factors: scarcity (*raritas*); usefulness (*virtuositas*); and desirability or desiredness (*complacibilitas*). The effect of scarcity, or what we would now call 'supply', is clear: the scarcer a product the more valuable it is, and therefore the higher the price. The more abundant the product (the greater the supply), on the other hand, the lower the value and the price.

Olivi's remarkable contribution was to investigate the previously vague concept of need or utility. Aquinas's student and disciple, the Dominican Giles of Lessines, teaching at the University of Paris, had taken the utility concept a step further by stating that goods are more or less valuable on the market according to the degree of their utility. But now Olivi separated utility into two parts. One was *virtuositas*, or the objective utility of a good, the objective power it has to satisfy human wants. But, as Olivi explains, the important factor in determining price is *complacibilitas*, or subjective utility, the subjective desirability of a product to the individual consumers.

Furthermore, Olivi squarely confronted the 'paradox of value' which would later confound Adam Smith and the classical economists, and did far better than they at solving it. The 'value paradox' is that a good such as water or bread, essential to life and therefore, according to the classical economists, having a high 'use-value', should be very cheap and have a low value on the market. At the same time, in contrast, gold or diamonds, non-essential luxuries and therefore of far lower use-value, have far higher exchange value on the market. The classical economists of the eighteenth and nineteenth centuries simply threw up their hands at this paradox and unsatisfactorily posed a sharp dichotomy between use- and exchange-value. Olivi, on the other hand, pointed to the solution: water, though necessary to human life, is so highly abundant and easily available that it commands a very low price on the market, while gold is far more scarce and therefore more valuable. Utility, in the determination of price, is relative to supply and not absolute. The complete solution to the value paradox had to wait for the Austrian School of the late nineteenth century: the 'marginal utility' – the value of each unit of a good – diminishes as its supply increases. Thus a superabundant good such as bread or water will have a low marginal utility, while a rare good such as gold will have a high one. The value of a good on the market, and therefore its price, is determined by its *marginal* utility, not the philosophical utility of the good as a whole or in the abstract. But, of course, before the Austrians, the marginal concept was lacking.

The marketplace for Olivi, then, was an arena in which prices for goods are formed out of the interaction of individuals with differing subjective utilities and valuations of the good. Just market prices, then, are not determined by referring to the objective qualities of the good, but by the interaction of subjective preferences on the market.

In addition to his monumental achievement in being the first to discover subjective utility theory, Olivi was the first to bring into economic thought the concept of capital (*capitale*) as a fund of money invested in a business venture. The term 'capital' had appeared in numerous business records since the mid-twelfth century, but this is the first time it was conceptualized. The concept of capital was used by Olivi to show that it was possible to use money in a fruitful way, to gain a profit. Olivi retained the usury ban where capital was invested without being altered in some way by the labour and industry of the investor. However, Olivi was one of the minority of scholastics to adopt the Hostiensis allowance of *lucrum cessans* – permitting an interest charge on a loan wherever the profit on an investment was foregone in the process. Unfortunately, Olivi continued Hostiensis' careful limitation of confining *lucrum cessans* to loans granted out of charity, so that the activities of a professional money-lender could still in no way be justified.

It is a notable irony in the history of economic thought that the discoverer of the subjective utility theory, a highly sophisticated analyst of how the market economy worked, a believer in the just price as the common market price, the initiator of the concept of capital, and a defender of at least the partial use of *lucrum cessans* as a way of justifying interest: that this great market thinker should have been the leader of the rigourist wing of the Franciscan order that believed in living in extreme poverty. Perhaps one explanation is that Olivi was born in the highly important market town of Narbonne. He was the main intellectual leader of the Spiritual Franciscans, who believed devoutly in following faithfully the rule of total poverty laid down by the founder of the order, St Francis of Assisi (1182–1226). It is a further irony that Olivi's opponents, the Conventual Franciscans, who believed in a far laxer interpretation of the rule, hurled anathemas at Olivi and other Spirituals and managed to destroy many physical as well as intellectual traces of Olivi's work. In 1304, six years after his death, a chapter general of the Franciscan Order commanded the destruction of all Olivi's works, and 14 years later, the unfortunate Olivi's body was disinterred and his bones scattered.

Not only were many physical copies of Olivi's writings destroyed, but it became unhealthy for Franciscans, at least, to refer to his works. As a result, when, nearly a century and a half later, Olivi's forgotten work was rediscovered by the great Franciscan saint San Bernardino (St Bernardine) of Siena, Bernardino thought it prudent not even to refer to the heretic Olivi, even though he used the latter's theory of utility virtually word for word in his own work. This reticence was necessary because Bernardino belonged to the strict Observant wing of the Franciscans, in a way descendants of Olivi's Spirituals. Indeed, it has only been since the 1950s that the illuminating economic writings of Olivi, and their appropriation by San Bernardino, have come to light.

Perhaps another reason for the hysteria with which the mainstream Franciscans greeted the religious views of Pierre Olivi was his continuing dalliance with the Joachimite heresy. One of the founders of mystical Christian messianism was the Calabrian hermit and Abbot Joachim of Fiore (1145–1202). In the early 1190s Joachim adopted the thesis that there had been in history not just two ages (pre-Christian and post-Christian), but a third age, of which he himself was the prophet. The pre-Christian epoch was the age of the Father, of the Old Testament; the Christian era the age of the Son, of the New Testament. And now was coming the fulfilment, the new third age, the apocalyptic age of the Holy Spirit, in which history was soon to come to an end. The third age, which for Joachim was to be ushered in during the next half-century, in the early or mid-thirteenth century, was to be an age of pure love and freedom. The knowledge of God would be revealed directly to all men, and there would be no work or property, because human beings would possess only spiritual bodies, their material bodies having disappeared. There would be no Church or Bible or state, but only a free community of perfect spiritual beings who would spend all their time in mystical ecstasy praising God until this millennial Kingdom of the Saints would usher in the Last Days, the days of the Last Judgement.

Seemingly tiny divergences in premisses often have grave social and political consequences, and such was true of disagreements among Christians on the apparently recondite question of eschatology, the science or discipline of the Last Days. Since St Augustine, the orthodox Christian view has been amillennialist, that is, that there is no special millennium or Kingdom of God in human history except the life of Jesus and the establishment of the Christian Church. This is the view of Catholics, of Lutherans, and probably of Calvin himself. The ideological or social conclusion is that Jesus will return to usher in the Last Judgement and the end of history in His own time, so that there is nothing that human beings can do to speed the Last Days. One variant of this doctrine is that after Jesus's return He will launch a thousand years of the Kingdom of God on earth before the Last Judgement; in practical terms, however, there is little of a significant difference here, since Christianity remains in place, and there is still nothing man can do to usher in the millennium.

The crucial difference comes with chiliastic ideas such as those of Joachim of Fiore, where not only was the world coming to the end soon, but man must do certain things to usher in the Last Days, to prepare the way for the Last Judgement. These are all post-millennial doctrines, that is, that man must *first* set up a Kingdom of God on earth as a necessary condition either for Jesus's return or for the Last Judgement. Generally, as we shall see further in the Protestant Reformation, post-millennial views lead to some form of theocratic coercion of society to pave the way for the culmination of history.

For Joachim of Fiore the path to the Last Days would be blazed by a new order of highly spiritual monks, from whom would come 12 patriarchs headed by a supreme teacher, who would convert the Jews to Christianity, as foretold in *Revelation*, and would lead all mankind away from the material and towards the love of things of the spirit. Then, for a brief blazing, three-and-a-half years, a secular king, the Antichrist, would chastise and destroy the corrupt Christian Church. The swift overthrow of the Antichrist would then usher in the total age of the Spirit.

In view of the radical and potentially explosive nature of Joachim's heresy, it is remarkable that no less than three contemporary popes expressed great interest in his doctrine. By the middle of the thirteenth century, however, Joachimism was neglected and little known. It is small wonder that the Joachimite heresy was revived by the Spiritual Franciscans, who were tempted to see in their own flourishing new order, and in their devotion to poverty, the very monastic order that had been foretold by Joachim to bring about the Last Days.

2.9 Notes

1. Saint Augustine, *The City of God* (Cambridge, Mass.: Loeb Classical Library/Harvard University Press, 1963), Vol. II, Book IV, IV, p. 17.
2. Richard Henry Tawney, *Religion and the Rise of Capitalism* (New York: Harcourt, Brace and World, 1937, orig. 1926), p. 36.
3. There is controversy among historians on when the *Commentary* was written. The older view, that it was written in 1266 or even earlier, would imply the simple explanation that Aquinas's views had matured from his earlier close adherence to his teacher, St Albert. The newer view, that the *Commentary* was written at the same time as the *Summa*, leaves the anomaly intact.
4. Richard Tuck, *Natural Rights Theories: Their Origin and Development* (Cambridge: Cambridge University Press, 1979).
5. Ibid., p. 24.

3 From Middle Ages to Renaissance

3.1 The great depression of the fourteenth century

Most people – historians not excepted – are tempted to think of economic and cultural progress as being continuous: in every century people are better off than in the one preceding. This comforting assumption had to be given up quite early when the Dark Ages ensued after the collapse of the Roman Empire. But it was generally held that after the 'renaissance' of the eleventh century, progress in western Europe was pretty well linear and continuous from that point to the present day. It took heroic efforts over many decades for economic historians like Professors Armando Sapori and Robert Sabatino Lopez to finally convince the historical profession that there was a grave secular decline in most of western Europe from approximately 1300 to the middle of the fifteenth century; a period which might be called the Late Middle Ages or the Early Renaissance. This secular decline, mistitled a 'depression', permeated most parts of western Europe with the exception of a few Italian city-states.

The economic decline was marked by a severe drop in population. Since the eleventh century, economic growth and prosperity had pulled up population figures. Total population in western Europe, estimated at 24 million in the year 1000 AD, had vaulted to 54 million by the year 1340. In little over a century, from 1340 to 1450, however, the western European population fell from 54 million to 37 million, a 31 per cent drop in only a century.

The successful battle to establish the fact of the great decline has done little, however, to establish the cause or causes of this debacle. Focus on the devastation caused by outbreaks of the Black Death in the mid-fourteenth century is partially correct, but superficial, for these outbreaks were themselves partly caused by an economic breakdown and fall in living standards which began earlier in the century. The causes of the great depression of western Europe can be summed up in one stark phrase: the newly imposed domination of the state. During the medieval synthesis of the High Middle Ages there was a balance between the power of Church and state, with the Church slightly more powerful. In the fourteenth century that balance was broken, and the nation-state came to hold sway, breaking the power of the Church, taxing, regulating, controlling and wreaking devastation through virtually continuous war for over a century (the Hundred Years' War, from 1337 to 1453).[1]

The first and critically most important step in the rise in the power of the state at the expense of crippling the economy was the destruction of the fairs of Champagne. During the High Middle Ages, the fairs of Champagne were the main mart for international trade, and the hub of local and international commerce. These fairs had been carefully nurtured by being made free zones, untaxed or unregulated by the French kings or nobles, while justice was swiftly and efficiently meted out by competing private and merchants' courts.

The fairs of Champagne reached their peak during the thirteenth century, and provided the centre for land-based trade over the Alps from northern Italy, bearing goods from afar.

Then, in the early fourteenth century, Philip IV, the Fair, king of France (1285–1314), moved to tax, plunder, and effectively destroy the vitally important fairs of Champagne. To finance his perpetual dynastic wars, Philip levied a stiff sales tax on the Champagne fairs. He also destroyed domestic capital and finance by repeated confiscatory levies on groups or organizations with money. In 1308, he destroyed the wealthy Order of the Templars, confiscating their funds for the royal treasury. Philip then turned to impose a series of crippling levies and confiscations on Jews and northern Italians ('Lombards') prominent at the fairs: in 1306, 1311, 1315, 1320 and 1321. Furthermore, at war with the Flemings, Philip broke the long-time custom that all merchants were welcome at the fairs, and decreed the exclusion of the Flemings. The result of these measures was a rapid and permanent decline of the fairs of Champagne and of the trading route over the Alps. Desperately, the Italian city-states began to reconstitute trade routes and sail around the Straits of Gibraltar to Bruges, which began to flourish even though the rest of Flanders was in decay.

It was particularly fateful that Philip the Fair inaugurated the system of regular taxation in France. Before then, there were no regular taxes. In the medieval era, while the king was supposed to be all-powerful in his own sphere, that sphere was restricted by the sanctity of private property. The king was supposed to be an armed enforcer and upholder of the law, and his revenues were supposed to derive from rents on royal lands, feudal dues and tolls. There was nothing that we would call regular taxation. In an emergency, such as an invasion or the launching of a crusade, the prince, in addition to invoking the feudal duty of fighting on his behalf, might ask his vassals for a subsidy; but that aid would be requested rather than ordered, and be limited in duration to the emergency period.

The perpetual wars of the fourteenth and the first half of the fifteenth centuries began in the 1290s, when Philip the Fair, taking advantage of King Edward I of England's war with Scotland and Wales, seized the province of Gascony from England. This launched a continuing warfare between England and Flanders on the one side, and France on the other, and led to a desperate need for funds by both the English and the French Crowns.

The merchants and capitalists at the fairs of Champagne might have money, but the largest and most tempting source for royal plunder was the Catholic Church. Both the English and French monarchs proceeded to tax the Church, which brought them into a collision course with the pope. Pope Boniface VIII (1294–1303) stoutly resisted this new form of pillage, and prohibited the monarchs from taxing the Church. King Edward reacted by denying justice in the royal courts to the Church, while Philip was more militant by prohibiting the transfer of Church revenue from France to Rome. Boniface was forced to retreat and to allow the tax, but his bull *Unam Sanctam* (1302) insisted that temporal authority must be subordinate to the spiritual. That was enough for Philip, who boldly seized the pope in Italy and prepared to try him for heresy, a trial only cut off by the death of the aged Boniface. At this point Philip the Fair seized the papacy itself, and brought the seat of the Roman Catholic Church from Rome to Avignon, where he proceeded to designate the pope himself. For virtually the entire fourteenth century, the pope, in his 'Babylonian captivity', was an abject tool of the French king; the pope only returned to Italy in the early fifteenth century.

In this way, the once mighty Catholic Church, dominant power and spiritual authority during the High Middle Ages, had been brought low and made a virtual vassal of the royal plunderer of France.

The decline of Church authority, then, was matched by the rise in the power of the absolute state. Not content with confiscating, plundering, taxing, crushing the fairs of Champagne, and bringing the Catholic Church under his heel, Philip the Fair also obtained revenue for his eternal wars by debasement of the coinage and thereby generated a secular inflation.

The wars of the fourteenth century did not cause a great deal of *direct* devastation: armies were small and hostilities were intermittent. The main devastation came from the heavy taxes and from the monetary inflation and borrowing to finance the eternal royal adventures. The enormous increase of taxation was the most crippling aspect of the wars. The expenses of war: recruitment of the modestly sized army; payments of its wages; supplies; and fortifications – all cost from two- to fourfold the ordinary expenses of the Crown. Add to that the high costs of tax assessment and enforcement and the cost of the loans, and the crippling burden of war taxation becomes all too clear.

The new taxes were everywhere. We have seen the grave effect of taxes on the Church; on a large monastic farm, they often absorbed over 40 per cent of the net profits of the farm. A uniform poll tax of one shilling, levied by the English Crown in 1380, inflicted great hardship on peasants and craftsmen. The tax amounted to one month's wages for agricultural workers and one week's wages for urban labourers; moreover, since many poor workers and peasants were paid in kind rather than money, amassing the money to pay the tax was particularly difficult.

Other new taxes levied were *ad valorem* on all transactions; taxes on wholesale and retail beverages; and levies on salt and wool. To combat evasion of the tax, the governments established monopoly markets for the sale of salt in France and 'staple points' for English wool. The taxes restricted supply and raised prices, crippling the critical English wool trade.

Production and trade were hampered further by massive requisitions levied by the kings, thus causing a drastic fall of income and wealth, as well as bankruptcies among the producers. In short, consumers suffered from artificially high prices and producers from low returns, with the king bleeding the economy of the differential. Government borrowing was scarcely more helpful, leading to repeated defaults by the kings and consequent heavy losses and bankruptcies among the private bankers unwise enough to lend to the government.

Originating as a response to wartime 'emergency', the new taxes tended to become permanent: not only because the warfare lasted for over a century, but because the state, always on the lookout for an increase in its income and power, seized upon the golden opportunity to convert wartime taxes into a permanent part of the national heritage.

From the middle to the end of the fourteenth century, Europe was struck with the devastating pandemic of the Black Death – the bubonic plague – which in the short span of 1348–50 wiped out fully one-third of the population. The Black Death was largely the consequence of people's lowered living standards caused by the great depression and the resulting loss of resistance to disease. The plague continued to recur, though not in such virulent form, in every decade of the century.

Such are the great recuperative powers of the human race that this enormous tragedy caused virtually no lasting catastrophic social or psychological effects among the European population. In a sense, the longest-lasting ill effect from the Black Death was the response of the English Crown in imposing permanent maximum wage control and compulsory labour rationing upon English society. The sudden decline of population and consequent doubling of wage rates was met by the government's severe imposition of maximum wage control in the Ordinance of 1349 and the Statue of Labourers of 1351. Maximum wage control was established at the behest of the employing classes: large, middle and small landlords, and master craftsmen, the former groups in particular alarmed at the rise of agricultural wage rates. The ordinance and the statute defied economic law by attempting to enforce maximum wage control at the old pre-plague levels. The inevitable result, however, was a grave shortage of labour, since at the statutory maximum wage the demand for labour was enormously greater than the newly scarce supply.

Every government intervention creates new problems in the course of vain attempts to solve the old. The government is then confronted with the choice: pile on new interventions to solve the inexplicable new problems, or repeal the original intervention. Government's instinct, of course, is to maximize its wealth and power by adding new interventions. So did the English Statute of Labourers, which imposed forced labour at the old wage rates for all men in

England under the age of 60; restricted the mobility of labour, declaring that the lord of a particular territory had first claim on a man's labour; and made it a criminal offence for an employer to hire a worker who had left a former master. In that way, the English government engaged in labour rationing to try to freeze labourers at their pre-plague occupations at pre-plague wages.

This forced rationing of labour cut against the natural inclination of men to leave for more employment at better wages, and so the inevitable rise of black markets for labour made enforcement of the statutes difficult. The desperate English Crown tried once again, in the Cambridge Statute of 1388, to make the rationing more rigorous. Labour mobility of any sort was prohibited without written permission from local justices, and compulsory child labour was imposed in agriculture. But there was continual evasion of this compulsory buyers' cartel, especially by large employers, who were particularly eager and able to pay higher wage rates. The cumbersome English judicial machinery was totally ineffective in enforcing the legislation, although the monopolistic urban guilds (monopolies enforced by government) were able to partially enforce wage control in the cities.

3.2 Absolutism and nominalism: the break-up of Thomism

Along with the rise of the absolute state, theories of absolutism arose and began to throw natural law doctrines into the shade. The adoption of natural law theory, after all, meant that the state was bound to limit itself to the dictates of the natural or the divine law. But new political theorists arose, asserting the dominance of the temporal over the spiritual, and of the state's positive law over the natural or divine order. The first and most influential of such late medieval champions of absolutism was Marsiglio of Padua (c.1275–1342), in his famous *Defensor Pacis* (*Defence of the peace*) (1324). The son of a Paduan lawyer, Marsiglio rose to become rector of the University of Paris. The state, opined Marsiglio, is supreme and must be obeyed in and for itself. This glorification of the state went hand in hand with a denial that human reason could come to know any natural law outside of positive edicts of the state. For Marsiglio, reason had to be separated from justice or human society. Justice has no rational foundation; it is purely mystical and solely a matter of faith. God's commands are purely arbitrary and mysterious, and not to be understood in terms of rational or ethical content.

As a corollary, positive law has nothing to do with right reason; it is promulgated to advance the 'life and health of the state'. According to Marsiglio, the nation is an organism, with the state functioning as its head. As Professor Rothkrug writes, 'Marsiglio says the state is a living organism not subject to reason because, like a plant, it develops in accord with inborn impulses'.[2]

The practical conclusion Marsiglio derived from his political philosophy is that the state, whether kingdom or Italian city-republic, must have absolute power within its domain, and must not be subject to any temporal check or jurisdiction by the Church. Thus, while religiously a Catholic, Marsiglio anticipated the *politiques* in France and elsewhere two centuries later by insisting that the Church may have no temporal power as against the state. Marsiglio thereby foreshadowed and helped to bring about the break-up of the medieval order in Europe.

Also destructive of the achievements of the High Middle Ages was the ideological break-up of Thomism ushered in by the fourteenth century. This decline emerged out of Franciscan fideism, begun by St Thomas's great English rival John Duns Scotus. It used to be thought that this destruction was brought to a logical conclusion by the fourteenth century Franciscan Oxford philosopher William of Ockham (c.1290–1350). Ockhamite nominalism, it has been held, denied the power of human reason to arrive at the essential truths about man and the universe, and therefore negated the power of reason to arrive at a systematic ethic for man. Only God's will, discernible by faith in revelation, could yield truths, laws, or ethics. It should be clear that nominalism paved the way for modern scepticism and positivism, for if faith in divine will is abandoned, reason no longer has the power to arrive at scientific or ethical truths. Politically, nominalism failed to provide a natural law standard to set against the state, and it therefore fitted with the growing state absolutism of the Renaissance.

Recent scholarship, however, casts grave doubt on whether Ockham and his followers were really nominalists or were rather essentialists and believers in natural law. Thus, it turns out that the eminent Augustinian contemporary of Ockham, the Italian Gregory of Rimini (d.1358) was not really a nominalist but a staunch champion of essentialism, reason and natural law. In contrast to the usual view of Ockham and his followers, Gregory held that natural law comes not from God's will but from the dictates of right reason, and he even went further towards an all-out rationalist position generally thought to have been invented three centuries later by the Dutch Protestant philosopher and jurist Hugo Grotius. This position held that, even if God did not exist, the system of natural law would be given to us by the dictates of right reason, the violation of which would still be a sin. Thus, as Gregory put it: 'If, *per impossibile*, the divine reason, or God himself did not exist, or that that reason were mistaken, still if one were to act against right reason, angelic, human or any other if such there be, he would sin'.

3.3 Utility and money: Buridan and Oresme

Being a Franciscan and a student of William of Ockham did not prevent the great French philosopher–scientist Jean Buridan de Bethune (1300–58), born in Picardy, to become rector of the University of Paris, from making the next important contribution to economic thought in the essentialist Thomist tradition. In his *Quaestiones*, a thorough commentary on Aristotle's *Ethics*, Buridan continued the Aristotle–Thomas analysis of the exchange value of goods being determined by consumer need or utility. But Buridan also pressed on to point out that a house would never exchange for one garment, since the builder would have to forego a year's worth of food for a much less valuable good. In short, Buridan was groping towards an opportunity-cost concept of cost of production and influence on supply.

More importantly, Buridan advanced beyond the initiative of Richard of Middleton in analysing the mutual benefit that each party necessarily derives from an exchange. In discussing exchange, Buridan notes that both parties benefit, and that trade is not, as many people believe, a type of warfare in which one party benefits at the expense of another. Furthermore, Buridan proceeds to a sophisticated analysis in which he dramatically shows that two parties to a two-good exchange can both benefit even if the exchange is itself immoral and is to be condemned on ethical or theological grounds. Thus Buridan poses the rather provocative hypothetical:

> Because Socrates gave his wife willingly and with her consent to Plato to commit adultery in exchange for ten books, which one of them suffered a loss and which one gained? ... Both suffered injury as far as their soul was concerned...[but] with regard to the external good, each gained since he has more than he needs.

For Buridan as for most other scholastics, the just price was the market price. Buridan also provided a sophisticated analysis of how common human need and utility resulted in market prices. The greater the need and hence the greater the demand, the greater the value; also, a reduction in the supply of a product will cause its price on the market to rise. Furthermore, a good is more expensive where it is *not* produced than where it is, since there is a greater demand for it in the former place; again, the marginal concept is all that is needed to complete the analysis of demand, supply and price. There are also intimations in Buridan of different valuations by market participants resulting in a single price, with varying consumer and producer psychic surpluses for each participant.

But the main great leap forward in economics contributed by Jean Buridan was his virtual creation of the modern theory of money. Aristotle had analysed the advantages of money, and its overcoming of the double-coincidence-of-wants problem of barter, but his outlook was clouded by his fundamental hostility to trade and money-making. To Aristotle, therefore, money was not natural but an artificial convention, and therefore basically a creature of the state or *polis*. Aquinas's theory of money was basically confined within the Aristotelian shackles. It was Jean Buridan who broke free of those shackles and founded the 'metallist' or commodity theory of money, i.e. that money originates naturally as a useful commodity on the market, and that the market will pick the medium of exchange, almost always a metal if available, possessing the best qualities to serve as a money.

Money then, for Buridan, is a market commodity, and the value of that money, just as in the case of other market commodities, 'must be measured by human need'. Just as the values of exchangeable goods 'are proportionate to human need, so they will be proportionate to money, itself proportionate to human need'. Thus, Buridan remarkably set the agenda for determining the value or price of money, on the same principles of utility that determine the market prices of goods: an agenda which would only be fulfilled six centuries later in 1912 by the Austrian Ludwig von Mises, in his *Theory of Money and Credit*.

Foreshadowing the Austrians Menger and von Mises, Buridan insisted that an effectively functioning money must be composed of a material possessing a value independent of its role as money, i.e. it must consist of a market commodity originally useful for non-monetary purposes. Buridan then went on to catalogue those qualities that lead the market to choose a commodity as a medium of exchange or money, such as portability, high value per unit weight, divisibility and durability – qualities possessed most strikingly by the precious metals gold and silver. In that way, Buridan began the classification of monetary qualities of commodities which was to constitute the first chapter of countless money and banking textbooks down to the end of the gold standard era in the 1930s.

Thus, not only did Jean Buridan found the theory of money as a market phenomenon; he thereby took money out of the mystique of being solely a creation of the state, and put it on a par with other goods as a product of the marketplace.

A not very happy modern spin-off of Buridan's theory of volition emerged in the 1930s as part of the indifference curve analysis. Buridan postulated a perfectly rational ass who found himself equidistant between two equally attractive bundles of hay. Indifferent between the two choices and therefore unable to choose, the perfectly rational ass could choose neither and thereby starved to death. What this example overlooked is that there is a third choice, which presumably the ass liked the least: starving to death. So that it was therefore 'perfectly rational' *not* to starve to death but rather to choose one of the two bundles even at random (and then to proceed to the second bundle).[3]

Until recent years, conventional texts on the history of economic thought, if they dealt with anyone at all before the mercantilists or Adam Smith, briefly mentioned only two people: St Thomas Aquinas and Nicole Oresme (1325–82). Although Oresme, a noted French mathematician, astronomer and physicist, was one of the most important European intellectuals of the fourteenth century, his contributions to economic thought scarcely deserve such exclusive attention. Oresme was a pupil and follower of Jean Buridan, a scholastic commenting on Aristotle and teaching in his turn at the University of Paris and going on to become bishop of Lisieux. Oresme was moved to write his well-known booklet, *A Treatise on the Origin, Nature, Law and Alterations of Money*, in the 1350s, applying the teachings of his hard-money mentor to the rash of monetary debasements indulged in by the kings of France in the first half of the fourteenth century. In the centuries before paper money and central banking were founded in the late seventeenth century, the only way in which kings could gain revenue through monetary manipulation was by debasement – changing the definition of the money unit by lightening its weight in terms of the basic money, gold or silver. If, for example, the money unit had been defined as 10 ounces of silver, the government could use its monopoly of the coinage to redefine the money unit as 9 silver ounces, and then pocket the difference in the course of recoinage. The extra ounces would be employed to mint new coins for the king to use in wars, for the building of palaces, and for other allegedly worthy causes.

The British currency unit, the pound sterling, got its name centuries ago by originally being defined as simply one pound of silver. The process of debasement in Britain has proceeded so far that the 'pound' is now equal to less than $^1/_4$ a silver ounce.

Before the advent of paper money and central banking, then, debasement was the only process by which the ruler could alter the currency to create a greater supply of money (in terms of the money unit), and thereby cause price inflation. The king was able to use his compulsory monopoly of the coinage to manipulate repeated debasements for his own gain at the expense of the rest of the public.

Oresme's most important contribution to monetary theory was to enunciate clearly, for the first time, what came to be known as 'Gresham's law', that is, the insight that if two or more moneys are legally fixed in relative value by the government, then the money overvalued by the government will drive the undervalued money out of circulation. Thus if the government decrees that, say, 1 ounce of gold is legally worth 10 ounces of silver, whereas on the free market it is worth 15, the people will stick their creditors and vendors with the legally overvalued money (silver–the 'bad' money) while they hoard the undervalued (gold – the 'good' money) or export it out of the country where it can be sold at its market value. Gresham's law has often been boiled down in common parlance into: 'bad money drives out good', but stated that way it is paradoxical and unsatisfying. For it implies that while in all other market products the good will outcompete the bad, there is some deep flaw in the free market that causes it to prefer good *money* to bad. But as Ludwig von Mises clarified in the early twentieth century, Gresham's law is the product not of the free market but of government monetary control. Its fixing of relative money value is a special case of the general consequence of any price control, i.e. shortage of a good in which maximum prices are imposed, and a 'surplus' where a minimum price is enforced. In the case of money, in our example, gold suffers a maximum price control and therefore a shortage, while the value of silver is kept up artificially and therefore goes into surplus relative to gold.

The first formulation of Gresham's law was that of the satiric ancient Greek playwright, Aristophanes, who, in *The Frogs*, states characteristically: 'In our Republic bad citizens are preferred to good, just as bad money circulates while good money disappears'.[4] Oresme, however, put the law in a cogent and correct manner, emphasizing that the monetary disruption is a function of government price-fixing: 'if the fixed legal ratio of the coins differs from the market value of the metals, the coin which is underrated entirely disappears from circulation, and the coin which is overrated alone remains current'.

In his *Treatise*, Nicole Oresme was moved to apply his mentor Buridan's metallist monetary theory to attack the debasement policy of the French kings. Oresme did not go so far as to denounce the king's coinage monopoly *per se*, but he did accomplish the feat of taking the whole matter out of the kings' carefully propounded mystique of 'sovereignty', converting the entire coinage question to a matter of practical convenience. Since the king was not entitled to cloak coinage in the mystique of royal prerogative and absolute royal will, he was duty-bound to govern according to the best interests of the community. He is therefore obliged to maintain the standards of weight and of coinage; frequent alterations in such standards 'destroy respect and breed "scandal and murmuring among the people and risk of disobedience"'. The definition of the currency unit should therefore be a fixed ordinance. Frequent alterations and debasements, Oresme pointed out, will cause money and coins to lose their character as measures of value; and internal and external trade will be crippled. Foreign merchants will be repelled, since they will no longer have good, safe money to work with, while domestic traders will no longer have any firm means of communication. Money could no longer be loaned out safely, and there would be no way of correctly valuing money incomes.

Furthermore, since debased money will have a lower value at home, gold or silver will be sent abroad where they will now have a higher market value. Thus Oresme was perhaps the first to point out that money will tend to flow to those areas and countries where its value is highest, and to leave those countries where its value is lowest.

Nicole Oresme had no illusions about the reasons for the kings' repeated debasements. As Oresme put it: if the king 'should tell the tyrant's usual lie that he applies the profit from debasement to the public advantage, he must not be believed, because he might as well take my coat and say he needed it for the public service'.

Oresme also adds to Buridan's analysis of how commodities become money on the market: he stresses easy portability, and that it should be of high value per unit weight. He also points out that after a period of gold or silver being weighed out in precise quantities for each transaction, people started to coin the precious metals, with an inscription and a head on the coin to guarantee a certain quantity of gold or silver in each coin. Gold, being a more valuable money, will generally be used for larger transactions, while silver and even copper may be used for smaller purchases.

3.4 The odd man out: Heinrich von Langenstein

One nominalist and student of Buridan, Heinrich von Langenstein the Elder (also known as Henry of Hesse) (1325–97), while an uninfluential and minor scholastic philosopher in his own and later centuries, made great mischief for modern interpretations of the history of economic thought. Langenstein, who taught first at the University of Paris and then at Vienna, began in his *Treatise on Contracts* by analysing the just price in the mainstream scholastic manner: just price is the market price, which is a rough measure of the human needs of consumers. This price will be the outcome of individuals' calculations about their wants and values, and these in turn will be affected by the relative lack or abundance of supply, as well as by the scarcity or abundance of buyers.

Having said this, Langenstein proceeded to contradict himself completely. In a highly unfortunate contribution to the history of economic thought, Langenstein urged local government authorities to step in and fix prices. Price-fixing would somehow be a better path to the just price than the interplay of the market. Other scholastics had not exactly opposed price-fixing; for them, the market price was just whether it was set by the common estimate of the market or by the government. But it was at least implicit in their writings that the free market was a better (or at the very least an equally good) path to discovering the just price. Langenstein was unique in positively advocating government price-fixing.

Moreover, Langenstein added another economic heresy. He counselled the authorities to fix the price so that each seller, whether merchant or craftsman, could maintain his status or station in life in the society. The just price was the price which maintained everyone's position in the style to which he had become accustomed – no more and no less. If a seller tried to charge a price to advance beyond his station, he was guilty of the sin of avarice.

Langenstein was the odd man out among the scholastics and late medieval thinkers. No one has been found to second the 'station in life' concept of the just price. Indeed St Thomas Aquinas himself effectively demolished this view when he trenchantly declared

> In a just exchange the medium does not vary with the social position of the persons involved, but only with regard to the quantity of the goods. For instance, whoever buys a thing must pay what the thing is worth whether he buys from a pauper or a rich man.

In short, on the market prices are the same to all, rich or poor, and furthermore this is a just method of establishing prices. In the bizarre Langenstein view, of course, a wealthy seller of the same product would be obliged to sell it for a far higher price than a poor seller, in which case it is unlikely that the wealthy man would last long in the business.

As far as can be determined, no medieval or renaissance thinker adopted the station in life theory, and only two followers adopted the price-fixing position. One was Matthew of Cracow (c.1335–1410), professor of theology at Prague and later rector at the University of Heidelberg and archbishop of Worms, and particularly Jean de Gerson (1363–1429), nominalist and French mystic who was chancellor of the University of Paris. Gerson, however, ignored the station in life notion and reverted to the thirteenth century view of John Duns Scotus that the just price is the cost of production plus compensation for labour and risk incurred by the supplier. Gerson therefore urged that the government fix prices to force them to conform to the allegedly just price. Indeed, Gerson was a fanatic on price-fixing, advocating that it be extended from its customary sphere in wheat, bread, meat, wine and beer, to embrace all commodities whatsoever. Fortunately, Gerson's view also had little influence.

Von Langenstein was scarcely important in his own or at a later day; his great importance is solely that he was plucked out of well-deserved obscurity by late nineteenth century socialist and state corporatist historians, who used his station in life fatuity to conjure up a totally distorted vision of the Catholic Middle Ages. That era, so the myth ran, was solely governed by the view that each man can only charge the just price to maintain him in his presumably divinely appointed station in life. In that way, these historians glorified a non-existent society of status in which each person and group found himself in a harmonious hierarchical structure, undisturbed by market relations or capitalist greed. This nonsensical view of the Middle Ages and of scholastic doctrine was first propounded by German socialist and state corporatist historians Wilhelm Roscher and Werner Sombart in the late nineteenth century, and it was then seized upon by such influential writers as the Anglican Socialist Richard Henry Tawney and the Catholic corporatist scholar and politician Amintore Fanfani. Finally, this view, based only on the doctrines of one obscure and heterodox scholastic, was enshrined in conventional histories of economic thought, where it was seconded by the free market but fanatically anti-Catholic economist Frank Knight and his followers in the now highly influential Chicago School.

The much-needed corrective to the older view has at last become dominant since World War II, led by the enormous prestige of Joseph Schumpeter and by the definitive research of Raymond de Roover.

3.5 Usury and foreign exchange in the fourteenth century

The charging of interest on a loan continued to be condemned totally as usury by the mainstream of scholastic writing: only a minority followed Cardinal Hostiensis and Olivi in allowing *lucrum cessans* – return on investment foregone – and then only for a charitable loan and not for professional money-lenders. Foreign exchange transactions fared no better, the mainstream of scholastics, including St Thomas, simply condemning them outright as usurers and as trying to charge interest on barren money.

By the thirteenth and fourteenth century, however, bills of exchange were coming into prominence as credit instruments, particularly in foreign exchange dealings. Sophisticated forms of foreign exchange transactions developed, in which dealers could charge and pay interest on credit, but such transactions were formally disguised as purchases or sales of foreign currencies. Again, most scholastics continued to condemn exchange dealings, but a courageous minority arose during the fourteenth century to champion these now pervasive transactions, in which the Church itself had for a long time been engaged. It started weakly with Aquinas's chief personal disciple, Giles of Lessines, who while confused about the foreign exchange market, did speak of risk as justifying these credit transactions and also showed that the exchange dealer gives something of 'more utility' to his customer than what the customer pays, entitling him to an extra charge.

The main defence of the foreign exchange market was launched by the distinguished Franciscan Alexander Bonini, also known as Alexander of Alexandria or Alexander Lombard. Bonini had an academic career at the University of Paris, then lectured at the papal court in theology, and finally served as the Franciscan provincial in his native Lombardy, the site of the most notorious usurers of the day. In his *Treatise on Usury*, a lecture given at Genoa in 1307, Alexander, while attacking usury in the usual way, presented a thoroughgoing defence of the foreign exchange transactions with which he was familiar. Attacking the Aristotelians, Alexander pointed out that money cannot have only one function, of serving as a barren medium of exchange, since there are many coins and these coins must be exchanged. The value of the coins thus traded, furthermore, is properly determined not by law but by the weight and the content of the coins. Alexander also adopted Giles of Lessines's insight that the dealer provides more utility to his customer than he receives in the money transactions. As for credit transactions in foreign exchange, Alexander Lombard did not defend them all, but provided a *lucrum cessans* defence for the changes in the value of a money between the beginning and the end of the transaction. Indeed, Alexander was one of the first to point out that the demand for money can and does vary over time, giving rise to changes in the value of money. *Lucrum cessans* provided the entering wedge for the scholastic justification of the main method by which the usury prohibition was evaded during and after the High Middle Ages.

It is illuminating that Alexander had begun his defence with the practical point that 'the Church always condemns and pursues usurers, but it does not condemn and pursue the exchange dealers, but, rather, fosters them as is apparent in the Roman Church'.

Alexander Lombard's defence of the foreign exchange market was repeated verbatim by his disciple and successor as Franciscan provincial of Lombardy: Astesanus (d. 1330). Astesanus, like his mentor, came from Lombardy, specifically from Asti, one of the principal locations of the leading international usurers. His main work was his *Summa* (1317). Like his predecessor, Astesanus was impressed by the fact that 'the Roman Church fosters the exchange dealers'. Furthermore, he adds to Alexander's reasoning a frank defence of *lucrum cessans*, which he was one of the first theologians, as distinct from canonists, to embrace.

Among the prominent fourteenth century writers we have already discussed, Heinrich von Langenstein, as we might expect, denounced all foreign exchange dealers as usurers *per se*. Even Nicole Oresme simply repeated the Aristotelian shibboleth that the trade of money for money is unnatural because money is barren. While not precisely declaring exchange transactions to be usurious *per se*, Oresme, in a flight of hate, denounced foreign exchange as 'vile', as an occupation that stains the soul just as cleaning sewers stains the body.

In contrast, however, Jean Buridan, Oresme's mentor, engaged in a defence of foreign exchange, distinguishing two kinds of exchange, one where the dealer 'gets only as much as he gives' – perfectly worthy according to the Aristotelian–Thomist tradition – and another where the dealer 'takes more than he gives'. But here Buridan makes another might leap in tearing down some of the irrational barriers that the scholastics had drawn up against monetary transactions. For even the latter kind of transaction, declared Buridan, may be legitimate, even if there is no equivalent in exchange, provided the exchange promotes the 'common good'. While not used for ordinary usury, Buridan's new concept sowed the seeds for total justification of the foreign exchange bankers.

At the turn of the fifteenth century, a thoroughgoing defence of exchange contracts was set forth by the sophisticated Florentine lay canon lawyer Lorenzo di Antonio Ridolfi (1360–1442). Ridolfi was a lecturer at the Athenaeum in Florence and was at one time ambassador of the Florentine Republic. Just as Lombard was unwilling to condemn a practice encouraged by the Church, so Ridolfi declared his unwillingness to condemn an occupation pervasive in his native Florence. Developing the insight of Lombard, Ridolfi, in his 1403 treatise on usury, emphasized that the value of money can differ from one place to another as well as over time. These differences are the result of changes in the demand for money, fluctuations of the demand relative to the supply, and alterations in the metallic content of the coinage. These variations justify foreign exchange dealings as well as credit transactions within them. Thus, Ridolfi developed the theory which showed that the value of money, like any other commodity, is determined by the interactions of its demand and supply, and that it too can vary in value over time and place.

3.6 The worldly ascetic: San Bernardino of Siena

The great mind, and the great systematizer, of scholastic economics was a paradox among paradoxes: a strict and ascetic Franciscan saint living and writing in the midst of the sophisticated capitalist world of early fifteenth century Tuscany. While St Thomas Aquinas was the systematizer of the entire range of intellectual endeavour, his economic insights were scattered in fragments throughout his theological writings. San Bernardino of Siena (1380–1444) was the first theologian after Olivi to write an entire work systematically devoted to scholastic economics. Much of this advanced thought was contributed by San Bernardino himself, and the highly advanced subjective utility theory was cribbed word for word from the Franciscan heretic of two centuries earlier: Pierre de Jean Olivi.

San Bernardino's book, written as a set of Latin sermons, was entitled *On Contracts and Usury*, and was composed during the years 1431–33. The treatise began, quite logically, with the institution and justification of the system of private property, proceeded to the system and the ethics of trade, and continued to discuss the determination of value and price on the market. In ended with a lengthy discussion of the tangled usury question.

San Bernardino's chapter on private property was nothing remarkable. Property was considered artificial rather than natural, but still vital for an efficient economic order. One of Bernardino's great contributions, however, was the fullest and most cogent discussion yet penned on the functions of the business entrepreneur. In the first place, the merchant was given an even cleaner bill of health than had been given by Aquinas. Sensibly, and in contrast to early doctrines, San Bernardino pointed out that trade, like all other occupations, could be practised either licitly or unlawfully. *All* callings, including that of a bishop, provide occasions for sin; these are scarcely limited to trade. More specifically, merchants can perform several kinds of useful service: transporting commodities from surplus to scarce regions and countries; preserving and storing goods to be available when the consumers want them; and, as craftsmen or industrial entrepreneurs, transforming raw materials into finished products. In short, the businessman can perform the useful social function of transporting, distributing, or manufacturing goods.

In his justification of trade, San Bernardino finally managed to rehabilitate the lowly retailer, who had been scorned ever since ancient Greece. Importers and wholesalers, Bernardino pointed out, buy in large quantities and then break bulk by selling by the bale or load to retailers, who in turn sell in minute quantities to consumers.

Realistically, Bernardino did not condemn profits; on the contrary, profits were a legitimate return to the entrepreneur for his labour, expenses and the risks that he undertakes.

San Bernardino then goes into his trenchant analysis of the functions of the entrepreneur. Managerial ability, he realized, is a rare combination of competence and efficiency, and therefore commands a large return. San Bernardino lists four necessary qualifications for the successful entrepreneur: efficiency or diligence (*industria*), responsibility (*solicitudo*), labour (*labores*), and assumption of risks (*pericula*). Efficiency for Bernardino meant being well-informed about prices, costs, and qualities of the product, and being 'subtle' in assessing risks and profit opportunities, which, Bernardino shrewdly observed, 'indeed very few are capable of doing'. Responsibility meant being attentive to detail and also keeping good accounts, a necessary item in business. Trouble, toil, and even personal hardships are also often essential. For all these reasons, and for the risk incurred, the businessman properly earns enough on successful investments to keep him in business and compensate him for all his hardships.

On determination of value, San Bernardino continued in the mainstream scholastic tradition, with value and the just price being determined by the common estimation of the market. Price will fluctuate in accordance with supply, rising if supply is scarce and falling if abundant. Bernardino also has a penetrating discussion of the influence of cost. Cost of labour, skill and risk do not affect price directly, but will affect the supply of a commodity, and *ceteris paribus* (other things being equal – a phrase used by San Bernardino) things requiring greater effort or ingenuity to produce will be more expensive and command a higher price. This insight prefigures the Jevons/Austrian analysis of supply and cost over five centuries later.

As in the case of other scholastics, the common estimation of the market was held to be the common market price (but *not* a price set by individual free bargaining). The government was considered able to fix a common market price by compulsory regulation, but this possibility, as in the case of most other scholastics, was dismissed quickly.

As we have seen, San Bernardino took over word for word the remarkable subjective utility theory of value published (and previously neglected) by the

Franciscan Pierre de Jean Olivi. Bernardino's significant contribution to the theory of the just-as-market price was to apply it to the 'just wage'. Wages are the price of labour services, Bernardino pointed out, and therefore the just, or market wage will be determined by the demand for labour and the available supply of labour on the market. Wage inequality is a function of differences of skill, ability and training. An architect is paid more than a ditch-digger, Bernardino explained, because the former's job requires more intelligence, ability and training, so that fewer men will qualify for the task. Skilled workers are scarcer than unskilled, so that the former will command a higher wage.

In a sophisticated discussion of foreign exchange, Bernardino put his *imprimatur* on transactions that were the dominant way in which hidden interest was charged for a credit transaction. Here, Bernardino followed the latitudinarian view of his master Alexander Lombard. Generally, exchange transactions were conversions of currencies and not loans. Furthermore, usury was only a certain and riskless interest on a loan; foreign exchange rates fluctuated and were therefore unpredictable. This was technically true, but generally lenders received interest on exchange transactions, since the money market was structured to favour the lender in this way. Bernardino also pointed out that conversion of currencies was necessary because of the great diversity of currencies, and because the coinage of one country was not acceptable elsewhere. The money-exchangers, therefore, performed a useful function by enabling foreign trade, 'which is essential to the support of human life', and by transferring funds from one country to another without requiring the actual shipping of specie.

San Bernardino of Siena was a fascinating and paradoxical combination of brilliant, knowledgeable, and appreciative analyst of the capitalist market of his day, and an emaciated ascetic saint fulminating against worldly evils and business practices. Bernardino was born in 1380 to a high official of Siena; his father, Albertollo degli Albizzeschi, was governor of the town of Massa for the Republic of Siena. Bernardino's mother also belonged to a prominent local family. Joining the strictly ascetic order of the Observant Franciscans, Bernardino soon became noted as a persuasive and highly popular travelling orator, preaching throughout northern and central Italy. In the 1430s, Bernardino was appointed vicar general of the Observant Franciscans. Three times in his lifetime, San Bernardino was offered bishoprics (in Siena, Urbino and Ferrara), and each time he refused this honour, since he would have had to give up his preaching.

Some of Bernardino's anti-worldly preaching dwelt on problems of personal morality; thus, he deplored the practice of travelling merchants staying away from home for long periods, and then defiling themselves by living in carnal sin or even sodomy, which the saint habitually referred to as 'filth'.

Indeed, in his youth, Bernardino punched a man who had made homosexual overtures.

But Bernardino's main contradiction between sophisticated analyst of business and denouncer of business practice lay in his fulmination against usury. Surrounded by the home of usury in Tuscany, San Bernardino, in common with so many scholastics, found that realism stopped short at the usury door. On the usury question, the saint's brilliant analysis and benign view of the free market failed him, and he fulminated almost in a frenzy: usury was a vile infection, permeating business and social life. Whereas other scholastics had taken seriously the objection that Church and society depended upon usury, Bernardino did not care. No: it could not be. All those holding that usury was economically necessary were committing the sin of blasphemy, since they would therefore be saying that God had bound them to an impossible course of action. Abolish the charge of interest, Bernardino opined, and people would then lend freely and gratuitously; and besides far too much is being borrowed now, for frivolous and vicious purposes. Usury, the saint thundered, destroys charity; it is a contagious disease; it stains the souls of all in society; it concentrates all the money of the city into a few hands or drives it out of the country; and what is more, it justly brings the wrath of God upon the city, and invites the Four Horsemen of the Apocalypse.

One can only stand in awe at the fury of unreason in which this truly great thinker indulged himself on the usury issue. Ranting about the usurer daring to 'sell time', Bernardino went further than his predecessors in insisting that only Jesus Christ 'knows the time and the hour. If therefore it is not ours to know the time, much less is it ours to sell it'. Is keeping watches and clocks therefore a mortal sin? Bernardino winds up in a fit of almost hysterical frenzy at the hapless usurer:

> Accordingly, all the saints and all the angels of paradise cry then against him [the usurer], saying 'To hell, to hell, to hell.' Also the heavens with their stars cry out, saying, 'To the fire, to the fire, to the fire.' The planets also clamor, 'To the depths, to the depths, to the depths.'

And yet, despite all this, San Bernardino added his great weight to the concept that would eventually scuttle the usury prohibition: *lucrum cessans*. Following Hostiensis and a minority of fourteenth century scholastics, Bernardino admits *lucrum cessans*: it was all right to charge interest on a loan which would be the return sacrificed – the opportunity foregone – for a legitimate investment. It is true that Bernardino, like his predecessors, limited *lucrum cessans* strictly to a charitable loan, and refused to apply it to professional money-lenders. But he made an important analytic advance by explaining that *lucrum cessans* is legitimate because in that situation money is not simply barren money but 'capital'. As Bernardino put it, when a businessman lends from balances which would have gone into commercial investment, he 'gives not money in its simple character, but he also gives his capital'. More fully, he writes that money then 'has not only the character of mere money or a mere thing, but also beyond this, a certain seminal character of something profitable, which we commonly call capital. Therefore, not only must its simple value be returned, but a super-added value as well'.

In short, when money functions as capital, it is no longer barren or sterile; as capital it deserves to command a profit.

There is something more. In the course of lengthy arguing against hidden usury in various forms of contracts, the brilliant mind of San Bernardino stumbles, for one of the first times in history, upon what later would be called 'time-preference': that people prefer present goods to future goods (i.e. the present prospect of goods in the future). But he failed to recognize its importance, and dismissed the point. It was left to the late eighteenth century Frenchman Turgot and then to the great Austrian economist Eugen von Böhm-Bawerk to discover the principle in the 1880s and hence finally solve the age-old problem of explaining and justifying the existence and height of the rate of interest.

3.7 The disciple: Sant'Antonino of Florence

San Bernardino's major disciple was the highly influential and slightly younger Sant'Antonino of Florence (1389–1459). Much of Antonino's influence came from his prolific writings, especially his enormous Thomistic *Summa Moralis Theologiae* (1449), the first treatise in the new science of moral theology. In moral theology, or casuistry, the theologian takes the abstract principles of theology and ethics and applies them to the detailed empirical data of daily life: in short, theology and morality were brought from the abstractions of the study and applied to the details of everyday life.

Sant'Antonino's pioneering *Summa* of moral theology proved to be extraordinarily influential. It was frequently consulted for the next 150 years, and went through 24 printings in that period. His shorter *Confessionals* (1440), a guidebook for confessors, was reprinted 30 times in the same century and a half.

There are striking parallels in the lives and personalities of Antonino and his master Bernardino. Sant'Antonino was born the son of a minor official, the notary of Florence, Ser Niccolo de Pierozzo dei Forciglioni. The son's first name was Antonio, but he was universally called by the diminutive Antonino because of his short stature, and the nickname is listed in the official Church calendar of saints. Although in frail health, Antonino early joined the strict, Observant branch of the Dominican Order. His administrative talents were unusual and spotted quickly, and he soon became prior of the Dominican friary of Cortona, and was then transferred to similar posts in Naples and Rome. After that, Antonino was appointed vicar-general of the Dominican friaries of Lombardy in 1433, and four years later, also of all central and southern Italy. In addition to his vicarate, Antonino continued as prior of San Marco in Florence.

In 1445, Pope Eugene IV appointed Sant'Antonino to the archbishopric of Florence, possibly on the advice of the great Renaissance painter, Fra Angelico. A humble man, Antonino followed Bernardino in stubbornly refusing to accept the post. The pope issued stern commands for Antonino to accept, and the story of a contemporary asserts that he only took the office under penalty of excommunication. In any event, Sant'Antonino refused for the rest of his life to wear episcopal robes and continued to wear the white habit and black cloak of a simple Dominican friar. Ironically, upon his death in 1459, Antonino was buried in full pomp and ceremony.

Despite his reluctance, Antonino became a distinguished administrator and judge, daily making countless economic decisions. In Florence he became steeped in knowledge of the financial and economic practices of the most advanced capitalist centre of his day.

Sant'Antonino is habitually bracketed with Bernardino as two great scholastic thinkers and economists. But Antonino was merely a popularizer and casuist; in his analysis he simply repeated the views of the truly great and creative thinker, San Bernardino. Both men were thoroughly familiar with the economic practices of their day, and Antonino came from Florence, the great banking centre of Europe. Yet both men were humble ascetics, and the same tension and contradiction of worldly asceticism appeared in their works and lives.

Generally, Antonino simply repeated Bernardino's analysis. In his discussion of value theory, however, Antonino further stressed Aquinas's crucial point that any exchange on the market is for the mutual benefit of both parties, since each is better off than he was before. A voluntary sale is a just one. And yet, Antonino seems more sympathetic than his mentor to government price regulation which, where it exists, must be morally binding. Any black market price over a legal maximum is a sin.

On the just wage, Antonino echoes Bernardino and adds material based on his extensive knowledge of the great Florentine woollen industry. The wage of a labourer is properly determined by common market estimation, and any attempt to form a union of workers would be harmful interference. This view implicitly endorsed the Florentine practice of outlawing wool-worker unions as unlawful 'conspiracies'. The monopolistic Wool Guild of clothiers, however, was legal; not surprisingly, since it controlled the government of Florence. The word 'guild' does not appear in Antonino's work on labour conditions; perhaps he felt it more prudent to ignore this controversial issue.

Despite the discipleship, there were definite though subtle differences between the two worldly saints. Even though Antonino was more knowledgeable of the business world, he was, paradoxically, considerably more moralistic. Thus, one of Antonino's numerous works was a pamphlet, *On Women's Fashions* (*De ornate mulierum*), in which he fulminated at great length against women's use of rouge, false hair, fancy hairdos, and other fripperies. His talent for moralism was of course reinforced by his pioneering work in casuistry. Likewise he sounded off on artists, condemning all except religious art, especially exempting the work of his friend, Fra Angelico. Antonino was particularly upset because paintings of non-religious subjects gave artists the opportunity to depict nude women, 'not for the sake of beauty but to arouse libidinous feelings'. (Antonino *did* make the intelligent observation, however, that the price of paintings is determined by the artist's skill rather than by the amount of labour involved.) Antonino's censorious views also reached into music, where he called for going back to the austere Gregorian chant and eliminating the sinful introduction of counterpoint and popular and even lewd ballads.

In more strictly economic concerns, Antonino's heightened moralism was also evident. In contrast to his master, Antonino largely fulminated against foreign exchange transactions as implicit usury. As Raymond de Roover wonderingly remarks: 'This advice, if followed, would have abolished banking altogether, a rather strange attitude on the part of the archbishop of the leading banking center in Western Europe. Most of the theologians were more lenient, although less consistent...'[5]

Antonino's ranting against usury was fully as exuberant as Bernardino's, and was heightened by the fact that he served as the Apostolic commissary for the repression of usury in Tuscany. Antonino is the all-out denouncer of usury, drawing together all possible arguments with their most severe interpretation. As Professor Noonan states,

> ...by being more systematic, Antonino is more severe than many of his predecessors...Antonino draws together all the strict rules of the early usury teaching into a tight set of rules. No later writer of note will be as severe, as uncompromising, as true to the logic of the earlier conceptions as he.[6]

Furthermore, Antonino took no back seat to Bernardino in his hysterical ranting against usury. Usury is 'diabolic'; it is the great harlot of Apocalypse 17, 'who sitteth upon many waters, with whom the kings of the earth have committed fornication'. Not only direct usurers but all who cooperate in usury are 'worthy of eternal death'. Usury, to Antonino, is a worse sin than adultery or murder because it continues on and on, whereas the former sins are only intermittent. The usurer is in a state of 'perpetual sin'. Not only that: usury damns the heirs of the sinner, since the sin is not wiped out until the usurer or his estate makes restitution by giving back the interest charge. Usury, to Antonino, is everywhere, all-pervasive.

And yet Antonino, too, admits *lucrum cessans* as a legitimate source of an interest charge. He is so worried about hint of usury, however, that he declares that in practice *lucrum cessans* must never be advised.

Tragically, the subjective theory of utility, developed by Pierre de Jean Olivi in the thirteenth century, rediscovered by San Bernardino two centuries later, and spread far and wide by his disciple Sant'Antonino, died with the worldly Florentine saint. With minor exceptions, even the late Spanish scholastics of the sixteenth century, so much in the Thomist and utility tradition, did not regain these heights. It was left to the Austrian School of the late nineteenth century to independently replicate and go beyond the subjective theory of value of Olivi, and it was left to the 1950s for this line of scholastic thought to be rediscovered.

3.8 The Swabian liberals and the assault on the prohibition of usury

At about the same time that San Bernardino was developing his great work, a relatively obscure German Dominican was independently setting forth a similar analysis. Johannes Nider (1380–1438) was a Swabian who taught theology at the University of Vienna, and led a reform of the Dominican Order in southern Germany. Nider's brief treatise, *On the Contracts of Merchants* (*De Contractibus Mercantorum*) was written about 1430, and published posthumously in Cologne about 1468; it was reprinted frequently for the rest of the fifteenth century.

Nider begins by justifying the profits of merchants. Recognizing the entrepreneurial role of the merchant, Nider stressed that trade requires market knowledge, and securing that knowledge requires industry, diligence and luck. Business incomes are justified by expenses, care and risks. In analysing market price, Nider emphasizes subjective utility as the determinant. Nider, like Olivi and Bernardino, distinguished between the objective utility inherent in a good, and subjective utility, the status of that good 'in the estimation of men'. Nider was clear that only the latter decisively determined the just market price. Anticipating Jevons four centuries later, Nider suggests that a change in supply will alter price by changing the utility assigned to it. That common market price determines the just price is clear in Nider: 'The proper value of a thing depends upon the ways buyers or sellers may think about prices'. Yet, where there is no common market, Nider joins previous scholastics in stating that sellers may adopt a cost-plus approach to find out the just price that they may ask for.

While only subjective utility is treated in determination of price, there are disquieting signs in Nider of Langensteinian 'status' arguments in justifying business income. For businessmen's incomes, in addition to being determined by the economic factors mentioned above, must also be decided 'in proportion to the nobility' of the effort – a prelude to Nider's making clear that the work of the soldier is nobler than that of the merchant and therefore deserves a higher reward. This is a throwback not just to Langenstein but to ancient Greek veneration of the martial as against the productive arts.

In discussing money, Nider is firm in justifying the activities of money-changers. There is no nonsense about usury here. Nider points out that the exchange of currency is a 'kind of selling and buying', and demonstrates even more cogently that the value of money, like the value of other commodities, also varies in the common estimation of the market. While, following Aquinas, the value of money usually changes less radically than the value of a particular good, change it does nevertheless, merchants incurring legitimate profits or losses from such variation.

Nider writes trenchantly of 'the conversion, or exchange of money or of other things, which is, as it were a kind of selling and buying of one currency for another, and presents, so to speak, the same moral problems as does commerce in goods...'

Far more significant than Nider was the great fifteenth century scholastic and fellow Swabian Gabriel Biel (1430–95), professor of theology at the new University of Tübingen, in Southwest Germany. Biel was a distinguished nominalist and Ockhamite – in fact, the German Ockhamites of the fifteenth century were known as *Gabrielistae*. And yet, recent research has discovered that Biel was essentially a Thomist in his belief in a rational and objective natural law ethic. Indeed, he echoed the belief of his fellow 'Ockhamite' of the previous century, Gregory of Rimini, in the highly rationalistic belief that the natural law was eternal and would exist even if God did not. Furthermore, man by his unaided reason can discern this natural law and reach the right conclusions on his proper conduct.

One of Biel's contributions was to deliver a crystal-clear statement of the scholastic insight that each party to an exchange engaged in the action for mutual subjective benefit. Following Jean Buridan, his fellow nominalist of the previous century, Biel's analysis was cogent and concise: 'For the buyer who desires a good would not buy, unless he hoped for greater satisfaction from the good than from the money he paid over; nor would the seller sell, unless he hoped for a profit from the price'. There had been no clearer demonstration before Biel that every exchange involves an expected mutual benefit by each party to that transaction, and that the satisfaction of the buyer, at least, is purely subjective, though the seller's may be translated into a monetary profit. There would be no real improvement upon Biel until the advent of the Austrian School in the late nineteenth century.

A follower of his fellow Ockhamites Jean Buridan and Nicole Oresme, Biel, in his *Treatise on the Power and Utility of Moneys*, repeated their metallist insights about the value of money and their attack on governmental debasement. Biel also insists, with Buridan, that a sound money must be composed of material with a use independent of its service as money. Biel regards debasement by a king as equivalent to theft: 'if a prince should reject valid money, in order that he may buy it up more cheaply and melt it, and then issue another coinage of less value, attaching the value of the former currency to it, he would be guilty of stealing money and is required to make restitution'.

Furthermore, Biel provided a more sophisticated explanation and justification than previously available of the workings of the foreign exchange market. In his commentary on the *Sentences* (1484), Biel noted that a bank that accepts a bill of exchange permits the drawer of the bill to obtain cash in another city, and thereby provides the important service of 'virtual transportation' of the money. The drawer of the bill is relieved of the cost and the risk of moving the money himself. It is therefore licit for the banker, as lender, to profit on purchasing a foreign bill of exchange. In this way, Biel greatly widened the legitimacy of exchange transactions, for lender as well as borrower, thus strengthening the theoretical insight that the value of money varies as do particular goods.

But the great significance of Gabriel Biel in the history of economic thought was that he began the smashing of the usury prohibition that had held economic thought in thrall since the early centuries of the Christian era. In addition to completing the liberation of the foreign exchange market from the taint of usury, Biel launched the justification of insurance contracts. For if it was sinful and usurious to own property or a right without bearing risk (such as the grantor of a pure loan) then what of a man who had purchased an insurance contract, and therefore was able to transfer risk to the insurer? The defence of insurance Biel takes over from Angelus Carletus de Clavasio, vicar-general of the Observant Franciscans, who had defended riskless insurance contracts in his *Summa Angelica* at the same time that Biel was writing his treatise.

Biel's main contribution in weakening the usury prohibition was his justification of the *census* contract – the purchase of an annuity – and justifying it in its widest possible form. Thus, purchase of an annuity was considered licit as a right to fruitful money as was an insured or guaranteed annuity. Also the buyer was allowed to redeem the annuity, a concession very close to permitting a lender to reclaim the principal of his loan after he has received a return in instalments.

Thus Biel came very close to justifying credit transactions charging interest. Explaining the fact that the seller of an annuity will often be willing to pay a high annual charge in order to get ready cash (i.e. pay interest on a loan) Biel points out with great cogency that both parties to this as any other transaction expect to benefit: 'For a buyer desiring merchandise, unless he hoped for more advantage from the merchandise than from the money he gave, would not buy; nor would a seller sell, unless he hoped for profit from the price'.

But the most comprehensive and systematic assault on the usury prohibition came from Gabriel Biel's most distinguished student and his successor in the theology chair at the University of Tübingen, Conrad Summenhart (1465–1511), who had also been a student at the University of Paris. The critique came in Summenhart's massive *Treatise on Contracts* (*Tractatus de Contractibus*) (1499).

Summenhart's contribution was twofold: first, in enormously widening all the possible exceptions to the usury prohibition, e.g. the *census* and *lucrum cessans*; and second, in launching a blistering direct assault on all the time-honoured arguments against whatever usury contracts remained. On the first, Summenhart developed the argument for insured or guaranteed partnerships far more subtly and extensively than before. He also widened the *lucrum cessans* exception far more than anyone had ever done. Money *is* fruitful, Summenhart declared boldly, it is the merchant's tool, which he can make fruitful by the use of his labour. Consequently, the merchant should be compensated for loss of the use of his money just as a farmer should be recompensed for the loss of his fields. Unfortunately, however, Summenhart's widening of *lucrum cessans* was still limited, as among the earlier scholastics, to loans made out of charity.

The boldest loosening of the usury bonds by Summenhart was in his radical defence of the widest possible interpretation of *census* contracts. Here Summenhart justified many of the credit transactions then used in Germany. Coupled with his development of the idea of the changeable value of money, this meant 'the emptying of the usury prohibition of all practical significance'.[7] Money, declared Summenhart, may licitly be trafficked in for profit. Furthermore, he asserted that a *census* is not a (sinful) loan because the *right* to money is a good of another kind than the money exchanged. But in that case, Summenhart asks himself, couldn't a usurer say the same thing, and simply state that the right to money he was demanding in exchange was a good of a different kind than the money loaned? Astonishingly, Summenhart replied, this was all right, provided that the lender did not *intend* this to be usury, and was himself really convinced that he was buying the right to money which was a different good than the money itself. But if usury was only subjective intention and *not* the objective fact of a loan charging interest, then there was no objective way of identifying or enforcing the prohibition against usury! In this way alone, Summenhart effectively destroyed the prohibition against usury.

But this was not all. For Summenhart explicitly declared that the purchase by someone of a discounted debt is not a usurious loan because it is only the purchase of a right to money. The purchase of a debt was licit in the same way as a *census*. Furthermore, the 'purchase of a debt' could be that of a newly constituted debt, and not simply the purchase of a previous debt. This, too, effectively ended the usury prohibition.

Moreover, in approving 'debt purchase' contracts, Summenhart came close to understanding the primordial fact of time-preference, the preference of present over future money. When someone pays $100 for the right to $110 at a future date, both parties estimate present money more highly than money payable at a future date. The 'buyer' (lender), furthermore, doesn't really profit usuriously from the loan because he values the future $110 as worth $100 at the present time, so that 'the price and the merchandise are equal in fact and in the estimation of the buyer'.

Then, tackling the arguments for usury directly, Summenhart presents 23 standard natural law arguments against usury, and demolishes them all, leaving only two shaky formal arguments; while he also puts forth strong objections of his own against the usury ban. As Professor Noonan concludes, Summenhart's 'examination ends in a rejection of the past. Usury is left assailed in name alone. The early scholastic theory of usury is abandoned'.[8] Summenhart's argument for usury is comprehensive. Contrary to St Thomas, the usurer is charging not for the borrower's use of his money, but for his *own* lack of use. If it is replied that the borrower's restoring of the principal restores to the lender the power of use, Summenhart cogently replies, again sensing time-preference: 'But he does not restore to him [the lender] the use of the intervening time, so that he will be able to use it [the money] for that intervening time...'. Thus interest on a loan becomes a legitimate charge for the foregone use of money during the time period of a loan. It is clear, at least implicitly, that Conrad Summenhart has magnificently demonstrated the justice of 'usury', of interest on a loan.

On the fixed value of money as an argument against usury, Summenhart repeats and develops the argument of earlier critics that the value of money varies over time. Furthermore, on the charge of risklessness of a money loan, Summenhart originates an argument potentially fatal to the usury ban. He points out correctly that the lender is never without risk; he always bears the risk of the borrower going bankrupt. The borrower also has the opportunity of earning more profits from the loan than the interest he has to pay the lender. Furthermore, Summenhart neatly smashed the Aristotelian argument that money by its nature was 'meant' to be used only as a medium of exchange and not to command interest. Summenhart boldly declares that the argument is simply absurd. Does one then commit sin by using wine to put out a fire, or by storing money in a shoe? There is nothing in the natural law that demonstrates that a material good must always be used for one particular purpose rather than for another.

We are left, after Summenhart, with only two very weak arguments against usury: the mere fact that Aristotle said it was unnatural (an 'argument' which

Summenhart could only have meant sardonically), and the divine prohibition. But since usury is really natural, Summenhart, as we have seen, is willing to construe the divine prohibition so narrowly that it virtually disappears; after Summenhart, the usury ban is finished.

Unfortunately for the credibility of scholastic economics, however, the sixteenth century scholastics, superb as they were in many areas of economics, did not accept the bold challenge of Conrad Summenhart to scrap the usury ban completely.

In some cases, particularly in his justification of the guaranteed partnership contract, Summenhart held back from full approval, counselling prudentially against contracts, though licit, which might scandalize the community. It was left to Summenhart's eminent student, Johann Eck, to carry the Summenhartian revolution through to its completion. Eck, professor of theology at the University of Ingolstadt near the financial centre of Augsburg in Bavaria, was soon to find his greatest fame in arguing the Catholic case against Martin Luther. Augsburg was then the leading financial centre of Germany and the home of the great bankers the Fuggers, who had captured the lucrative papal banking business from the city of Florence. In 1514, the 28-year-old Eck, a friend of the Fuggers, criticized his cautious fellow theologians for concealing the truth that the guaranteed partnership contract was fully licit, scandal or no scandal. Arguing his case before a favourable audience of canonists at the University of Bologna, Eck pointed out that merchants generally solicit the guaranteed investment contract and therefore profit by it. Furthermore, this contract had been in general use for 40 years, so that it should be assumed that the guaranteed contract is licit unless proven otherwise. Also, Eck added the modern sophisticated note that, after all, most capitalist investors in this contract are widows and orphans.

It should be noted that the eminent Scottish nominalist theologian, John Major (1478–1548), dean of the faculty of theology at the University of Paris, clearly assented to the controversial Eck–Summenhart defence of the guaranteed investment contract.

3.9 Nominalists and active natural rights

The Dominicans, as we have seen, triumphed over the Franciscans on the property rights question with Pope John XXII's great bull, *Quia vir reprobus* (1329). Individual property rights were now officially established as natural, stemming from God's granting man dominion over the earth. Despite William of Ockham's attempt to refute John XXII, his nominalist followers took the lead in developing this active natural property rights theory. Pierre d'Ailly (1350–1420), and particularly his student and successor as chancellor of the University of Paris, Jean Gerson (1363–1429), developed the theory. Thus, as Gerson put it trenchantly in his *De Vita Spirituali Animae* (1402):

> There is a natural dominion as a gift from God, by which every creature has a *ius* (right) directly from God to take inferior things into its own use for its own preservation. Each has this *ius* as a result of a fair and irrevocable justice, maintained in its original purity, or a natural integrity. In this way Adam had dominion over the fowls of the air and the fish in the sea... To this dominion the dominion of liberty can also be assimilated, which is an unrestrained faculty given by God...[9]

It is odd that this nominalist and mystic, after setting forth the view of human rights as a dominion, should also hold, among a minority of scholastics, that any mercantile profit over and above costs and risk is immoral, and that the government should fix all prices to assure a just price.

The active rights theory was championed by the Gersonian Conrad Summenhart, and then advanced further by the nominalist John Major. In his commentary on the *Sentences* of Peter Lombard (1509), Major, a century after Gerson, drew the logical conclusion that not only man's right and dominion were natural but so too was *private* property. Major's student Jacques Almain put it clearly (*Aurea opuscula*, c.1525): 'Natural dominion is thus the dispositional power or faculty of using things which people can employ in their use of external objects, following the precepts of the law of nature – by which everyone can look after their own bodies and preserve themselves.'

Throughout the fifteenth century, and into the sixteenth the active theory of natural rights seemed to reign unchallenged.

3.10 Notes

1. The population decline was roughly uniform throughout western Europe, with the Italian population falling from 10 to 7.5 million, France and the Netherlands from 19 to 12 million, Germany and Scandinavia from 11.5 to 7.5 million, and Spain from 9 to 7 million. The largest percentage drop was in Great Britain, where the number of inhabitants fell from 5 to 3 million in this period.
2. Lionel Rothkrug, *Opposition to Louis XIV: The Political and Social Origins of the French Enlightenment* (Princeton, NJ: Princeton University Press, 1965), p. 14.
3. On Buridan and modern indifference analysis, see Joseph A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), pp. 94n, 1064. For a critique, see Murray N. Rothbard, *Man, Economy and State* (1962, Los Angeles: Nash Publishing Co. 1970), I, pp. 267–8.
4. And more fully:

   Oftentimes have we reflected on a similar abuse
   In the choice of men for office, and of coins for common use;
   For your old and standard pieces, valued and approved and tried,
   Here among the Grecian nations, and in all the world beside,
   Recognized in every realm for trusty stamp and pure assay,
   And rejected and abandoned for the trash of yesterday;
   For a vile, adulterate issue, drossy, counterfeit and base,
   Which the traffic of the city passes current in their place.

   Aristophanes, *The Frogs*

Quoted in J. Laurence Laughlin, *The Principles of Money* (New York: Charles Scribner's Sons, 1903), p. 420.

5. Raymond de Roover, *San Bernardino of Siena and Sant'Antonino of Florence* (Boston: Baker Library, 1967), p. 37.
6. John T. Noonan, Jr, *The Scholastic Analysis of Usury* (Cambridge, Mass.: Harvard University Press, 1957), p. 77.
7. Ibid., p. 233.
8. Ibid., p. 340.
9. Richard Tuck, *Natural Rights Theories* (Cambridge: Cambridge University Press, 1979), p. 27.

4 The late Spanish scholastics

4.1 The commercial expansion of the sixteenth century

The great secular depression of the fourteenth and first half of the fifteenth century began to give way to economic recovery in the second half of the fifteenth. The overland trade from the Mediterranean to northern Europe, cut off by the French king's depredations against the fairs of Champagne, was increasingly replaced by sea trade off the Atlantic coast. Vessels now went through the Straits of Gibraltar and up the coast, increasingly sailing to Antwerp and making that city the big trading centre in northern Europe during the sixteenth century. Commerce moved away from the restrictions and high taxation of Flemish Bruges, and shifted to and expanded in free market Antwerp, where business and trade could flourish free of hampering legislation, privileges, and high taxes. In addition, Atlantic ships headed south and west, and the famous explorations and discoveries of the late fifteenth century changed the face of world history by making European countries world powers, and began to integrate Africa and the New World into the European economy. Spain and Portugal, the leading explorers of the new continents, became the dominant nation-states and empires of the sixteenth century. Slowly but surely, the Italian city-states which had been in the forefront of economic advance and the spearhead of Renaissance culture, began to be left behind in the advance of economic and political power.

Along with commercial expansion came inflation, fuelled by the immense increase of gold and silver brought to Europe by the Spaniards from the newly found mines of the western hemisphere. An approximate tripling of the stock of specie in Europe resulted in a century of inflation, with prices tripling during the sixteenth century. The new money flowed first into the main Spanish port of Seville, then into the rest of Spain, and finally into other countries of Europe, and the geography of price rises followed accordingly.

As Atlantic powers, England and France grew in strength along with the other Atlantic nations of western Europe. They were greatly aided by the end of the destructive Hundred Years' War between the two nations in 1453. The doctrines of the absolute state, previously limited largely to theorists and rulers of the Italian city-states, now spread to all the nation-states of Europe. Absolutism eventually triumphed throughout Europe by the early seventeenth century. The victory was fuelled, as we shall see below, by the rise of Protestantism and a bit later of secularism, beginning in the sixteenth century.

4.2 Cardinal Cajetan: liberal Thomist

Late scholasticism was the product of the sixteenth century, the century that ushered in the Protestant Reformation and the Catholic Counter-Reformation. If the thirteenth century was well described as the golden age of scholastic philosophy, then the sixteenth century was its silver age, the era of a shining renaissance of scholastic thought before the shades of night closed in for good. As we have seen, the fourteenth and fifteenth centuries saw the emergence of nominalism and at least the weakening of the idea of a rational, objective natural law – including a natural law ethics – discoverable by man's reason. The sixteenth century witnessed a renascent Thomism, spearheaded by one of the greatest churchmen of his age, Thomas De Vio, Cardinal Cajetan (1468–1534).

Cardinal Cajetan was not only the pre-eminent Thomist philosopher and theologian of his day; he was also an Italian Dominican who became general of the Dominican Order in 1508. A cardinal of the Church, he was the pope's favourite upholder of the faith in debates with the great founder of Protestantism, Martin Luther. In his *Commentary* on Aquinas's *Summa*, Cajetan of course endorsed the standard scholastic view that the just price is the common market price, reflecting the estimation of the buyers, and held that that price will fluctuate upon changing conditions of demand and supply. In attempting to purge scholastic economics of any trace of Langensteinian 'station in life' theory, however, Cajetan went further to criticize Aquinas for denouncing accumulation of wealth beyond one's status as suffering from the sin of avarice. On the contrary, declared Cajetan, it is legitimate for highly able persons to move up the social ladder in a way that matches their attainments. This candid endorsement of upward mobility in a free market was the broadest attempt yet to rid scholasticism of all traces of the ancient contempt for trade and economic gain.

In his comprehensive treatise on foreign exchange, *De Cambiis* (1499), the great Cajetan set forth the fullest and most unqualified defence yet penned of the foreign exchange market. Sweeping aside the dithering indecisiveness of his fellow Dominican, Fra Santi Rucellai (1437–97), himself a former exchange banker and the son of a banker, the cardinal was firm and hard-hitting. Since the role of the merchant has long since been established as legitimate, then so should that of the exchange banker, who is simply engaging in a kind of commodity transaction. Besides, modern trade could not function without the foreign exchange market, and cities could not exist without trade. Hence it is needful and right that the exchange market exist. As in other markets, the customary market price is the just price.

In the course of his defence of the exchange market in *De Cambiis*, Cajetan proceeded to advance the state of the art in monetary theory. He showed trenchantly that money is a commodity, particularly when moving from one city to another, and is therefore subject to the demand and supply laws governing the prices of commodities. At this point, Cajetan made a great advance in monetary theory, indeed in economic theory generally. He pointed out that the value of money depends not only on *existing* demand and supply conditions, but also on present *expectations* of the future state of the market. Expectations of wars and famines, and of future changes in the supply of money, will affect its current value. Thus, Cardinal Cajetan, a sixteenth century prince of the Church, can be considered the founder of expectations theory in economics.

Furthermore, Cajetan distinguished between the two kinds of 'value of money': its purchasing power in terms of goods, so that gold or silver are 'equated' with goods being bought and sold; and the value of one coin or currency in terms of another on the foreign exchange market. Here, each kind of coin tends to move to that region where its value is highest, and away from wherever its value is lowest.

On the vexed usury question, though Cajetan was not as radical as his German contemporary Summenhart in virtually eradicating the usury prohibition, he did join Summenhart on the doctrine of implicit intention, and was even more radical in the one area where Summenhart had hung back: *lucrum cessans*. Implicit intention meant that if someone really believed his contract not to be a loan, then it was not usurious, even though it might be a loan in practice. This of course paved the way for the practical elimination of the ban on usury. In addition, Cajetan also joined his fellow liberals in endorsing the guaranteed investment contract.

But Cardinal Cajetan's great breakthrough on the usury front was his vindication of *lucrum cessans*. Wielding the mighty authority of being the greatest Thomist since Aquinas himself, Cajetan offered a point-by-point critique of his master's rejection of this exception to the usury ban. He then vindicates, not indeed all of *lucrum cessans*, but any loan to businessmen. Thus a lender may charge interest on any loan as payment for profit foregone on other investments, provided that loan be to a businessman. This untenable split between loans to businessmen and to consumers was made for the first time – as a means of justifying all business loans. The rationale was that money retained its high profit-foregone value in the hands of business, but not of consumer borrowers. Thus for the very first time in the Christian era, Cardinal Cajetan justified the *business* of money lending, provided they were loans to business. Before him, all writers, even the most liberal, even Conrad Summenhart, had justified interest charges on *lucrum cessans* only for *ad hoc* charitable loans; now the great Cajetan was justifying the business of money-lending at interest.

4.3 The School of Salamanca: the first generation

If the newly burgeoning liberal Thomism began with Cardinal Cajetan in Italy, the torch was soon passed to a set of sixteenth century theologians who revived Thomism and scholasticism and kept them alive for over a century: the School of Salamanca in Spain.

It is no more than fitting that Spain should be the centre of scholastic learning in the sixteenth century. That century was pre-eminently the century of Spain. Spain, the leader in the explorations and conquests in the New World; Spain, the nation that brought the treasures of gold and silver across the Atlantic to Europe; Spain, along with Italy and Portugal, the nation in Europe that remained resoundingly Catholic and proved immune to the spread of Protestantism.

The acknowledged founder of the School of Salamanca was the great legal theorist and pioneer in the discipline of international law, Francisco de Vitoria (c.1485–1546). A Basque raised in Burgos in northern Spain and born into a prosperous family, Vitoria became a Dominican and went to study and then teach in Paris. There, in one of the ironies of the history of thought, he became a disciple of a Fleming who had been a pupil of one of the last of the Ockhamites, John Major. This man, Pierre Crockaert (c.1450–1514), had become a student and then teacher of theology late in life. Turning away from his teacher Major, Crockaert abandoned nominalism and moved to Thomism, entering the Dominican Order and coming to teach at the Dominican College of Saint-Jacques in Paris. After spending over 17 years imbibing and then teaching Thomism in Paris, Vitoria returned to Spain to lecture in theology at Valladolid, finally coming to Salamanca – then the queen of Spanish universities – as prime professor of theology in 1526.

A brilliant and highly influential teacher and lecturer, Vitoria set the framework for the Salamanca School for the rest of the century. Even though he did not publish any writings, his lectures have come down to us as transcribed by his students – much as in the case of Aristotle. Much of the glory of the University of Salamanca was the result of reforms instituted by Vitoria himself. Consequently, the university soon had no less than 70 professorial chairs filled by the best scholars of the day, providing instruction not only in the traditional medieval curriculum, but also in such new-fangled disciplines as navigational science and the Chaldean language.

Vitoria's lectures were largely commentaries on Aquinas's moral theory. In the course of the lectures, Vitoria founded the great Spanish scholastic tradition of denouncing the conquest and particularly the enslavement by the Spanish of the Indians in the New World. In an age when thinkers in France and Italy were preaching secular absolutism and the power of the state, Vitoria and his followers revived the idea that natural law is morally superior to the mere might of the state.

Vitoria did not expound much on economic topics, but he was interested in commercial morality, and his views followed the mainstream scholastic tradition: the just price was the common market price, even though if there were a legally fixed price it would also be considered just. In short, legal price edicts are to be obeyed. However, for those goods without a common market – say with only one or two sellers – Vitoria advanced beyond his forbears. Instead of having cost of production determinate, Vitoria, while stating that cost could well be considered, returned to the old, nearly forgotten *laissez-faire* Roman law tradition of free individual bargaining as providing the just price. For in this situation, Vitoria maintained, the price had to be settled by the exchanging parties themselves. Vitoria, however, then added a curious distinction between luxury and non-luxury goods. Luxuries could be sold for a 'fancy price', since the buyer pays the high price voluntarily and out of his free will. Why this 'free will' should disappear with non-luxury items Vitoria unfortunately does not explain.

Vitoria's most eminent student and fellow theologian at Salamanca was the Dominican Domingo de Soto (1494–1560). Born in Segovia of comfortable but not wealthy parents, de Soto studied at the University of Alcalá near Madrid and then went to Paris, where he studied under Vitoria, and later became a professor. Returning to Spain, de Soto became professor of metaphysics at Alcalá, and then entered the Dominican Order, joining his mentor as a theology professor at Salamanca in 1532. Though a shy personality, de Soto was repeatedly involved in university administration, and was several times prior of the college of Estabán in the University. De Soto's work in physics is also considered outstanding.

In 1545 the Emperor Charles V honoured de Soto by naming him as his representative at the great council of Trent, the mighty council of the Catholic Counter-Reformation. Soon de Soto became confessor to the emperor, but gave it up in a few years to return to his professorship at Salamanca. De Soto's fame rested on his treatise *De justitia et jure*, published in 1553 and based on lectures given originally at Salamanca in 1540–41. *De Justitia et jure* was reprinted no less than 27 times before the end of the century, and was read and quoted by jurists and moralists until the mid-eighteenth century.

Unfortunately, on economics de Soto was a reactionary thinker, and set back some of the liberal gains of the previous scholastics. Thus, while de Soto conceded that 'the price of goods is not determined by their nature but by the measure in which they serve the needs of mankind', this utility analysis was weakened by vague concessions to the 'labour, trouble, and risk' involved in a sale. Worse than that, de Soto was not content to concede the propriety of government fixing the price of goods and letting it go at that. Instead, he declared flatly that a fixed price is always superior to the market price, and that ideally all prices should be fixed by the state. And even lacking such control, prices, for de Soto, should be set 'by the opinion of prudent and fair-minded men' (whoever they might be!) who have nothing to do with any transactions. They should not be determined by the free bargaining of the buyers and sellers involved. Thus de Soto, more than any other scholastic thinker, called for statism rather than market determination of price.

On foreign exchange, de Soto's influence was confusing, cutting both for and against that market. In its favour, he contributed perhaps the first cogent explanation of the movements of currencies and exchange rates on the foreign exchange market – what would later be called the 'purchasing-power parity theory' of exchange rates.

The economy of the sixteenth century was marked by an inflation which first hit Spain, in response to gold and silver discoveries in the New World and the consequent importation of specie into Spain. Inflation first struck in Spain, and then spread to the rest of Europe, as the Spaniards spent the increased supply of money. The result was the first large-scale secular inflation in history, price in Europe doubling over the first half of the sixteenth century.

De Soto was concerned to explain the curious fact that more abundant specie in Spain caused it to have an unfavourable balance of payment, with money flowing out of Spain and into the rest of Europe. As he put it:

> the more plentiful money is in Medina the more unfavourable are the terms of exchange, and the higher the price that must be paid by whoever wishes to send money from Spain to Flanders, since the demand for money is smaller in Spain than in Flanders. And the scarcer money is in Medina the less he need pay there, because more people want money in Medina than are sending it to Flanders.

In short, more abundant money in one place causes money to flow out, and lowers the exchange rate relation to other currencies. A more abundant money supply means that money is 'less wanted' there – a primitive way of pointing to the supply increasing along a given falling demand curve for money, so that each unit or coin is less valued. Here is also a rudimentary purchasing-power parity analysis of exchange rates.

But despite this subtle advance in analysing the workings of the market, de Soto backslid on usury to such an extent that he advocated banning the foreign exchange market as usurious. In fact, de Soto managed to influence the court in 1552 to outlaw all internal currency exchange at anything other than the legal par.

As can be seen, de Soto exercised a reactionary influence on the usury ban, and managed to block any general acceptance of the revolutionary contributions of Summenhart and Cajetan on the usury issue. Attempting to turn back the tide, de Soto went so far as to declare the standard guaranteed or insured investment contract as sinful and usurious, on the old discredited medieval ground that risk and ownership must never be separated. He tried to roll back *lucrum cessans*, and in general was more rigorously anti-usury than almost any of the medieval scholastics, insisting anachronistically that money is sterile and bears no fruit, and therefore cannot lawfully command interest.

Ironically, however, while anxious to reverse the tide of liberalization of usury, de Soto himself contributed to the long-run demise of the usury ban. We remember that Pope Urban III, in his decretal *Consuluit* in the late twelfth century, had suddenly pulled a forgotten quotation from Luke (6:35) out of the hat: 'lend freely, hoping nothing thereby', and used this vague counsel to charity as a stick with which to prohibit all interest on loans. More remarkably, all later scholastics had followed this dubious divine ban on interest-taking; even the radical Summenhart had conceded the divine injunction against interest and simply narrowed it down to virtually nothing. It paradoxically now fell to the conservative de Soto to cast the first stone. The Luke statement, he declared contemptuously, has no relevance to lending at interest, and Christ most definitely did not declare usury to be sinful. Therefore, he concluded, if usury is not against the natural law, it is perfectly licit. *Theologically*, there is no problem with usury.

4.4 The School of Salamanca: Azpilcueta and Medina

Fortunately, de Soto's reactionary and statist influence was at least partially offset by another of Vitoria's distinguished students, Martin de Azpilcueta Navarrus (1493–1586). Renowned for his saintly life and vast learning, the gaunt, hook-nosed Dominican Azpilcueta was regarded as the most eminent canon lawyer of his day. After teaching canon law in Cahors and Toulouse in France, Azpilcueta returned to take up a chair at Salamanca, where his overflowing lectures featured a new method of teaching civil law by combining it with canon law. In 1538, Azpilcueta was sent by Emperor Charles V to be rector of the new University of Coimbra, in western Portugal. There he developed the principles of international law originally set forth by his master, Vitoria. Azpilcueta spent his last years in Rome, a trusted adviser to three popes, dying at the advanced age of 93.

Azpilcueta used his great influence to advance economic liberalism farther than it had ever gone before, among the scholastics or anywhere else. In sharp contrast to de Soto's admiration for comprehensive price control, Azpilcueta was the first economic thinker to state clearly and boldly that government price-fixing was imprudent and unwise. When goods are abundant, he sensibly pointed out, there is no need for maximum price control, and when goods are scarce, controls would do the community more harm than good.

But Azpilcueta's outstanding contribution to economics was his theory of money, published in his *Comentario resolutoio de usuras* (1556) as an appendix to a manual on moral theology. The manual and the commentaries in the appendix were translated into Latin and Italian, and proved to be influential for Catholic writers for many years. Azpilcueta built on the analysis of Cardinal Cajetan to present the first clear and unambiguous presentation of the 'quantity theory of money'. Or rather, he breaks firmly with the tradition that money can in any sense be a fixed measure of value of other goods. In contrast to older emphasis on foreign exchange, or money in terms of other monies, Azpilcueta clearly identified the value of money as its purchasing power in terms of goods. Once Azpilcueta grasped these two points firmly, then the 'quantity theory' followed directly. For then, like other goods, the value of money varied inversely with its supply, or quantity available. As Azpilcueta put it: 'all merchandise becomes dearer when it is in great demand and short supply, and that money, in so far as it may be sold, bartered, or exchanged by some other form of contract, is merchandise, and therefore also becomes dearer when it is in great demand and short supply'.

It should be noted that this splendid and concise analysis of the determinants of the purchasing power of money does not make the mistake of later 'quantity theorists' in stressing the quantity or supply of money while ignoring the demand. On the contrary, demand and supply analysis was applied correctly to the monetary sphere.

Gold and silver flooded into Spain and then the rest of Europe in the sixteenth century, driving up prices first in Spain and then in the other countries. Prices doubled by the middle of the century. Historians of economic thought have held the first quantity theorist, the first thinker to attribute the price rise to the influx of specie, to be the French absolutist political theorist Jean Bodin. But Bodin's famous *Reply to the Paradoxes of M. Malestroit* (1568) was anticipated by 12 years by Azpilcueta's work, and since the erudite Bodin probably had read the Spanish Dominican, his announced claim to originality seems in unusually bad taste. And since Spain was the first recipient of the flow of specie from the New World, it is certainly not surprising that a Spaniard should be the first person to decipher the new phenomenon. Thus, Azpilcueta wrote:

> ...other things being equal, in countries where there is a great scarcity of money all other saleable goods, and even the hands and labor of men, are given for less money than where it is abundant. Thus we see by experience that in France, where money is scarcer than in Spain, bread, wine, cloth and labor are worth much less. And even in Spain, in times when money was scarcer, saleable goods and labor were given for very much less than after the discovery of the Indies, which flooded the country with gold and silver. The reason for this is that money is worth more where and when it is scarce than where and when it is abundant.

Martin de Azpilcueta, in this case influenced by his colleague de Soto, also developed the latter's purchasing-power parity theory of exchange rates, at the same time that he worked out the 'quantity theory', supply and demand analysis of the value of money. The two of course, go hand in hand.

One of Azpilcueta's most important contributions was to revive the vital concept of time-preference, perhaps under the influence of the works of its discoverer, San Bernardino of Siena. Azpilcueta pointed out, more clearly than Bernardino, that a present good, such as money, will naturally be worth more on the market than future goods, that is, goods that are now claims to money in the future. As Azpilcueta put it: 'a claim on something is worth less than the thing itself, and ... it is plain that that which is not usable for a year is less valuable than something of the same quality which is usable at once'.

But if a future good is naturally less valuable than a present good on the market, then this insight should automatically justify 'usury' as the charging of interest not on 'time' but on the exchange of present goods (money) for a future claim on that money (an IOU). And yet, this seemingly simple deduction (simple to us who come after) was not made by Azpilcueta Navarrus.

On the foreign exchange market, Azpilcueta struck a blow for economic liberalism by reviving the Cajetan line, and repudiating the statist fulminations of his colleague de Soto, who had called for the prohibition of all foreign exchange transactions as usurious. In addition to repeating Cajetanian arguments, the Spanish Dominican and trusted advisor to three popes injected practical considerations. Azpilcueta pointed out that 'an infinite number of decent Christian' merchants, aristocrats, widows, and even churchmen commonly invest in foreign exchange. Azpilcueta insisted that he refuses to 'damn the whole world' by imposing overly rigorous standards. Furthermore, he warned, to abolish foreign exchange markets 'would be to plunge the realm into poverty', a step he was clearly not willing to take.

On most other aspects of the usury question, however, Azpilcueta Navarrus was surprisingly conservative, and a big step backward from the advanced freemarket position of Conrad Summenhart. On the *census*, or annuity contract, Azpilcueta Navarrus was far harsher than de Soto, who was liberal on this particular aspect of 'usury'. Instead, Azpilcueta was the main influence on Pope Pius V's issue in 1569 of the bull *Cum onus*, in which all *census* is declared illegal except on a 'fruitful, immobile good', for which status money, of course, cannot qualify. The pope had been goaded into issuing the bull by Cardinal San Carlo Borromeo, who as newly appointed archbishop of Milan, professed to find usury everywhere in that sinful city. Borromeo was one of the leaders of the Catholic Counter-Reformation, and his prodding led to *Cum onus*.

But it was too late; the *census* contract was too ingrained in European practice, and too many theologians had adopted the liberal approach. The majority of Catholic theologians rejected this new attempt and simply stated that the pope's arguments were matters of positive rather than natural law, and therefore that the papal bull had to be accepted by the government or be the common practice of a particular country for it to carry the force of law in that country. Interestingly enough, not a single country in Europe accepted *Cum onus*: not Spain, not France, nor Germany, not southern Italy, nor even Rome itself!

The contempt with which *Cum onus* was received throughout Europe is strikingly revealed in its treatment by the recently founded Jesuit Order. The Society of Jesus was founded in 1537 by an invalided Spanish ex-army officer, Ignatius Loyola, born in the Basque country. The rapidly expanding society was installed on rigorous discipline along consciously military lines (Loyola's original title for the society was 'the Company of Jesus'). Under vow of absolute obedience to the pope and to the general of the order, the Jesuits became the 'shock troops' of the Catholic Counter-Reformation. Despite their vow to the pope, the Jesuit general congregation of 1573, only four years after *Cum onus*, validated the mutually redeemable *census* contract. And in 1581, the Jesuit congregation went the whole way and validated every type of census contract. When some German Jesuits became restive at this liberality, the general of the Jesuit Order, Claude Aquaviva, in 1589 ordered that the validity of the *census* contract be upheld by German Jesuits with no further dissent. So much for the pope's *census* prohibition.

In the following century, the *census* loophole was widely used to camouflage interest on loan contracts, particularly in Germany. As Noonan points out, it is certainly significant that the German word for interest on a loan is *zins*, derived from the Latin *census*.

The Summenhart–Cajetan doctrine of implicit intention – that if someone did not *intend* a contract to be a loan, then it was licit – was carried even further by the remarkable Jesuit congregation of 1581. The congregation justified virtually every contract. As Noonan concludes: 'In practice, it meant that only loans to aged or infirm persons without property or loans bearing a rate of interest beyond that obtainable in "a guaranteed investment contract or *census*" were to be regarded as true usurious loans'.

If Azpilcueta Navarrus was conservative on most aspects of usury, he did however became the first writer to justify interest charged on *lucrum cessans* (investment profit foregone) for *all* loans, not just *ad hoc* loans made out of charity (previous writers) or even only for loans to business (Cajetan). Now any profit foregone could be charged as interest, even by professional moneylenders. The only restriction remaining – a feeble one in practice – is that the lender would actually have used his money to make the foregone investment.

Of this first generation of late Spanish scholastics – approximately those who were born in the 1480s and 1490s – the final noteworthy writer was Juan de Medina (1490–1546). Medina, a Franciscan, did not, however, teach theology at Salamanca but at the Collegium at Alcalá. Medina's distinction comes from being the first writer in history to advance the view clearly that charging interest on a loan is legitimate if in compensation to the lender for risk of non-payment. Medina's reasoning was impeccable: exposing one's property 'to the risk of being lost, is sellable, and purchasable at a price, nor is it among those things which are to be done gratuitously'. Furthermore, Medina pointed out, theologians now admit that someone who guarantees a debtor's loan can licitly charge for that service; but in that case, if the borrower cannot find a guarantor, why cannot the lender charge the borrower for assuming the risk of non-repayment? Isn't *his* charge similar to the charge of the guarantor?

The argument was sound, but the shock to the scholastics was severe, no less so because Medina weakened his risk justification by banning interest on riskless loans and restricting the charge to cases where the borrower could not find a guarantor. Domingo de Soto, in horror, correctly pointed out that to admit a charge for risk of non-payment would destroy the entire usury prohibition, since a charge could be made for a loan above the principal. The usually more liberal Azpilcueta gave Medina even shorter shrift, objecting correctly if insufficiently, that every theologian, canon lawyer, and natural lawyer disagreed with Medina's innovation. And that was supposed to be the end of the matter.

Medina's discussion of value theory, however, was not nearly so cogent. In discussing the just market price, Medina throws in higgledy-piggledy a host of factors: costs, labour, industry, and risk for suppliers; need or utility for buyers; and scarcity or abundance of the good. Clearly, there was much less of a coherent analysis of supply than in the hands of San Bernardino of Siena. On the other hand, whereas the scholastic tradition held that the legal price would have to take precedence over the market price, Medina cited two cases where the market price should be followed: where the market price is lower, and where the authorities were too slow in adjusting the legal edict to a higher market price.

4.5 The School of Salamanca: the middle years

The institution and the structure of thought of the School of Salamanca was established, then, in the first half of the sixteenth century by three great Dominicans: Francisco de Vitoria, and his followers, Domingo de Soto and Martin de Azpilcueta Navarrus. The latter two theologians were the founders of the economic aspect of the systematic theology and philosophy of the Salamanca School.

The middle generation of Salamancans were those men born in the first decades of the sixteenth century, and writing near and after mid-century. The oldest of these second-generation members was the eminent Diego de Covarrubias y Leiva (1512–77) whose handsome and distinguished features grace a stunning portrait by the great Spanish painter El Greco, now hanging in the Greco Museum in Toledo. Acknowledged as the greatest jurist since Vitoria, Covarrubias was the most prominent student of Azpilcueta. After ten years as professor of canon law at the University of Salamanca, Covarrubias was made auditor of the chancellor of Castile by the emperor, after which he became bishop of Ciudad Rodrigo and bishop of Segovia. In 1572, Covarrubias became president of the council of Castile. As did so many other scholastics of the time, Covarrubias' writings ranged over theology, history, numismatics, and other disciplines of human action as well as the law.

The theory of value had lain in the doldrums ever since San Bernardino and Johannes Nider in the fifteenth century, and now, a century later, it was revived by Covarrubias. In his *Variarum* (1554), Covarrubias gets value theory back on the right track: the value of goods on the market is determined by utility, and by the scarcity of the product. The value of goods, then, depends not on matters intrinsic to the good or to its production, but on the estimations of consumers. Thus Covarrubias: 'The value of an article does not depend on its essential nature but on the estimation of men, even if that estimation is foolish. Thus, in the Indies wheat is dearer than in Spain because men esteem it more highly, though the nature of the wheat is the same in both places'. In considering the just price of a good, Covarrubias added, we must consider not its original cost, nor its cost in labour, but only its common market value. Prices fall when buyers are few and goods are abundant, and vice versa.

It should be noted, as will be mentioned further below, that Covarrubias, considered one of the greatest experts on Roman law in his day, exerted considerable influence on the great seventeenth century Dutch Protestant jurist Hugo Grotius. Covarrubias' economic writings were particularly influential in Italy, where they continued to be cited down through the work of the eminent Abbé Ferdinando Galiani, in 1750.

Another important contribution to utility theory was made by a lesser contemporary of Covarrubias, Luís Saravia de la Calle Veroñese. Saravia was one of several influential writers of handbooks on moral theology, which took the teachings of the great theologians and boiled them down for confessors and their penitents. In his *Instrucción de mercades* (Medina del Campo, 1554), Saravia lashed out at all manner of cost-of-production theories of value, insisting that utility and market demand alone, interacting with scarcity of supply, determine the common market price and hence the just price. Saravia's attack on cost of production notions was trenchant and hard-hitting:

> the just price arises from the abundance or scarcity of goods, merchants, and money, as has been said, and not from costs, labor and risk. If we had to consider labor and risk in order to assess the just price, no merchant would ever suffer loss, nor would abundance or scarcity of goods and money enter into the question.

Saravia's work, in addition to being cited many times by later Spanish writers, was also influential in Italy, where it was translated in 1561. The Italian A.M. Venusti became a disciple of Saravia and published a similar treatise.

The next important Salamancan economist was the colourful Dominican Tomás de Mercado (d. 1585). Mercado's was the next important handbook on moral theology after Saravia: *Tratos y contratos de mercaderes* (Salamanca, 1569). Born in Seville, Mercado was raised in Mexico, where he entered the Dominican Order, from which he returned to Salamanca and Seville. Mercado's handbook drew on his extensive knowledge of business practice picked up on his travels, and it was written in a concise and even sardonic style.

Mercado was a perceptive, if sometimes confused, monetary theorist. Applying utility analysis to money, Mercado went right up to the edge of marginal analysis by pointing out that the purchasing power is the highest where money is most scarce and therefore highly 'esteemed.' In short, Mercado dimly realized that the demand for money is a schedule, falling as the supply of money increases, and that the value, or purchasing power, of money is determined by the interaction of its supply and demand. Thus Mercado:

> ...money is esteemed much less in the Indies [where it is mined] than in Spain...After the Indies, the place where money is least esteemed is Seville, the city that gathers unto herself all the good things from the New World, and, after Seville, the other parts of Spain. Money is highly esteemed in Flanders, Rome, Germany and England. This estimation and appreciation are brought about, in the first place, by the abundance or scarcity of these metals; since they are found and mined in America, they are there held in little esteem.

It is not surprising that Mercado, in contrast to de Soto, opposed the outlawing of internal currency exchange in Spain. On the other hand, he was confused enough, in contrast to his keen analysis of the value of money, to favour the outlawing of the export of metals. But wouldn't the 'esteem' for the remaining metals be higher, and wouldn't this check and offset the outward flow of metals?

During the 1570s, a satellite group of theologian–economists arose at Valencia, grounding themselves on their studies at Salamanca. The most important was Francisco Garcia who, in his *Tratado utilismo* (Valencia, 1583) expanded and developed the subjective utility theory of value. In a notable advance in discussions of utility, Garcia pointed out that the utility or value of a thing may vary because: one good may have many uses and serve more purposes than another, may serve a more important service than another, and/or may perform a given service more efficiently than another.

In addition to utility determining value and price, Garcia noted also its relative abundance or scarcity. And here, Garcia too, came just to the edge – although not over – of discovering the final, missing marginal element in utility theory:

> For example, we have said that bread is more valuable than meat because it is more necessary for the preservation of human life. But there may come a time when bread is so abundant and meat so scarce that bread is cheaper than meat.

Garcia went on to detail other determinants of value including the number of buyers and sellers; and the eagerness to buy and sell (i.e. intensity of demand in buying or holding on to a product): 'whether vendors are eager to sell their goods, and buyers much sought after and importuned'. He then went on to integrate monetary into value theory, another determinant of prices being 'whether money is scarce or plentiful'.

In monetary theory, Garcia continued and developed the Azpilcueta–Covarrubias–Mercado line. In the Indies, where gold and silver are plentiful, specie is 'not as highly esteemed' as in Spain, where there is less gold and silver. He similarly pointed out in his comprehensive discussion, that when money is abundant in any given country, its esteem or value will be low, whereas when money is scarce it is far more highly valued. In other words, as Garcia pointed out, these differences in degrees of esteem, or demand, may occur either over place or over time.

This comparative analysis of changes in the value of money over time or place was an important advance in monetary theory. But not only that; Garcia, for the first time, rested his 'macro' analysis on a 'micro' insight: that a very rich man, a man with an abundant personal supply of money, will tend to evaluate each unit of currency less than when he was poor, or than another poor man. Here Garcia actually grasped, though sketchily, the concept of the diminishing marginal utility of money. Marginalism, in this area at least, was actually reached rather than simply approached.

Finally, Garcia arrived at the most integrated utility theory of the value of money to date: the value of money on the market is determined by the supply of money available, the intensity of the demand for money, and the safety of the money itself (called by later economists the 'quality' of the money in the minds of people in the market).

4.6 The late Salamancans

The School of Salamanca, begun by Francisco Vitoria in the 1520s, reached its final flowering at the end of the sixteenth century. One of the leading lights of that era was the Dominican Domingo de Bañez de Mondragon (1527–1604), professor of theology at the University of Salamanca, and friend and confessor of the famous mystic St Theresa of Avila. De Bañez was renowned for the great controversy with his eminent Jesuit colleague Luís de Molina, on the crucial question of determinism versus free will. De Bañez took the Dominican position, which leaned toward the 'Calvinist' – determinist stand that salvation is solely a product of God's grace, ordered from the beginning of time for God's own inscrutable reasons. Molina championed the Jesuit view, which upheld the freedom of will of each individual in achieving salvation. In the latter view, the free will choice of the individual is necessary to effectuate God's grace which is there for him to accept. A historian sums up Molina's view of free will with these inspiring words: 'Liberty is ours, so indisputably ours, that, with the help of God's gifts, it lies in our power to avoid all mortal sin and to attain eternal life. Freedom belongs to the sons of God'.[1]

In a systematic discussion of money, its value, and foreign exchange, De Bañez (in *De Justitia et Jure*, 1594), provided a cogent discussion of the purchasing-power parity theory of exchanges, a theory which had formed the scholastic main line since De Soto and Azpilcueta.

The last notable Salamancan economic thinker was the great theologian Luís de Molina (1535–1601). The ascendancy of Molina in Spanish scholastic thought was a fitting embodiment of the passing of the theological and the natural law torch from the Dominicans to the aggressive new Jesuit Order. By the late sixteenth century, the influence of the Order permeated all of Spain.

Though a Salamancan through and through, Molina only briefly studied and never actually taught at that university. Born in Cuenca of a noble family, Molina went briefly to Salamanca, and then to the University of Alcalá. Entering the new Jesuit Order, Molina was sent to the University of Coimbra in Portugal, since the Jesuit Order was not yet fully organized in Castile. Molina was to remain 29 years as a student and teacher in Portugal. After Coimbra, the habitually shabbily dressed Molina taught theology and civil law for 20 years at the University of Évora. In retirement back in Cuenca, the learned and worldly Molina published his massive six-volume *magnum opus*, *De Justitia et Jure*. The first three volumes were published in 1593, 1597 and 1600, and the other volumes followed posthumously.

Luís de Molina was a solid economic liberal, and he provided a comprehensive analysis, in the Salamancan vein, of supply and demand and their determination of price. The just price is, of course, the common market price. One important addition that Molina made to his forerunners was to point out that goods supplied at retail in small quantities will sell at a higher unit price than at bulk sales before the goods get to the retailer. This argument also served as an added justification for the existence of the much-abused retailer.

But Molina in economics was primarily a monetary theorist. Here, he endorsed and carried forward the purchasing-power parity theory of exchange rates and the Salamancan analysis of the value of money, even explicitly endorsing the work of his theological opponent, Domingo de Bañez. Molina's analysis of the determination of the value of money and its changes was the most subtle to date, using explicit 'other things being equal' (*ceteris* *paribus*) clauses, and developing the analysis of the determinants of the demand for money.

Thus, on the causes of changes in price and particularly of the Spanish inflation of the sixteenth century, Molina wrote:

> Just as an abundance of goods causes prices to fall (the quantity of money and number of merchants being equal), so does an abundance of money cause them to rise (the quantity of goods and number of merchants being equal). The reason is that the money by itself becomes less valuable for the purpose of buying and comparing goods. Thus we see that in Spain the purchasing-power of money is far lower, on account of its abundance, than it was eighty years ago. A thing that could be bought for two ducats at that time is nowadays worth five, six, or even more. Wages have risen in the same proportion, and so have dowries, the price of estates, the income from benefices, and other things.

After going through the standard Spanish scholastic analysis of how abundance of money causes a fall in its value, first and foremost in the New World, then in Seville and Spain, Molina noted the importance of the demand for money: 'Wherever the demand for money is greatest, whether for buying or carrying goods, conducting other business, waging war, holding the royal court, or for any other reason, there will its value be highest'.

It is not surprising that the economic liberal Molina strongly attacked any government fixing of exchange rates. The value of one currency in terms of another is always changing in response to supply and demand forces, and therefore it is meet and just that exchange rates fluctuate accordingly. Molina then pointed out that fixed exchange rates would create a shortage of money. He did not, however, go into detail.

Molina also inveighed against most governmental price controls, particularly the imposing of ceiling prices on farm commodities.

On usury, Molina, while still not going as far as the radical acceptance of interest by Conrad Summenhart a century earlier, took important steps in widening the accepted bounds of the charging of interest. He put his immense prestige behind Juan de Medina's entirely new defence of charging payment for the lender's assumption of risk. Indeed, he widened Medina's permitted bounds of using the risk defence. Not only that: Molina greatly widened the scope of *lucrum cessans*, and solidly entrenched that permissible title to interest as a broad principle permeating the market economy. One of the few remaining restrictions is intention: the loan is not permissible if the lender had not intended to invest the loaned funds.

Luís de Molina also played an important role in reviving active natural rights and private-property rights theory, which had fallen into a decline since the early part of the sixteenth century. Humanists and Protestants, as we shall see below, had little use for the concept of natural rights, while Vitoria and the Dominicans slipped into a determinist, passive or attenuated view of rights. Only the University of Louvain, in Belgium, began to serve as a centre of free will thought, along with the idea of absolute natural rights of person and property. The Louvain theologian Johannes Driedo stressed freedom of the will (in *De Concordia*, 1537) and active natural rights (*De Libertate Christiana*, 1548).

By the 1580s, the new Jesuit Order began to launch its assault on the Dominicans, whom they suspected of crypto-Calvinism – a suspicion not allayed by the fact that many Dominicans had converted to Calvinism during the sixteenth century. In the course of his championing free will against de Bañez and the Dominicans, Molina also returned to the active natural rights view which had for long only continued to be upheld at Louvain. Attacking the passive claim theory of rights, Molina put the distinction very clearly:

> When we say...that someone has a *ius* to something, we do not mean that anything is owed to him, but that he has a faculty to it, whose contravention would cause him injury. In this way we say that someone has a *ius* to use his own things, such as consuming his own food – that is, if he is impeded, injury and injustice will be done to him. In the same way that a pauper has the *ius* to beg alms, a merchant has the *ius* to sell his wares, etc.

Note that the astute Molina did *not* say that the pauper had the right to be given alms. For Molina, as for all active property rights theorists, a 'right' was not a claim to someone else's property, but was, on the contrary a clear-cut right to use one's own property without someone else's claim being levied upon it.

It was Molina's achievement to link this active natural rights theory with his libertarian commitment to freedom and the free will of each individual, both theologically and philosophically. Professor Tuck sums up this linkage with these stirring words: Molina's 'was a theory which involved a picture of man as a free and independent being, making his own decisions and being held to them, on matters to do with both his physical and his spiritual welfare'.[2]

The School of Salamanca had begun with the distinguished jurist, de Vitoria, and so it is fitting that the last major Salamancan should be another renowned jurist, and perhaps the most illustrious thinker in the history of the Jesuit Order – Francisco Suarez (1548–1617). The last of the great Thomists, this celebrated theologian was born in Granada into an ancient noble family. Entering the University of Salamanca, Suarez applied to the Jesuit Order in 1564 and was the only applicant among 50 candidates that year to be rejected – as mentally and physically below standard! Admitted finally with an inferior rank, Suarez could hardly keep up with his studies and was known – ironically like St Thomas Aquinas before him – as the 'dumb ox'. Soon, however, the humble and modest Suarez became the star pupil, and it was not long before his theology professors were asking him for advice.

In 1571, Suarez became professor of philosophy at Segovia, then taught theology at Avila and Valladolid. Suarez soon attained to the famous chair of theology at the Jesuit College in Rome. From there, due to ill health, Suarez returned to Spain, teaching at Alcalá, where he was virtually ignored, and then to Salamanca, where, as in Alcalá, he lost academic disputes to inferior rivals. In 1593, the emperor insisted on Suarez's accepting the main chair of theology at Coimbra, where, in 1612, he published his masterwork, *De Legibus ac de Deo Legislatore.*

Francisco Suarez never achieved his due in life. His quiet, plodding lecture style made him lose academic influence to flashier though inferior rivals. Perhaps the crowning indignity heaped upon him is that, in 1597, at the age of 49, this brilliant and learned jurist and theologian, perhaps the greatest mind in the history of the Jesuit Order, was forced to leave the University of Coimbra for a year to obtain a doctorate in theology at Évora. Ph.D-itis in the sixteenth century![3]

While Suarez contributed little on strictly economic matters, he added greatly to the weight of the Louvain–Molina rediscovery of the active natural rights view of private property, and he reinforced the great impact of Molinist freewill theory. In addition, Suarez had a much more restricted view of the just power of the king than did Molina or his other predecessors. To Suarez the power of the ruler is in no sense a divinely created institution since political power by natural and divine law devolves solely on the people as a whole. The community as a whole confers political power on the king or other set of rulers; and while Suarez believed that natural law requires *some* form of state, the sovereign power of any particular state 'must necessarily be bestowed upon him by the consent of the community'.

Suarez's theory, of course, held radical implications indeed. For if the people or the community confer state power on a king or a set of rulers, may they not then take it away? Here, Suarez fumbled; he was certainly not prepared to go all the way to a truly radical or revolutionary position. No, he declared inconsistently, once the sovereign power is conferred by the people on a king, it is his forever; the people cannot take it back. But then Suarez shifts once more, adopting the traditional Thomist doctrine of the right of the people to resist tyrants. If a king lapses into tyranny, then the people may rise up and resist, and even assassinate the king. But Suarez, like his forbears, hedged this powerful right of 'tyrannicide' with a thicket of restrictions; in particular, tyranny must be manifest, and a private person cannot rise up himself and kill the king. The act must in some way be mandated by the people or community acting as a whole.

4.7 The learned extremist: Juan de Mariana

One of the last Spanish scholastics was a Jesuit but not a Salamancan. He was the 'extremist' contemporary of Molina and Suarez, Juan de Mariana (1536–1624). Mariana was born near Toledo, of poor and humble parents. He entered the great University of Alcalá in 1553, shone as a student, and a year later was received into the new Society of Jesus. After completing his studies at Alcalá, Mariana went to the Jesuit College at Rome in 1561 to teach philosophy and theology, and after four years moved to Sicily to set up the theology programme at the Jesuit college there. In 1569, Mariana moved to teach theology at the great University of Paris, at the remarkably young age of 33. After four years, ill health forced him to retire to live in Toledo; ill health, however, often does not necessarily mean a short life, and Mariana lived to the then phenomenally ripe old age of 88.

Fortunately, Mariana's 'retirement' was an active one, and his great learning and erudition drew numerous persons, from private citizens to state and ecclesiastical authorities, to ask for his advice and guidance. He was able to published two great and influential books. One was a history of Spain, written first in Latin and then in Spanish, which went into many volumes and many editions in both languages. The Latin version was eventually published in 11 volumes, and the Spanish in 30. The Spanish edition has long been considered one of the classics of Spanish style, and it went into many editions until the mid-nineteenth century.

The other notable work of Mariana, *De Rege* (*On Kingship*), was published in 1599, written at the suggestion of King Philip II of Spain and dedicated to his successor Philip III. But monarchy did not fare well at the hands of the hard-hitting Mariana. A fervent opponent of the rising tide of absolutism in Europe, and of the doctrine of such as King James I of England that kings rule absolutely by divine right, Mariana converted the scholastic doctrine of tyranny from an abstract concept into a weapon with which to smite real monarchs of the past. He denounced such ancient rulers as Cyrus the Great, Alexander the Great, and Julius Caesar as tyrants, who acquired their power by injustice and robbery. Previous scholastics, including Suarez, believed that the people could ratify such unjust usurpation by their consent after the fact, and thereby make their rule legitimate. But Mariana was not so quick to concede the consent of the people. In contrast to other scholastics, who placed the 'ownership' of power in the king, he stressed that the people have a right to reclaim their political power whenever the king should abuse it. Indeed Mariana held that, in transferring their original political power from a state of nature to the king, the people necessarily reserved important rights to themselves; in addition to the right to reclaim sovereignty, they retained such vital powers as taxation, the right to veto laws, and the right to determine succession if the king has no heir. It should already be clear that it was Mariana, rather than Suarez, who might be called the forebear of John Locke's theory of popular consent and the continuing superiority of the people to the government. Furthermore, Mariana also anticipated Locke in holding that men leave the state of nature to form governments in order to preserve their rights of private property. Mariana also went far beyond Suarez in postulating a state of nature, a society, previous to the institution of government.

But the most fascinating feature of the 'extremism' of Mariana's political theory was his creative innovation in the scholastic theory of tyrannicide. That a tyrant might be justly killed by the people had long been standard doctrine; but Mariana broadened it greatly in two significant ways. First, he expanded the definition of tyranny: a tyrant was any ruler who violated the laws of religion, who imposed taxes without the people's consent, or who prevented a meeting of a democratic parliament. All the other scholastics, in contrast, had located the sole power to tax in the ruler. Even more spectacularly, to Mariana *any* individual citizen can justly assassinate a tyrant and may do so by any means necessary. Assassination did not require some sort of collective decision by the entire people. To be sure, Mariana did not think that an individual should engage in assassination lightly. First, he should try to assemble the people to make this crucial decision. But if that is impossible, he should at least consult some 'erudite and grave men', *unless* the cry of the people against the tyrant is so starkly manifest that consultation becomes unnecessary.

Furthermore, Mariana added – in phrases anticipating Locke's and the Declaration of Independence's justification of the right of rebellion – that we need not worry about the public order being greatly disrupted by too many people taking up the practice of tyrannicide. For this is a dangerous enterprise, Mariana sensibly pointed out, and very few are ever ready to risk their lives in that way. On the contrary, *most* tyrants have not died a violent death, and tyrannicides have almost always been greeted by the populace as heroes. In contrast to the common objections to tyrannicide, he concluded, it would be salutary for rulers to fear the people, and to realize that a lapse into tyranny might cause the people to call them to account for their crimes.

Mariana has given us an eloquent description of the typical tyrant at his deadly work:

> He seizes the property of individuals and squanders it, impelled as he is by the unkingly vices of lust, avarice, cruelty, and fraud... . Tyrants, indeed, try to injure and ruin everybody, but they direct their attack especially against rich and upright men throughout the realm. They consider the good more suspect than the evil; and the virtue which they themselves lack is most formidable to them...They expel the better men from the commonwealth on the principle that whatever is exalted in the kingdom should be laid low... They exhaust all the rest so that they can not

> unite by demanding new tributes from them daily, by stirring up quarrels among the citizens, and by joining war to war. They build huge works at the expense and by the suffering of the citizens. Whence the pyramids of Egypt were born... The tyrant necessarily fears that those whom he terrorizes and holds as slaves will attempt to overthrow him... . Thus he forbids the citizens to congregate together, to meet in assemblies, and to discuss the commonwealth altogether, taking from them by secret-police methods the opportunity of free speaking and freely listening so that they are not even allowed to complain freely... .

This 'erudite and grave man', Juan de Mariana, left no doubt what he thought of the most recent famous tyrannicide: that of the French King Henry III. In 1588, Henry III had been prepared to name as his successor Henry of Navarre, a Calvinist who would be ruling over a fiercely Catholic nation. Facing a rebellion by the Catholic nobles, headed by the duc de Guise, and backed by the devoted Catholic citizens of Paris, Henry III called the duke and his brother the cardinal to a peace parley into his camp, and then had the two assassinated. The following year, on the point of conquering the city of Paris, Henry III was assassinated in turn, by a young Dominican friar and member of the Catholic League, Jacques Clément. To Mariana, in this way 'blood was expiated with blood' and the duc de Guise was 'avenged with royal blood'. 'Thus perished Clément', concluded Mariana, 'an eternal ornament of France'. The assassination had similarly been hailed by Pope Sixtus V, and by the fiery Catholic preachers of Paris.

The French authorities were understandably edgy about Mariana's theories and at his book *De Rege*. Finally, in 1610, Henry IV (formerly Henry of Navarre, who had converted from Calvinism to the Catholic faith in order to become king of France), was assassinated by the Catholic resister Ravaillac, who despised the religious centrism and the state absolutism imposed by the king. At that point, France erupted in an orgy of indignation against Mariana, and the *parlement* of Paris had *De Rege* burned publicly by the hangman. Before executing Ravaillac, the assassin was questioned closely as to whether reading Mariana had driven him to murder, but he denied ever having heard of him. While the king of Spain refused to heed French pleas to suppress this subversive work, the general of the Jesuit Order issued a decree to his society, forbidding them to teach that it is lawful to kill tyrants. This truckling, however, did not prevent a successful smear campaign in France against the Jesuit Order, as well as its loss of political and theological influence.

Juan de Mariana possessed one of the most fascinating personalities in the history of political and economic thought. Honest, gutsy and fearless, Mariana was in hot water almost all of his long life, even for his economic writings. Turning his attention to monetary theory and practice, Mariana, in his brief treatise *De Monetae Mutatione* (*On the Alteration of Money*, 1609) denounced his sovereign, Philip III, for robbing the people and crippling commerce through the debasement of copper coinage. He pointed out that this debasement also added to Spain's chronic price inflation by increasing the quantity of money in the country. Philip had wiped out his public debt by debasing his copper coins by two-thirds, thereby tripling the supply of copper money.

Mariana noted that debasement and government tampering with the market value of money could only cause grave economic problems:

> Only a fool would try to separate these values in such a way that the legal price should differ from the natural. Foolish, nay, wicked the ruler who orders that a thing the common people value, let us say, at five should be sold for ten. Men are guided in this matter by common estimation founded on considerations of the quality of things, and of their abundance or scarcity. It would be vain for a Prince to seek to undermine these principles of commerce. 'Tis best to leave them intact instead of assailing them by force to the public detriment.

Mariana begins *De Monetae* with a charming and candid apologia for writing the book reminiscent of the great Swedish economist Knut Wicksell over two and a half centuries later: he knows that his criticism of the king courted great unpopularity, but everyone is now groaning under the hardships resulting from the debasement, and yet no one has had the courage to criticize the king's action publicly. Hence, justice requires that at least one man – Mariana – should move in to express the common grievance publicly. When a combination of fear and bribery conspire to silence critics, there should be at least one man in the country who knows the truth and has the courage to point it out to one and all.

Mariana then proceeds to demonstrate that debasement is a very heavy hidden tax on the private property of his subjects, and that, *pace* his political theory, no king has the right to impose taxes without the consent of the people. Since political power originated with the people, the king has no rights over the private property of his subjects, nor can he appropriate their wealth by his whim and will. Mariana notes the papal bull *Coena Domini*, which had decreed the excommunication of any ruler who imposes new taxes. Mariana reasons that any king who practises debasement should incur the same punishment, as should any legal monopoly imposed by the state without the consent of the people. Under such monopolies, the state itself, or its grantee, can sell a product to the public at a price higher than its market worth, and this is surely nothing but a tax.[4]

Mariana also set forth a history of debasement and its unfortunate effects; and he pointed out that governments are supposed to maintain all standards of weight and measure, not only of money, and that their record in adulterating those standards is most disgraceful. Castile, for example, had changed its measures of oil and wine, in order to levy a hidden tax, and this led to great confusion and popular unrest.

Mariana's book attacking the king's debasement of the currency led the monarch to haul the aged (73-year-old) scholar into prison, charging him with the high crime of *lèse-majesté*. The judges convicted Mariana of this crime against the king, but the pope refused to punish him, and Mariana was finally released from prison after four months on the condition that he would cut out the offensive passages in his work, and that he would be more careful in the future.

King Philip and his minions, however, did not leave the fate of the book to an eventual change of heart on the part of Mariana. Instead, the king ordered his officials to buy up every published copy of *De Monetae Mutatione* they could get their hands on and to destroy them. Not only that; after Mariana's death, the Spanish Inquisition expurgated the remaining copies, deleted many sentences and smeared entire pages with ink. All non-expurgated copies were put on the Spanish *Index*, and these in turn were expurgated during the seventeenth century. As a result of this savage campaign of censorship, the existence of the Latin text of this important booklet remained unknown for 250 years, and was only rediscovered because the Spanish text was incorporated into a nineteenth century collection of classical Spanish essays. Hence, few complete copies of the booklet survive, of which the only one in the United States is in the Boston Public Library.

The venerable Mariana was apparently not in enough trouble; after he was jailed by the king, the authorities seized his notes and papers, and found there a manuscript attacking the existing governing powers in the Society of Jesus. An individualist unafraid to think for himself, Mariana clearly took little stock in the Jesuit ideal of the society as a tightly disciplined military-like body. In this booklet, *Discurso de las Enfermedades de la Compañia*, Molina smote the Jesuit Order fore and aft, its administration and its training of novices, and he judged his superiors in the Jesuit Order unfit to rule. Above all, Mariana criticized the military-like hierarchy; the general, he concluded, has too much power, and the provincials and other Jesuits too little. Jesuits, he asserted, should at least have a voice in the selection of their immediate superiors.

When the Jesuit general, Claudius Aquaviva, found that copies of Mariana's work were circulating in a kind of underground *samizdat* both inside and outside the order, he ordered Mariana to apologize for the scandal. The feisty and principled Mariana, however, refused to do so, and Aquaviva did not press the issue. As soon as Mariana died, the legion of enemies of the Jesuit Order published the *Discurso* simultaneously in French, Latin and Italian. As in the case of all bureaucratic organizations, the Jesuits then and since were more concerned about the scandal and not washing dirty linen in public than in fostering freedom of inquiry, self-criticism, or correcting any evils that Mariana might have uncovered.

The Jesuit Order never expelled their eminent member nor did he ever leave. Still he was all his life regarded as a feisty trouble-maker, and as unwilling to bow to orders or peer pressure. Father Antonio Astrain, in his history of the Jesuit Order, notes that 'above all we must bear in mind that his [Mariana's] character was very rough and unmortified'.[5] Personally, in a manner similar to the Italian Franciscan saints San Bernardino and Sant'Antonino of the fifteenth century, Mariana was ascetic and austere. He never attended the theatre and he held that priests and monks should never degrade their sacred character by listening to actors. He also denounced the popular Spanish sport of bull-fighting, which was also not calculated to increase his popularity. Gloomily, Mariana would often stress that life was short, precarious, and full of vexation. Yet, despite his austerity, Father Juan de Mariana possessed a sparkling, almost Menckenesque, wit. Thus his one-liner on marriage: 'Some one cleverly said that the first and the last day of marriage are desirable, but that the rest are terrible'.

But probably his wittiest remark concerned bull-fighting. His attack on that sport met with the objection that some theologians had defended the validity of bull-fighting. Denouncing theologians who palliated crimes by inventing explanations to please the masses, Mariana delivered a line closely anticipating a favourite remark by Ludwig von Mises on economists over three and a half centuries later: 'there is nothing howsoever absurd which is not defended by some theologian'.

4.8 The last Salamancans: Lessius and de Lugo

One of the last great Salamancans was a Jesuit but not a Spaniard. Leonard Lessius (1554–1623) was a Fleming, born at Brecht near the great city of Antwerp. During the sixteenth century, Antwerp had become the outstanding commercial and financial centre of northern Europe, a focus of trade from the Mediterranean. Lessius's parents had originally planned for him to become a merchant, but he entered the University of Louvain, and was received into the Jesuit Order in 1572. He taught philosophy for six years at the English college at Douai, in France, and then went to Rome for two years to study under Francisco Suarez. It was at Rome that Lessius became a Salamancan in spirit, and from then on struck up a friendship with Luís de Molina. Returning to Flanders, Lessius assumed a chair in philosophy and theology at the University of Louvain. In theology, Lessius took up the great Molinist cause of free will against a pro-determinist wing of theologians at Louvain. There he confronted the crypto-Calvinist Dr Michael de Bay, chancellor of the University of Louvain, who had adopted the concept of predestination and salvation of the elect. Lessius also advanced the Suarezian view that original political power was conferred by God on the people, and hence he attacked the growing adherence to the divine right of kings, especially as put forth by King James I of England.

Lessius's most important work was *De Justitia et Jure* (1605), the same title as the works of Molina and de Bañez. The book was enormously influential, being published in nearly 40 separate editions in Antwerp, Louvain, Lyons, Paris and Venice. Not only was Lessius's knowledge of his predecessors encyclopedic, but he was renowned for his knowledge and analysis of contemporary commercial practices and contracts and for his applications of moral principles to such practices. Lessius was consulted frequently on these matters by statesmen and church leaders.

On the theory of price, Lessius, like his scholastic forbears, held the just price to be that determined by the common estimate of the market. A legally fixed price could also be the just price, but in contrast to many of his fellow scholastics, for whom the legal price took precedence, Lessius pointed out several cases in which the market price would have to be chosen over the legal price. Following Juan de Medina, these were: first, when the market price is lower; and second, when, 'in change of circumstances of increasing or diminishing supply and similar factors, the authorities were notably negligent in changing the legal price...'. Even more strongly, even a 'private individual' may request a price above the legal ceiling when the authorities are 'ill informed about the commercial circumstances', which is likely, of course, to happen a good deal of the time.

Attacking the cost of production theory of price, Lessius points to market demand as the determinant of price, regardless of a merchant's expenses:

> But if the merchant's expenses have been greater, that is his hard luck, and the common price may not be increased for that reason, just as it need not be decreased even if he had no expenses at all. This is the merchant's situation; just as he can make a profit if he has small expenses, so he can lose if his expenses are very large or extraordinary.

Leonard Lessius had an insight into how all economic markets are interrelated, and he analysed and defended in turn the workings of foreign exchange, speculation, and the value of money and prices. In particular, Lessius engaged in the most sophisticated analysis yet achieved of the workings of wages and the labour market. Like other scholastics, he saw that wages were governed by the same supply and demand principles, and therefore by the same canons of justice, as any price. In asking what is the 'minimum justifiable wage' for any given occupation, Lessius declared that the existence of other people willing to perform the work at any given wage shows that it is not too low. In short, if a supply exists for the labour at that wage, how can it be unjust?

Lessius also discovered and set forth the concept of psychic income as part of a money wage. A worker can be paid in psychic benefit as well as money: 'if the work brings with it social status and emoluments, the pay can be low because status and associated advantages are, so to say, a part of the salary'. Lessius also advanced the view that workers are hired by the employer because of the benefits gained by the latter, and those benefits will be gauged by the worker's productivity. Here are certainly the rudiments of the marginal productivity theory of the demand for labour and hence of wages, which was set forth by Austrians and other neoclassical economists at the end of the nineteenth century. Indeed, Lessius's sophisticated analysis of wages and the labour market were lost to mainstream economics until they were independently rediscovered in the late nineteenth century.

Lessius also stressed the importance of entrepreneurship in determining income. This quality of entrepreneurial 'industry', of efficiently combining jobs, is rare, and therefore the able entrepreneur can acquire a much higher income than his fellows. Lessius also provides a sophisticated analysis of money, demonstrating that the value of money is dependent on its supply and demand. More abundant money will make it less valuable either for buying goods or foreign exchange, and a greater demand for money will cause the value of the currency to rise: 'For example, if great princes are in urgent need of money for war or other public purposes, or if a large quantity of goods come on to the market; for whenever money is urgently needed for matters of great moment, so is it more highly esteemed in terms of goods.'

In his application of moral principle to trade practice, Lessius had a liberating effect on trade. This was particularly true of usury, where Lessius, while formally continuing the traditional prohibition, was actually a highly influential force in its ongoing destruction. Lessius provided the most sweeping defence so far of the guaranteed investment contract, and he treated benignly even high rates of return on capital. He also removed all the remaining restrictions on *lucrum cessans*. First, he widened the doctrine to apply, not only to specific loans that would otherwise have been invested, but to *any* funds, since they are liquid assets that always might have been invested. Thus the pool of funds can, as a whole, be considered opportunity cost foregone of investment, and therefore interest may be charged on a loan to that extent.

As Lessius puts it:

> Although no particular loan, separately considered, be the cause, all, however, collectively considered, are the cause of the whole *lucrum cessans*: for in order to lend indiscriminately to those coming by, you abstain from business and you undergo the loss of the profit which would come from this. Therefore, since all collectively are the cause, the burden of compensation for this profit can be distributed to single loans, according to the proportion of each.

But this meant that Leonard Lessius justified not only businessmen or investors planning to invest their money, but also *any* people with liquid funds, including professional money-lenders. For the first time among scholastics, *all* loans by money-lenders were now justified. With Leonard Lessius, then, the last of the barriers to interest or usury were smashed, and only the hollow shell of the formal prohibition remained.

Lessius adds that the lender may charge interest, even though a reserve of money is kept out of fear, and even if that fear is irrational. Note that to Lessius the important point was the reality of the lender's subjective fears, not whether the fears are objectively correct.

Furthermore, Lessius takes the Medina–Molina assumption of risk argument for interest, about which they had tended to hedge in practice, and widens it greatly. All loans, he points out, carry risks of non-payment: 'a personal right is almost always joined with some difficulties and dangers'. In a careful analysis of lenders' risk, Lessius pointed out that a greater risk, and a greater charge, would be incurred by lending to someone not known to the lender, or whose credit is doubtful.

But that is not all. For Leonard Lessius contributed his own, new and powerful, weapon against the usury ban: a new 'title' or justification for interest. The new justification – prefigured only by the neglected Summenhart – was *carentia pecuniae*: charging for lack of money. Lessius pointed out quite cogently that the lender suffers the lack of his money, the lack of his liquidity, during the term of the loan, and therefore he is entitled to charge interest for this economic loss. In short, Lessius saw perceptively that everyone derives utility from liquidity, from the possession of money, and that being deprived of this utility is a lack for which the lender may and will demand compensation. Lessius pointed out that unexpected situations can and do arise which could be met far more effectively if one's money were in one's possession and not absent for a period of time. Time, in short, can and should be charged for, for that reason, 'for it can never be obtained that the merchants do not value a long-term concession higher than a short-term one'. And those who are deprived of their money 'value more the lack of their money for five months than the lack of it for four, and the lack of it for four more than three, and this is partly because they lack the opportunity of gaining with that money, partly because their principle is longer in danger...'.

Furthermore, Lessius points out that bills of exchange, or rights to future money, are always at a discount compared to cash. This discount is, of course, the rate of interest. Lessius explains: 'This is a matter of common experience in that money provides the means to a multitude of things which those rights do not provide. Therefore they may be bought at a lower price'. Lessius also notes that merchants and exchangers daily determine the 'price of the lack of money' on the Antwerp Bourse, averaging about 10 per cent; and foreign exchanges, of inestimable value to the economy, would perish if such prices could not be charged.

Thus, for Lessius, the price for a lack of money is established on organized loan markets. But to the extent that a loan market exists, there is no need to justify each merchant's loan on the basis of his *particular* opportunity cost or deprivation of funds. That price, which becomes the just price, is set on the loan market. As Lessius puts it:

> Moreover, any merchant seems able to demand this price... even though there is no gain of his that stops because of his loan. This is the just price for the privation of money among merchants; for the just price of an article or obligation in any community is that which is put upon it by that community in good faith for the sake of the common good in view of all the circumstances...Therefore, even if through the privation of money for a year there is no gain of mine that stops and no risk of capital, because such a price for just causes has been put upon this privation, I may demand it just as the rest do.

With *carentia pecuniae*, therefore, Leonard Lessius delivered the final blow to smash the usury prohibition, while unfortunately still retaining the prohibition in a formal sense. It is no wonder that Professor Noonan, the great scholar of the scholastics on usury, holds Lessius to be 'the theologian whose views on usury most decidedly mark the arrival of a new era. More than any predecessor he would probably have felt completely at ease in the modern financial world.'[6]

The last Salamancan was the Jesuit Cardinal Juan de Lugo (1583–1660). De Lugo takes the Salamancans into the seventeenth century, the century of the decline of Spanish power in Europe. After studying law and theology at Salamanca, de Lugo went to Rome to teach at the great Jesuit College. After teaching theology in Rome for 22 years, de Lugo was made a cardinal and became a member of various influential Church commissions in Rome. A learned and comprehensive theoretician, de Lugo has been called the greatest moral theologian since Aquinas. Author of a book on psychology and another on physics, de Lugo's masterwork in the area of law and economics was *De Justitia et Jure*, published in 1642. This work went through numerous editions during the seventeenth and eighteenth centuries, its last edition having appeared as late as 1893.

In his theory of value, this culminating work of the Salamancan School displayed a subtle and advanced subjective utility explanation. The prices of goods, de Lugo pointed out, fluctuate 'on account of their utility in respect of human need, and then only on account of estimation; for jewels are much less useful than corn in the house, and yet their price is much higher'. Here de Lugo, once again, comes very close to the late nineteenth century marginal utility explanation of value, and to solving the value paradox. Corn is higher than jewellery in use value, but is cheaper in price. The answer to this paradox is that subjective estimates or valuations differ from objective use-value, and these in turn are affected by the relative scarcities of supply. Again, only the marginal concept is needed to complete the explanation.

Subjectivity, de Lugo goes on, means that the 'estimation' or valuation is going to be conducted by 'imprudent' as well as 'prudent' men (no 'rationality' or 'economic man' assumptions here!). In short, the just price is the market price determined by demand and consumer valuations; and, if the consumers are foolish or judge differently than we do, then so be it. The market price is a just price all the same.

In his discussion of merchants' activities, de Lugo adds to the previous opportunity-cost concept of mercantile expenses. For a merchant will only continue to supply a product if the price covers his expenses and the rate of profit he could earn in other activities.

In his theory of money, Cardinal de Lugo follows his confrères: the value or purchasing power of money is determined by the quality of the metal content of coins, the supply of and the demand for money. De Lugo also set forth the idea that money moves from the area of its lower to that of its higher value.

On usury, de Lugo provided a mixed bag. On the one hand, he draws back from the clear implications of Lessius and others that the usury ban should become a hollow shell. For that reason, he refuses to accept Lessius's willingness to have the lender charge for lack of money during the period of the loan. On the other hand, de Lugo widens still further the powerful 'pro-usury' weapons of risk and *lucrum cessans*. He broadens the concept of risk to include explicitly every loan; for, as he puts it with remarkable bluntness: 'Where today is there to be found a debt so placed in safety that in security it equals ready cash?' But that, of course, justifies the charging of interest on every loan. De Lugo also widens *lucrum cessans* still further, for he allows the lender to include not only probable profit foregone from a loan, but also the expectation of *remote* profit foregone. Also, the lender, in charging interest, may calculate the profit he would have made by *re*-investing the lost profit on a loan. In sum, de Lugo asserts sweepingly that *lucrum cessans* is 'the general title for purging usury'.

4.9 The decline of scholasticism

Sixteenth century Spain has well been called the Indian Summer of scholasticism. After that, its decline, not only in Spain but throughout Europe, was rapid. Part of the reason was a stubborn clinging to the *form* of the prohibition of usury. A ban which had made little sense, either by natural or divine law, and which entered Christian thought quite late in the day, was clung to and strengthened in an almost perpetual, irrational frenzy. The systematic weakening of the usury ban by some of the finest minds in Christendom had the beneficial effect of sanctioning the charging of interest, but at the long-run cost of discrediting the scholastic method itself. By clinging to the outer husk of banning usury as a mortal sin, while at the same time finding increasingly sophisticated ways of allowing merchants and finally professional moneylenders to get around the ban, the scholastics opened themselves to unfair charges of evasion and hypocrisy.

The deadly assault on scholasticism came from two contrasting but allied camps. One was the rising groups of Protestants without, and crypto-Calvinists within, the Church who denounced it for its alleged decadence and moral laxity. Protestantism, after all, was in large part a drive to cast off the sophisticated trappings and the refined doctrine of the Church, and to go back to the alleged simplicity and moral purity of early Christianity. Made the very emblem of this hostility was the Jesuit Order, the devoted spearhead of the Counter-Reformation, that order which had taken up from the faltering Dominicans the torch of Thomism and scholasticism.

The second camp of enemies of scholasticism was the rising group of secularists and rationalists, men who might be Catholics or Protestants in their private lives but who mainly wanted to get rid of such alleged excrescences on modern life as the political application of religious principles or the prohibition of usury. Consequently, the crypto-Calvinists attacked the Jesuits for weakening the prohibition of usury, while the secularists attacked them for keeping it.

Neither wing of the opposition was impressed with the brilliance of the scholastic arguments to justify usury, nor with the entire scholastic and Jesuit enterprise of 'casuistry': that is, of applying moral principles, both natural and divine, to concrete problems of daily life. One might think that the task of casuistry should be deemed an important and even noble one; if general moral principles exist, why *shouldn't* they be applied to daily life? But both sets of opponents rapidly succeeded in making the very word 'casuistry' a smear term: for the one, a method of weaselling out of strict moral precepts; for the other, a method of imposing outdated and reactionary dogmas upon the world.

Why, despite the great work of Summenhart and others, did the Catholic Church persist in keeping the formal ban on usury for two centuries thereafter? Probably for the same reason that the Church has always tended to maintain stoutly that it never changes its doctrines while it keeps doing so. Changing content within an unchanging formal shell has long been characteristic, not only of the Catholic Church, but of any long-lived bureaucratic institution, whether it be the Church or the constitutional interpretations of the Supreme Court of the United States.

The two-pronged alliance against scholasticism outside and within the Catholic Church cut far deeper than the quarrel over usury. At the root of Catholicism as a religion is that God can be approached or apprehended through all the faculties of man, not simply through faith but through reason and the senses. Protestantism, and especially Calvinism, sternly put God outside man's faculties, considering, for example, sensate embodiments of man's love for God in painting or sculpture as blasphemous idolatry to be destroyed in order to clear the path for the only proper communication with God: pure faith in revelation. The Thomist stress on reason as a means of apprehending God's natural law and even aspects of divine law was reviled by a sole Protestant emphasis on faith in God's arbitrary will. While some Protestants adopted natural law theories, the basic Protestant thrust was opposition to any natural law attempts to derive ethics or political philosophy from the use of man's reason. For Protestants, man was too inherently sinful and corrupt for his reason or his senses to be anything but an embodiment of corruption; only pure faith in God's arbitrary and revealed commands was permissible as a groundwork for human ethics. But this meant that for Protestants there was also very little natural law groundwork from which to criticize actions of the state. Calvinism and even Lutheranism provided little or no defences against the absolutist state which burgeoned throughout Europe during the sixteenth century and triumphed in the seventeenth century.

If Protestantism opened the way for the absolute state, the secularists of the sixteenth and seventeenth centuries embraced it. Shorn of natural law critiques of the state, new secularists such as the Frenchman Jean Bodin embraced the state's positive law as the only possible criterion for politics. Just as the anti-scholastic Protestants extolled God's arbitrary will as the foundation for ethics, so the new secularists raised the state's arbitrary will to the status of unchallengeable and absolute 'sovereign'.

On the deeper level of the question of how we know what we know, or 'epistemology', Thomism and scholasticism suffered from the contrasting but allied assaults by the champions of 'reason' and 'empiricism'. In Thomist thought, reason and empiricism are not separated but allied and interwoven. Truth is built up by reason on a solid groundwork in empirically known reality. The rational and empirical were integrated into one coherent whole. But in the first part of the seventeenth century, two contrasting philosophers managed between them the fatal sundering of the rational and the empirical that continues to plague the scientific method until the present day. These were the Englishman Francis Bacon (1561–1626) and the Frenchman René Descartes (1596–1650). Descartes was the champion of a dessicated mathematical and absolutely certain 'reason' divorced from empirical reality, while Bacon was the advocate of sifting endlessly and almost mindlessly through the empirical data. Both the distinguished English lawyer who rose to become Lord Chancellor (Lord Verulam), Viscount of the Realm, and corrupt judge, and the shy and wandering French aristocrat, agreed on one crucial and destructive point: the severing of reason and thought from empirical data. Hence, from Bacon there stemmed the English 'empiricist' tradition, steeped mindlessly in incoherent data, and from Descartes the purely deductive and sometimes mathematical tradition of continental 'rationalism'. All this was of course an assault on natural law, which had long integrated the rational and the empirical.

As a corollary to, and intermingled with, this basic and systematic change in European thought in the 'early modern' period (the sixteenth and especially seventeenth centuries) was a radical shift in the locus of intellectual activity away from the universities. The theologians and philosophers who wrote and thought on economics, law, and other disciplines of human action during the medieval and Renaissance periods were university professors. Paris, Bologna, Oxford, Salamanca, Rome, and many other universities were the milieu and arena for intellectual output and combat during these centuries. And even the Protestant universities in the early modern period continued to be centres of natural law teaching.

But the major theorists and writers of the seventeenth and then the eighteenth centuries were almost none of them professors. They were pamphleteers, businessmen, wandering aristocrats such as Descartes, minor public officials such as John Locke, churchmen such as Bishop George Berkeley. This shift of focus was greatly facilitated by the invention of printing, which made the publication of books and writings far less costly and created a much wider market for intellectual output. Printing was invented in the mid-fifteenth century, and by the early sixteenth century it became possible, for the first time, to make a living as an independent writer, selling one's books to a commercial market.

This shift from university professors to private lay citizens meant, at least for that era, a move away from traditional modes of learning and thought towards a more diverse spectrum of idiosyncratic individual views. In a sense, this acceleration of diversity went hand in hand with one of the most important impacts of the Protestant Reformation on social and religious thought. For, in the long run, far more important than such theological disputes as over free will vs predestination and over the significance of communion was the shattering of the unity of Christendom. Luther and even Calvin had no intention of fragmenting Christendom; on the contrary, each set out to reform a unified Christian Church. But the consequences of their revolution was to open Pandora's box. Whereas frictions and heresies had before been either stamped out or accommodated within the Church, now Christianity split apart in literally hundreds of different sects, some quite bizarre, each propounding different theologies, ethics, and prescriptions for social life.

While the variegated strains of social thought stemming from this break within Christianity included rationalists and individualist groups such as the

Levellers as well as absolutists, the value of the resulting diversity must be offset by the unfortunate fading away of scholasticism and Thomism from Western thought.

The severing of the unity of European thought was intensified by the shift during these centuries of written literature from Latin to the vernacular in each country. During the Middle Ages, all intellectuals, jurists and theologians in Europe wrote in Latin, even though of course the spoken language in each country was the vernacular. This meant that for scholars and intellectuals there was only one language, and in a sense one country, so that Englishmen, Frenchmen, Germans, etc. could easily read and be influenced by each others' books and articles. Europe was truly one intellectual community.

In the Middle Ages, only Italian authors wrote, from time to time, in Italian as well as Latin. But the Protestant Reformation gave tremendous impetus toward the abandonment of Latin, since Protestants felt it vital for the Christian masses to read and study the Bible in language they could understand. Martin Luther's famous translation of the Bible into German, in the sixteenth century, inspired a rapid change towards writing in the national language. As a result, since the sixteenth and seventeenth centuries, economic, social, and religious thought began to be isolated in each national language. Later continuing influences of scholastic economic thought became confined to writers in Catholic countries.

4.10 Parting shots: the storm over the Jesuits

While the inspiration for creative and outstanding scholastics was played out, the seventeenth century saw the influence of scholasticism continue in Spain and spread to other countries. The great champion and disseminator of the Salamanca School was of course the Jesuit Order. In Spain and elsewhere the Jesuits produced a huge number of manuals on moral theology for the use of confessors, in which they discussed, among other matters, the application of theological and moral principles to the ethics of business. The most important instance was the pious Father Antonio de Escobar y Mendoza's (1589–1669) *Theologiae Moralis* (1652). This extremely popular work was reprinted in 37 editions in a brief period of time, and was also translated and published in France, Belgium, Germany and Italy. Escobar's work was basically a restatement of two dozen previous books on moral theology, mainly by such Spanish writers as Molina, Suarez and de Lugo. He repeated the Salamancan emphasis on common estimation, scarcity, and the supply of money as determinants of market price.

The Salamanca School was particularly influential in Italy. There the Genoese philosopher and jurist, Sigismundo Scaccia (c.1568–1618), published a *Tractatus de Commerciis et Cambiis* in 1618, which was reprinted often in Italy, France, and Germany down to the middle of the eighteenth century. Scaccia's *Tractatus* repeated the price and foreign exchange theories of the Salamancans, including Covarrubias, Azpilcueta and Lessius.

Other prominent neo-Salamancans in Italy were the Jesuit Cardinal Giambattista de Luca (1613–83), who published his multi-volume *Theatrum Veritatis et Justitiae* in Rome in the 1670s; Martino Bonacina (c.1585–1631); and Antonino Diana (1585–1663).

In France, however, the influential Escobar manual ran into a storm of abuse for its sophisticated permissive attitude towards usury. The abuse was led by an influential crypto-Calvinist group within the French Catholic Church that raised a furious row about the alleged moral laxity of the Jesuit Order.

The assault on the Jesuits and on their devotion to reason and the freedom of the will had begun in Belgium, and was accelerated towards the end of the sixteenth century by Dr Michael de Bay, chancellor of the great University of Louvain. Bay, and Baianism, launched a furious intramural warfare within Louvain against Leonard Lessius and the Jesuits on the faculty. Chancellor de Bay managed to convert most of the Louvain faculty to his creed, which adopted the Calvinist creed of predestination of an elect. In France, the absolutist pro-royalists began a bitter campaign against the Jesuit Order, which they linked with the Catholic Leaguers and the assassination of the centrist and pro-Calvinist Henrys. In particular, the attorney Antoine Arnauld, defending royal absolutism to the hilt, petitioned for the expulsion of the Jesuits from France, angrily declaiming that they were the worst enemies of 'the sacred doctrine of the Divine Right of Kings'. Arnauld was originally employed to press the case against the Jesuits by the University of Paris, and its theological faculty of the Sorbonne, which had also been swept by the crypto-Calvinist tide.

In the early seventeenth century, two disciples of Michael de Bay, both former students of the Jesuits, took up the cudgels for his cause. Most important was Cornelius Jansen, founder of the neo-Calvinist Jansenist movement, which became extremely powerful in France. Jansen, like many openly Protestant theologians, demanded to go back to the moral purity of St Augustine and of the Christian doctrines of the fourth and fifth centuries. If Jansen was the theoretician of the movement, his friend the Abbé Saint-Cyran was the brilliant tactician and organizer. With the help of Mère Angelique, superior of the nuns of Port-Royal, Saint-Cyran gained control of these influential nuns. Mère Angelique was the daughter of Antoine Arnauld, and indeed a dozen of the Port-Royal nuns were members of the powerful Arnauld family.

One of the Port-Royal nuns was the sister of the brilliant young philosopher, mathematician, and French stylist Blaise Pascal, and young Pascal took up the Jansenist cause with a witty and blistering attack on the Jesuits, particularly Escobar, for his alleged moral failure in being soft on usury. Pascal even coined a popular new term, *escobarderie*, with which he denounced the important discipline of casuistry as being evasive quibbling. Another victim of Pascal's poison pen was the austere French Jesuit Étienne Bauny. In his *Somme des Pechez* (1639), Bauny extended the weakening of the usury ban by going so far as to justify interest charges higher than the maximum rate permitted by royal decree for, after all 'the debtors entered into them willingly'. Moreover, Bauny's trenchant voluntaryism defended the usury contract on another incisive ground: since it is licit for a lender to hope for a borrower to give him a free gift, it should also be licit for the lender and the borrower to make such a definite pact beforehand. How can making a contract for something be evil if hoping for the result is permissible? Once permit such justifications by voluntary choice, and then of course all assaults on usury and other free market activities must go by the board.

Although the Jansenists were eventually condemned by the pope, Pascal's scurrilous rampage against the Jesuits had considerable effect in helping to end the reign of scholastic thought, at least in France.

4.11 Notes

1. Frank Bartholomew Costello, S.J., *The Political Philosophy of Luis de Molina, S.J.* (Spokane: Gonzaga University Press, 1974), p. 231.
2. Richard Tuck, *Natural Rights Theories* (Cambridge: Cambridge University Press, 1979), p. 54.
3. The great Molina had also had difficulties in not having a theology doctorate, which was finally conferred upon him by the Jesuit Order with considerable reluctance.
4. The form of Philip's debasement, as Mariana pointed out, was either to double the face value of recoined copper while keeping the same weight, so that the increased value went as profit to the royal treasury; or to keep the face value of silver/copper coins, take out the silver and reduce the copper weight, which gave the treasury a two-thirds profit.
5. Quoted by John Laures, S.J., *The Political Economy of Juan de Mariana* (New York: Fordham University Press, 1928), p. 18.
6. John T. Noonan, Jr, *The Scholastic Analysis of Usury* (Cambridge, Mass.: Harvard University Press, 1957), p. 222.

5 Protestants and Catholics

5.1 Luther, Calvin, and state absolutism

We have seen that the Counter-Reformation of the sixteenth century had to carry on a two-front intellectual war on behalf of scholasticism and natural law: against Protestants and crypto-Protestants, and also against secularist apologists for an absolute state. These latter two seemingly contrasting groups were closer than merely having the same enemy. In many ways, they were twins and not simply fortuitous allies.

Despite their many differences, Martin Luther (1483–1546), son of a German miner, and John Calvin (born Jean Cauvin, of which Calvin is the Latinized name) (1509–64), son of a French attorney and leading town official, whose new religious sects between them swept northern Europe, agreed on some crucial fundamentals. In particular, their social philosophy and theology rested on the basic proposition that man is totally depraved, steeped in sin. If this is so, man could scarcely achieve salvation even partially through his own efforts; therefore, salvation comes, not from man's non-existent free will, but as an arbitrary and unintelligible gift of unearned grace from God, a gift which He for His own reasons hands out only to a predestined elect. All of the non-elect are damned. Furthermore, as man is totally depraved and a slave of Satan, his reason – let alone his sense of enjoyment – can never be trusted. Neither reason nor the senses can in any way be trusted to form a social ethics; that can only come from the divine will through Biblical revelation.

To this day, fundamentalist Calvinists are taught to sum up their creed in the acronym TULIP, perhaps also recalling the Dutch fastnesses of Calvinism:

T – Total damnation
U – Unconditional election
L – Limited atonement
I – Irresistible grace
P – Perseverance of the saints

In short, man is damned totally, his atonement can only be limited and insufficient; the only thing that can and does unconditionally save an elect among men is God's irresistible grace.

If reason cannot be used to frame an ethic, this means that Luther and Calvin had to, in essence, throw out natural law, and in doing so, they jettisoned the basic criteria developed over the centuries by which to criticize the despotic actions of the state. Indeed, Luther and Calvin, relying on isolated Biblical passages rather than on an integrated philosophic tradition, opined that the powers that be are ordained of God, and that therefore the king, no matter how tyrannical, is divinely appointed and must always be obeyed.

This doctrine, of course, played into the hands of the rising absolute monarchs and their theoreticians. Whether Catholic or Protestant, these secularists pushed their religion to the background of life; socially and politically they held, as we shall see below, that the state and its ruler are absolute, that the ruler must seek to preserve and expand his power, and that his dictates must be obeyed. It is therefore the early Jesuits of the Counter-Reformation who saw and analysed the crucial link between the Protestant leaders and such amoralist secularists as Niccolo Machiavelli. As Professor Skinner writes:

> The early Jesuit theorists clearly recognized the pivotal point at which the political theories of Luther and Machiavelli may be said to converge: both of them were equally concerned, for their own very different reasons, to reject the idea of the law of nature as an appropriate moral basis for political life. It is in consequence in the works of the early Jesuits that we first encounter the familiar coupling of Luther and Machiavelli as the two founding fathers of the impious modern State.[1]

Moreover, Luther had to rely for the spread of his religion on the German and other European monarchs; his preaching of all-out obedience to the ruler was reinforced by this practical concern. In addition, the secular princes themselves had a juicy economic motive for becoming Protestant: the confiscation of the often wealthy monasteries and other Church property. Underlying at least part of the motives of the monarchy and nobility of the new Protestant states was the lure of greed-and-grab. Thus, when Gustav Vasa, king of Sweden, became a Lutheran in 1524, he immediately transferred the Church tithes into taxes going to the Crown, and three years later he confiscated the entire property of the Catholic Church. Similarly, in Denmark the newly Lutheran kings seized the monastic lands, and confiscated the lands and temporal powers of the Catholic bishops. In Germany Albert of Hohenzollern accompanied his Lutheran conversion by seizing the lands of the Catholic Teutonic knights, while Philip of Hesse grabbed all the monastic lands in his state, much of the proceeds going into his own personal coffers.

In addition to grabbing the lands and revenues, the monarchs in each of the lands seized control of the Church itself, and converted the Lutheran Church into a state-run Church, to the plaudits of Martin Luther and his disciples, who championed the idea of a state-dominated Church. In the city of Geneva, John Calvin and his disciples imposed a totalitarian theocracy for a time, but this Church-run state proved to be an aberration in mainstream Calvinism, which triumphed in Scotland, Holland and Switzerland, and had considerable influence in France and England.

An outstanding example of a state-run Church as a motive for Reformation was the establishment of the Anglican Church in England. The defection from Catholicism of Henry VIII was accompanied by the confiscation of the monasteries, and the parcelling out of these lands – either by gift or by sale at low cost – to favoured groups of nobles and gentry. About two thousand monks and nuns throughout England, as well as about eight thousand labourers in the monasteries, were thus dispossessed, for the benefit of a new class of large landholders beholden to the Crown and not likely to permit any return to a Roman Catholic monarchy in Britain.

5.2 Luther's economics

As a man fundamentally opposed to later scholastic refinements or even to the kind of integral, systematic thought of scholasticism, as a man hankering after what he believed to be Augustinian purity, Martin Luther cannot be expected to have looked very kindly upon commerce or upon the later scholastic justifications for usury. And indeed he did not. A confused, contradictory, and unsystematic thinker at best, Luther was unsurprisingly least consistent in an area of secular affairs – economics – in which he had little interest.

Thus, on a crucial question which had vexed scholastics for centuries: whether private property is natural or conventional, i.e. merely the product of positive law, Luther was characteristically anti-intellectual. He was not interested in such questions; therefore they were trivial: 'it is vain to mention these things; they cannot be acquired by thought, ...'. As Dr Gary North has commented, 'So much for 1500 years of debate'.[2] All in all, Richard Tawney's assessment of Luther on these matters is perhaps not an overstatement;

> Confronted with the complexities of foreign trade and financial organization, or with the subtleties of economic analysis, he [Luther] is like a savage introduced to a dynamo or a steam engine. He is too frightened and angry even to feel curiosity. Attempts to explain the mechanism merely enrage him; he can only repeat that there is a devil in it, and that good Christians will not meddle with the mystery of iniquity.[3]

The rest is confusion. Upholding the commandment prohibiting theft meant that Luther had to be, at least in some sense, an advocate of the rights of private property. But to Luther, 'stealing' meant not only what everyone defines to be theft, but also 'taking advantage of others at market, warehouses, wine and beer cellars, workshops...'. In different writings, sometimes even within the same one, Luther was capable of denouncing a person who 'makes use of the market in his own wilful way, proud and defiant, as though he had a good right to sell at as high a price as he chose, and none could interfere', while *also* writing: 'Anyone may sell what he has for the highest price he can get, so long as he cheats no one', and then defining such cheating as simply using false weights and measures.

On the just price, Luther tends to revert to the minority medieval view that a just price is not the market price but a cost of production plus expenses and profit for labour and risk of the merchant. On usury in particular, Luther tended to revert to the drastic prohibition that the Catholic Church had long left behind. The *census* contract he would ban, as he would *lucrum cessans*; money was sterile; there should be no increase in price for time as against cash payments for goods, etc. All the old nonsense, which the scholastics had spent centuries burying or transforming, was back intact. It is certainly fitting that, as we have seen, one of Luther's great theological opponents in Germany was his former friend, Johann Eck, a Catholic theologian and friend of the great Fugger banking family, who was even ahead of his time in arguing in thoroughgoing fashion in favour of usury.

Yet, despite his opposition to usury, Luther advised the young ruler of Saxony not to abolish interest or to relieve debtors of the burden of paying it. Interest is, after all, a 'common plague that all have taken upon themselves. We must put up with it, therefore, and hold debtors to it'.

Some of these contradictions can be reconciled in the light of Luther's deeply pessimistic view of man and therefore of human institutions. In the wicked secular world, he believed, we cannot expect people or institutions to act in accordance with the Christian gospel. Therefore, in contrast to the Catholic attempt through the art of casuistry to apply moral principles to social and political life, Luther tended to privatize Christian morality and to leave the secular world and its rulers to operate in a pragmatic and, in practice, an unchecked manner.

5.3 The economics of Calvin and Calvinism

John Calvin's social and economic views closely parallel Luther's, and there is no point in repeating them here. There are only two main areas of difference: their views on usury, and on the concept of the 'calling', although the latter difference is more marked for the later Calvinist Puritans of the seventeenth century.

Calvin's main contribution to the usury question was in having the courage to dump the prohibition altogether. This son of an important town official had only contempt for the Aristotelian argument that money is sterile. A child, he pointed out, knows that money is only sterile when locked away somewhere; but who in their right mind borrows to keep money idle? Merchants borrow in order to make profits on their purchases, and hence money is then fruitful. As for the Bible, Luke's famous injunction only orders generosity towards the poor, while Hebraic law in the Old Testament is not binding in modern society. To Calvin, then, usury is perfectly licit, provided that it is not charged in loans to the poor, who would be hurt by such payment. Also, any legal maximum of course must be obeyed. And finally, Calvin maintained that no one should function as a professional money-lender.

The odd result was that hedging his explicit pro-usury doctrine with qualification, Calvin *in practice* converged on the views of such scholastics as Biel, Summenhart, Cajetan and Eck. Calvin began with a sweeping theoretical defence of interest-taking and then hedged it about with qualifications; the liberal scholastics began with a prohibition of usury and then qualified it away. But while in practice the two groups converged and the scholastics, in discovering and elaborating upon exceptions to the usury ban, were theoretically more sophisticated and fruitful, Calvin's bold break with the formal ban was a liberating breakthrough in Western thought and practice. It also threw the responsibility for applying teachings on usury from the Church or state to the individual's conscience. As Tawney puts it, 'The significant feature in his [Calvin's] discussion of the subject is that he assumes credit to be a normal and inevitable incident in the life of a society.'[4]

A more subtle difference, but in the long run perhaps having more influence on the development of economic thought, was the Calvinist concept of the 'calling'. This new concept was embryonic in Calvin and was developed further by later Calvinists, and especially Puritans, in the late seventeenth century. Older economic historians, such as Max Weber, made far too much of the Calvinist as against Lutheran and Catholic conceptions of the 'calling'. All these religious groups emphasized the merit of being productive in one's labour or occupation, one's 'calling' in life. But there is, especially in the later Puritans, the idea of success in one's calling as a visible sign of being a member of the elect. The success is striven for, of course, not to *prove* that one is a member of the elect destined to be saved but, assuming that one is in the elect by virtue of one's Calvinist faith, to strive to labour and succeed for the glory of God. A Calvinist emphasis on postponement of earthly gratification led to a particular stress on saving. Labour or 'industry' and thrift, almost for their own sake, or rather for God's sake, were emphasized in Calvinism much more than in the other segments of Christianity.[5]

The focus, then, both in Catholic countries and in scholastic thought, became very different from that of Calvinism. The scholastic focus was on consumption, the consumer, as the goal of labour and production. Labour was not so much a good in itself as a means toward consumption on the market. The Aristotelian balance, or golden mean, was considered a requisite of the good life, a life leading to happiness in keeping with the nature of man. And that balanced life emphasized the joys of consumption, as well as of leisure, in addition to the importance of productive effort. In contrast, a rather grim emphasis on work and on saving began to be stressed in Calvinist culture. This de-emphasis on leisure of course fitted with the iconoclasm that reached its height in Calvinism – the condemnation of the enjoyment of the senses as a means of expressing religious devotion. One of the expressions of this conflict came over religious holidays, which Catholic countries enjoyed in abundance. To the Puritans, this was idolatry; even Christmas was not supposed to be an occasion for sensate enjoyment.

There has been considerable dispute over the 'Weber thesis', propounded by the early twentieth century German economic historian and sociologist, Max Weber, which attributed the rise of capitalism and the Industrial Revolution to the late Calvinist concept of the calling and the resulting 'capitalist spirit'. For all its fruitful insights, the Weber thesis must be rejected on many levels. First, modern capitalism, in any meaningful sense, begins not with the Industrial Revolution of eighteenth and nineteenth centuries but, as we have seen, in the Middle Ages and particularly in the Italian city-states. Such examples of capitalist rationality as double-entry bookkeeping and various financial techniques begin in these Italian city-states as well. All were Catholic. Indeed, it is in a Florentine account book of 1253 that there is first found the classic pro-capitalist formula: 'In the name of God and of profit'. No city was more of a financial and commercial centre than Antwerp in the sixteenth century, a Catholic centre. No man shone as much as financier and banker as Jacob Fugger, a good Catholic from southern Germany. Not only that: Fugger worked all his life, refused to retire, and announced that 'he would make money as long as he could'. A prime example of the Weberian 'Protestant ethic' from a solid Catholic! And we have seen how the scholastic theologians moved to understand and accommodate the market and market forces.

On the other hand, while it is true that Calvinist areas in England, France, Holland and the north American colonies prospered, the solidly Calvinist Scotland remained a backward and undeveloped area, even to this day.[6]

But even if the focus on calling and labour did not bring about the Industrial Revolution, it might well have led to another outstanding difference between Calvinist and Catholic countries – a crucial difference in the development of *economic thought*. Professor Emil Kauder's brilliant speculation to this effect will inform the remainder of this work. Thus Kauder:

> Calvin and his disciples placed work at the center of their social theology... All work in this society is invested with divine approval. Any social philosopher or economist exposed to Calvinism will be tempted to give labor an exalted position in his social or economic treatise, and no better way of extolling labor can be found than by combining work with value theory, traditionally the very basis of an economic system. Thus value becomes labor value, which is not merely a scientific device for measuring exchange rates but also the spiritual tie combining Divine Will with economic everyday life.[7]

In their extolling of work, the Calvinists concentrated on systematic, continuing industriousness, on a settled course of labour. Thus the English Puritan divine Samuel Hieron opined that 'He that hath no honest business about which ordinarily to be employed, no settled course to which he may betake himself, cannot please God'. Particularly influential was the early seventeenth century Cambridge University academic, the Rev. William Perkins, who did much to translate Calvinist theology into English practice. Perkins denounced four groups of men who had 'no particular calling to walk in': beggars and vagabonds; monks and friars; gentlemen who 'spend their days in eating and drinking'; and servants, who allegedly spent their time waiting. All these were dangerous because unsettled and undisciplined. Particularly dangerous were wanderers, who 'avoided the authority of all'. Furthermore, believed Perkins, the 'lazy multitude was always inclined ... to popish opinions, always more ready to play than to work; its members would not find their way to heaven'.[8]

In contrast to the Calvinist glorification of labour, the Aristotelian–Thomist tradition was quite different:

> Instead of work, moderate pleasure-seeking and happiness form the center of economic actions, according to Aristotelian and Thomistic philosophy. A certain balanced hedonism is an integrated part of the Aristotelian theory of the good life. If pleasure in a moderate form is the purpose of economics, then following the Aristotelian concept of the final cause, all principles of economics including valuation must be derived from this goal. In this pattern of Aristotelian and Thomistic thinking, valuation has the function of showing how much pleasure can be derived from economic goods.[9]

Hence, Great Britain, heavily influenced by Calvinist thought and culture, and its glorification of the mere exertion of labour, came to develop a labour theory of value, while France and Italy, still influenced by Aristotelian and Thomist concepts, continued the scholastic emphasis on the consumer and his subjective valuation as the source of economic value. While there is no way to prove this hypothesis conclusively, the Kauder insight has great value in explaining the comparative development of economic thought in Britain and in the Catholic countries of Europe after the sixteenth century.

5.4 Calvinists on usury

Perhaps because he was considered the greatest French jurist of the mid-sixteenth century, the merit of the contributions of Charles Du Moulin (latinized name, Carolus Molinaeus) (1500–66), has been highly inflated, in his and in later times. A Catholic who later converted to Calvinism and was then forced to leave for Germany, Du Moulin had nothing but contempt for scholasticism, which he attacked vehemently in his highly publicized work, *The Treatise on Contracts and Usury* (Paris, 1546). Whereas Molinaeus officially denounced the prohibition of usury, in actuality his views were little different from those of the contemporary scholastics or indeed of Calvin. While clearly denouncing the view that money is sterile and demonstrating that it is as productive as the goods bought with it, he hedges his defence of usury sufficiently so that his views are little different from many others. He does maintain that the charge of interest on a loan *per se* is unjust, but ingeniously points out that a lender charges for the utility of the money rather than for the money itself. But Molinaeus attacks the 'cruel usuries' permitted by *lucrum cessans*, and maintains with Calvin that interest may not be charged for loans to the poor. (One wonders that if such a rule were enforced, who in the world would ever lend to the poor, and would the poor then be better off by being deprived of all credit?)

Indeed, it seems that Molinaeus' main contribution was to blacken unjustly the name of poor Conrad Summenhart, a cruel injustice that would last for four centuries. In an act obviously motivated by malice toward scholasticism, Molinaeus took the great Summenhart's arguments against the usury ban and twisted them to make the German theologian a particularly doltish *advocate* of the prohibition. He took Summenhart's initial arguments *for* the prohibition, which he had stated in order to knock down, claimed that they were Summenhart's own, and then plagiarized Summenhart's critique of these arguments without acknowledgment. As a result of this shabby mendacity, as Professor Noonan points out, since 'Du Moulin's writings have alone become famous, Conrad [Summenhart] has appeared to posterity only as Du Moulin caricatures him', i.e., 'as a particularly obstinate and strangely stupid defender of the usury prohibition'.[10]

The honour of putting the final boot to the usury prohibition belongs to the seventeenth century classicist and Dutch Calvinist, Claude Saumaise (latinized name, Claudius Salmasius) (1588–1653). In several works published in Leyden, beginning with *De usuris liber* in 1630 and continuing to 1645, Salmasius finished off this embarrassing remnant of the mountainous errors of the past. His *forte* was not so much in coining new theoretical arguments as in finally willing to be consistent. In short, Salmasius trenchantly pointed out that money-lending was a business like any other, and like other businesses was entitled to charge a market price. He did make the important theoretical point, however, that, as in any other part of the market, if the number of usurers multiplies, the price of money or interest will be driven down by the competition. So that if one doesn't like high interest rates, the more usurers the better!

Salmasius also had the courage to point out that there were no valid arguments against usury, either by divine or natural law. The Jews only prohibited usury against other Jews, and this was a political and tribal act rather than an expression of a moral theory about an economic transaction. As for Jesus, he taught nothing at all about civil polity or economic transactions. This leaves the only ecclesiastical law against usury that of the pope, and why should a Calvinist obey the pope? Salmasius also took some deserved whacks at the evasions permeating the various scholastic justifications, or 'extrinsic titles', justifying interest. Let's face it, Salmasius in effect asserted: what the canonists and scholastics 'took away with one hand, they restored with the other'. The *census* is really usury, foreign exchange is really usury, *lucrum cessans* is really usury. Usury all, and let them all be licit. Furthermore, usury is always charged as compensation for something, in essence the lack of use of money and the risk of loss in a loan.

Salmasius also had the courage to take the hardest case: professional money-lending to the poor, and to justify that. Selling the use of money is a business like any other. If it is licit to make money with things bought with money, why not from money itself? As Noonan paraphrases Salmasius, 'The seller of bread is not required to ask if he sells it to a poor man or a rich man. Why should the moneylender have to make a distinction?' And: 'there is no fraud or theft in charging the highest market price for other goods; why is it wrong for the usurer to charge the heaviest usuries he can collect?'[11]

Empirically, Salmasius also analysed the case of public usurers in Amsterdam (the great commercial and financial centre of the seventeenth century, replacing Antwerp of the previous century), showing that the usual 16 per cent charge on small loans to the poor is accounted for by: the costs of the usurers borrowing their own money, of holding some money idle, of renting a large house, of absorbing some losses on loans, of paying licence fees, hiring employees, and paying an auctioneer. Deducting all these expenses, the average net interest rate of the money-lenders is only 8 per cent, barely enough to keep them in business.

In concluding that usury is a business like any other, Salmasius, in his typical witty and sparkling style, declared, 'I would rather be called a usurer, than be a tailor'. Our examples of his style already demonstrate the aptness of the great Austrian economist Böhm-Bawerk's conclusion about Salmasius: that his works

> are extremely effective pieces of writing, veritable gems of sparkling polemic. The materials for them, it must be confessed, had in great part been provided by his predecessors...But the happy manner in which Salmasius employs these materials, and the many pithy sallies with which he enriches them, places his polemic far above anything that had gone before.[12]

As a result, Salmasius' essays had wide influence throughout the Netherlands and the rest of Europe. As Böhm-Bawerk declared, Salmasius' views on usury were the high-water mark of interest theory, to remain so for over 100 years.

5.5 Communist zealots: the Anabaptists

Sometimes Martin Luther must have felt that he had loosed the whirlwind, even opened the gates of Hell. Shortly after Luther launched the Reformation, various Anabaptist sects appeared and spread throughout Germany. The Anabaptists believed in predestination of the elect, but they also believed, in contrast to Luther, that they *knew* infallibly who the elect were: i.e. themselves. The sign of that election was in an emotional, mystical conversion process, that of being 'born again', baptized in the Holy Spirit. Such baptism must be adult and not among infants; more to the point, it meant that only the elect are to be sect members who obey the multifarious rules and creeds of the Church. The idea of the sect, in contrast to Catholicism, Lutheranism or Calvinism, was not comprehensive Church membership in the society. The sect was to be distinctly separate, for the elect only.

Given that creed, there were two ways that Anabaptism could and did go. Most Anabaptists, like the Mennonites or Amish, became virtual anarchists. They tried to separate themselves as much as possible from a necessarily sinful state and society, and engaged in non-violent resistance to the state's decrees.

The other route, taken by another wing of Anabaptists, was to try to seize power in the state and to shape up the majority by extreme coercion: in short, ultra-theocracy. As Monsignor Knox incisively points out, even when Calvin established a theocracy in Geneva, it had to pale beside one which might be established by a prophet enjoying continuous, new, mystical revelation.

As Knox points out, in his usual scintillating style:

> ...in Calvin's Geneva...and in the Puritan colonies of America, the left wing of the Reformation signalized its ascendancy by enforcing the rigorism of its morals with every available machinery of discipline; by excommunication, or, if that failed, by secular punishment. Under such discipline sin became a crime, to be punished by the elect with an intolerable self-righteousness...
>
> I have called this rigorist attitude a pale shadow of the theocratic principle, because a full-blooded theocracy demands the presence of a divinely inspired leader or leaders, to whom government belongs by right of mystical illumination. The great Reformers were not, it must be insisted, men of this calibre; they were pundits, men of the new learning...[13]

And so one of the crucial differences between the Anabaptists and the more conservative reformers was that the former claimed continuing mystical revelation to themselves, forcing men such as Luther and Calvin to fall back on the Bible alone as the first as well as the last revelation.

The first leader of the ultra-theocrat wing of the Anabaptists was Thomas Müntzer (c.1489–1525). Born into comfort in Stolberg in Thuringia, Müntzer studied at the Universities of Leipzig and Frankfurt, and became highly learned in the scriptures, the classics, theology, and in the writings of the

German mystics. Becoming a follower almost as soon as Luther launched the Reformation in 1520, Müntzer was recommended by Luther for the pastorate in the city of Zwickau. Zwickau was near the Bohemian border, and there the restless Müntzer was converted by the weaver and adept Niklas Storch, who had been in Bohemia, to the old Taborite doctrine that had flourished in Bohemia a century earlier. This doctrine consisted essentially of a continuing mystical revelation and the necessity for the elect to seize power and impose a society of theocratic communism by brutal force of arms. Furthermore, marriage was to be prohibited, and each man was to be able to have any woman at his will.

The passive wing of Anabaptists were voluntary anarcho-communists, who wished to live peacefully by themselves; but Müntzer adopted the Storch vision of blood and coercion. Defecting very rapidly from Lutheranism, Müntzer felt himself to be the coming prophet, and his teachings now began to emphasize a war of blood and extermination to be waged by the elect against the sinners. Müntzer claimed that the 'living Christ' had permanently entered his own soul; endowed thereby with perfect insight into the divine will, Müntzer asserted himself to be uniquely qualified to fulfil the divine mission. He even spoke of himself as 'becoming God'. Abandoning the world of learning, Müntzer was now ready for action.

In 1521, only a year after his arrival, the town council of Zwickau took fright at these increasingly popular ravings and ordered Müntzer's expulsion from the city. In protest, a large number of the populace, in particular the weavers, led by Niklas Storch, rose in revolt, but the rising was put down. At that point, Müntzer hied himself to Prague, searching for Taborite remnants in the capital of Bohemia. Speaking in peasant metaphors, he declared that harvest-time is here, 'so God himself has hired me for his harvest. I have sharpened my scythe, for my thoughts are most strongly fixed on the truth, and my lips, hands, skin, hair, soul, body, life curse the unbelievers'. Müntzer, however, found no Taborite remnants; it did not help the prophet's popularity that he knew no Czech, and had to preach with the aid of an interpreter. And so he was duly expelled from Prague.

After wandering around central Germany in poverty for several years, signing himself 'Christ's messenger', Müntzer in 1523 gained a ministerial position in the small Thuringian town of Allstedt. There he established a wide reputation as a preacher employing the vernacular, and began to attract a large following of uneducated miners, whom he formed into a revolutionary organization called 'The League of the Elect'.

A turning point in Müntzer's stormy career came a year later, when Duke John, a prince of Saxony and a Lutheran, hearing alarming rumours about him, came to little Allstedt and asked Müntzer to preach him a sermon. This was Müntzer's opportunity, and he seized it. He laid it on the line: he called upon the Saxon princes to make their choice and take their stand, either as servants of God or of the Devil. If the Saxon princes are to take their stand with God, then they 'must lay on with the sword'. 'Don't let them live any longer,' counselled our prophet, 'the evil-doers who turn us away from God. For a godless man has no right to live if he hinders the godly'. Müntzer's definition of the 'godless', of course, was all-inclusive. 'The sword is necessary to exterminate' priests, monks and godless rulers. But, Müntzer warned, if the princes of Saxony fail in this task, if they falter, 'the sword shall be taken from them...If they resist, let them be slaughtered without mercy...'. Müntzer then returned to his favourite harvest-time analogy: 'At the harvest-time, one must pluck the weeds out of God's vineyard...For the ungodly have no right to live, save what the Elect chooses to allow them....' In this way the millennium, the thousand-year Kingdom of God on earth, would be ushered in. But one key requisite is necessary for the princes to perform that task successfully; they must have at their elbow a priest/prophet (guess who!) to inspire and guide their efforts.

Oddly enough for an era when no First Amendment restrained rulers from dealing sternly with heresy, Duke John seemed not to care about Müntzer's frenetic ultimatum. Even after Müntzer proceeded to preach a sermon proclaiming the imminent overthrow of all tyrants and the beginning of the messianic kingdom, the duke did nothing. Finally, under the insistent prodding of Luther that Müntzer was becoming dangerous, Duke John told the prophet to refrain from any provocative preaching until his case was decided by his brother, the elector.

This mild reaction by the Saxon princes, however, was enough to set Thomas Müntzer on his final revolutionary road. The princes had proved themselves untrustworthy; the mass of the poor were now to make the revolution. The poor were the elect, and would establish a rule of compulsory egalitarian communism, a world where all things would be owned in common by all, where everyone would be equal in everything and each person would receive according to his need. But not yet. For even the poor must first be broken of worldly desires and frivolous enjoyments, and must recognize the leadership of a new 'servant of God' who 'must stand forth in the spirit of Elijah...and set things in motion'. (Again, guess who!)

Seeing Saxony as inhospitable, Müntzer climbed over the town wall of Allstedt and moved in 1524 to the Thuringian city of Muhlhausen. An expert in fishing in troubled waters, Müntzer found a friendly home in Muhlhausen, which had been in a state of political turmoil for over a year. Preaching the impending extermination of the ungodly, Müntzer paraded around the town at the head of an armed band, carrying in front of him a red crucifix and a naked sword. Expelled from Muhlhausen after a revolt by his allies was suppressed, Müntzer went to Nuremberg, which in turn expelled him after he published some revolutionary pamphlets. After wandering through south-western Germany, Müntzer was invited back to Muhlhausen in February 1525, where a revolutionary group had taken over.

Thomas Müntzer and his allies proceeded to impose a communist regime on the city of Muhlhausen. The monasteries were seized, and all property was decreed to be in common, and the consequence, as a contemporary observer noted, was that 'he so affected the folk that no one wanted to work'. The result was that the theory of communism and love quickly became in practice an alibi for systemic theft:

> ...when anyone needed food or clothing he went to a rich man and demanded it of him in Christ's name, for Christ had commanded that all should share with the needy. And what was not given freely was taken by force. Many acted thus...Thomas [Müntzer] instituted this brigandage and multiplied it every day.[14]

At that point, the great Peasants' War erupted throughout Germany, a rebellion launched by the peasantry in favour of their local autonomy and in opposition to the new centralizing, high-tax, absolutist rule of the German princes. Throughout Germany, the princes crushed the feebly armed peasantry with great brutality, massacring about 100 000 peasants in the process. In Thuringia, the army of the princes confronted the peasants on 15 May with a great deal of artillery and 2 000 cavalry, luxuries denied to the peasantry. The landgrave of Hesse, commander of the princes' army, offered amnesty to the peasants if they would hand over Müntzer and his immediate followers. The peasants were strongly tempted, but Müntzer, holding aloft his naked sword, gave his last flaming speech, declaring that God had personally promised him victory; that he would catch all the enemy cannon-balls in the sleeves of his cloak; that God would protect them all. Just at the strategic moment of Müntzer's speech, a rainbow appeared in the heavens, and Müntzer had previously adopted the rainbow as the symbol of his movement. To the credulous and confused peasantry, this seemed a veritable sign from Heaven. Unfortunately, the sign didn't work, and the princes' army crushed the peasants, killing 5 000 while losing only half a dozen men. Müntzer himself fled and hid, but was captured a few days later, tortured into confession, and then executed.

Thomas Müntzer and his signs may have been defeated, and his body may have mouldered in the grave, but his soul kept marching on. Not only was his spirit kept alive by followers in his own day, but also by Marxist historians from Engels to the present day, who saw in this deluded mystic an epitome of social revolution and the class struggle, and a forerunner of the chiliastic prophesies of the 'communist stage' of the supposedly inevitable Marxian future.

The Müntzerian cause was soon picked up by a former disciple, the bookbinder Hans Hut. Hut claimed to be a prophet sent by God to announce that at Whitsuntide, 1528, Christ would return to earth and give the power to enforce justice to Hut and his following of rebaptized saints. The saints would then 'take up double-edged swords' and wreak God's vengeance on priests, pastors, kings and nobles. Hut and his followers would then 'establish the rule of Hans Hut on earth', with Muhlhausen as the favoured capital. Christ was then to establish a millennium marked by communism and free love. Hut was captured in 1527 (before Jesus had had a chance to return), imprisoned at Augsburg, and killed trying to escape. For a year or two, Huttian followers kept emerging, at Augsburg, Nuremberg, and Esslingen, in southern Germany, threatening to set up their communist Kingdom of God by force of arms. But by 1530 they were smashed and suppressed by the alarmed authorities. Müntzerian-type Anabaptism was now to move to north-western Germany.

5.6 Totalitarian communism in Münster

North-western Germany in that era was dotted by a number of small ecclesiastical states, each run by a prince–bishop. The state was run by aristocratic clerics, who elected one of their own as bishop. Generally, these bishops were secular lords who were not ordained. By bargaining over taxes, the capital city of each of these states had usually wrested for itself a degree of autonomy. The clergy, which constituted the ruling élite of the state, exempted themselves from taxation while imposing very heavy taxes on the rest of the populace. Generally, the capital cities came to be run by their own power élite, an oligarchy of guilds, which used government power to cartellize their various professions and occupations.

The largest of these ecclesiastical states in north-west Germany was the bishopric of Münster, and its capital city of Münster, a town of some 10 000 people, was run by the town guilds. The Münster guilds were particularly exercised by the economic competition of the monks, who were not forced to obey guild restrictions and regulations.

During the Peasants' War, the capital cities of several of these states, including Münster, took the opportunity to rise in revolt, and the bishop of Münster was forced to make numerous concessions. With the crushing of the rebellion, however, the bishop took back the concessions, and re-established the old regime. By 1532, however, the guilds, supported by the people, were able to fight back and take over the town, soon forcing the bishop to recognize Münster officially as a Lutheran city.

It was not destined to remain so for long, however. From all over the north-west, hordes of Anabaptist enthusiasts flooded into Münster, seeking the onset of the New Jerusalem. From the northern Netherlands came hundreds of Melchiorites, followers of the itinerant visionary Melchior Hoffmann. Hoffmann, an uneducated furrier's apprentice from Swabia in southern Germany, had for years wandered through Europe preaching the imminence of the Second Coming, which he had concluded from his researches would occur in 1533, the fifteenth centenary of the death of Jesus. Melchiorism had flourished in the northern Netherlands, and many adepts now poured into Münster, rapidly converting the poorer classes of the town.

Meanwhile, the Anabaptist cause in Münster received a shot in the arm, when the eloquent and popular young minister Bernt Rothmann, a highly educated son of a town blacksmith, converted to Anabaptism. Originally a Catholic priest, Rothmann had become a friend of Luther and the head of the Lutheran movement in Münster. Converted to Anabaptism, Rothmann lent his eloquent preaching to the cause of communism as it had supposedly existed in the primitive Christian Church, holding everything in common with no Mine and Thine and giving to each according to his 'need'. In response to Rothmann's reputation, thousands flocked to Münster, hundreds of the poor, the rootless, those hopelessly in debt, and 'people who, having run through the fortunes of their parents, were earning nothing by their own industry...'. People, in general, who were attracted by the idea of 'plundering and robbing the clergy and the richer burghers'. The horrified burghers tried to drive out Rothmann and the Anabaptist preachers, but to no avail.

In 1533, Melchior Hoffmann, sure that the Second Coming would happen any day, returned to Strasbourg, where he had had great success, calling himself the Prophet Elias. He was promptly clapped into jail, and remained there until his death a decade later.

Hoffmann, for all the similarities with the others, was a peaceful man who counselled non-violence to his followers; after all, if Jesus were imminently due to return, why commit against unbelievers? Hoffmann's imprisonment, and of course the fact that 1533 came and went without a Second Coming, discredited Melchior, and so his Münster followers turned to far more violent, post-millennialist prophets who believed that they would have to establish the Kingdom by fire and sword.

The new leader of the coercive Anabaptists was a Dutch baker from Haarlem, one Jan Matthys (Matthyszoon). Reviving the spirit of Thomas Müntzer, Matthys sent out missionaries or 'apostles' from Haarlem to rebaptize everyone they could, and to appoint 'bishops' with the power to baptize. When the new apostles reached Münster in early 1534, they were greeted, as we might expect, with enormous enthusiasm. Caught up in the frenzy, even Rothmann was rebaptized once again, followed by many ex-nuns and a large part of the population. Within a week the apostles had rebaptized 1 400 people.

Another apostle soon arrived, a young man of 25 who had been converted and baptized by Matthys only a couple of months earlier. This was Jan

Bockelson (Bockelszoon, Beukelsz), who was soon to become known in song and story as Johann of Leyden. Though handsome and eloquent, Bockelson was a troubled soul, having been born the illegitimate son of the mayor of a Dutch village by a woman serf from Westphalia. Bockelson began life as an apprentice tailor, married a rich widow, but then went bankrupt when he set himself up as a self-employed merchant.

In February 1534, Bockelson won the support of the wealthy cloth merchant Bernt Knipperdollinck, the powerful leader of the Münster guilds, and shrewdly married Knipperdollinck's daughter. On 8 February, son-in-law and father-in-law ran wildly through the streets together, calling upon everyone to repent. After much frenzy, mass writhing on the ground, and the seeing of apocalyptic visions, the Anabaptists rose up and seized the town hall, winning legal recognition for their movement.

In response to this successful uprising, many wealthy Lutherans left town, and the Anabaptists, feeling exuberant, sent messengers to surrounding areas summoning everyone to come to Münster. The rest of the world, they proclaimed, would be destroyed in a month or two; only Münster would be saved, to become the New Jerusalem. Thousands poured in from as far away as Flanders and Frisia in the northern Netherlands. As a result, the Anabaptists soon won a majority on the town council, and this success was followed three days later, on 24 February, by an orgy of looting of books, statues and paintings from the churches and throughout the town. Soon Jan Matthys himself arrived, a tall, gaunt man with a long black beard. Matthys, aided by Bockelson, quickly became the virtual dictator of the town. The coercive Anabaptists had at last seized a city. The Great Communist Experiment could now begin.

The first mighty programme of this rigid theocracy was, of course, to purge the New Jerusalem of the unclean and the ungodly, as a prelude to their ultimate extermination throughout the world. Matthys called therefore for the execution of all remaining Catholics and Lutherans, but Knipperdollinck's cooler head prevailed, since he warned Matthys that slaughtering all other Christians than themselves might cause the rest of the world to become edgy, and they might all come and crush the New Jerusalem in its cradle. It was therefore decided to do the next best thing, and on 27 February the Catholic and Lutherans were driven out of the city, in the midst of a horrendous snowstorm. In a deed prefiguring communist Cambodia, all non-Anabaptists, including old people, invalids, babies and pregnant women were driven into the snowstorm, and all were forced to leave behind all their money, property, food and clothing. The remaining Lutherans and Catholics were compulsorily rebaptized, and all refusing this ministration were put to death.

The expulsion of all Lutherans and Catholics was enough for the bishop, who began a long military siege of the town the next day, on 28 February.

With every person drafted for siege work, Jan Matthys launched his totalitarian communist social revolution.

The first step was to confiscate the property of the expelled. All their worldly goods were placed in central depots, and the poor were encouraged to take 'according to their needs', the 'needs' to be interpreted by seven appointed 'deacons' chosen by Matthys. When a blacksmith protested at these measures imposed by Dutch foreigners, Matthys arrested the courageous smithy. Summoning the entire population of the town, Matthys personally stabbed, shot, and killed the 'godless' blacksmith, as well as throwing into prison several eminent citizens who had protested against his treatment. The crowd was warned to profit by this public execution, and they obediently sang a hymn in honour of the killing.

A key part of the Anabaptist reign of terror in Münster was now unveiled. Unerringly, just as in the case of the Cambodian communists four-and-a-half centuries later, the new ruling élite realized that the abolition of the private ownership of money would reduce the population to total slavish dependence on the men of power. And so Matthys, Rothmann and others launched a propaganda campaign that it was unchristian to own money privately; that all money should be held in 'common', which in practice meant that all money whatsoever must be handed over to Matthys and his ruling clique. Several Anabaptists who kept or hid their money were arrested and then terrorized into crawling to Matthys on their knees, begging forgiveness and beseeching him to intercede with God on their behalf. Matthys then graciously 'forgave' the sinners.

After two months of severe and unrelenting pressure, a combination of propaganda about the Christianity of abolishing private money, and threats and terror against those who failed to surrender, the private ownership of money was effectively abolished in Münster. The government seized all the money and used it to buy or hire goods from the outside world. Wages were doled out in kind by the only remaining employer: the theocratic Anabaptist state.

Food was confiscated from private homes, and rationed according to the will of the government deacons. Also, to accommodate the immigrants, all private homes were effectively communized, with everyone permitted to quarter themselves anywhere; it was now illegal to close, let alone lock, doors. Communal dining-halls were established, where people ate together to readings from the Old Testament.

This compulsory communism and reign of terror was carried out in the name of community and Christian 'love'. All this communization was considered the first giant steps toward total egalitarian communism, where, as Rothmann put it, 'all things were to be in common, there was to be no private property and nobody was to do any more work, but simply trust in God'. The workless part, of course, somehow never arrived.

A pamphlet sent in October 1534 to other Anabaptist communities hailed the new order of Christian love through terror:

> For not only have we put all our belongings into a common pool under the care of deacons, and live from it according to our need; we praise God through Christ with one heart and mind and are eager to help one another with every kind of service.
>
> And accordingly, everything which has served the purposes of selfseeking and private property, such as buying and selling, working for money, taking interest and practising usury...or eating and drinking the sweat of the poor...and indeed everything which offends against love – all such things are abolished amongst us by the power of love and community.

With high consistency, the Anabaptists of Münster made no pretence about preserving intellectual freedom while communizing all material property. For the Anabaptists boasted of their lack of education, and claimed that it was the unlearned and the unwashed who would be the elect of the world. The Anabaptist mob took particular delight in burning all the books and manuscripts in the cathedral library, and finally, in mid-March 1534, Matthys outlawed all books except the Good Book – the Bible. To symbolize a total break with the sinful past, all privately and publicly owned books were thrown upon a great communal bonfire. All this ensured, of course, that the only theology or interpretation of the scriptures open to the Münsterites was that of Matthys and the other Anabaptist preachers.

At the end of March, however, Matthys's swollen *hubris* laid him low. Convinced at Eastertime that God had ordered him and a few of the faithful to lift the bishop's siege and liberate the town, Matthys and a few others rushed out of the gates at the besieging army, and were literally hacked to pieces. In an age when the idea of full religious liberty was virtually unknown, one can imagine that any Anabaptists whom the more orthodox Christians might get hold of would not earn a very kindly reward.

The death of Matthys left Münster in the hands of young Bockelson. And if Matthys had chastised the people of Münster with whips, Bockelson would chastise them with scorpions. Bockelson wasted little time in mourning his mentor. He preached to the faithful: 'God will give you another Prophet who will be more powerful'. How could this young enthusiast top his master? Early in May, Bockelson caught the attention of the town by running naked through the streets in a frenzy, falling then into a silent three-day ecstasy. When he rose again, he announced to the entire populace a new dispensation that God had revealed to him. With God at his elbow, Bockelson abolished the old functioning town offices of council and burgomasters, and installed a new ruling council of 12 elders, with himself, of course, as the eldest of the elders. The elders were now given total authority over the life and death, the property and the spirit, of every inhabitant of Münster. A strict system of forced labour was imposed, with all artisans not drafted into the military now public employees, working for the community for no monetary reward. This meant, of course, that the guilds were now abolished.

The totalitarianism in Münster was now complete. Death was now the punishment for virtually every independent act, good or bad. Capital punishment was decreed for the high crimes of: murder, theft, lying, avarice, and quarrelling(!). Also death was decreed for every conceivable kind of insubordination: the young against their parents, wives against their husbands and, of course, anyone at all against the chosen representatives of God on earth, the totalitarian government of Münster. Bernt Knipperdollinck was appointed high executioner to enforce the decrees.

The only aspect of life previously left untouched was sex, and this now came under the hammer of Bockelson's total despotism. The only sexual relation permitted was marriage between two Anabaptists. Sex in any other form, including marriage with one of the 'godless', was a capital crime. But soon Bockelson went beyond this rather old-fashioned credo, and decided to establish compulsory polygamy in Münster. Since many of the expellees had left their wives and daughters behind, Münster now had three times as many marriageable women as men, so that polygamy had become technologically feasible. Bockelson converted the other rather startled preachers by citing polygamy among the patriarchs of Israel, as well as by threatening dissenters with death.

Compulsory polygamy was a bit too much for many of the Münsterites, who launched a rebellion in protest. The rebellion, however, was quickly crushed and most of the rebels put to death. Execution was also the fate of any further dissenters. And so by August 1534, polygamy was coercively established in Münster. As one might expect, young Bockelson took an instant liking to the new regime, and before long he had a harem of 15 wives, including Divara, the beautiful young widow of Jan Matthys. The rest of the male population also began to take to the new decree as ducks to water. Many of the women did not take as kindly to the new dispensation, and so the elders passed a law ordering compulsory marriage for every women under (and presumably also over) a certain age, which usually meant being a compulsory third or fourth wife.

Moreover, since marriage among the godless was not only invalid but also illegal, the wives of the expellees now became fair game, and were forced to 'marry' good Anabaptists. Refusal to comply with the new law was punishable, of course, by death, and a number of women were actually executed as a result. Those 'old' wives who resented the new wives coming into their household were also suppressed, and their quarrelling was made a capital crime. Many women were executed for quarrelling.

But the long arm of the state could reach only just so far and, in their first internal setback, Bockelson and his men had to relent, and permit divorce. Indeed, the ceremony of marriage was now outlawed totally, and divorce made very easy. As a result, Münster now fell under a regime of what amounted to compulsory free love. And so, within the space of only a few months, a rigid puritanism had been transmuted into a regime of compulsory promiscuity.

Meanwhile, Bockelson proved to be an excellent organizer of a besieged city. Compulsory labour, military and civilian, was strictly enforced. The bishop's army consisted of poorly and irregularly paid mercenaries, and Bockelson was able to induce many of them to desert by offering them regular pay (pay for *money*, that is, in contrast to Bockelson's rigid internal moneyless communism). Drunken ex-mercenaries were, however, shot immediately. When the bishop fired pamphlets into the town offering a general amnesty in return for surrender, Bockelson made reading such pamphlets a crime punishable by – of course – death.

At the end of August 1534, the bishop's armies were in disarray and the siege temporarily lifted. Jan Bockelson seized this opportunity to carry his 'egalitarian' communist revolution one step further: he had himself named king and Messiah of the Last Days.

Proclaiming himself king might have appeared tacky and perhaps even illegitimate. And so Bockelson had one Dusentschur, a goldsmith from a nearby town and a self-proclaimed prophet, do the job for him. At the beginning of September, Dusentschur announced to one and all a new revelation: Jan Bockelson was to be king of the whole world, the heir of King David, to keep that Throne until God himself reclaimed his Kingdom. Unsurprisingly, Bockelson confirmed that he himself had had the very same revelation. Dusentschur then presented a sword of justice to Bockelson, anointed him, and proclaimed him king of the world. Bockelson, of course, was momentarily modest; he prostrated himself and asked guidance from God. But he made sure to get that guidance swiftly. And it turned out, *mirabile dictu*, that Dusentschur was right. Bockelson proclaimed to the crowd that God had now given him 'power over all nations of the earth'; anyone who might dare to resist the will of God 'shall without delay be put to death with the sword'.

And so, despite a few mumbled protests, Jan Bockelson was declared king of the world and Messiah, and the Anabaptist preachers of Münster explained to their bemused flock that Bockelson was indeed the Messiah as foretold in the Old Testament. Bockelson was rightfully ruler of the entire world, both temporal and spiritual.

It often happens with 'egalitarians' that a hole, a special escape hatch from the drab uniformity of life, is created – for themselves. And so it was with King Bockelson. It was, after all, important to emphasize in every way the importance of the Messiah's advent. And so Bockelson wore the finest robes, metals and jewellery; he appointed courtiers and gentlemen-at-arms, who also appeared in splendid finery. King Bockelson's chief wife, Divara, was proclaimed queen of the world, and she too was dressed in great finery and had a suite of courtiers and followers. This luxurious court of some two hundred people was housed in fine mansions requisitioned for the occasion. A throne draped with a cloth of gold was established in the public square, and King Bockelson would hold court there, wearing a crown and carrying a sceptre. A royal bodyguard protected the entire procession. All Bockelson's loyal aides were suitably rewarded with high status and finery: Knipperdollinck was the chief minister, and Rothmann royal orator.

If communism is the perfect society, *somebody* must be able to enjoy its fruits; and who better but the Messiah and his courtiers? Though private property in money was abolished, the confiscated gold and silver was now minted into ornamental coins for the glory of the new king. All horses were confiscated to build up the king's armed squadron. Also, names in Münster were transformed; all the streets were renamed; Sundays and feastdays were abolished; and all new-born children were named personally by the king in accordance with a special pattern.

In a starving slave society such as communist Münster, not all citizens could live in the luxury enjoyed by the king and his court; indeed, the new ruling class was now imposing a rigid class oligarchy seldom seen before. So that the king and his nobles might live in high luxury, rigorous austerity was imposed on everyone else in Münster. The subject population had already been robbed of their houses and much of their food; now all superfluous luxury among the masses was outlawed. Clothing and bedding were severely rationed, and all 'surplus' turned over to King Bockelson under pain of death. Every house was searched thoroughly and 83 wagonloads of 'surplus' clothing collected.

It is not surprising that the deluded masses of Münster began to grumble at being forced to live in abject poverty while the king and his courtiers lived in extreme luxury on the proceeds of their confiscated belongings. And so Bockelson had to beam them some propaganda to explain the new system. The explanation was this: it was all right for Bockelson to live in pomp and luxury because he was already completely dead to the world and the flesh. Since he was dead to the world, in a deep sense his luxury didn't count. In the style of every guru who has ever lived in luxury among his credulous followers, he explained that for him material objects had no value. How such 'logic' can ever fool anyone passes understanding. More important, Bockelson assured his subjects that he and his court were only the advance guard of the new order; soon, *they too* would be living in the same millennial luxury. Under their new order, the people of Münster would forge outward, armed with God's will, and conquer the entire world, exterminating the unrighteous, after which Jesus would return and they would all live in luxury and perfection. Equal communism with great luxury for all would then be achieved.

Greater dissent meant, of course, greater terror, and King Bockelson's reign of 'love' intensified its intimidation and slaughter. As soon as he proclaimed the monarchy, the prophet Dusentschur announced a new divine revelation: all who persisted in disagreeing with or disobeying King Bockelson would be put to death, and their very memory blotted out. They would be extirpated forever. Some of the main victims to be executed were women: women who were killed for denying their husbands their marital rights, for insulting a preacher, or for daring to practise bigamy – polygamy, of course, being solely a male privilege.

Despite his continual preaching about marching forth to conquer the world, King Bockelson was not crazy enough to attempt that feat, especially since the bishop's army was again besieging the town. Instead, he shrewdly used much of the expropriated gold and silver to send out apostles and pamphlets to surrounding areas of Europe, attempting to rouse the masses for Anabaptist revolution. The propaganda had considerable effect, and serious mass risings occurred throughout Holland and north-western Germany during January 1535. A thousand armed Anabaptists gathered under the leadership of someone who called himself Christ, son of God; and serious Anabaptist rebellions took place in west Frisia, in the town of Minden, and even in the great city of Amsterdam, where the rebels managed to capture the town hall. All these risings were eventually suppressed, with the considerable help of betrayal to the various authorities of the names of the rebels and of the location of their munition dumps.

The princes of north-western Europe by this time had had enough; and all the states of the Holy Roman Empire agreed to supply troops to crush the monstrous and hellish regime at Münster. For the first time, in January 1535, Münster was totally and successfully blockaded and cut off from the outside world. The Establishment then proceeded to starve the population of Münster into submission. Food shortages appeared immediately, and the crisis was met with characteristic vigour: all remaining food was confiscated, and all horses killed, for the benefit of feeding the king, his royal court and his armed guards. At all times the king and his court ate and drank well, while famine and devastation raged throughout the town of Münster, and the masses ate literally everything, even inedible, they could lay their hands on.

King Bockelson kept his rule by beaming continual propaganda and promises to the starving masses. God would definitely save them by Easter, or else he would have himself burnt in the public square. When Easter came and went, Bockelson craftily explained that he had meant only 'spiritual' salvation. He promised that God would change cobblestones to bread, and of course that did not come to pass either. Finally, Bockelson, long fascinated with the theatre, ordered his starving subjects to engage in three days of dancing and athletics. Dramatic performances were held, as well as a Black Mass. Starvation, however, was now becoming all-pervasive.

The poor hapless people of Münster were now doomed totally. The bishop kept firing leaflets into the town promising a general amnesty if the people would only revolt and depose King Bockelson and his court and hand them over. To guard against such a threat, Bockelson stepped up his reign of terror still further. In early May, he divided the town into 12 sections, and placed a 'duke' over each one with an armed force of 24 men. The dukes were foreigners like himself; as Dutch immigrants they were likely to be loyal to Bockelson. Each duke was strictly forbidden to leave his section, and the dukes, in turn, prohibited any meetings whatsoever of even a few people. No one was allowed to leave town, and any caught plotting to leave, helping anyone else to leave, or criticizing the king, was instantly beheaded, usually by King Bockelson himself. By mid-June such deeds were occurring daily, with the body often quartered and nailed up as a warning to the masses.

Bockelson would undoubtedly have let the entire population starve to death rather than surrender; but two escapees betrayed weak spots in the town's defence, and on the night of 24 June 1535, the nightmare New Jerusalem at last came to a bloody end. The last several hundred Anabaptist fighters surrendered under an amnesty and were promptly massacred, and Queen Divara was beheaded. As for ex-King Bockelson, he was led about on a chain, and the following January, along with Knipperdollinck, was publicly tortured to death, and their bodies suspended in cages from a church tower.

The old Establishment of Münster was duly restored and the city became Catholic once more. The stars were once again in their courses, and the events of 1534–35 understandably led to an abiding distrust of mysticism and enthusiast movements throughout Protestant Europe.

5.7 The roots of messianic communism

Anabaptist communism did not spring out of thin air at the advent of the Reformation. Its roots can be traced back to an extraordinarily influential late twelfth century Italian mystic, Joachim of Fiore (1145–1202). Joachim was an abbot and hermit in Calabria, in southern Italy. It was Joachim who launched the idea that hidden in the Bible for those who had the wit to see were prophecies foretelling world history. Concentrating on the murky Book of Revelation, Joachim decreed that history was destined to move through three successive ages, each of them ruled by one of the members of the Holy Trinity. The first age, the age of the Old Testament, was the era of the Father or the Law, the age of fear and servitude; the second age, the era of the Son, was the age of the New Testament, the era of faith and submission. Mystics generally think in threes; and Joachim was moved to herald the coming of the third and final age, the age of the Holy Spirit, the era of perfect joy, love and freedom, and the end of human history. It would be the age of the end of property, because everyone would live in voluntary poverty; and everyone could easily do so, because there would be no work, since people would be totally liberated from their physical bodies. Possessing only spiritual bodies, there would be no need to eat food or do much else either. The world would be, in the paraphrase of Norman Cohn, 'one vast monastery, in which all men would be contemplative monks rapt continuously in mystical ecstasy until the day of the Last Judgment'. Joachim's vision already resonates with the later Marxian dialectic of the three allegedly inevitable stages of history: primitive communism, class society, and then finally the realm of perfect freedom, total communism and the withering away of the division of labour, and the end of human history.

As with so many chiliasts, Joachim was sure of the date of the advent of the final age and, typically, it was coming soon – in his view, sometime in the first half of the next, the thirteenth century.

The Joachite *bizarreries* quickly exerted enormous influence, particularly in Italy, in Germany, and in the rigourist wing of the new Franciscan Order.

A new ingredient to this witches' brew was added a little later by a learned professor of theology at the great University of Paris at the end of the twelfth century. Once a great favourite of the French royal court, Amalric's odd doctrines were condemned by the pope and, after a forced public recantation, Amalric died shortly thereafter, in 1206 or 1207. His doctrines were then picked up by a small, secret group of erudite clerical disciples, the Amaurians, most of whom had been students in theology at Paris. Centred at the important commercial cloth-making town of Troyes, in Champagne, the Amaurian missionaries influenced many people and distributed popular works of theology in the vernacular. Their leader was the priest William Aurifex, who was either a goldsmith or an alchemist attempting to transform base metals into gold. Subjected to espionage by the bishop of Paris, the 14 Amaurians were all rounded up and either imprisoned for life or burnt at the stake, depending on whether they recanted their heresies. Most of them refused to recant.

The Amaurians, like Joachim, propounded the three ages of human history, but they added some spice to it; each age apparently enjoyed its own incarnation. For the Old Testament, it was Abraham and perhaps some other patriarchs; for the New Testament, the incarnation was of course Jesus; and now, for the dawning age of the Holy Spirit, the incarnation would now emerge in human beings themselves. As might be expected, the Amaurians considered themselves the new incarnation; in other words, they proclaimed themselves as living gods, the embodiment of the Holy Spirit. Not that they would always remain a divine élite among men; on the contrary, they were destined to lead mankind to its universal incarnation.

The congeries of groups throughout northern Europe in the fourteenth century known as the Brethren of the Free Spirit added another important ingredient to the stew; the dialectic of 'reabsorption into God' derived from the third century Platonist philosopher, Plotinus. Plotinus had had his own three stages: the original unity with God, the human-history stage of degradation and separation or alienation from God, and the final 'return' or 'reabsorption' as all human beings are submerged into the One and history is finished. The Brethren of the Free Spirit added a new élitist twist: while the reabsorption of every man must await the end of history, and the 'crude in spirit' must meanwhile meet their individual deaths, there was a glorious minority, the 'subtle in spirit', who could and did become reabsorbed and therefore living gods during their lifetime. This minority, of course, were the Brethren themselves who, by virtue of years of training, self-torture and visions had become perfect gods, more perfect and more godlike than even Christ himself. Once this stage of mystical union was reached, furthermore, it was permanent and eternal. These new gods often proclaimed themselves greater than God himself. Thus a group of female Free Spirits at Schweidnitz claimed to be able to dominate the Holy Trinity such that they could 'ride it as in a saddle'; and one of these women declared that 'when God created all things I created all things with him...I am more than God'. Man himself, therefore, or at least a gifted minority of men, could lift themselves up to divine status by their own efforts far earlier than their fellows.

Being living gods on earth brought many good things in its wake. In the first place, it led directly to an extreme form of the antinomian heresy: if people are gods, then it is impossible for them to sin. Whatever they do is necessarily moral and perfect. That means that any act ordinarily considered as sin, from adultery to murder, becomes perfectly legitimate when performed by the living gods. Indeed, the Free Spirits, like other antinomians, were tempted to demonstrate and flaunt their freedom from sin by performing all manner of sins imaginable.

But there was also a catch. Among the Free Spirit cultists, only a minority of leading adepts were 'living gods'; for the rank-and-file cultists, striving to become gods, there was one sin alone which they must not commit: disobedience to their master. Each disciple was bound by an oath of absolute obedience to a particular living god. Take for example Nicholas of Basle, a leading Free Spirit guru whose cult stretched most of the length of the Rhine. Claiming to be the new Christ, Nicholas held that everyone's sole path to salvation is making an act of absolute and total submission to Nicholas himself. In return for this total fealty, Nicholas granted his followers freedom from all sin.

As for the rest of mankind outside the cults, they were simply unredeemed and unregenerate beings who existed only to be used and exploited by the elect. This attitude of total rule went hand in hand with the social doctrine many Free Spirit cults adopted in the fourteenth century: a communistic assault on the institution of private property. In essence, however, that philosophic communism was a thinly camouflaged cover for *their* – the Free Spirits' – self-proclaimed right to commit theft at will. The Free Spirit adept, in short, regarded all property of the non-elect as rightfully his own. As the bishop of Strasbourg summed it up in 1317: 'They believe that all things are common, whence they conclude that theft is lawful for them'. Or as the Free Spirit adept from Erfurt, Johann Hartmann, put it: 'The truly free man is king and lord of all creatures. All things belong to him, and he has the right to use whatever pleases him. If anyone tries to prevent him, the free man may kill him and take his goods'. As one of the favourite sayings of the Brethren of the Free Spirit put it: 'Whatever the eye sees and covets, let the hand grasp it'.

The final ingredient for the revolutionary communist Müntzer–Münster stew came with the extreme Taborites of the early fifteenth century. All Taborites constituted the radical wing of the Hussite movement, a pre-Protestant revolutionary movement that blended struggles of religion (anti-Catholic), nationality (Czech vs upper-class and upper-clergy German), and class (artisans cartellized in guilds trying to take political power from the patricians).

The new ingredient added by the extreme wing of the Taborites was the duty to exterminate. For the Last Days are coming, and the elect must go out and stamp out sin by exterminating all sinners, which means – at the very least – all non-Taborites. For all sinners are enemies of Christ, and 'accursed be the man who withholds his sword from shedding the blood of the enemies of Christ. Every believer must wash his hands in that blood'. Having that mind-set, the extreme Taborites were not going to stop at intellectual destruction. When sacking churches and monasteries, the Taborites took particular delight in destroying libraries and burning books. For 'all belongings must be taken away from God's enemies and burned or otherwise destroyed'. Besides, the elect have no need for books. When the Kingdom of God on earth arrived, there would no longer be 'need for anyone to teach another. There would be no need for books or scriptures, and all worldly wisdom will perish'. And all people too, one suspects.

Moreover, elaborating anew the theme of a 'return' to a lost golden age, the ultra-Taborites proposed to return to the allegedly early Czech condition of communism: a society with no private property. In order to achieve this classless society, the cities in particular, those centres of luxury and avarice, and especially the merchants and the landlords, must be exterminated. After the elect have established their communist Kingdom of God in Bohemia by revolutionary violence, their task would be to forge and impose such communism on the rest of the world.

In addition to material property, the bodies of the faithful would have to be communized as well. The Taborite *ultras* were nothing if not logical. Their preachers taught: 'Everything will be common, including wives; there will be free sons and daughters of God and there will be no marriage as union of two – husband and wife'.

The Hussite revolution broke out in 1419, and in that same year, the Taborites gathered in the town of Usti, in northern Bohemia near the German border. They renamed Usti, Tabor, i.e. the Mount of Olives where Jesus had foretold his Second Coming, had ascended to heaven, and where he was expected to reappear. The Taborites engaged in a communist experiment at Tabor, owning everything in common, and dedicated to the proposition that 'whoever owns private property commits a mortal sin'. True to their doctrines, all women were owned in common, while if husband and wife were ever seen together, they were beaten to death or otherwise executed. Unfortunately but characteristically, the Taborites were so caught up in their unlimited right to consume from the common store that they felt themselves exempt from the need to work. The common store soon disappeared, and then what? Then, of course, the radical Taborites claimed that their need entitled them to claim the property of the non-elect, and they proceeded to rob others at will. As a synod of the moderate Taborites complained, 'many communities never think of earning their own living by the work of their hands but are only willing to live on other people's property and to undertake unjust campaigns for the sole purpose of robbing'. And the Taborite peasantry who did not join the communes found the radical regime reimposing feudal dues and bonds only six months after they had abolished them.

Discredited among themselves, their more moderate allies, and their own peasantry, the communist regime of the radicals at Usti/Tabor soon collapsed. The torch of frenetic mystical communism was soon picked up, however, by a sect known as Bohemian Adamites. Like the Free Spirits of the previous century, the Adamites held themselves to be living gods, superior to Christ, since Christ had died whereas they still lived. (Impeccable logic, if a bit short-sighted.) Yet, in a curious contradiction, the founder of the Adamites, the former priest Peter Kanisch, had already been captured and burnt by the Hussite military commander, John Zizka. The Adamites dubbed the dead Kanisch Jesus, and then selected as their leader a peasant whom they called Adam–Moses.

For the Adamites, not only were all goods strictly owned in common, but marriage was considered a heinous sin. In short, promiscuity was compulsory, since the chaste were unworthy to enter the messianic kingdom. Any man could choose any woman at will, and that will would have to be obeyed. The Adamites also went around naked most of the time, imitating the original state of Adam and Eve. On the other hand, promiscuity was at one and the same time compulsory and restricted, because sex could only take place with the permission of the leader Adam–Moses.

Like the other radical Taborites, the Adamites regarded it as their sacred mission to exterminate all the unbelievers in the world, wielding the sword until blood floods the world to the height of a horse's bridle. They were God's scythe, sent to cut down and eradicate the unrighteous.

The Adamites took refuge from the Zizka forces on an island in the River Nezarka, from which they went forth in commando raids to try their best, despite their small number, to fulfil their twin pledge of compulsory communism and extermination of the non-elect. At night, they sallied forth in raids, which they called a 'holy war', to steal everything they could lay their hands on and then to exterminate their victims. True to their creed, they murdered every man, woman and child they could discover.

Finally, Zizka sent a force of 400 trained soldiers who besieged the Adamites' island, and finally, in October 1421, overwhelmed the commune and massacred every single person. One more hellish kingdom of God on earth had been put to the sword.

The Taborite army was crushed by the moderate Hussites at the Battle of Lipan, in 1434, and from then on, Taborism declined and went underground. But it continued to emerge here and there, not only among the Czechs, but in Bavaria and other German lands bordering Bohemia. The stage was set for the Müntzer–Münster phenomenon of the following century.

5.8 Non-scholastic Catholics

Turning from the Protestants and the Anabaptist extremists, there were some Catholics during the sixteenth century who were not scholastics, and who did not participate in the Reformation struggles, but who contributed significantly to the development of economic thought.

One of these was a universal genius whose new way of viewing the world has stamped itself on world history: the Pole Nicholas Copernicus (1473–1543). Copernicus was born in Thorn (Torun), part of Royal Prussia, then a subject state of the kingdom of Poland. He came from a well-to-do and even distinguished family, his father being a wholesale merchant and his uncle and mentor the bishop of Ermeland. Copernicus proved an inveterate student and theorist in many areas: studying mathematics at the University of Cracow, becoming a skilled painter, studying canon law and astronomy at the famous University of Bologna. Becoming a cleric, Copernicus was named canon of the cathedral at Frauenburg at the age of 24, but then took leave to lecture at Rome and to study in several fields. He then earned a doctor's degree in canon law at the University of Ferrara in 1503 and a medical degree at the University of Padua two years later. He became physician to his uncle, the bishop, and later served full-time as canon of the cathedral.

Meanwhile, as an avocation in the course of his busy life, this remarkable theorist elaborated the new system of astronomy that the earth and other planets rotated around the sun rather than vice versa.

Copernicus turned his attention to monetary affairs when King Sigismund I of Poland asked him to offer proposals for reform of the tangled currency of the area. Since the 1460s, Prussian Poland, where Copernicus lived, was the home of three different currencies: that of Royal Prussia, the Polish kingdom itself, and that of Prussia of the Teutonic Order. None of the governments maintained a single standard of weight. The Teutonic Order, in particular, kept debasing and circulating cheaper money. Copernicus finished his paper in 1517, and it was delivered to the Royal Prussian Assembly in 1522, and published four years later.

Copernicus' proposals were not adopted, but the resulting booklet, *Monetae cudendae ratio* (1526) made important contributions to monetary thought. In the first place, Copernicus strengthened the exposition of 'Gresham's law' first set forth by Nicole Oresme a century and a half earlier. Like Oresme he began with the insight that money is a measure of common market value. He then proceeded to show that, if its value is fixed by the state, money fixed artificially cheaply will tend to drive out the dearer. Thus Copernicus declared that it is impossible for good full-weighted coin and base and degraded coin to circulate together; that all the good coin is hoarded, melted down or exported; and the degraded coin alone remains in circulation. He also pointed out that in theory the government could keep adjusting the legal values of two moneys in accordance with fluctuating market values, but that in practice, the government would find this too complex a task.

In the course of his discussion, Copernicus also became the first person to set forth clearly the 'quantity theory of money', the theory that prices vary directly with the supply of money in the society. He did so 30 years before Azpilcueta Navarrus, and without the stimulus of an inflationary influx of specie from the New World to stimulate his thinking on the subject. Copernicus was still being a theorist *par excellence*. The causal chain began with debasement, which raised the quantity of the money supply, which in turn raised prices. The supply of money, he pointed out, is the major determinant of prices. 'We in our sluggishness', he maintained, 'do not realize that the dearness of everything is the result of the cheapness of money. For prices increase and decrease according to the condition of the money.' 'An excessive quantity of money', he opined, 'should be avoided.'

Another non-scholastic Catholic who contributed to economic thought in the sixteenth century was a fascinating Italian character named Gian Francesco

Lottini da Volterra (fl. 1548), who began the Italian emphasis on analysis of value and utility. In a sense, Lottini was an archetypal 'Renaissance man': learned Aristotelian scholar; secretary to Cosimo I, de Medici, Duke of Florence; unscrupulous politician; and leader of a Venetian murder ring. At the end of his life in 1548, Lottini published his *Avvedimenti civili*, in the Italian tradition (see further in chapter 6) of writing a handbook of advice to princes. The *Avvedimenti* was the work of an elder statesman dedicated to Francesco, the Medici Grand Duke of Tuscany.

Lottini investigated consumer demand, and pointed out that the valuation of consumers was rooted in the pleasure they could derive from the various goods. In a new hedonistic emphasis, he pointed out that pleasure comes from satisfying man's needs. While counselling the use of moderation (an Aristotelian theme) regulated by reason in satisfying desires, Lottini lamented that some people's wants and demands seem to be infinite: 'I have known many whose demand could not be satisfied'. As in the case of several predecessors, Lottini saw the fact of *time-preference*: people evaluate present goods higher than future goods, i.e. than present expectations of attaining these goods in the future. Unfortunately, Lottini gave to this perfectly reasonable and ineluctable fact of nature a moralistic twist: somehow this was an improper *over*estimation of present and *under*estimation of future goods. This unwarranted moralistic critique was to plague economic thought in the future. As Lottini phrased it: '...the present, which is before our eyes and which can, so to speak, be grasped with our hands, has forced, more often than not, even wise men to pay more attention to the nearest satisfaction than to hope for the far future'. The reasons for this universal fact of time-preference are that people pay more attention to things they can perceive with their senses than things they can learn of by reason, and that 'only a few people follow a long-lasting and risky project stubbornly to its end'. In the first reason, Lottini begs the question: the problem is not senses vs reason, but something evident to the senses *now* versus what is only *expected* to be evident at some time in the future. His second reason is more on the mark: the emphasis on the 'long-lasting' touches on the crucial problem of length of waiting-time, and the word 'risky' brings another and critical factor into play: the degree of risk that the object will never become evident to the senses *at all*.

Lottini's work went into several editions shortly after his death, and a copy has been found belonging to the great English poet and theologian John Donne (1573–1631), whose marginal notes reveal the Aristotelian influence upon Donne.

Successor to Lottini was Bernardo Davanzati (1529–1606), a Florentine merchant, erudite classicist and renowned translator of Tacitus, and an arch-Catholic historian of the Reformation in England. At the age of 17, young Davanzati became a member of the Florentine Academy. In two works, written in lively Italian style, in 1582 and especially in his *Lezione delle Moneta* (1588), Davanzati applied the scholastic type of utility analysis to the theory of money. Thus Davanzati approached, and solved – with the exception of the marginal element – the paradox of value, comparing demand and scarcity. Davanzati also followed Buridan in developing what would later be the excellent analysis by Carl Menger, father of the Austrian School in the late nineteenth century, of the origin of money. Men, wrote Davanzati, need many things for the maintenance of life; but climates and people's skills differ, hence there arises a division of labour in society. All goods are therefore produced, distributed, and enjoyed by means of exchange. Barter was soon found to be inconvenient, and so locations for exchange developed, such as fairs and markets. After that, people agreed – but here Davanzati was cloudy on *how* this 'agreement' took place – to use a certain commodity as money, i.e. as a medium for all exchanges. First, gold and silver were used in lump pieces; then they were weighed, and then stamped to show weight and fineness in the form of coins. Unfortunately, in his later historical sketch of the theory of money, Menger was ungracious enough to dismiss Davanzati brusquely as simply someone who 'traces the origin of money back to the authority of the state'.[15]

5.9 Radical Huguenots

Calvin began his own Reformation after Luther, but it rapidly swept through western Europe, triumphing not only in Switzerland but more importantly in the Dutch Netherlands, the main commercial and financial centre of Europe in the seventeenth century, and coming within a hair's breadth of dominating Great Britain and France. In Britain, Scotland was conquered by Calvinism in the form of the Presbyterian Church, and Calvinist Puritanism heavily influenced the Anglican Church and almost conquered England in the mid-seventeenth century. France was rent by religious–political wars during the last four decades of the sixteenth century, and the Calvinists, known as Huguenots, were not far from triumphing there. Though converting no more than 5 per cent of the population, the Huguenots were extremely influential in the nobility, and in pockets in northern and south-western France.

John Calvin, fully as much as Luther, preached the doctrine of absolute obedience and non-resistance to duly constituted government, regardless of how evil that government may be. But Calvin's embattled followers, enjoying rising aspirations against non-Calvinist rulers, developed justifications for resistance to evil rulers. These were first set forth in the 1550s by the English 'Marian exiles' in Switzerland and Germany during the reign of the last Catholic monarch in England, Queen Mary. This radical tradition, including the people's right to tyrannicide, was carried on by the Huguenots in the following decades.

Stimulated by the horror of the massacre of St Bartholomew's Day in 1572, the Huguenots promptly developed libertarian theories of radical resistance against the tyranny of the Crown. Some of the most notable writings are the jurist, François Hotman's (1524–90) *Francogallia*, written in the late 1560s but first published in 1573; the anonymous *Political Discourses* (1574); and the culminating work, at the end of the 1570s, by Philippe Du Plessis Mornay (1549–1623), the *Defense of Liberty against Tyrants (Vindiciae Contra Tyrannos)* (1579). Defending tyrannicide in particular was the *Political Discourses*, which bitterly attacked the 'so-called theologians and preachers' who asserted that no one may ever lawfully kill a tyrant 'without a special revelation from God'. The other Huguenot writers, however, were far more cautious on this touchy issue.

Furthermore, three decades before the radical Spanish scholastic Juan de Mariana, the Huguenots advanced a pre-Lockean theory of popular sovereignty. In particular, Hotman warned that a people's transference of their right to rule to the king can in no way be permanent or irrevocable. On the contrary, the people and their representative bodies have the right of continual surveillance of the king, as well as of taking away his power at any time. Not only that, but the states-general is supposed to have continuing day-to-day power to rule. Hotman won general Huguenot acceptance of this new creed by cloaking it in terms of Jean Calvin's original, quite contrasting political doctrine.

But Hotman's argument for original popular rule was strictly historical, and the counter-attacks of the royalist writers soon riddled the historical account with gross distortions. It was necessary for the Huguenots to abandon the original Calvinist counsel of total civil obedience and construct a natural law theory of the original sovereignty of the people, preceding the consensual transfer to kingly rule. In short, the Huguenots had to rediscover and reappropriate the scholastic tradition of their hated Catholic opponents. Thus, in contrast to the preaching style and emphasis on divine will of the Marian exiles, Mornay and other Huguenots wrote in a logical, scholastic style, and explicitly referred to Aquinas and to codifiers of the Roman law.

In short, as Professor Skinner writes, there was no 'Calvinist theory of revolution' in the sixteenth century. Paradoxically, the French Calvinists pioneered the development of a revolutionary theory of popular rule by grounding themselves in the natural law tradition of their Catholic adversaries.[16]

Furthermore, Ockhamite scholastics at Paris, e.g. Jean Gerson in the early fifteenth century and the Englishman John Major in the early sixteenth, pioneered specifically the concept of sovereignty which always inheres in the people and which they can therefore take back from the king at any time.

One of the pernicious effects on scholarship of Max Weber's Protestant (actually Calvinist) ethic as the creator of capitalism has already been seen:

the neglect of the actual rise of capitalism in Catholic Italy, as well as in Antwerp and southern Germany. Another associated Weberian fallacy is the popular idea of Calvinism as 'modern' and revolutionary, as the creator of radical and democratic political thought. But we have seen that Calvinist and Protestant political thought was originally statist and absolutist. Calvinism only became revolutionary and anti-tyrannical under the pressure of opposing Catholic regimes, which drove the Calvinists back to natural law and popular sovereignty *motifs* in Catholic scholastic thought.

An important strand of popular sovereignty was worked out by Theodore Beza (1519–1605), Calvin's leading disciple and successor at Geneva. The great Beza, influenced by Hotman, published *The Right of Magistrates* in 1574. Beza insisted that natural law revealed that the people logically and temporally preceded their rulers, so that political power originated in the body of the people. It is 'self-evident', Beza declared, that 'peoples do not come from rulers', and are not created by them. Hence the people originally decided to transfer governing powers to the rulers. An influential radical Huguenot pamphlet, *The Awakener (Le Reveille Matin)* (1574) repeated Beza's argument. (*The Awakener* was probably written by the eminent French jurist, Hugues Doneau.) Man could not be naturally in subjection, *The Awakener* pointed out, for 'assemblies and groups of men existed everywhere before the creation of kings', and 'even today it is possible to find a people without a magistrate but never a magistrate without a people'. If man is not to be naturally free but naturally enslaved, then we must absurdly conclude that 'the people must have been created by their magistrates' when it is obvious, to the contrary, that 'magistrates are always created by the people'.

As usual Philippe Du Plessis Mornay summed up the position with trenchant clarity. 'No one', he observed, 'is a king by nature', and, furthermore, and with particular point, 'a king cannot rule without a people, while a people can rule itself without a king'. Hence, it is evident that the people must have preceded the existence of kings or positive laws, and then later submitted themselves to their dominion. Hence, man's natural condition must be liberty, and we must possess freedom as a natural right, a right that can never be justifiably removed. As Mornay put it, we are all 'free by nature, born to hate servitude, and desirous of commanding rather than yielding obedience'. Further, continuing this proto-Lockean analysis, the people must have submitted themselves to governmental rule to promote their well-being.

Following John Major, Mornay was clear that the *kind* of well-being the people advanced in setting up government was to protect their individual natural rights. To Mornay as to Major, a 'right' over something was being free to hold and dispose of it, i.e. a right in the object as property. The people retain such rights when they establish polities, which they willingly create in order to ensure greater security for their property. These rights of property include the natural right of everyone in their own persons and their liberties. Governments are supposed to maintain those rights, but often become the main transgressors. Mornay was careful to point out that the people, in establishing governments, cannot alienate their sovereignty. Instead they always 'remain in the position of the owner' of their sovereignty, which they merely delegate to the ruler. The 'whole' people therefore continues to be 'greater than the king and is above him'.

On the other hand, Mornay and the other Huguenots were constrained to temper their revolutionary radicalism. First, they made it clear, in a manner wholly consistent with their view that the whole people retain their sovereignty, that the 'people' are not really the people as a whole but their 'representatives' in the magistrates and the states-general. The people have necessarily 'given their sword' to these institutions, and therefore 'when we speak of the people collectively, we mean those who receive authority from the people, that is, the magistrates below the king...[and] the assembly of the Estates'. Moreover, in practice, these alleged representatives keep the enforcement of the king's promises in their hands, since that power of enforcement is a property of 'the authorities that have the power of the people in them'.

Furthermore, according to the Huguenots, the sovereign right is only in the people as a whole and not in any individual, so that tyrannicide by one subject is never permissible. The people as a whole are above the king, but the king is above any single individual. More concretely, since sovereignty rests in the institutions of duly constituted assemblies or magistrates, only these institutions embodying the sovereign power of the people can properly resist the tyranny of the king.

In a few short years, the rebellion of the Dutch against Spanish rule reached a climax in 1580–81. An anonymous Calvinist pamphlet, *A True Warning*, appeared in Antwerp in 1581 which asserted that 'God has created men free', and that the only power over men is whatever they themselves have granted. If the king breaks the conditions of his rule, then the people's representatives have the right and the duty to depose him and to 'resume their original rights'. The leader of the Dutch rebellion, William the Silent, Prince of Orange, adopted the same view in these same years, both in his own *Apology* presented to the states-general at the end of 1580, and in the official *Edict of the States General* issued the following July. (It should be noted that the *Apology* was largely written by Mornay and other Huguenot advisors.) The *Edict* declared that the king of Spain had 'forfeited his sovereignty', and that the United Netherlands had at last been obliged, 'in conformity with the law of nature', to exercise their unquestioned right to resist tyranny, and 'to pursue such means' as necessary to secure their 'rights, privileges and liberties'.

5.10 George Buchanan: radical Calvinist

The most fascinating as well as the most radical of the Calvinist theorists of the late sixteenth century was not a French Huguenot but a Scot who spent most of his time in France. George Buchanan (1506–82) was a distinguished humanist historian and poet, who taught Latin at the College de Guyenne in Bordeaux. Buchanan was trained in scholastic philosophy at the University of St Andrews in the mid-1520s, where he studied under the great John Major. An early convert to Calvinism, Buchanan became a friend of Beza and of Mornay, and served as a member of the general assembly of the Church of Scotland.

British Calvinist thinkers of the 1550s, refugees from the Catholic rule of Queen Mary, had worked out in exile a justification for rebellion against tyranny in terms of the godly against idolatry. It remained to restate revolutionary theory in secular, natural rights, terms rather than in the strictly religious concepts of godliness and heresy. This feat was accomplished by the Scot George Buchanan, in the midst of a struggle of the Calvinist majority of Scotland against their Catholic queen. A revolution in 1560 had conquered the Scottish parliament for Calvinism in a now overwhelmingly Calvinist country, and seven years later the Calvinists deposed the Catholic queen, Mary Stuart.

In the course of this struggle, Buchanan, in 1567, began to draft his great work, *The Right of the Kingdom in Scotland*, which he published in 1579. Parts of Buchanan's argument appeared in speeches delivered by the new Scottish Regent James Stewart, Earl of Moray in 1568, and then in discussions between the Scottish and English governments three years later.

Buchanan began, like the Huguenots, with the state of nature and a social contract by the people with their rulers, a contract in which they retained their sovereignty and their rights. But there were two major differences. In the first place, Beza and Mornay had talked of *two* such contracts: a political social contract, and a religious covenant to act as a godly people. With Buchanan, the religious covenant drops out totally, and we are left with the political contract alone. Some historians have interpreted Buchanan's radical step as secularizing politics into an independent 'political science'. More accurately, Buchanan emancipated political theory from the directly divine or theological concerns of the Protestant founders, and returned it to its earlier base in natural law and in human rights.

More radically, Buchanan swept away the entire inconsistent Huguenot baggage of the people virtually alienating their sovereignty to intermediate 'representatives'. On the contrary, for Buchanan the people consent to and contract with a ruler, and retain their sovereign rights, with no mention of intermediate assemblies. But this puts far more revolutionary implications on natural rights and popular sovereignty. For then, when a king becomes tyrannical and violates his task to safeguard individual rights, this means 'that the whole body of the people, and even individual citizens, may be said to have the authority to resist and kill a legitimate ruler in defence of their rights'. Thus, over two decades before the Spanish Jesuit de Mariana, George Buchanan had arrived, for the first time, at a truly individualist theory of natural rights and sovereignty and therefore a justification for individual acts of tyrannicide. Thus, in what Professor Skinner calls 'a highly individualist and even anarchic view of political resistance', Buchanan stressed that:

> Since the people as a body create their ruler, it is...possible at any time 'for the people to shake off whatever *Imperium*' they may have imposed on themselves, the reason being that 'anything which is done by a given power can be undone by a like power'. Furthermore, Buchanan adds that, since each individual must be pictured as agreeing to the formation of the commonwealth for his own greater security and benefit, it follows that the right to kill or remove a tyrant must be lodged at all times 'not only with the whole body of the people' but 'even with every individual citizen'. So he willingly endorses the almost anarchic conclusion that even when, as frequently happens, someone 'from amongst the lowest and meanest of men' decides 'to revenge the pride and insolence of a tyrant' by simply taking upon himself the right to kill him, such action are often 'judged to have been done quite rightly,...'.[17]

We have seen that the Spanish Jesuit, Juan de Mariana, developed a similar theory of Lockean popular sovereignty and of individual tyrannicide two decades later. As a scholastic, he too had a natural law contract and not any religious covenant at the base of his theory. Skinner ably concludes that

> The Jesuit Mariana may thus be said to link hands with the Protestant Buchanan in stating a theory of popular sovereignty which, while scholastic in its origins and Calvinist in its later development, was in essence independent of either religious creed, and was thus available to be used by all parties in the coming constitutional struggles of the seventeenth century.

More typical, however, of the dominant strand of radical Calvinism emerging from the sixteenth century was the distinguished Dutch jurist, Johannes Althusius (1557–1638). His *magnum opus* was his treatise of 1603, *Politics Methodically Set Forth*. Althusius built upon and was similar to Mornay and the Huguenot theorists. With them, he retained the pre-Lockean popular sovereignty with consensual revocable delegation to the king, and also with them he mediated that sovereignty through representative assemblies and associations. In addition, the justification of individual tyrannicide disappears. However, one innovation of Buchanan's was retained in Althusius' massive treatise: the dropping of any religious covenant. Indeed, Althusius is more explicit, attacking theologians for infusing their political writings with 'teachings on Christian piety and charity', and failing to realize that these matters are 'improper and alien to political doctrine'.

5.11 Leaguers and *politiques*

While the Huguenot monarchomachs have been far more extensively studied than their Catholic counterparts of the late sixteenth century, the latter are an interesting and neglected group. After the accession of King Henry III in 1574, it began to be clear that the Huguenots were no longer in danger of annihilation, and that, on the contrary, it seemed that Henry was soft on Protestants. This softness became an acute problem for the Catholics of France in 1584, when the death of the heir to the throne, the Duc d'Alençon, brought into the first line of succession Henry of Navarre, a committed Calvinist. This threat brought into being the Catholic League, especially in Paris, then the heartland of French Catholicism. The League, headed throughout France by the Duc de Guise, rebelled against Henry and drove him out of Paris. As we have seen, Henry's treacherous assassination of Guise and his brother the cardinal during a peace parley led to a mighty act of tyrannicide, in which the young Dominican priest, Jacques Clément, on 1 August 1589, avenged the Guises by assassinating Henry III.

Paris under the Catholic League was run by a council of 16, supported by the middle classes, professionals and businessmen, and backed fervently by virtually all the priests and curés in the city. The most radical of the Leaguer thinkers, who flourished during the 1580s and 1590s, was a leading attorney, François LeBreton, who, in his *Remonstrance to the Third Estate* (1586), bitterly attacked the king as a hypocrite, advocated a French republic, and called for revolution and civil war to attain it. LeBreton was promptly executed by the Parlement, the leading judicial organ in France.

The rebellion of the Catholic League, which culminated in the revolt of Paris and other parts of France, was not only motivated by concern over the possible imposition of a minority Huguenot faith upon the Catholic French. Leaguer grievances were political and economic as well as religious. Henry III, the last Valois king, had imposed upon his country a huge amount of pillage, a very high tax burden, and large amounts of expense, offices and subsidies. Huge taxes were particularly levied upon the city of Paris.

But Father Clement's act, however heroic, proved in the end to be counter productive. For the first Bourbon, Henry of Navarre, assumed the throne as Henry IV. Realizing that he could scarcely remain a Huguenot and still govern France, Henry, after four years of war, converted to Catholicism, supposedly explaining, in a probably apocryphal phrase, that 'Paris is worth a mass'. Henry IV had won. With the advent of the new Bourbon king came the rule of the centrist or 'moderate' Catholics, the *politiques* – 'the politicals'.

Whether one might call Henry IV and the *politiques* 'moderates' depends on one's perspective. As secularists and men of feeble faith, it is true that the *politiques* were not interested in slaughtering Huguenots, and were anxious to end the religious conflict as soon as possible. Henry did so in his toleration decree, the Edict of Nantes in 1598. In that sense, the *politiques* were 'middle-of-the-roaders' in between the two religious extremes: the Huguenots and the Catholic Leaguers. And that is the light that most historians have shed upon them. But in another important sense the *politiques* were not 'moderate' at all. For they were truly extreme in desiring to give all power to the absolute state and to its embodiment in the king of France. In triumphing over both 'extremes', Henry IV and the *politiques* rode roughshod over the only two groups who had called for resistance against royal tyranny. The victory of Henry also meant the end of French resistance to royal absolutism. Unchecked despotic rule by the Bourbons was now to be France's lot for two centuries, until it was brought to a violent end by the French Revolution. It was a high price indeed to pay for religious concord, especially since Louis XIV, the 'Sun King', the embodiment of French royal despotism, revoked the Edict of Nantes in 1685 and thereby drove many Huguenots out of France. In the long run, the religious 'peace' of absolutist 'moderation' turned out to be the peace of the grave for many Huguenots.

5.12 Notes

1. Quentin Skinner, *The Foundations of Modern Political Thought: Vol. II, The Age of Reformation* (Cambridge: Cambridge University Press, 1978), p. 143. In particular, two late sixteenth century works launched this critique: the Italian Jesuit Antonio Possevino (1534–1611), *A Judgment on the Writings of Jean Bodin, Philippe Mornay and Niccolo Machiavelli* (Lyons, 1594); and the Spanish Jesuit Pedro de Ribadeneyra (1527–1611), *Religion and the Virtues of the Christian Prince against Machiavelli* (Madrid, 1595, trans. and ed. by George A. Moore, Maryland, 1949).
2. Gary North, 'The Economic Thought of Luther and Calvin', *The Journal of Christian Reconstruction*, II (Summer, 1975), p. 77.
3. Richard H. Tawney, *Religion and the Rise of Capitalism* (1927, New York: New American Library, 1954), p. 80.
4. Ibid., p. 95.
5. In contrast to the Catholics, to Luther, and probably to Calvin (who, however, was ambivalent on the subject), the Puritans were 'post-millennialist', i.e. they believed that human beings would have to establish the Kingdom of God on earth for a thousand years before Christ would return. The others were either 'pre-millennialist' (Christ would return to earth and *then* set up a thousand years of the Kingdom of God on earth), or, like the Catholics, amillennialist (Christ would return period, and then the world would end). Post-millennialism, of course, tended to induce in its believers eagerness and even haste to get on with their own establishment of the Kingdom of God on earth so that Jesus could eventually return.
6. The fact that only late Calvinism developed this version of the calling indicates that Weber might have had his causal theory reversed: that the growth of capitalism might have led to a more accommodating Calvinism rather than the other way round. Weber's approach holds up better in analysing those societies, such as China, where religious attitudes seem to have crippled capitalist economic development. Thus, see the analysis of

religion and economic development in China and Japan by the Weberian Norman Jacobs, *The Origin of Modern Capitalism and Eastern Asia* (Hong Kong: Hong Kong University Press, 1958).

7. Emil Kauder, *A History of Marginal Utility Theory* (Princeton, NJ: Princeton University Press, 1965), p.5.
8. Michael Walzer, *The Revolution of the Saints: A Study in the Origins of Radical Politics* (Cambridge, Mass.: Harvard University Press, 1965), p. 216; see also pp. 206–26.
9. Kauder, op. cit., note 7, p. 9.
10. John T. Noonan, Jr, *The Scholastic Analysis of Usury* (Cambridge, Mass.: Harvard University Press, 1957), p. 344*n*.
11. Ibid., p. 371.
12. Eugen von Böhm-Bawerk, *Capital and Interest, Vol. I: History and Critique of Interest Theories* (1921, South Holland, Ill.: Libertarian Press, 1959), p. 24.
13. Ronald A. Knox, *Enthusiasm: A Chapter in the History of Religion* (1950, New York: Oxford University Press, 1961), p. 133.
14. Quoted in Igor Shafarevich, *The Socialist Phenomenon* (New York: Harper & Row, 1980), p. 57.
15. Carl Menger, *Principles of Economics* (New York: New York University Press, 1981), pp. 317–18.
16. Skinner, op. cit., note 1, p. 321.
17. Ibid., pp. 343–4.
18. Ibid., p. 347.

6 Absolutist thought in Italy and France

6.1 The emergence of absolutist thought in Italy

By the twelfth century, the Italian city-states had evolved a new form of government, new at least since ancient Greece. Instead of the usual hereditary monarch as feudal overlord, basing his rule on a network of feudal dominion over land areas, the Italian city-states became republics. The commercial oligarchs who constituted the ruling élite of the city-state would elect as ruler a salaried bureaucratic official or *podesta*, whose term of office was short, and who therefore ruled at the pleasure of the oligarchy. This city-republican form of government began at Pisa in 1085, and had swept northern Italy by the end of the twelfth century.

Since the age of Charlemagne in the ninth century, the German – or 'Holy Roman' – emperors were legally supposed to be rulers of northern Italy. For several centuries, however, this rule was merely *pro forma*, and the city-states were *de facto* independent. By the mid-twelfth century, the Italian city-states were the most prosperous countries in Europe. Prosperity meant the standing temptation of wealth to loot, and so the German emperors, beginning with Frederick Barbarossa in 1154, began a two-centuries-long series of attempts to conquer the northern Italian cities. The incursions came to an end with the resounding defeat of Emperor Henry VII's expedition of 1310–13, followed by the abject withdrawal and dissolution of the imperial army of Louis of Bavaria in 1327.

In the course of this chronic struggle, legal and political theorists arose in Italy to give voice to an eventually successful Italian determination to resist the encroachment of the German monarchs. They evolved the idea of the right of nations to resist imperial attempts at conquest by other states – what would later be called the right of national independence, or 'self-government' or 'national self-determination'.

During the two centuries of conflict, the major ally of the Italian city-states against the German empire was the pope, who in that era was able to put papal armies into the field. As the papal armies helped the cities roll back the emperor's forces during the thirteenth century, the city-states found to their growing chagrin that the pope was beginning to assert temporal power over northern Italy. And those claims could be backed up by the papal armies occupying large sections of the Italian peninsula.

For a while, some theorists toyed with the idea of reversing Italian policy and submitting to the German emperor in order to rid themselves of the papal threat. Prominent among this group was the great Florentine poet Dante Alighieri, who advanced his pro-imperial and anti-papal views in his *Monarchy*, written at the height of the imperial hopes for the 1310 expedition of Henry VII. The end of the imperial threat soon afterwards, however, made this turn to the emperor impractical, as well as unpalatable to the majority of Italians. And so a new political theory was needed by the oligarchs of the

Italian city-states. Such a theory would assert the claims of the secular state – whether republic or monarchy made little difference – to rule at will, unchecked by the age-old moral and often concrete authority of the Catholic Church to limit state invasions of natural law and human rights. In short, the Italian oligarchs needed a theory of state absolutism, of secular power untrammelled. The Church was to be impatiently relegated to the purely theological and 'religious' area while secular affairs would be in the entirely separate hands of the state and its temporal power. This amounted to the *politique* doctrine, as it would come to prevail in late sixteenth century France.

As we have seen above, the Italian oligarchs found their new theory in the writings of the political theorist and university professor, Marsiglio of Padua. Marsiglio can therefore be considered the first absolutist in the modern western world, and his *Defensor Pacis* (1324) the first main expression of absolutism.

While Marsiglio was the founding theorist of absolutism in the West, the specific form of his own cherished polity quickly became obsolete – at least in Padua. For Marsiglio was an adherent of oligarchical republicanism, but this form of government proved short-lived, and disappeared in Padua soon after the publication of his treatise. During the latter half of the thirteenth century, the Italian city-states became riven between the old oligarchs – the *magnati* – striving to retain their power, and the newly wealthy but disenfranchised *popolani*, who kept attempting to gain power. The upshot was that throughout northern Italy during the last half of the thirteenth century – beginning with Ferrara in 1264 – power was seized by one man, one *signor*, one despot who imposed the hereditary rule of himself and his family. In effect, hereditary monarchy had been established once again. They were not called 'kings', since that would have been an absurdly grandiose title for the territory of one city; and so they gave themselves other names: 'permanent lord'; 'captain general'; 'duke', etc. Florence was one of the few cities able to resist the new tide of one-man rule.

In 1328, four years after the publication of *Defensor Pacis*, the della Scala family finally managed to impose their control over the city of Padua. The della Scalas had taken over Verona in the 1260s, and now, after many years of conflict, Cangrande della Scala was able to seize power in Padua as well. Quick to inaugurate a new tradition of fawning adulation of tyranny was the prominent Paduan literary figure Ferreto de Ferreti (c.1296–1337), who abandoned his previous republicanism to compose a long Latin poem on *The Rise of the della Scala.*

The hero Cangrande had come, according to Ferreti, and brought peace and stability at last to 'turbulent' and torn Padua. Ferreti concluded his panegyric by expressing the fervent hope that the descendants of Cangrande della Scala would 'continue to hold their sceptres for long years to come'.

6.2 Italian humanism: the republicans

The defenders of the old oligarchic republics countered the rise of the *signori* with a pro-republican absolutism of their own. This development began in the teaching of rhetoric. By the early twelfth century, the University of Bologna, and other Italian centres for training lawyers, had developed courses in rhetoric, originally the art and style of writing letters, to which was later added the art of public speaking. By the first half of the thirteenth century, the professors of rhetoric were including direct political commentary in their lessons and handbooks. One popular form was a propagandistic history of their particular cities, glorifying the city and its rulers, and expressly devoted to inculcating the ideology of support for the ruling élite of the city. The most prominent early master of this genre was the Bolognese rhetorician Boncampagno da Signa (c.1165–1240), whose most popular work was *The Siege of Ancona* (1201–2). Another prominent form, developed by Italian rhetoricians in the second half of the thirteenth century, was advice-books for rulers and city magistrates, in which political advice was directed to the rulers. The most important early advice-book was John of Viterbo's *The Government of Cities*, which he wrote in the 1240s after serving as a judge under the elected ruler, or *podesta* of Florence. John of Viterbo, however, was not a full absolutist, since his determinedly moral approach counselled the ruler always to pursue virtue and justice and to avoid vice and crime.

Whereas the Italian teaching of rhetoric at Bologna and elsewhere was narrowly practical, the French professors of rhetoric in the thirteenth century upheld the classical Greek and Roman writers as models of style. The French method was taught at the University of Paris and particularly at Orleans. By the second half of the thirteenth century, Italian rhetoricians who had studied in France brought the new approach to Italy, and the broader, more humanistic approach quickly swept the field, dominating even the University of Bologna. Soon these early humanists began to study the ideas as well as the style of the classical poets, historians and orators, and began to enliven their political theory with classical references and models.

The most important of these early humanist rhetoricians was the Florentine Brunetto Latini (c.1220–94). Exiled from his native Florence, Latini went to France at the age of 40 and imbibed the works of Cicero and the French rhetorical approach. During his exile, Latini composed his leading work, *The Books of Treasure*, which introduced Cicero and other classical writers into the traditional works of Italian rhetoric. On his return to Florence in 1266, Latini also translated and published some of Cicero's major works.

Particularly important in the new learning was the University of Padua, beginning with the great judge Lovato Lovati (1241–1309), whom no less a poet than Petrarch (mid-fourteenth century) called the greatest Italian poet up to that time. The most important of Lovati's disciples was the fascinating character Alberto Mussato (1261–1329). Lawyer, politician, historian, dramatist and poet, Mussato was the leader of the republican faction in Padua, the main opposition to the lengthy campaign by the della Scala family to seize power in that city. (Ironically enough, Ferreto de Ferreti, the panegyrist of the della Scala victory, had been a fellow disciple in the Lovati circle.) Mussato wrote two histories of Italy; his most prominent literary effort was the notable Latin verse play *Ecerinis* (1313–14), the first secular drama written since the classical era. Here Mussato employed the new rhetoric as politician and propagandist. He explains in the introduction to the play that his chief purpose was to 'inveigh with lamentations against tyranny', specifically of course the tyranny of the della Scalas. The political propaganda value of *Ecerinis* was quickly recognized by the Paduan oligarchy, which crowned Mussato with a laurel wreath in 1315, and issued a decree ordering the play to be read aloud each year before the assembled populace of the city.

The new study of the classics also gave rise to sophisticated city chronicles, such as the *Chronicle* of Florence written in the early fourteenth century by Dino Compagni (c.1255–1324), a prominent lawyer and politician of the city. Indeed, Compagni was himself one of the rulers of the Florentine oligarchy. Another important example of republican rhetorical humanism was Bonvesin della Riva's book, *The Glories of the City of Milan* (1288). Bonvesin was a leading professor of rhetoric in Milan.

All these writers – Latini, Mussato, Compagni, and others – were concerned to work out a political theory in defence of oligarchical republican rule. They concluded that there are two basic reasons for the rise of the hated *signori*: the emergence of factions within the city, and love of greed and luxury. Both sets of ills were of course an implicit attack on the rise of the *nouveau riche popolani* and the challenge of the *popolani* against the old republican magnates. Without the new wealth of the *popolani* or the rise of their factions, the old oligarchy would have gone on their way undisturbed in the quiet exercise of power. Compagni put it baldly: Florence was disrupted because 'the minds of the false popolani' had been 'corrupted to do wrong for the sake of gain'. Latini sees the source of evil in 'those who covet riches', and Mussato attributes the death of the Paduan republic to 'the lust for money' which undermined civic responsibility. Note the emphasis on the 'lust' or 'coveting' of money, that is, by *new* wealth; *old* and therefore 'good' wealth – that of the magnates – does not require lust or coveting since it is already in the possession of the oligarchy.

The way to end factions, according to the humanists, was for the people to put aside personal interests for unity on behalf of the 'public' or civic 'interest', of the 'common good'. Latini set the tone by bringing in Plato and Aristotle, Plato for instructing us that 'we ought to consider the common profit above everything else', and Aristotle for stressing that 'if each man follows his own individual will, the government of men's lives is destroyed and totally dissolved'.

Blather about the 'public interest' and the 'common good' may be all very well, until the time comes to interpret in practice what these cloudy concepts are supposed to mean and in particular *who* is supposed to interpret their meaning. To the humanists the answer is clear: the virtuous ruler. Select virtuous rulers, trust in their virtue, and the problem is solved.

How are the people supposed to go about selecting virtuous rulers? That was not the sort of embarrassing question posed or considered by the Italian humanists. For that would have led ineluctably to considering *institutional mechanisms* which might promote the selection of virtuous rulers, or worse yet, prevent the selection of the vicious. Any such tampering with institutions would have led to checks on the absolute power of rulers, and that was not the mind-set of these humanist apologists for the sovereign power of oligarchy.

The humanists were clear, however, that virtue inheres in the individuals and not in noble families *per se*. While it was surely sensible of them to avoid centring virtue in hereditary noble families, it also meant that the virtuous ruler could personally reign unchecked by any traditional family ties or commitments.

The only check offered to ensure the virtue of rulers, the only real criterion for such virtue, was if the rulers followed the advice of these humanists, as elaborated in their advice-books. Happily, while Latini and his humanist followers established all the preconditions for absolute rule, they did not proceed to endorse absolutism itself. For, like John of Viterbo before them, they insisted that the ruler must be truly virtuous, including cleaving to honesty and the pursuit of justice. Like John of Viterbo and others in what has been called the 'mirror-of-princes' literature, Latini and his followers insisted that the ruler must avoid all temptations to fraud and dishonesty, and that he serve as a model of integrity. To Latini and the others, true virtue and the self-interest of the ruler were one and the same. Honesty was not only morally correct, it was also, in a later phrase, 'the best policy'. Justice, probity, being loved by his subjects rather than being feared – all would also serve to maintain the ruler in power. *Seeming* to be just and honest, Latini made clear, was not enough; the ruler, both for the sake of virtue and for keeping his power, 'must actually be as he wishes to seem', for he will be 'grossly deceived' if 'he tries to gain glory by false methods...' There was, in short, no conflict between morality and utility for the ruler; the ethical turned out, harmoniously, to be the useful.

The next great burst of Italian humanism came in the city of Florence, nearly a century later. The independence of Florence, the stronghold of oligarchic republicanism, was threatened, for three-quarters of a century, from the 1380s to the 1450s, by the Visconti family of Milan. Giangeleazzo Visconti, *signor* and duke of Milan, set out in the 1380s to reduce all northern Italy to his subjection. By 1402, Visconti had conquered all northern Italy except Florence, and that city was saved by the sudden death of the duke. Soon, however, Giangeleazzo's son, Duke Filippo Maria Visconti, launched the war of conquest again. All-out war between Florence and imperial Milan continued from 1423 until 1454, when Florence induced Milan to recognize the independence of the Florentine republic.

The embattled status of the Florentine republic led to a revival of republican humanism. While these early fifteenth century Florentine humanists were more philosophically oriented and more optimistic then their early fourteenth century Paduan and other Italian predecessors, their political theory was very much the same. All these leading Florentine humanists (much better known to later historians than the earlier Paduans) had similar biographies: they were trained as lawyers and rhetoricians, and they became either professors of rhetoric and/or top bureaucrats in Florence, in other cities, or at the papal court at the Vatican. Thus the *doyen* of the Florentine humanists was Coluccio Salutati (1331–1406), who studied rhetoric at Bologna and became chancellor at various Italian cities, in the last three decades of his life at Florence. Of Salutati's main disciples, Leonardo Bruni (1369–1444) studied law and rhetoric in Florence, became secretary at the papal curia, and then became a top bureaucrat and finally chancellor of Florence from 1427 until his death. Pier Paolo Vergerio (1370–1444) began training in law in Florence and then rose to secretary at the papal curia; and similarly Poggio Bracciolini (1380–1459) studied civil law at Bologna and Florence and then became a professor of rhetoric at the papal curia.

The second generation of the Salutati circle also followed similar careers and had kindred views. Here should be mentioned the distinguished architect Leon Battista degli Alberti (1404–72) of the great banking family, who earned a doctorate in canon law at Bologna and then became a papal secretary; Giannozzo Manetti (1396–1459) was educated in law and humanistic studies in Florence, and then served for two decades in the Florentine bureaucracy, later becoming secretary at the papal curia and finally secretary to the king of Naples; and Matteo Palmieri (1406–75) became a top bureaucrat for five decades in Florence, including eight different ambassadorships.

6.3 Italian humanism: the monarchists

The political and economic decline of the Italian city-states after the turn to the Atlantic in the late fifteenth and sixteenth centuries, was marked in foreign affairs by the repeated invasions of Italy by armies of the burgeoning nation-states of Europe. The French kings invaded and conquered Italy repeatedly from the 1490s on, and from the early 1520s to the 1550s the armies of France and the Holy Roman Empire fought over Italy as a battleground for conquest.

While Florence and the remainder of northern Italy were being invaded from without, republicanism throughout Italy finally gave way to despotic one-man rule of the various *signori*. Whereas republican forces, headed by the Colonna family, had managed to deprive the popes of their temporal power during the mid-fifteenth century, by the end of that century the popes, led by Alexander VI (1492–1503) and Julius II (1503–13) managed to reassert themselves as unchallenged temporal monarchs over Rome and the papal states. In Florence, the powerful de Medici family of bankers and politicians began slowly but surely to build up their political power until they could become hereditary monarchs, *signori*. The process began as early as the 1430s with the great Cosimo de Medici, and culminated in the seizure of power in 1480 by Cosimo's grandson Lorenzo 'the Magnificent'. Lorenzo ensured his one-man rule by setting up a 'council of seventy' with complete control over the republic, all comprising his own supporters.

The republican forces fought back, however, and the struggle lasted another half-century. In 1494, the republican oligarchs forced Lorenzo's son Piero into exile after he had surrendered Florence to the French. Republican rule collapsed in 1512, when the Medici took command with the aid of Spanish troops. Medici power then reigned until 1527, when another republican revolution drove them out; but two years later the Medici pope, Clement VII, induced the Habsburg Holy Roman Emperor Charles V to invade and conquer Florence on the Medici's behalf. Charles did so in 1530, and the Florentine republic was no more. Clement VII, left in charge of Florence by the emperor, appointed Alessandro de Medici ruler of the city for life, and Alessandro and all his heirs were also named lords of the city in perpetuity. The government of Florence dissolved into the Medici Grand Duchy of Tuscany, and the Medicis ran Tuscany as monarchs for two more centuries.

The final triumph of the *signori* put an end to the optimism of the early fifteenth century republican humanists, whose successors began to grow cynical about politics and to advocate lives of quiet contemplation.

Other humanists, however, seeing on which side their bread was buttered, executed a quick shift from praising republican oligarchy to lauding one-man monarchy. We have already seen Ferreto Ferreti's swiftness in composing a panegyric to the della Scala tyranny in Padua. Similarly, around 1400, the peripatetic and usually republican P.P. Vergerio, during his stay in monarchical Padua, composed a work *On Monarchy*, in which he hailed that system as 'the best form of government'. Monarchy, after all, ended tumult and the ceaseless conflict of factions and parties; it brought peace, 'safety, security and the defence of innocence'. Also, with the victory of Visconti absolutism in Milan, the Milanese humanists quickly fell into line, composing panegyrics to the glory of princely, and especially of Visconti, rule. Thus Uberto Decembrio (c.1350–1427) dedicated four books on local government to Filippo Maria Visconti in the 1420s, while his son Pier Candido Decembrio (1392–1477), keeping up the family tradition, wrote a *Eulogy in Praise of the City of Milan* in 1436.

With the triumph of the rule of the *signori* throughout Italy in the late fifteenth and early sixteenth centuries, pro-princely humanism reached a peak of enthusiasm. The humanists proved to be nothing if not flexible in adjusting their theories to adapt from republican to princely rule. The humanists started turning out two kinds of advice-books: to the prince, and to the courtier, on how he should conduct himself toward that prince.

By far the most celebrated advice-book for courtiers was *The Book of the Courtier* (*Il libro del Cortegiano*), by Baldassare Castiglione (1478–1529). Born in a village near Mantua, Castiglione was educated at Milan and entered the service of the duke of that city. In 1504, he became attached to the court of the duke of Urbino, which he served faithfully as diplomat and military commander for two decades. Then, in 1524, Castiglione was passed over to the Emperor Charles V in Spain, and for his services, Charles made him bishop of Avila. Castiglione composed the *Book of the Courtier* as a series of dialogues between 1513 and 1518, and the book was first published in 1528 in Venice. The work became one of the most widely read books in the sixteenth century (known to Italians as *Il libro d'oro*), clearly touching a nerve in the culture of that epoch in its description and celebration of the qualities of the perfect courtier and gentleman.

The Florentine humanists of the early fifteenth century had been optimistic for man, for his quest for *virtus* (or *virtú*) or excellence, and for the 'honour, praise, and glory' which more traditional Christians had thought due only to God. It was therefore easy for the later, sixteenth century humanists to transfer that quest for excellence and glory from individual man to being the sole function of the prince. Thus Castiglione declares that the courtier's chief goal, 'the end to which he is directed', must be to advise his prince so that the latter may attain 'the pinnacle of glory' and make himself 'famous and illustrious in the world'.

The earlier republican humanists had nurtured the ideal of 'liberty', by which they meant, not the modern concept of individual rights, but republican, generally oligarchial, 'self-government'. Castiglione expressly condemns such old notions, on behalf of the monarchical virtues of peace, absence of discord, and total obedience to the absolute prince. In *The Book of the Courtier*, one of the characters in the dialogue protests that princes 'hold their subjects in the closest bondage' so that liberty is gone. Castiglione shrewdly counters, in age-old terms used in numerous apologia for despotism, that such liberty is only a plea that we be allowed to 'live as we like' rather than 'according to good laws'. Since liberty is only licence, then, a monarch is needed to 'establish his people in such laws and ordinances that they may live in ease and peace'.

A leading writer of advice-books to both the prince and the courtier, and a man who bears the dubious distinction of being perhaps the first mercantilist, was the Neapolitan duke, Diomede Carafa (1407–87). Carafa wrote *The Perfect Courtier* while serving at the court of Ferdinand, king of Naples, in the 1480s, as well as *The Office of a Good Prince* during the same period. In *The Perfect Courtier*, Carafa set the tone for Castiglione's enormously influential work a generation later. In his *Office of a Good Prince*, Carafa set the model for the form of economic advice presented by consultant administrators. As in many later works, the book begins with principles of general policy and defence, then goes on to administration of justice, to public finance, and finally economic policy proper.

In detailed policies, Carafa's advice is relatively sensible, and not nearly as totally power-oriented or as statist as later mercantilists advising fully fledged nation-states. The budget should be balanced, since forced loans are comparable to robbery and theft, and taxes should be equitable and moderate in order not to oppress labour or drive capital from the country. Business should be left alone but, on the other hand, Carafa called for subsidies of industry, agriculture, and commerce by the state, as well as substantial welfare expenditures. In contrast to the later mercantilists, foreign merchants, declared Carafa, should be made welcome because their activities are highly useful to the country.

But there is no hint in Carafa, in contrast to the scholastics, of any desire to understand or analyse market processes. The only important question was how the ruler can manipulate them. As Schumpeter wrote of Carafa: 'The normal processes of economic life harbored no problem for Carafa. The only problem was how to manage and improve them'.

Schumpeter also attributes to Carafa the first conception of a national economy, of the entire country as one large business unit managed by the prince. Carafa was,

> so far as I know, the first to deal comprehensively with the economic problems of the nascent modern state....the fundamental idea that Carafa clothed in his conception of the Good Prince...of a National Economy...[which] is not simply the sum total of the individual households and firms or of the groups and classes within the borders of a state. It is conceived as a sort of sublimated business unit, something that has a distinct existence and distinct interests of its own and needs to be managed like a big farm.[1]

Perhaps the leading work among the new *genre* of advice-books to princes was that of Francesco Patrizi (1412–94), in his *The Kingdom and the Educa-*

tion of the King, written in the 1470s and dedicated to the first activist pope, Sixtus IV, engaged in restoring the temporal power of the papacy in Rome and the papal states. A Sienese humanist, Patrizi was made bishop of Gaeta.

As in the other humanist advice-books, Patrizi sees the locus of *virtus* in the prince. But it should be noted that, along with his fellow pro-prince humanists as well as the earlier republicans, Patrizi's virtuous prince is very much the model of Christian virtue. The prince must be a staunch Christian, and must always seek and cleave to justice. In particular, the prince must always be scrupulously honest and honourable. He 'is never to engage in deceit, never to tell a lie, and never to permit others to tell lies'. Alone with his fellow later humanists, however, Patrizi speaks of the prince as having a different set of virtues from his more passive subjects. As the maker of history and the seeker after glory, for example, the prince is not supposed to be humble. On the contrary, he is supposed to be generous, lavish in spending and altogether 'magnificent'.

The triumph of the *signori* led to many advice-books entitled, simply *The Prince (Il Principe)*. One was written by Bartolomeo Sacchi (1421–81) in 1471 in honour of the duke of Mantua, and an important one by Giovanni Pontano (1426–1503) who introduced himself to King Ferdinand of Naples by writing *The Prince* in his honour in 1468. In return, King Ferdinand made Pontano his secretary for more than 20 years. Pontano continued to extol his patron, in two separate treatises praising the twin princely virtues in Ferdinand of generosity and lavish splendour. In *On Liberality*, Pontano declares that 'nothing is more undignified in a prince' than lack of generosity. And in *On Magnificence*, Pontano insists that creating 'noble building, splendid Churches and theatres' is a crucial attribute of princely glory, and lauds King Ferdinand for 'the magnificence and majesty' of the public building he had constructed.

6.4 'Old Nick': preacher of evil or first value-free political scientist?

The Italian humanists had propounded the doctrine of absolute political rule, first by republican oligarchs and next by the glorified despot, the monarch or prince. But one crucial point remained to free the ruler of all moral shackles and to allow and even glorify the unchecked and untrammelled rule of royal whim. For while the humanists would hear of no institutional check on state rule, one critical stumbling block still remained: Christian virtue. The ruler, the humanists all admonished, must be Christian, must cleave always to justice, and must be honest and honourable.

What was needed, then, to complete the development of absolutist theory, was a theoretician to fearlessly break the ethical chains that still bound the ruler to the claims of moral principle. That man was the Florentine bureaucrat Niccolò Machiavelli (1469–1527) in one of the most influential works of political philosophy ever written, *The Prince*.

Niccolò Machiavelli was born in Florence, to a moderately well-off Tuscan noble family. His personal preference was clearly for the old oligarchic republic rather than for the *signori*, and in 1494, when the republicans kicked the Medicis out of Florence, young Niccolò entered the city bureaucracy. Rising rapidly in the government, Machiavelli became secretary of the Council of Ten, which managed the foreign policy and the wars of Florence. He held this important post until the Medicis reconquered Florence in 1512, serving in a series of diplomatic and military missions.

Machiavelli was nothing if not 'flexible', and this philosopher *extraordinaire* of opportunism greeted the return of the hated Medicis by attempting to ingratiate himself in their eyes. During the year 1513 he wrote *The Prince*, superficially yet another in the traditional series of advice-books and panegyrics to princes. Hoping to induce the Medicis to read it so that he might be restored to a top bureaucratic post, Machiavelli had the lack of shame needed to dedicate the book 'to the magnificent Lorenzo de Medici'. The Medicis, however, did not take the bait, and the only thing left for Machiavelli was to embark on a literary career, and to drift back into republican conspiracies. Machiavelli took part in conspiratorial republican meetings at the Oricellari Gardens on the outskirts of Florence, owned by the aristocrat Cosimo Rucellai. It was at the Oricellari Gardens that Machiavelli discussed the drafts of his second most important book, the *Discourses on the First Ten Books of Titus Livy*, written from 1514 to 1519.

Niccolò Machiavelli was reviled throughout Europe during the sixteenth century and on into the next two centuries. He was considered to be someone unique in the history of the West, a conscious preacher of evil, a diabolic figure who had unleashed the demons in the world of politics. The English used his given name as a synonym for the Devil, 'Old Nick'. As Macaulay put it: 'Out of his surname they have coined an epithet for a knave, and out of his Christian name a synonym for the Devil.'

In modern times, Machiavelli's reputation as a preacher of evil has been replaced by the admiration of political scientists as the founder of their discipline. For Machiavelli had cast off outdated moralism to look at power coolly and hard-headedly. A tough-minded realist, he was the pioneer developer of modern, positive, value-free political science. As the mercantilist, power-oriented, founder of modern 'scientific' method, Sir Francis Bacon, was to write early in the seventeenth century: 'We are much beholden to Machiavel and others, that write what men do, and not what they ought to do.'

Well, which was Machiavelli, a teacher of evil or a value-free political scientist? Let us see. At first glance, *The Prince* was very much like other mirror-of-princes advice-books of the late fifteenth century humanists. The prince was supposed to seek *virtù*, or excellence, and was supposed to pursue honour, glory and fame in the development of such excellence. But within this traditional form, Machiavelli wrought a radical and drastic transformation, creating in this way a new paradigm for political theory. For what Machiavelli did was to redefine the critical concept of *virtù*. For the humanists, as for Christians and classical theorists alike, *virtù*, excellence, was the fulfilment of the traditional classical and Christian virtues: honesty, justice, benevolence, etc. For Old Nick, on the contrary, *virtù* in the ruler or prince – and for the late humanists, after all, it was only the prince who counted – was, simply and terribly, as Professor Skinner puts it, 'any quality that helps a prince 'to keep his state'.[2] In short, the overriding, if not the only goal for the prince was to maintain and extend his power, his rule over the state. Keeping and expanding his power *is* the prince's goal, his virtue, and therefore any means necessary to achieve that goal becomes justified.

In his illuminating discussion of Machiavelli, Professor Skinner tries to defend him against the charge of being a 'preacher of evil'. Machiavelli did not praise evil *per se*, Skinner tells us; indeed, other things being equal, he probably preferred the orthodox Christian virtues. It is simply that when those virtues became inconvenient, that is, when they ran up against the overriding goal of keeping state power, the Christian virtues had to be set aside. The more naive humanists also favoured the prince's keeping his state and achieving greatness and glory. They believed, however, that this could only be done by always maintaining and cleaving to the Christian virtues. In contrast, Machiavelli realized that cleaving to justice, honesty and other Christian virtues might sometimes, or even most of the time, conflict with the goal of maintaining and expanding state power. For Machiavelli, orthodox virtues would then have to go by the board. Skinner sums up Machiavelli as follows:

> Machiavelli's final sense of what it is to be a man of *virtù* and his final words of advice to the prince, can thus be summarised by saying that he tells the prince to ensure above all that he becomes a man of 'flexible disposition': he must be capable of varying his conduct from good to evil and back again 'as fortune and circumstances dictate'.[3]

Professor Skinner, however, has a curious view of what 'preaching evil' might really be. Who in the history of the world, after all, and outside a Dr Fu Manchu novel, has actually lauded evil *per se* and counselled evil and vice at every step of life's way? Preaching evil is to counsel precisely as Machiavelli has done: be good so long as goodness doesn't get in the way of something you want, in the case of the ruler that something being the maintenance and expansion of power. What *else* but such 'flexibility' can the preaching of evil be all about?

Following straightaway from power as the overriding goal, and from his realism about power and standard morality being often in conflict, is Machiavelli's famous defence of deception and mendacity on the part of the prince. For then the prince is advised always to *appear* to be moral and virtuous in the Christian manner, since that enhances his popularity; but to practise the opposite if necessary to maintain power. Thus Machiavelli stressed the value of appearances, of what Christians and other moralists call 'hypocrisy'. The prince, he writes, must be willing to become 'a great liar and deceiver', taking advantage of all the credulous: for 'men are so simple' that 'the deceiver will always find someone ready to be deceived'. Or, in the immortal words of P.T. Barnum centuries later, 'There's a sucker born every minute'. And again, in praising fraud and deceit, Machiavelli writes that 'contemporary experience shows that princes who have achieved great things have been those who have given their word lightly, who have known how to trick men with their cunning, and who, in the end, have overcome those abiding by honest principles'. Or, in the words of another astute American social critic: 'nice guys finish last'.

There is, of course, an inner contradiction in a preacher of deceit candidly(!) broadcasting such views to one and all. For, as rulers begin to adopt a 'pragmatic' philosophy which is their natural inclination in any case, the deluded public may begin to awaken to the true state of affairs ('the suckers may wise up'), and then continuing deceit by the ruling class might well prove counterproductive. The 'great liars and deceivers' might no longer find so many subjects so 'ready to be deceived'.

Niccolò Machiavelli, therefore, was unquestionably a new phenomenon in the western world: a conscious preacher of evil to the ruling class. What of his alleged contributions in founding a hard-nosed, realistic, value-free political science?

First, one of his main contributions has been claimed to be the overwhelming use of power, of force and violence, by the rulers of state. Machiavelli was scarcely the first political philosopher who understood that force and violence are at the heart of state power. Previous theorists, however, were anxious to have that power curbed by ancient or Christian virtues. But there is a certain refreshing realism in Machiavelli's total casting off the cloak of virtue in politics and in his seeing the state plainly as unadorned brutal force in the service of sheer power.

There is a profound sense, too, in which Machiavelli was the founder of modern political science. For the modern 'policy scientist' – political scientist, economist, sociologist, or whatever – is a person who has put himself quite comfortably in the role of adviser to the prince or, more broadly, to the ruling class. As a pure technician, then, this counsellor realistically advises the ruling class on how to achieve their goals, which, as Machiavelli sees, boils down to achieving greatness and glory by maintaining and expanding their power. The modern policy scientists eschew moral principles as being 'unscientific' and therefore outside their sphere of interest.

In all this, modern social science is a faithful follower of the wily Florentine opportunist. But in one important sense the two differ. For Niccolò Machiavelli never had the presumption – or the cunning – to claim to be a true scientist because he is 'value-free'. There is no pretend value-freedom in Old Nick. He has simply replaced the goals of Christian virtue by *another* contrasting set of moral principles: that of maintaining and expanding the power of the prince. As Skinner writes:

> it is often claimed that the originality of Machiavelli's argument...lies in the fact that he divorces politics from morality, and in consequence emphasises the 'autonomy of politics'...[but] the difference between Machiavelli and his contemporaries cannot adequately be characterized as a difference between a moral view of politics and a view of politics as divorced from morality. The essential contrast is rather between two different moralities – two rival and incompatible accounts of what ought ultimately to be done.[4]

Modern social scientists, in contrast, pride themselves on being realistic and value-free. But in this, ironically, they are far *less* realistic or perhaps less candid than their Florentine mentor. For, as Machiavelli knew full well, in taking on their role of adviser to the rulers of state, the 'value-free scientist' is willy-nilly, committing himself to the end, and therefore to the overriding morality, of strengthening the power of those rulers. In advocating public policy, if nowhere else, value-freedom is a snare and a delusion; Old Nick was either too honest or too much of a realist even to consider thinking otherwise.

Niccolò Machiavelli, therefore, was *both* the founder of modern political science *and* a notable preacher of evil. In casting out Christian or natural law morality, however, he did not presume to claim to be 'value-free' as do his modern followers; he knew full well that he was advocating the new morality of subordinating all other considerations to power and to the reasons of state. Machiavelli was the philosopher and apologist *par excellence* for the untrammelled, unchecked power of the absolute state.

Some historians like to contrast the 'bad' Machiavelli of *The Prince* with the 'good' Machiavelli of his later though less influential *Discourses*. Failing to convince the Medicis of his change of heart, Machiavelli reverted, in the *Discourses*, to his republican leanings. But the Old Nick of the *Discourses* is in no sense transformed by goodness; he is simply adapting his doctrine to a republican as against a monarchical polity.

Obviously, as a republican Machiavelli can no longer stress the *virtù* and the greatness of the prince, and so he shifts ground to a kind of collective *virtù* by the community as a whole. Except that in the case of the community, of course, *virtù* can no longer be doing great deeds and maintaining one man's power. It now becomes acting always in the 'public good' or the 'common good', and always subordinating an individual's or a group's private, 'selfish' interests to an alleged greater good.

In contrast, Machiavelli condemns the pursuit of private interest as 'corruption'. In short, Machiavelli is *still* holding the maintenance and expansion of state power to be the highest good, except that now the state is oligarchic and republican. What he is really preaching is similar to the creed of earlier republican humanists: each individual and group subordinates itself and obeys without question the decrees of the oligarchic ruling class of the republican city-state.

Niccolò Machiavelli is the same preacher of evil in the *Discourses* as he had been in *The Prince*. One of the first atheist writers, Machiavelli's attitude toward religion in the *Discourses* is typically cynical and manipulative. Religion is helpful, he opined, in keeping subjects united and obedient to the state, and thus 'those princes and those Republics which desire to remain free from corruption should above all else maintain incorrupt the ceremonies of their religion'. Religion could also make a positive contribution if it glorified strength and other warlike qualities, but unfortunately Christianity has sapped men's strength by preaching humility and contemplation. In a tirade anticipating Nietzsche, Machiavelli charged that Christian morality has 'glorified humble and contemplative men' and that this peaceful spirit has led to existing corruption.

Machiavelli thundered that citizens can only achieve *virtù* if their highest goal is maintaining and expanding the state, and that therefore they must subordinate Christian ethics to that end. Specifically, they must be prepared to abandon the restraints of Christian ethics and be willing 'to enter on the path of wrongdoing' in order to maintain the state. The state must always take precedence. Therefore, any attempt to judge politics or government on a scale of Christian ethics must be abandoned. As Machievelli puts it with crystal clarity and great solemnity at the end of his final *Discourse*, 'when the safety of one's country depends upon the decision to be taken, no considerations of justice or injustice, humanity or cruelty, nor of glory or shame, should be allowed to prevail'.

Machiavelli's views, and the essential unity with his outlook in *The Prince*, are shown in his discussion in *The Discourses* of Romulus, the legendary founder of the city of Rome. The fact that Romulus murdered his brother and others is justified by Machiavelli's view that only one man should impose the founding constitution of a republic. Machiavelli's wily conflation of the 'public good' with the private interests of the ruler is shown in the following mendacious passage: 'A sagacious legislator of a republic, therefore, whose object is to promote the public good, and not his private interests [sic]...should concentrate all authority in himself'. In such concentration, the end of establishing the state excuses any necessary means: 'a wise mind will never censure any one for taking any action, however extraordinary, which may be of service in the organizing of a kingdom or the constituting of a republic'. Machiavelli concludes with what he calls the 'sound maxim' that 'reprehensible actions may be excused by their effects, and that when the effect is good, as it was in the case of Romulus, it always excuses the action'.

Throughout the *Discourses*, Machiavelli preaches the virtue of deceit for the ruler. He insists, also, in contrast to previous humanists, that it is better for a ruler to be feared than to be loved, and that punishment is far better than clemency in dealing with his subjects. Furthermore, when a ruler finds that a whole city is rebelling against his rule, by far the best course of action is to 'wipe them out' altogether.

Thus, Professor Skinner is perceptive and correct when he concludes, *in re The Prince* and the *Discourses*, that

> the underlying political morality of the two books is thus the same. The only change in Machiavelli's basic stance arises out of the changing focus of his political advice. Whereas he was mainly concerned in *The Prince* with shaping the conduct of individual princes, he is more concerned in the *Discourses* with offering his counsel to the whole body of the citizens. The assumptions underlying his advice, however, remain the same as before.

Machiavelli is still at one and the same time a preacher of evil and a founder of modern political and policy science.

6.5 The spread of humanism in Europe

The newly fashionable Italian humanism, marked by its philological and literary devotion to the classical texts, its absolutist political thought, and its contempt for the systematic thinking and natural law doctrines of the scholastics, spread like wildfire to the north – to France, England, Germany, and the Netherlands – during the fifteenth century. This conquest of northern scholarship and northern universities by the sixteenth century was nearly as influential as the upsurge of the Protestant Reformation in putting an end to scholastic thought, and in paving the way for the dominance of the absolute state. There was one important difference, however, in the political thought taken over by the northern humanists: in countries such as France, Germany and England, where the king was acquiring ever more centralized and dominant power, all discussion of the virtues of oligarchic republicanism seemed like bizarre and irrelevant blather. For the northern humanists, in contrast, were solidly committed to the 'prince' – although of course, to the virtuous pre-Machiavellian prince – and to themselves as sage counsellors to power.

The first Italian humanist to teach in France, and to cause a sensation in so doing, was the Neapolitan Gregorio da Tiferna (c.1415–66), who arrived at the University of Paris in 1458 to become its first professor of Greek. Other Italian humanists soon came to storm successfully that venerable redoubt of medieval and early renaissance scholasticism. Filippo Beroaldo (c.1440–1504) came in 1476 to lecture on poetry, philosophy and humanist studies. Particularly influential at the University of Paris was Fausto Andrelini (c.1460–1518), who taught at the University of Paris for 30 years, beginning in 1489, winning great fame for his classical scholarship on the Latin poets and essayists.

Humanism penetrated England beginning with Pietro del Monte (d.1457) who, from 1435 to 1440, was a collector of papal revenues in England, and more importantly, was a literary adviser to Duke Humphrey of Gloucester, brother to King Henry V, who became the first English patron of humanism. Gloucester brought an Italian rhetorician into his household, and he collected a remarkable library, including all the major humanist texts, many of which he later presented to Oxford University. Oxford and Cambridge also served as the home for Italian humanist scholars in the later fifteenth century. The Milanese scholar Stefano Surigone (fl. 1430–80), taught grammar and rhetoric at Oxford between 1454 and 1471, and Cornelio Vitelli (c.1450–1500) became the first professor of Greek at an English university, coming to teach at New College, Oxford in the 1470s. The Italian humanist Lorenzo da Savona taught at Cambridge in the 1470s, and published a handbook on rhetoric in 1478, which went into two printings by the end of the century. And Caio Auberino (fl. 1450–1500) became official professor of rhetoric at Cambridge, and taught Latin literature there in the 1480s.

Humanism also came to northern Europe because many young scholars, often inspired by Italian professors in their country, travelled to Italy to learn the new humanism at its source. Thus, Robert Gaguin (1435–1501), after being converted to humanism by the lectures of Gregorio da Tiferna, paid two extended visits to Italy in the late 1460s, and returned to become a distinguished French humanist at the Sorbonne in 1473, where he lectured on rhetoric and Latin literature, translated Livy, and published a treatise on Latin verse and the first history of France to be written in full rhetorical style. From England came William Grocyn (c.1449–1519), a student of Vitelli at Oxford, who studied humanism in Florence in the late 1480s. Grocyn returned to Oxford to become its first professor of Greek in 1491. William Latimer (c.1460–1545), another young Oxford student, accompanied his friend Grocyn on his trip to Italy, and then went to the University of Padua to perfect his Greek studies. Soon after Grocyn's initial Oxford post, Latimer was appointed teacher at Magdalen College, Oxford, inaugurating Magdalen as a centre of humanist studies.

The most eminent of the Oxford travellers to Italy was John Colet (c.1467–1519), a student of Grocyn at Oxford, who spent the years 1493 to 1496 in Italy. On his return from Italy, Colet, too, was appointed a professor at Oxford, and he delivered before the entire university a famous series of lectures on the Epistles of St Paul from 1498 to 1499.

6.6 Botero and the spread of Machiavellianism

The northern humanists, along with the Italians, were staunch believers in the necessity for the prince to practise the Christian virtues of honesty and justice. At about the same time that Machiavelli was writing his defence of the new pragmatic morality in *The Prince*, the greatest humanist of the age was penning a famous advice-book to princes, sternly reiterating the Christian virtues. Desiderius Erasmus (c.1466–1536), a Dutch Augustinian canon persuaded to study theology by John Colet, dedicated his account of *The Education of a Christian Prince* to the future Emperor Charles V in 1516. While Old Nick was proclaiming that no consideration must stand in the way of maintaining the ruler in state power, Erasmus warned the prince that he must never do anything, regardless of his motives, which may harm the cause of justice.

Machiavelli's *Prince* was not printed until 1532, and after that, as we have noted, a storm of attack on 'Machiavel' proceeded throughout Europe. In England the favourite term for Machiavelli was 'the politic atheist'. Thus, one James Hull wrote a book on Machiavelli in 1602, entitled *The Unmasking of the Politic Atheist.* The northern humanists generally took the same position, defending the focus of traditional political philosophy on justice and honesty and attacking the overriding concern of the new theorists with what one Machiavellian aptly termed the 'reason of state' (*ragione di stato*). Thus, Cardinal Reginald Pole (1500–58), one of the champions of English Catholicism as against the Henrician Reformation, and a distinguished humanist, attacked Machiavelli's political theory in 1539, in his *Apology to Charles V*, as destroying all the virtues. Roger Ascham (1515–68), another leading humanist and a long-time tutor to Queen Elizabeth in Greek and Latin, commented in horror in his *Report and Discourse of the Affairs and State of Germany* that Machiavelli taught that one may 'think, say and do whatever may serve best for profit and pleasure'.

Machiavelli also proved to be grist for the Huguenots' mill during the French religious war of the 1570s. The Huguenots attributed the St Bartholomew's Day Massacre of 1572 to the wicked designs of the Queen Mother, Catherine de Medici, daughter of the selfsame Lorenzo the Magnificent to whom Machiavelli had dedicated *The Prince.* The Huguenots attributed the massacre to the philosophical outlook of Machiavelli. Thus *The Awakener* continually denounced the 'pernicious heresy' of Machiavelli, and asserted that the king 'was actually persuaded by the doctrines of Machiavelli' to try to eradicate the Huguenots. Another tract, *The Alarm Bell* (1577), maintained that Catherine had deliberately trained her son in the doctrines of 'the atheist Machiavelli', thereby instructing the young king 'in the precepts most suitable for a tyrant'. To other Huguenots Machiavelli was a preceptor in the 'science of cheating', a 'science' imported by Italians such as Catherine into France.

The outstanding example of the genre of anti-Machiavellian tracts was the *Anti-Machiavel* of Innocent Gentillet (c.1535–1595), published in 1576. Gentillet was a French Huguenot who fled to Geneva after the massacre of St Bartholomew. Machiavelli, he pointed out, was essentially a satanic writer of handbooks on 'how to become a complete tyrant'.

But still the seductive nature of the new morality, of the justifying of evil means by the allegedly overriding end of maintaining and advancing state power, began to take hold among various writers. In Italy, a group of Machiavellians appeared during the sixteenth century, headed by Giovanni Botero (1540–1617), and his treatise of 1589, *The Reason of State*.

Botero was a leading humanist from Piedmont who joined the Jesuit Order. It is indicative of the decay of scholasticism in Italy in this period that this proponent of 'reason of state' and hence opponent of natural law ethics in political life should have been a member of the great Jesuit Order. Since Machiavelli was scarcely popular in Europe, especially in Catholic circles, Botero took care to attack Machiavelli explicitly and *pro-forma*. But that was merely a ritualistic cover for Botero's adoption of the essence of Machiavellian thought. While beginning by paying lip service to the importance of the prince's cleaving to justice, Botero quickly goes on to justify political prudence as crucial to all government, then defines the essence of prudence that 'in the decisions made by princes, interest will always override every other argument'; all other considerations, such as friendship, treaties or other commitments must go by the board. The overall view of Botero is that a prince must be guided primarily by 'reason of state', and that actions so guided 'cannot be considered in the light of ordinary reason'. The morality and justification for actions of the prince is diametrically opposed to the principles that must guide the ordinary citizen.

Botero's work touched off a raft of similar works in Italy over the next 40 years, all of which had the same title, *The Reason of State*.

In addition to being a leading theorist of political pragmatism and reason of state, Giovanni Botero has the notable but dubious distinction of being the first 'Malthusian', the first bitter complainer about the alleged evils of population growth. In his *On the Cause of the Greatness of Cities* (1588), translated into English in 1606, Botero laid out almost the entire thesis of Malthus's famous essay on population two centuries later. The analysis was, therefore, highly mechanistic: human population tends to increase without limit, or rather the only limit is the maximum possible degree of human fertility. The means of subsistence, on the contrary, can only be increased slowly. Therefore, the growth of population always – to use Malthus's famous words – tends to 'press on the means of subsistence', with the result being ever-present poverty and starvation. Population growth, then, can only be checked in two ways. One is the dying of large numbers of people through starvation, plague, or wars over scarce resources (Malthus's 'positive' check). Second is the only element of free will or active human response permitted by Botero's theory: that starvation and poverty may induce some people to abstain from marriage and procreation (Malthus's 'preventive' or 'negative' check).

In an epoch marked by rising population *and* rising living standards and economic growth, Botero's gloom-and-doom about population growth was hardly likely to fall on friendly ears. Indeed, as we shall see further below, those seventeenth and eighteenth century theorists who foresaw unlimited population growth *favoured* the idea as a spur to prosperity and economic growth.[5]

In any case, whether one draws pessimistic, neutral or optimistic conclusions from the thesis of unlimited population growth, its basic flaw is assuming that people will not react if they see their living standards declining from bearing large families. Botero (and Malthus after him) indeed gave the case away by even mentioning 'preventive' checks. For if people will lower the number of children when faced with absolute destitution, why may they not lower it long before that? And if so, no such mechanistic tendency can be postulated.

Historically, indeed, the facts totally contradict the gloomy Malthusian forecasts. Population only tends to rise *in response to* greater economic growth and prosperity and the consequent rise in living standards, so that population and standards of living tend to move together, rather than in diametric opposition. This rise in population generally comes in response to falling death rates caused by the better nutrition, sanitation, and medical care attendant on higher living standards. The dramatic declines in death rates lead to accelerated population growth (roughly measured by birth rate minus death rate). After a few generations, the birth rate usually falls, as people act to preserve their higher living standards, so that population growth then levels off.

The main defect of the Botero–Malthus doctrine of population is that it assumes that two entities – population and the means of subsistence (or production, or living standards) – operate under laws that are totally independent of each other. And yet, as we have seen, population growth may be highly responsive to changes in production. Similarly, the reverse can be true. Increases in population may well encourage the growth of investment and production, by providing a greater market for more products as well as more labour to work on these processes.[6] Schumpeter puts the overall point well in his critique of Malthus: '...there is of course no point whatever in trying to formulate independent "laws" for the behavior of two interdependent quantities.'[7]

In England, a leading humanist and colleague of Cardinal Pole in defending the Catholic Church as against the Anglican reform was Stephen Gardiner (c.1483–1555), bishop of Winchester. Gardiner, in contrast to Pole, was the first northern humanist to take a pro-Machiavellian line. Written appropriately enough when he was Lord Chancellor under the despotic Queen Mary Tudor in the early 1550s, Gardiner's *Discourse on the Coming of the English and Normans to Britain* was dedicated to King Philip II of Spain. Written as an advice-book to King Philip on the eve of his marriage to Queen Mary, the book counselled the king on how to govern England. Gardiner openly endorsed Machiavelli's view that it was far more important for a prince to *appear* virtuous than actually to be so. It is useful, opines Gardiner, for the prince to appear 'merciful, generous and observant of faith', but any ruler who really feels bound to actually observe such qualities would come to more harm than good.

An ardent if implicit disciple of Machiavellism was the prominent late sixteenth century Belgian classical scholar and humanist Justus Lipsius (1547–1606). Lipsius had moved from Antwerp to Leyden, in Holland, to avoid the rigours of the war against Spanish rule. In 1589, in Leyden, Lipsius published his *Six Books of Politics*. The prince, wrote Lipsius, must learn how to engage in 'profitable deceit', and judiciously be able to 'intermingle that which is profitable with that which is honest'. Reason of state was again triumphant.

6.7 Humanism and absolutism in France

Before humanism made its mark in France, political thought was medieval rather than absolutist. Thus, near the end of his life, the prominent royal bureaucrat, jurist, and churchman, Claude de Seyssel (c.1450–1520), published a treatise on monarchy summing up the post-medievalist perspective in politics. He wrote *The Monarchy of France* on the death of King Louis XII in 1515, and presented it to the new king, Francis I. The book was published four years later under the more presumptuous title, *The Grand Monarchy of France*, and was reissued often thereafter.

De Seyssel was born in Savoy, trained as a jurist, and served King Charles VIII and King Louis XII, the latter as member of the Grand Council and on numerous occasions as ambassador. But despite his long service in the bureaucracy and his great admiration for Louis XII, de Seyssel was a constitutionalist rather than an absolutist. The king, he averred, is indeed absolute within his own sphere, but that sphere is severely delimited by a network of rights held by others in accordance with customary, natural, and divine law.

In contrast, the lengthy reign of Francis I (1515–47) saw the beginning of the triumph of absolutism in French political thought. This new trend was launched by the leading humanist in France, Guillaume Budé (1467–1540). A highly erudite classical and legal scholar, Budé travelled in Italy in the early 1500s, imbibed humanism there, and returned to write a bitter attack on scholastic jurisprudence in his *Annotations on the Pandects* in 1508. The advent of Francis I in 1515 had characteristically contrasting effects on the veteran de Seyssel and on the younger Budé. De Seyssel wrote his *magnum opus* to instruct the young king on the greatness of what he believed to be the old king's constitutionalist regime. Budé was inspired by the advent of the new prince to write *The Institution of a Prince* in 1519, celebrating the king's potentially absolute greatness and power.

In this French form of advice-book to the king, Budé developed the idea, then new in France, of the prince as totally and absolutely sovereign, whose power and every whim must never be limited or questioned. The prince, intoned Budé, was a quasi-divine person, a man necessarily superior to all others. Laws that bind the prince's subjects do not bind or apply to him; for laws apply only to the average and the equal, not to the prince who closely approaches the perfect ideal of mankind. The prince, in short, was a god among men and a law unto himself. The monarch, therefore, was superhuman, himself the source and the criterion of all justice.

For Budé, the king's actions are always right because 'the heart of the king moves by instinct and by impulsion of God, who controls and attracts it according to his pleasure, to undertake enterprises that are praiseworthy and honest and useful to his people and himself...'. Ruling by divine right and inspired directly by God, the king needs only the advice of philosophers – and it did not take much imagination to see *who* the great Budé had in mind as philosophic counsellor to Francis I.

Budé's work was carried on and developed by succeeding decades of humanists and particularly legists. The French kings were delighted at these dominant theories of their age, and proceeded happily to put them into practice. In this they were greatly aided by the absolutist jurists being themselves top bureaucrats in the service of the king. Two of the leading jurists wrote in the reign of Francis I: Barthélemy de Chasseneux (1480–1541), whose *Catalogue of the Glory of the World* was published in 1529, and Charles de Grassaille, whose *Regale of France* was written in 1538. Grassaille declared that the king of France was God in the flesh, that all his actions were inspired and brought about by God operating through the person of the king. The king was therefore God's vicar on earth and a living law. In a sense, then, Charles de Grassaille said it all: the king is God on earth.

The sixteenth century French legalists also systematically tore down the legal rights of all corporations or organizations which, in the Middle Ages, had stood between the individual and the state. There were no longer any intermediary or feudal authorities. The king is absolute over these intermediaries, and makes or breaks them at will. Thus, as one historian sums up Chasseneux's view:

> All jurisdiction, said Chasseneux, pertains to the supreme authority of the prince; no man may have jurisdiction except through the ruler's concession and permission. The authority to create magistrates thus belongs to the prince alone; all offices and dignities flow and are derived from him as from a fountain.[8]

The most important contribution to the tearing down of the intermediary structures hampering the monarch's absolute rule over his subjects was that of the greatest jurist of his age, Charles du Moulin. We have already seen du Moulin's (Molinaeus') critique of the prohibition of usury, in his *Treatise on Contracts and Usury* (1546). Far more important was his *magnum opus*, *Commentaries on the Customs of Paris* (1539), a compilation and commentary on customary law in France. This book dealt a lethal blow to the medieval rights and privileges of intermediary orders, and placed virtually all authority into the hands of the monarch and his state.

6.8 The sceptic as absolutist: Michel de Montaigne

It is a favourite conceit of modern, twentieth century liberals that scepticism, the attitude that nothing can really be known as the truth, is the best groundwork for individual liberty. The fanatic, convinced of the certainty of his views, will trample on the rights of others; the sceptic, convinced of nothing, will not. But the truth is precisely the opposite: the sceptic has no ground on which to stand to defend his or others' liberty against assault. Since there will always be men willing to aggress against others for the sake of power or pelf, the triumph of scepticism means that the victims of aggression will be rendered defenceless against assault. Furthermore, the sceptic being unable to find any principle for rights or for any social organization, will probably cave in, albeit with a resigned sigh, to any existing regime of tyranny. *Faute de mieux*, he has little else to say or do.

An excellent case in point is one of the great sceptics of the modern world, the widely read and celebrated sixteenth century French essayist, Michel Eyquem de Montaigne (1533–92).[9] Montaigne was born to a noble family in the Périgord region of south-western France, near the city of Bordeaux. He became a judge in the Bordeaux *parlement* in 1557, at the age of 24, as his father had been before him. He also joined at the *parlement* an uncle (his father's brother), a first cousin of his mother, and a brother-in-law. Remaining in the *parlement* for 13 years, and then denied promotion to the upper chamber of that body, Montaigne retired to his rural chateau in 1570 to write his famous *Essays*. There he remained, except for a four-year stint as mayor of Bordeaux in the early 1580s. A leading humanist, Montaigne virtually created the essay form in France. He started writing these brief essays in the early 1570s, and published the first two volumes in 1580. The third book of essays was published in 1588, and all three volumes were posthumously published seven years later.

Though a practising Catholic, Montaigne was a thoroughgoing sceptic. Man can know nothing, his reason being insufficient to arrive either at a natural law ethics or a firm theology. As Montaigne put it: 'reason does nothing but go astray in everything, and especially when it meddles with divine things'. And for a while, Montaigne adopted as his official motto the query, 'What do I know?'

If Montaigne knew nothing, he could scarcely know enough to advocate setting one's face against the burgeoning abolutist tyranny of his day. On the contrary, stoic resignation, a submission to the prevailing winds, became the required way of confronting the public world. Skinner sums up Montaigne's political counsel, as holding 'that everyone has a duty to submit himself to the existing order of things, never resisting the prevailing government and where necessary enduring it with fortitude'.[10]

In particular, Montaigne, though sceptical about religion itself, cynically stressed the social importance of everyone outwardly observing the same religious forms. Above all, France must 'submit completely to the authority of our [Catholic] ecclesiastical government'.

Submission to constituted authority was, indeed, the key to Montaigne's political thought. Everyone must remain obedient to the king at all times no matter how he discharges his obligation to rule. Unable to use reason as a guide, Montaigne had to fall back on the *status quo*, on custom and on tradition. He warned gravely and repeatedly that everyone must 'wholly follow the accepted fashion and forms', for 'it is the rule of rules, and the universal law of laws, that each man should observe those of the place he is in'. Montaigne hailed Plato for wanting to prohibit any citizen from looking 'even into the reason of the civil laws', for those laws must 'be respected as divine ordinances'. Although we may wish for different rulers, we 'must nevertheless obey those that are here'. The finest achievement of the Christian religion, according to Montaigne, was its insistence on 'obedience to the magistrates and maintenance of the government'.

Considering Montaigne's fundamental outlook, it is no wonder that he warmly embraced the Machiavellian concept of 'reason of state'. (May we say that he held the reason of *man* to be worthless, but the reason of *state* to be overriding?) Characteristically, while Montaigne writes that he personally likes to keep out of politics and diplomacy because he prefers to avoid lying and deceit, he also asserts the necessity of 'lawful vice' in the operations of government. Deceit in a ruler may be necessary, and furthermore, such vices are positively needed 'for sewing our society together, as [are] poisons for the preservation of our health'. Montaigne then goes on to integrate his defence of deceit in a prince with his seemingly paradoxical defence of reason of state while having no use for human reason at all. For in following reason of state, the prince has simply 'abandoned his own reason for a more universal and powerful reason', and this mystical super-reason has shown him that an ordinarily evil action needed to be done.

Michel de Montaigne made a notable and highly influential contribution to mercantilism – the strictly economic aspect of state absolutism – as well. Although he claimed that he knew nothing, on one thing he certainly asserted truth, his much vaunted scepticism suddenly vanishing: in what Ludwig von Mises was later to call the 'Montaigne fallacy', he insisted, as in the title of his famous Essay Number 22, that 'The Plight of One Man is the Benefit of Another'. There is the essence of mercantilist theory, in so far as mercantilism has a theory at all; in contrast to the fundamental truth well known to the scholastics that both parties benefit from an exchange, Montaigne opined that in a trade, one man can only benefit at the expense of another. By analogy, in international trade, one nation must benefit at the expense of another. The implication is that the market is a ravening jungle, so why should not a Frenchman urge the French state to grab as much from others as it can?

Montaigne developed his theme in Essay 22 in a characteristically worldly-wise and cynical manner. He notes that an Athenian once condemned a funeral director

> on the charge that he demanded unreasonable profit, and this profit could not accrue to him but by the death of a great number of people. This judgment appears to be ill-grounded, inasmuch as no profit can possibly be made but at the expense of another, and because by the same rule every kind of gain would have to be condemned.

All work is done at the expense of others, and Montaigne correctly notes that the physician could be condemned in the same way. The same charge could be levied at the farmer or retailer for 'gaining because of people's hunger', the tailor for 'profiting because of someone's need for clothing', and so forth. He concluded broadly that the benefit of any one entity is necessarily 'the dissolution and corruption of some other thing'. Unfortunately, of course, he could not see also that these producers did not *create* such needs, but instead were fulfilling them and thereby removing the want and pain of their customers and adding to their happiness and standard of living. If he had gone that far, he would have realized the nonsense of his dog-eat-dog, or what would now be called his 'zero-sum game', view of the marketplace.

6.9 Jean Bodin: apex of absolutist thought in France

While Montaigne paved the way for the dominance of absolutist thought in France, surely the founder, or at least the *locus classicus* of sixteenth century French absolutism was Jean Bodin (1530–96). Born in Angers, Bodin studied law at the University of Toulouse, where he taught for 12 years. Bodin later went to Paris to become a jurist, and soon became one of the leading servitors of King Henry III, and one of the leaders of the statist *politique* party, which upheld the power of the king as against the principled militants among the Huguenots on one side, and the Catholic League on the other.

Bodin's most important work was *The Six Books of a Commonwealth* (*Les Six livres de la republique*) (1576). Perhaps the most massive work on political philosophy ever written, the *Six Books* was certainly the most influential book on political philosophy in the sixteenth century. In addition to this work, Bodin published books on money, law, the historical method, natural science, religion and the occult. Central to Bodin's theory of absolutism, written in the face of the challenge of Huguenot rebellion, was the notion of sovereignty: the unchallengeable power of command in the monarch ruling over the rest of society. Characteristically, Bodin defined sovereignty as 'the most high, absolute, and perpetual power over the citizens and subjects in a commonwealth'. Central to sovereignty in Bodin was the sovereign's function as law-giver to society, and 'the essence of lawmaking was command – in exercise of will with binding force'.[11]

Since the sovereign is the maker or creator of the law, he must therefore be above that law, which applies only to his subjects and not to himself. The sovereign, then, is a person whose will creates order out of formlessness and chaos.

The sovereign, furthermore, must be unitary and indivisible, the locus of command in society. Bodin explains that 'we see the principal point of sovereign majesty and absolute power to consist in giving laws to subjects in general, without their consent'. The sovereign must be above the law that he creates as well as any customary law or institutions. Bodin urged the sovereign prince to follow God's law in framing his edicts, but the important point was that no human action or institution could be employed to see that the prince follows the divine path or to call him to account.

Bodin, however, called upon the prince to rely for advice or counsel on a small number of wise advisers, men who, allegedly lacking motives of self-interest, would be able to aid the king in legislating for the public good of the entire nation. In short, a shall élite of wise men would share in the sovereign power behind the scenes, while publicly, the sovereign would hand down decrees as if solely the product of his own will. As Keohane writes, in Bodin's system 'the monarch's dependence on his counsellors is hidden by the impressive and satisfying fiction that the law is handed down by one benevolent, absolute, superhuman will...'.[12]

It is hardly far-fetched to conclude that Bodin, court politician and jurist, saw himself as one of the sages running government from behind the scenes. Plato's ideal of combined philosopher–king had now been transformed into the more realistic and, for Bodin, more self-serving goal of philosopher guiding the king. And all this cloaked in the illusory assumption that such a court philosopher has no self-interest in money or power in his own right.

Bodin also envisaged a broad role for various groups to participate in the government of the commonwealth, as well as a wide scope for bureaucrats and administrators. The crucial point is that all be subordinated to the power of the king.

It is often true that political analysts are at their most acute in revealing the flaws in systems with which they disagree. Accordingly, one of Bodin's keenest insights was his examination of the popular democracies of the past. Bodin points out that 'if we rip up all the popular states that ever were', and closely examine their real condition, then we shall find that the alleged rule of the people was always rule by a small oligarchy. Anticipating such perceptive late nineteenth century theorists of the power élite or ruling class as Robert Michels, Gaetano Mosca and Vilfredo Pareto, Bodin pointed out that in reality rule is always exercised by an oligarchy, for whom 'the people serves but for a mask'.

There is a curious *lacuna*, however, in the agenda of absolutist power proclaimed by Jean Bodin. That *lacuna* lies in an area always crucial to the practical exercise of state power: taxation. We have seen that before the fourteenth century, French monarchs were expected to live off their own seigneurial rents and tolls, and that tax levies were only granted begrudgingly and in emergencies. And while a regular and oppressive system of taxation was in place in France by the early sixteenth century, even the royal and absolutist theorists hesitated to grant the monarch the unlimited right to tax. In the late sixteenth century, both the Huguenots and the Catholic Leaguers bitterly condemned the arbitrary power of the king to tax as a crime against society. As a result Bodin and his fellow establishment *politiques* were reluctant to play into the hands of the king's enemies. Like the French writers before him, then, Bodin inconsistently upheld the rights of private property, as well as the invalidity of the king's taxing his subjects without their consent: 'It is not in the power of any prince in the world, at his pleasure to raise taxes upon the people, no more than to take another man's goods upon him...' Bodin's notion of 'consent', however, was scarcely a thoroughgoing or radical one; instead, he was content with the existing formal agreement to taxation by the states-general.

Bodin's own actions as a deputy from the Vermandois at the states-general meeting at Blois (1576–77) emphatically stressed the limited taxes aspect of his consistent attitude toward sovereignty. The king had proposed to substitute a graduated income tax on all commoners with no exemptions (what might now be called 'a flat tax with bumps') for the myriad of different taxes they then were forced to pay. Curiously enough, this scheme was almost precisely the one which Bodin himself had publicly advocated a short while before. But Bodin's opposition to the king's proposal displayed his shrewdly realistic attitude toward government. He noted 'that the king could not be trusted when he said this tax would be substituted for the tailles, aides, and gabelles. Rather, it was much more likely that the king was plotting to make this an additional tax'.[13] Bodin also engaged in a perceptive interest-analysis of the reason that the Parisian deputies had taken the lead in support of the new, higher tax. For he showed that the Parisians had not been paid any interest on their government bonds for a long while, and were hoping that the higher taxes would allow the king to resume his payments.

Jean Bodin, anxious to prevent the king from launching an all-out war against the Huguenots, led the estates in blocking not only the single-tax plan, but also other emergency grants to the king. Bodin pointed out that 'temporary' grants often became permanent. He also warned the king and his countrymen that 'one cannot find more frequent upsets, seditions, and ruins of commonwealths than because of excessive tax burdens and imposts'.

Among the absolutist writers following Bodin, the seventeenth century servitors of the absolute state, all hesitance or piety to the medieval legacy of strictly limited taxation was destined to disappear. State power, unlimited, was to be glorified.

In the more narrowly economic sphere of the theory of money, Bodin, as we have seen above, has long been credited by historians with pioneering the quantity theory of money (more strictly, the direct influence of the supply of money on prices) in his *Response to the Paradoxes of M. de Malestroit* (1568). Malestroit had attributed the unusual and chronic price increases in France to debasement, but Bodin pinpointed the cause as the increased supply of specie from the New World. We have seen, however, that the quantity theory had been known since the time of the fourteenth century scholastic Jean Buridan and of Nicolas Copernicus in the early sixteenth century. The increased specie from the New World was spotted as the cause of price rises a dozen years earlier than Bodin by the eminent Spanish scholastic Martin de Azpilcueta Navarrus. As a highly learned scholar, Bodin would certainly have read Navarrus's treatise, especially since Navarrus had taught at the University of Toulouse a generation before Bodin came there to study. Bodin's claim of originality in this analysis should therefore be taken with many grains of salt.[14]

Jean Bodin was also one of the first theorists to point out the influence of social leaders on demand for goods, and therefore on their price. People, he points out, 'esteem and raise in price everything that the great lords like, though the things in themselves are nor worth that valuation'. Then, a snob effect takes over, after 'the great lords see that their subjects have an abundance of things that they themselves like'. The lords then 'begin to despise' these products, and their prices then fall.

Despite his numerous keen economic and political insights, however, Bodin was ultra-orthodox in his view of usury, ignoring the work of his near-contemporary Du Moulin as well as the Spanish scholastics. Interest-taking was prohibited by God, according to Bodin, and that was that.

6.10 After Bodin

Jean Bodin's exaltation of sovereignty struck French political thought like a thunderclap; here at last was a way to justify and expand the ever-increasing powers of the Crown. In particular, the new view was adopted and subtly transformed by writers who were far more absolutist, *in practice*, than was Bodin himself. The one element that Bodin's veneration of sovereignty lacked was the Protestant notion of divine sanction; for to Bodin absolute sovereignty was simply a fact of nature. Other *politiques*, however, soon added the missing ingredient, since they had long been accustomed to think of rule as by divine right. The idea of the king's rule being commanded by God was a familiar one in the sixteenth century; none, however, had extended kingly rule to the notion of absolute sovereignty created by Bodin.

The most important immediate follower of Bodin was Pierre Grégoire, in his *De republica* (1578). The king, for Grégoire, was God's appointed vicar in the temporal sphere, and his rule was under the constant influence of God's will. The king's command was therefore equivalent to God's, and was equally owed absolute obedience by his subjects. 'The prince is the image of God, in power and in authority', wrote Grégoire.

Bodin and others had still retained the idea that true justice was a concept separate and apart from the king's edicts, so that the king's actions could well be unjust; no one, however, was allowed to obstruct or disobey such actions. But in the doctrine of the gallicized Scot Adam Blackwood, the two concepts become almost totally conflated (*Adversus Georgii Buchanani*, 1581). The will of the prince, for Blackwood, becomes just virtually by definition. The king was necessarily just and virtually superhuman, a living law unto himself. Indeed, Blackwood carried the glorification of divinely constituted monarchy to its apogee, asserting that the very *person* of the king, and not simply the authority of his office, was divine, and that he was in a literal sense a god on earth.

As its title indicates, Blackwood's work was written as an attack on his fellow gallicized Scot, the radical Calvinist George Buchanan. Buchanan's libertarian and pro-tyrannicide doctrine had rested, unsurprisingly, on the concept of natural law. And so Blackwood denounced natural law as a source of anarchistic liberty, prompting in its believers an aversion to law and to political authority. Against natural law, Blackwood upheld the *jus gentium*, the positive law of nations, as the explanation and justification of political authority.

It is not surprising that the consensual limit on taxation, still active in Bodin's thought, should drop out immediately upon the fusion of absolute sovereignty and divine right. The leader of that fusion, Pierre Grégoire, introduced erasing the tax limit as well. Whereas even Bodin had conceded that natural law established a right to private property, with Grégoire natural law only ratifies the unchecked power of the king. For Grégoire, the king had the unlimited prerogative to levy taxes, since the good of the state is higher than the property rights of the individual. Indeed, the king possessed by divine grant an absolute authority over all the persons and properties of his subjects. To avoid confusion, therefore, or any implication of consent to taxation, the states-general should be abolished altogether.

It was, indeed, Adam Blackwood who uniquely and radically reached the clarity of consistency on the ruler's right to tax. For if property rights are important, and the king has the absolute right to tax or otherwise seize private property at will, then this must mean that 'All lands were originally held by the king and were granted by him to others...And the granting of fiefs by the king was but a partial transfer; all lands owed tribute to him and remained subject to his authority'.[15] In short, in an odd version of the state of nature, only the king had original or continuing property rights; all other seeming property rights are simply allowances by the king, temporary possessions that are regulatable by the king and revocable by him at any time.

Whereas Adam Blackwood had been a lone extremist in absolutism in the early 1580s, a host of royalist pamphleteers were soon adopting his views. From approximately 1585 to Henry IV's conversion to Catholicism eight years later, the royal power was beleaguered and subordinate to the strength of the militant Catholic League. The royalist writers therefore felt obliged to push the divine sanction of the sovereign to the maximum, in order to eliminate any power of the pope in France, and to counsel absolute obedience to any legitimate sovereign, regardless of his religion. The king had absolute authority over the Catholic Church in France as well as all other institutions. Thus, François Le Jay (*On the Dignity of Kings*, 1589) asserted that kings were established for the honour and service of God, and that subjects should obey their rulers as they would a god on earth. Louis Servin, in his *Vindiciae* (1590), trumpeted of Henry IV, then still a Huguenot, that 'God is our king; by Him he lives and flourishes, and by His spirit is he animated'. Probably the most extreme version of this doctrine was expressed in a speech of Jacques de La Guesle, procurator general of France, asking the *parlement* to condemn a priest who had upheld the supreme temporal authority of the pope:

> Sirs, the authority of the king is sacrosanct, ordained by God, the principal work of His Providence, the masterpeice of His hands, the image of His sublime Majesty and proportionate to His immense grandeur, so as to bear comparison of the creature with the Creator...For, just as God is by nature the first King and Prince, so is the King, by creation and imitation, God of all on earth...[16]

The subjects, according to these Henrician absolutists, owed this quasi-divine figure absolute obedience. These writers developed the Blackwoodian theme that the king's decrees were *ipso facto* and necessarily just. Jacques Hurault, in his *On the Offices of State* (1588), developed this doctrine most clearly. Hurault explained that the prince was guided by the hand of God and therefore could do no wrong. The ruler was not simply a man but justice itself, which he dispensed according to the will of God. The constitution of the state was subordinated, in Hurault, to two simple points: the prince's necessarily just commands, and the obedience of his subjects. The ruler commands and the subjects obey. Period. Furthermore, in reaction to the Leaguer emphasis on the people, the royalists counselled the king not to allow naturally restless subjects much liberty.

Since the *politiques* and Henry IV triumphed shortly thereafter, these ultra-absolutist views of the embattled Henrician pamphleteers inspired and were followed fairly completely by the dominant theoreticians of the great age of absolutism: seventeenth century France.

6.11 Notes

1. Joseph A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), pp. 163–4.
2. Quentin Skinner, *The Foundations of Modern Political Thought: Vol. I, The Renaissance* (Cambridge: Cambridge University Press, 1978), p. 138*n*.
3. Ibid., p. 138.
4. Ibid., pp. 134–5.
5. We shall see in a later volume that the renowned left Keynesian Alvin Henry Hansen, in his famous 'stagnation' thesis of the late 1930s, forecast permanent stagnation for the American economy partially because of the recent *decline* in population growth. We shall see further that Hansen developed this doctrine as the logical outcome of a rigid Walrasian framework. This of course is in stark contrast to the pro-'zero population growth' hysteria of the left liberals of the 1970s.
6. Thus, for the world of the twentieth century, P.T. Bauer notes: 'Indeed, over large parts of the Third World the extreme sparseness of the population presents obstacles to the economic advance of enterprising people, obstacles which are more effective than those supposedly presented by population pressure. A sparse population precludes the construction of transport facilities and communications, and thus retards the spread of new ideas and methods. In this way, it circumscribes the scope for enterprise.' P.T. Bauer, *Equality, the Third World and Economic Delusion* (Cambridge, Mass.: Harvard University Press, 1981), p. 45.
7. Schumpeter, op. cit., note 1, p. 579.

8. William Farr Church, *Constitutional Thought in Sixteenth-Century France: A Study in the Evolution of Ideas* (1941, New York: Octagon Books, 1969), p. 53.
9. Pronounced Mon–TAN–ye rather than the usual Mon–TAYN, for he came from an area of south-western France where *langue d'oc* (Occitan) was spoken rather than the northern (essentially the area around Paris) *langue d'oeil* or *d'oui* (French). The southern regions had only been conquered by France in the course of a savage extirpation of their religion (Albigensian) and culture during the thirteenth century. The area around Bordeaux, furthermore, had been acquired by England and governed by the English for three centuries, from the mid-twelfth to the mid-fifteenth. When the French captured Bordeaux and the surrounding region in the 1450s, they proceeded to extirpate the Gascon (which includes Périgord) wing of Occitan as a written language, a language that the English had left alone. Thus, in 1539, a few years after Montaigne's birth, the French outlawed the use of Occitan as an administrative, written language, in the Edict of Villers–Cotterêts. People like Montaigne were thus induced to write in the official French language, and while he was always loyal to the French Crown, Montaigne still considered himself far more of a Gascon than a Frenchman.
10. Skinner, op. cit., note 2, p. 279.
11. Nannerl O. Keohane, *Philosophy and the State in France: the Renaissance to the Enlightenment* (Princeton, NJ: Princeton University Press, 1980), p. 70.
12. Ibid., p. 75.
13. Martin Wolfe, *The Fiscal System of Renaissance France* (New Haven: Yale University Press, 1972), p. 162.
14. In 1907, a descendant of Bodin asserted that the first writer to explain the influence of specie from the New World on prices in Europe was the Frenchman Noël du Fail, in 1548.
15. William Farr Church, *Constitutional Thought in Sixteenth Century France: A Study in the Evolution of Ideas* (1941, New York: Octagon Books, 1969), p. 259.
16. My translation from the French. See ibid., pp. 266n–67n.

7 Mercantilism: serving the absolute state

7.1 Mercantilism as the economic aspect of absolutism

By the beginning of the seventeenth century, royal absolutism had emerged victorious all over Europe. But a king (or, in the case of the Italian city-states, some lesser prince or ruler) cannot rule all by himself. He must rule through a hierarchical bureaucracy. And so the rule of absolutism was created through a series of alliances between the king, his nobles (who were mainly large feudal or post-feudal landlords), and various segments of large-scale merchants or traders. 'Mercantilism' is the name given by late nineteenth century historians to the politico-economic system of the absolute state from approximately the sixteenth to the eighteenth centuries. Mercantilism has been called by various historians or observers a 'system of Power or State-building' (Eli Heckscher), a system of systematic state privilege, particularly in restricting imports or subsidizing exports (Adam Smith), or a faulty set of economic theories, including protectionism and the alleged necessity for piling up bullion in a country. In fact, mercantilism was all of these things; it was a comprehensive system of state-building, state privilege, and what might be called 'state monopoly capitalism'.

As the economic aspect of state absolutism, mercantilism was of necessity a system of state-building, of Big Government, of heavy royal expenditure, of high taxes, of (especially after the late seventeenth century) inflation and deficit finance, of war, imperialism, and the aggrandizing of the nation-state. In short, a politico-economic system very like that of the present day, with the unimportant exception that now large-scale industry rather than mercantile commerce is the main focus of the economy. But state absolutism means that the state must purchase and maintain allies among powerful groups in the economy, and it also provides a cockpit for lobbying for special privilege among such groups.

Jacob Viner put the case well:

> The laws and proclamations were not all, as some modern admirers of the virtues of mercantilism would have us believe, the outcome of a noble zeal for a strong and glorious nation, directed against the selfishness of the profit-seeking merchant, but were the product of conflicting interests of varying degrees of respectability. Each group, economic, social, or religious, pressed constantly for legislation in conformity with its special interest. The fiscal needs of the crown were always an important and generally a determining influence on the course of trade legislation. Diplomatic considerations also played their part in influencing legislation, as did the desire of the crown to award special privileges, *con amore*, to its favorites, or to sell them, or to be bribed into giving them, to the highest bidders.[1]

In the area of state absolutism, grants of special privilege included the creation by grant or sale of privileged 'monopolies', i.e. the exclusive right granted by the Crown to produce or sell a given product or trade in a certain area. These 'patents of monopoly' were either sold or granted to allies of the Crown, or to those groups of merchants who would assist the king in the collection of taxes. The grants were either for trade in a certain region, such as the various East India companies, which acquired the monopoly right in each country to trade with the Far East, or were internal – such as the grant of a monopoly to one person to manufacture playing cards in England. The result was to privilege one set of businessmen at the expense of their potential competitors and of the mass of English consumers. Or, the state would cartellize craft production and industry and cement alliances by compelling all producers to join and obey the orders of privileged urban guilds.

It should be noted that the most prominent aspects of mercantilist policy – taxing or prohibiting imports or subsidizing exports – were part and parcel of this system of state monopoly privilege. Imports were subject to prohibition or protective tariff in order to confer privilege on domestic merchants or craftsmen; exports were subsidized for similar reasons. The focus in examining mercantilist thinkers and writers should not be the fallacies of their alleged economic 'theories'. Theory was the last consideration in their minds. They were, as Schumpeter called them, 'consultant administrators and pamphleteers' – to which should be added lobbyists. Their 'theories' were any propaganda arguments, however faulty or contradictory, that could win them a slice of boodle from the state apparatus.

As Viner wrote:

> The mercantilist literature...consisted in the main of writings by or on behalf of 'merchants' or businessmen, who had the usual capacity for identifying their own with the national welfare...The great bulk of the mercantilist literature consisted of tracts which were partly or wholly, frankly or disguisedly, special pleas for special economic interests. Freedom for themselves, restrictions for others, such was the essence of the usual program of legislation of the mercantilist tracts of merchant authorship.[2]

7.2 Mercantilism in Spain

The seeming prosperity and glittering power of Spain in the sixteenth century proved a sham and an illusion in the long run. For it was fuelled almost completely by the influx of silver and gold from the Spanish colonies in the New World. In the short run, the influx of bullion provided a means by which the Spanish could purchase and enjoy the products of the rest of Europe and Asia; but in the long run price inflation wiped out this temporary advantage. The result was that when the influx of specie dried up, in the seventeenth century, little or nothing remained. Not only that: the bullion prosperity induced people and resources to move to southern Spain, particularly the port of Seville, where the new specie entered Europe. The result was malinvestment in Seville and the south of Spain, offset by the crippling of potential economic growth in the north.

But that was not all. At the end of the fifteenth century, the Spanish Crown cartellized the developing and promising Castilian textile industry by passing over 100 laws designed to freeze the industry at the current level of development. This freeze crippled the protected Castilian cloth industry and destroyed its efficiency in the long run, so that it could not become competitive in European markets.

Furthermore, royal action also managed to destroy the flourishing Spanish silk industry, which centred in southern Spain at Granada. Unfortunately, Granada was still a centre of Muslim or Moorish population, and so a series of vindictive acts by the Spanish Crown brought the silk industry to its virtual demise. First, several edicts drastically limited the domestic use and consumption of silk. Second, silks in the 1550s were prohibited from being exported, and a tremendous increase in taxes on the silk industry of Granada after 1561 finished the job.

Spanish agriculture in the sixteenth century was also crippled and laid waste by government intervention. The Castilian Crown had long made an alliance with the Mesta, the guild of sheep farmers, who received special privileges in return for heavy tax contributions to the monarchy. In the 1480s and 1490s, enclosures that had been made in previous years for grain farming were all disallowed, and sheepwalks (*cañadas*) were greatly expanded by government decree at the expense of the lands of grain farmers. The grain farmers were also hobbled by special legislation passed on behalf of the carters' guild – roads being in all countries special favourites for military purposes. Carters were specially allowed free passage on all local roads, and heavy taxes were levied on grain farmers to build and maintain the roads benefiting the carters.

Grain prices rose throughout Europe beginning in the early sixteenth century. The Spanish Crown, worried that the rising prices might induce a shift of land from sheep to grain, levied maximum price control on grain, while landlords were allowed unilaterally to rescind leases and charge higher rates to grain farmers. The result of the consequent cost–price squeeze was massive farm bankruptcies, rural depopulation, and the shift of farmers to the towns or the military. The bizarre result was that, by the end of the sixteenth century, Castile suffered from periodic famines because imported Baltic grain could not easily be moved to the interior of Spain, while at the same time one-third of Castilian farm land had become uncultivated waste.

Meanwhile, shepherding, so heavily privileged by the Spanish Crown, flourished for the first half of the sixteenth century, but soon fell victim to financial and market dislocations. As a result, Spanish shepherding fell into a sharp decline.

Heavy royal expenditures and taxes on the middle classes also crippled the Spanish economy as a whole, and huge deficits misallocated capital. Three massive defaults by the Spanish king, Philip II – in 1557, 1575 and 1596 – destroyed capital and led to large-scale bankruptcies and credit stringencies in France and in Antwerp. The resultant failure to pay Spanish imperial troops in the Netherlands in 1575 led to a thoroughgoing sack of Antwerp by mutinying troops the following year in an orgy of looting and rapine known as the 'Spanish Fury'. The name stuck even though these were largely German mercenaries.

The once free and enormously prosperous city of Antwerp was brought to its knees by a series of statist measures during the late sixteenth century. In addition to the defaults, the major problem was a massive attempt by the Spanish king, Philip II, to hold on to the Netherlands and to stamp out the Protestant and Anabaptist heresies. In 1562, the Spanish king forcibly closed Antwerp to its chief import – English woollen broadcloths. And, when the notorious duke of Alva assumed the governorship of the Netherlands in 1567, he instituted repression in the form of a 'Council of Blood', which had the power to torture, kill, and confiscate the property of heretics. Alva also levied a heavy value-added tax of 10 per cent, the *alcabala*, which served to cripple the sophisticated and interrelated Netherlands economy. Many skilled woollen craftsmen fled to a hospitable home in England.

Finally, the breakaway of the Dutch from Spain in the 1580s, and another Spanish royal default in 1607, led to a treaty with the Dutch two years later which finished Antwerp by cutting off its access to the sea and to the mouth of the River Scheldt, which was confirmed to be in Dutch hands. From then on, for the remainder of the seventeenth century, decentralized and free market Holland, and in particular the city of Amsterdam, replaced Flanders and Antwerp as the main commercial and financial centre in Europe.

7.3 Mercantilism and Colbertism in France

In France, which was to become in the seventeenth century the home *par excellence* of the despotic nation-state, the promising cloth trade and other commerce and industry in Lyons and the Languedoc region in the south were crippled by the devastating religious wars in the last four decades of the sixteenth century. In addition to the devastation and the killing and emigration of skilled Huguenot craftsmen to England, high taxes to finance the war served to cripple French economic growth. Then, the *politique* party, riding to power on the promise of ending religious strife, ushered in the unchecked reign of royal absolutism.

Crippling regulation of French industry had begun in the late fifteenth century, when the king issued scores of guild charters, conferring the power to control and to set standards of quality in the different occupations upon urban guilds and their officials. The Crown conferred cartellizing privileges on the guilds while levying taxes upon them in exchange. A major reason why Lyons had flourished during the sixteenth century was that it was granted a special exemption from guild rule and guild restrictions.

By the end of the sixteenth century and the religious wars, the old regulations were still in place, ready to be enforced. The new absolute monarchy was ready to enforce them and carry them further. Thus, in 1581, King Henry III ordered all the artisans of France to join and group themselves into guilds, whose orders were to be enforced. All except Parisian and Lyonnaise craftsmen were forced to confine their activity to their current towns; in that way, mobility in French industry was brought to an end. In 1597, Henry IV re-enacted and strengthened these laws, and proceeded to enforce them thoroughly.

The result of this network of restriction was the total crippling of economic and industrial growth in France. The typical ploy of preserving 'standards of quality' meant that competition was hobbled, production and imports limited, and prices kept high. It meant, in short, that consumers were not allowed the option of paying less money for lower-quality products. State-privileged monopolies grew as well, with similar effects; and upon the guilds and the monopolies the state levied increasing and stifling taxes. Growing inspection fees for quality also exacted a great burden on the French economy. Furthermore, luxury production was particularly subsidized, and the profits of expanding industries diverted to subsidize the weak. Capital accumulation was thereby slowed and the growth of promising and strong industries crippled. The subsidizing and privileging of luxury industries meant a shift of resources away from cost-cutting innovations in new mass-production industries, and towards such areas of high-cost craftsmanship as glass and tapestries.

The increasingly powerful French monarchy and aristocracy were large consumers of luxury goods and were therefore particularly interested in fostering them and maintaining their quality. Price was no great object since the monarchy and nobility lived off compulsory levies in any case. Thus, in May 1665, the king established monopoly privileges for a group of French lace manufacturers, using the transparently canting argument that this was done to prevent 'the export of money and to give employment to the people'. Actually, the point was to prohibit anyone other than the privileged licensees from making lace, in return for hefty fees paid to the Crown. Domestic cartels are worthless if the consumer is allowed to buy cheaper substitutes from abroad, and so protective tariffs were levied on imported lace. But apparently smuggling abounded, and so in 1667, the government made enforcement easier by prohibiting all foreign lace whatsoever. In addition, to prevent unlicensed competition, it was necessary for the French Crown to prohibit any lace work at home, and to force all lace work to occur at fixed, visible points of manufacture. Thus, as the finance and commerce minister and general economic czar Jean-Baptiste Colbert wrote to a government lace supervisor: 'I beg you to note with care that no girl must be allowed to work at the home of her parents and that you must oblige them all to go to the house of the manufactures...'

Perhaps the most important of the numerous mercantile restrictions on the French economy imposed in the seventeenth century was the enforcing of 'quality' standards on production and trade. This tended to mean a freezing of the French economy at the level of the early or mid-seventeenth century. That coerced freeze effectively hobbled or even prevented the innovation – new products, new technologies, new methods of handling production and exchange – so necessary to economic and industrial development. One example was the loom, invented in the early seventeenth century, at first used principally for the production of the luxury item, silk stockings. When looms began to be applied to relatively mass-consumption woollen and linen goods, the hand-knitters balked at the efficient competition, and persuaded Colbert, in 1680, to outlaw the use of the loom on any article except silk. Fortunately, in the case of the loom, the excluded woollen and linen manufacturers were politically powerful enough to get the prohibition repealed four years later, and to get themselves included in the protectionist/cartellist system of advantage.

All these tendencies of French mercantilism reached a climax in the era of Jean-Baptiste Colbert (1619–83), so much so that he gave the name Colbertisme to the most hypertrophied embodiment of mercantilism. The son of a merchant born at Reims, Colbert early in life joined the French central bureaucracy. By 1651, he had become a leading bureaucrat in the service of the Crown, and from 1661 to his death 22 year later, Colbert was the virtual economic czar – absorbing such offices as superintendent of finance, of commerce, and secretary of state – under the great Sun King, that epitome of absolutist despotism, Louis XIV.

Colbert engaged in a virtual orgy of grants of monopoly, subsidies of luxury, and cartellizing privilege, and built up a mighty system of central bureaucracy, of officials known as *intendants*, to enforce the network of controls and regulations. He also created a formidable system of inspections, marks and measurements to be able to identify all those straying from the detailed list of state regulations. The *intendants* employed a network of spies and informers to ferret out all violations of the cartel restrictions and regulations. In the classic mode of spies everywhere, they also spied on each other, including the *intendants* themselves. Penalties for violations ranged from confiscation and destruction of the 'inferior' production, to heavy fines, public mockery, and deprivation of one's licence to stay in business. As the major historian of mercantilism summed up French enforcement: 'No measure of control was considered too severe where it served to secure the greatest possible respect for the regulations.'[3]

Two of the most extreme examples of the suppression of innovation in France occurred shortly after the death of Colbert during the lengthy reign of

Louis XIV. Button-making in France had been controlled by various guilds, depending on the material used, the most important part belonging to the cord- and button-makers' guild, who made cord buttons by hand. By the 1690s, tailors and dealers launched the innovation of weaving buttons from the material used in the garment. The outrage of the inefficient hand-button-makers brought the state leaping to their defence. In the late 1690s, fines were imposed on the production, sale, and even the wearing of the new buttons, and the fines were continually increased. The local guild wardens even obtained the right to search people's houses and to arrest anyone in the street who wore the evil and illegal buttons. In a few years, however, the state and the hand-button-makers had to give up the fight, since everyone in France was using the new buttons.

More important in stunting France's industrial growth was the disastrous prohibition of the popular new cloth, printed calicoes. Cotton textiles were not yet of supreme importance in this era, but cottons were to be the spark of the Industrial Revolution in eighteenth century England. France's strictly enforced policy made sure that cottons would not be flourishing there.

The new cloth, printed calicoes, began to be imported from India in the 1660s, and became highly popular, useful for an inexpensive mass market, as well as for high fashion. As a result, calico printing was launched in France. By the 1680s, the indignant woollen, cloth, silk and linen industries all complained to the state of 'unfair competition' by the highly popular upstart. The printed colours were readily outcompeting the older cloths. And so the French state responded in 1686 by total prohibition of printed calicoes: their import or their domestic production. In 1700, the French government went all the way: an absolute ban on every aspect of calicoes including their use in consumption. Government spies had a hysterical field day: 'peering into coaches and private houses and reporting that the governess of the Marquis de Cormoy had been seen at her window clothed in calico of a white background with big red flowers, almost new, or that the wife of a lemonade-seller had been seen in her shop in a casquin of calico'.[4] Literally thousands of Frenchmen died in the calico struggles, either being executed for wearing calicoes or in armed raids against calico-users.

Calicoes were so popular, however, especially among French ladies, that the fight was eventually lost, even though the prohibition stayed on the books until the late eighteenth century. The smuggling of calicoes simply could not be stopped. But it was of course easier to enforce the prohibition against domestic calico manufacture than against the entire French consuming population, and so the result of the near-century of prohibition was to put a total stop to any domestic calico-printing industry in France. The calico entrepreneurs and skilled craftsmen, many of them Huguenots oppressed by the French state, emigrated to Holland and England, strengthening the calico industry in those countries.

Furthermore, pervasive maximum wage controls discouraged workers from moving or, in particular, entering industry, and tended to keep workers on the farm. Apprenticeship requirements of three or four years greatly restricted labour mobility and prevented entrance into crafts. Each master was limited to one or two apprentices, thereby preventing the growth of any single firm.

Before Colbert, most French revenue came from taxation, but grants of monopoly proliferated so much during the Colbert regime to try to pay for swelling expenditures, that monopoly grant revenue came to more than one-half of all state income.

Most onerous and strictly enforced was the government's salt monopoly. Salt producers were required to sell all salt produced to certain royal storehouses at fixed prices. The consumers were then forced to purchase salt and, to expand state income and deprive smugglers of revenue, to purchase a fixed amount at four times the free market price and divide it among the inhabitants.

Despite the enormous increase in monopoly grant revenue, taxes rose greatly in France as well. The land tax, or *taille réelle*, was the single largest source of revenue for the state, and in the early part of his regime, Colbert tried to expand the burden of the *taille* still further. But the *taille* was hampered by a network of exemptions, especially including all the nobility. Colbert tried his best to spy on the exempt, to ferret out 'false' nobles, and to stop the network of bribes of the tax-collectors. An attempt to lower the *taille* slightly and greatly to increase the *aides* – indirect internal taxes at wholesale and retail, particularly on beverages – came a cropper on the bribery and corruption of the tax farmers. And then there was the *gabelle* (tax on salt), revenue from which rose tenfold in real terms between the early sixteenth and mid-seventeenth centuries. During the Colbert era, *gabelle* revenues rose not so much from an increase in tax rates as from the tightening of enforcement of the existing steep taxes.

The land and consumption taxes fell heavily upon the poor and upon the middle class, gravely crippling saving and investment, especially, as we have seen, in the mass-production industries. The parlous state of the French economy may be seen by the fact that, in 1640, just as King Charles I of England was facing a successful revolution largely brought about by his imposition of high taxes, the French Crown was collecting three to four times as much taxes per capita as did King Charles.

As a result of all these factors, even though the population of France was six times that of England during the sixteenth century, and its early industrial development had seemed promising, French absolutism and strictly enforced mercantilism managed to put that country out of the running as a leading nation in industrial or economic growth.

7.4 Mercantilism in England: textiles and monopolies

It was in the sixteenth century that England began its meteoric rise to the top of the economic and industrial heap. The English Crown in effect tried its best to hobble this development by mercantilist laws and regulations, but was thwarted because for various reasons the interventionist edicts proved unenforceable.

Raw wool had for several centuries been England's most important product, and hence its most important export. Wool was shipped largely to Flanders and to Florence to be made into fine cloth. By the early fourteenth century, the flourishing wool trade had reached a height of an average annual export of 35 000 sacks. The state naturally then entered the picture, taxing, regulating and restricting. The principal fiscal weapon to build the nation-state in England was the 'poundage', a tax on the export of wool and a tariff on the import of woollen cloth. The poundage kept increasing to pay for continuing wars. In the 1340s King Edward III granted the monopoly of wool exporting to small groups of merchants, in return for their agreeing to collect the wool taxes on the king's behalf. This monopoly grant served to put out of business Italian and other foreign merchants who had predominated in the wool export trade.

By the 1350s, however, these monopoly merchants had gone bankrupt, and King Edward finally resolved the issue by widening the monopoly privilege and extending it to a group of several hundred called the 'Merchants of the Staple'. All wool exported had to go through a fixed town under the auspices of the company of the Staple, and be exported to a fixed point on the Continent, by the end of the fourteenth century at Calais, then under English control. The monopoly of the Staple did not apply to Italy, but it did apply to Flanders, the major place of import for English wool.

The Merchants of the Staple soon proceeded to use their privileged monopoly in the time-honoured manner of all monopolists: to force lower prices upon English wool growers, and higher prices upon Calais and Flemish importers. In the short run, this system was quite pleasant for the Staplers, who were able to more than recoup their payments to the king, but in the long run the great English wool trade was crippled beyond repair. The artificial gap between domestic and foreign wool prices discouraged the production of English wool, while it also injured the demand for wool abroad. By the mid-fifteenth century, average annual exports of wool had fallen greatly to only 8 000 sacks.

The only benefit to Englishmen from this disastrous policy (apart from the joint short-term gains to King Edward and to the Staplers) was to give an unintended boost to the English production of woollen cloth. English clothmakers could now benefit from their artificially lower prices of wool in England, coupled with the artificially high prices of wool abroad. Once again, the market managed to get a leg-up in its unending, zig-zag struggle with power. By the mid-fifteenth century fine, expensive, broadcloth 'woollens' were being produced abundantly in England, centring in the West Country, where swift rivers made water plentiful for fulling the woven cloth, and where Bristol could serve as the major port of export and entry.

During the mid-sixteenth century, a new form of woollen cloth manufacture sprang up in England, soon to become dominant in the textile industry. This was the 'new draperies', or worsteds, cheaper and lighter-weight cloth that could be exported to warmer climates and far more suitable for dyeing and decoration, since each individual strand of yarn was now visible in the cloth. Since the worsted was not fulled, the draperies did not need to be situated near running water, and so new textile manufacturers and workshops sprang up in the countryside – and in new towns such as Norwich and Rye – all round London. London was the largest market for the cloths, so transportation costs were now cheaper, and furthermore, the south-east was a centre for sheep bearing the coarse, long stapled wool particularly suitable for worsted production. The new rural firms around London were also able to hire skilled Protestant textile artisans who had fled the religious persecution in France and the Netherlands. Most important, going to the countryside or to new towns meant that the expanding and innovating textile industry could escape from the stifling guild restrictions and frozen technology of the old towns.

Now that over 100 000 cloths were exported annually compared to a few thousand two centuries earlier, sophisticated production and marketing innovations took place. Establishing a 'putting-out' system, merchants paid artisans by the piece to work on cloth owned by the former. In addition, marketing middlemen sprang up, yarn brokers serving as middlemen between spinners and weavers, and drapers specializing in selling the cloth at the end of the production chain.

Seeing the rise of effective new competition, the older urban and broadcloth artisans and manufacturers turned to the state apparatus to try to shackle the efficient upstarts.

As Professor Miskimin puts it: 'As often happens during an evolutionary period, the older, vested interests turned to the state for protection against the innovative elements within the industry and sought regulation that would preserve their traditional monopoly.'[5]

In response, the English government passed the Weavers' Act in 1555, which drastically limited the number of looms per establishment outside the towns to only one or two. Numerous exemptions, however, vitiated the effect of the act, and other statutes placing maximum controls on wages, restricting competition in order to preserve the old broadcloth industry came to naught from systemic lack of enforcement. The English government then turned to the alternative of propping up and tightening the urban guild structure to exclude competition. These measures succeeded, however, only in isolating and hastening the decay of the old urban broadcloth firms. For the new rural firms, especially the new draperies, were beyond guild jurisdiction. Queen Elizabeth then went national, with the Statute of Artificers in 1563, which placed the nation-state squarely behind guild power. The number of apprentices each master could employ was severely limited, a measure calculated to stifle the growth of any one firm, and to decisively cartellize the wool industry and cripple competition. The number of years of apprenticeship, before the apprentice could rise to become a master, was universally extended by the statute to seven years, and maximum wage rates for apprenticeships were imposed throughout England. Beneficiaries of the Statute of Artificers were not only the old, inefficient urban broadcloth guilds, but also the large landlords, who had been losing rural workers to the new, high-paying clothing industry. One announced aim of the Statute of Artificers was compulsory full employment, with labour directed to work according to a system of 'priorities'; top priority was accorded to the state, which attempted to force workers to remain in rural and farm work and not leave the farm for glittering opportunities elsewhere. To enter commercial or professional fields, on the other hand, required a graded series of qualifications such that the occupations were happy in having entry restricted by this cartellizing statute, while the landlords were delighted to have workers forced to remain on the farm at lower wages than they could achieve elsewhere.

If the Statute of Artificers had been strictly enforced, industrial growth might have been permanently arrested in England. But fortunately, England was far more anarchic than France, and the statute was not well enforced, particularly where it counted, in the new and fast-growing worsted industry.

Not only was the countryside beyond the grasp of the urban guilds and their nation-state ally, but so too was fast-growing London, where custom decreed that any guild member could engage in any sort of trade, and no guild could exercise restrictive control over any line of production.

London as the great export centre for the new draperies – largely to Antwerp – partially accounted for the enormous growth of this city during the sixteenth century. London's population grew at three times the rate of England as a whole over the century, specifically from 30–40 000 at the beginning of the sixteenth century to a quarter of a million early in the next.

The London merchants were not, however, content with free market development, and power began to move in on the market. Specifically, the London merchants began to reach for export monopoly. In 1486 the City of London created the Fellowship of the Merchant Adventurers of London, which claimed exclusive rights to the export of woollens to its members. For provincial merchants (outside of London) to join required a stiff fee. Eleven years later the king and parliament decreed that any merchant exporting to the Netherlands had to pay a fee to the Merchant Adventurers and obey its restrictionist regulations.

The state tightened the monopoly of the Merchant Adventurers in the mid-sixteenth century. First in 1552, the Hanseatic merchants were deprived of their ancient rights to export cloth to the Netherlands. Five years later, customs duties were raised on the import of cloth, thereby conferring more special privileges on the domestic cloth trade and increasing the financial ties of the Crown to the cloth merchants. And finally, in 1564, in Queen Elizabeth's reign, the Merchant Adventurers were reconstituted under tighter and more oligarchic control.

In the late sixteenth century, however, the mighty Merchant Adventurers began to decline. The English war with Spain and the Spanish Netherlands lost the Adventurers the city of Antwerp, and at the turn of the seventeenth century, they were formally expelled from Germany. The English monopoly of woollen exports to the Netherlands and the German coast was finally abolished after the revolution of 1688.

It is instructive to note what happened to printed calico in England as compared to the supression of the industry in France. The powerful woollen industry managed to get the importation of calicoes banned from England in 1700, a decade or so after France, but in this case domestic manufacture was still permitted. As a result, domestic manufactures of calico spurted ahead, and when the woollen interests managed to get a prohibition of calico consumption act passed in 1720 (The Calico Act), the domestic calico industry was already powerful and could continue to export its wares. In the meanwhile, calico smuggling continued, as did domestic use – all stimulated by the fact that prohibition was not enforced nearly as strictly in England as in France. Then, in 1735, the English cotton industry won an exemption for the domestic printing and use of 'fustians', a mixed cotton and linen cloth, which were the most popular form of calico in England in any case. As a result, the domestic cotton textile industry was able to grow and flourish in England throughout the eighteenth century.

Prominent in English mercantilism was the pervasive creation by the Crown of grants of monopoly privilege: exclusive power to produce and sell in domestic and in foreign trade. The creation of monopolies reached its climax in the reign of Queen Elizabeth (1558–1603), in the latter half of the sixteenth century. In the words of historian, Professor S.T. Bindoff: '...the restrictive principle had, like some giant squid, fastened its embracing tentacles round many branches of domestic trade and manufacture', and 'in the last decade of Elizabeth's reign scarcely an article in common use – coal, soap, starch, iron, leather, books, wine, fruit – was unaffected by patents of monopoly'.[6]

In sparkling prose, Bindoff writes how lobbyists, using the lure of monetary gain, obtained royal courtiers to sponsor their petitions for grants of monopoly: 'their sponsorship was usually a mere episode in the great game of place-and-fortune-hunting which swayed and swirled incessantly around the steps of the throne'. Once granted their privileges, the monopolists got themselves armed by the state with powers of search-and-seizure to root out all instances of now illegal competition. As Bindoff writes:

> The 'saltpetre men of the gunpowder contract dug in every man's house' for the nitrate-laden soil which was their raw material. The minions of the playing-card monopoly invaded shops in search of cards lacking its seal and browbeat their owners, under threat of summons to a distant court, into compounding for their offences. The search-warrant was, indeed, indispensable to the monopolist if he were to eliminate competition and leave himself free to fix the price of his wares.[7]

The result of this expulsion of competition, as we might expect, was the lowering of quality and the raising of price, sometimes by as much as 400 per cent.

England was pre-eminently the home of foreign trade companies receiving grants of monopoly for trade with portions of the globe. The granddaddy of the English foreign trade companies was the Muscovy Company, chartered in 1553, and granted a monopoly of all English trade with Russia and Asia through the White Sea port of Archangel. In the late 1570s and early 1580s, Queen Elizabeth granted trading privileges to a spate of new monopoly companies including the Barbary, Eastland, and Levant Companies. A small group of politically powerful men, centred originally in the Muscovy Company, was at the core of every one of these monopoly companies. The Muscovy Company, for a while, held a monopoly on all exploration and trade with North America. Further, when in the 1580s the Muscovy Company's trade with Russia was severely injured by the Cossacks' disruption of the Volga trade route from Asia, Muscovy Company leaders formed both the Turkey Company and the Venice Company in 1581 for trading with India. The two companies merged in 1592 into the Levant Company, which enjoyed a monopoly grant trade with India through the Levant and Persia.

Running like a powerful thread through all these interlocking monopoly companies was the person and the family of Sir Thomas Smith (1558–1625). Smith's grandfather, Andrew Judd, was a principal founder of the Muscovy Company. His father, Sir Thomas Smith, Sr (1514–77), attorney, had been an architect of the Tudor system of royal absolutism, high taxation, and economic restriction. By the 1590s, the junior Smith was the governor – the head – of literally every single monopoly company concerned with foreign trade and colonization. These included the Muscovy Company, which held the monopoly charter for the colonization of Virginia. But the climax of Smith's career came when, to all his other posts, was added governor of the mighty East India Company, chartered in 1600 with a monopoly of all trading to the East Indies.

7.5 Enserfdom in eastern Europe

What happened in eastern Europe was even worse than mercantilism. There, absolutism by the kings and the feudal nobility was so rampant and unchecked that they decided to crush nascent capitalism. Former serfs, now free, had been moving from the rural lands to the towns and cities, there to work for higher wages and better opportunities in emerging capitalist production and industry. By the beginning of the fifteenth century, eastern Europe, specifically Prussia, Poland and Lithuania, had a freed peasantry. Towns and monetary exchange flourished, and clothmaking and manufacturing grew and prospered. In the sixteenth century, however, the state and the nobility of eastern Europe reasserted themselves and re-enserfed the peasantry. In particular, a rise in the price of grain (mainly rye) in Europe in the early sixteenth century made grain farming more profitable, spurring the socializing of cheap labour in service of the noble landlords. The peasants were forced back on to the land, and compelled to remain there, and were also coerced into *corvées* (periodic forced labour for the nobility). The peasants were forced into large manorial estates owned by the nobles, since large estates meant cheaper costs of supervising and coercing peasant labour on the part of the nobility. In addition, in Poland, the nobles induced the state to pass further laws, severely restricting the activities of urban merchants. Polish merchants now had to pay higher tolls for shipping produce on the Vistula River than did landlords, and Polish merchants were prohibited from exporting domestic products. Moreover, the repression of the formerly free peasantry greatly lowered their money income for purchasing goods. These policies combined to destroy the Polish towns, the urban economy, and the internal market for Polish goods. As Professor Miskimin writes, 'Out of self-interest the nobles successfully contrived to crush Polish economic development in order to reserve for themselves the rich grain trade and to assure adequate supplies of agricultural labor for the maximum exploitation of their estates'.[8]

In Hungary, a similar process of re-enserfment occurred, but in the service of cattle-raising and wine-growing rather than rye production. In the later Middle Ages, rents by the peasantry had been converted from payments in kind to monetary payments. Now, in the sixteenth century, the nobles markedly increased the rents and reconverted them into payments in kind. Taxes on peasants were raised substantially and the burden of forced *corvée* labour was increased greatly in one area ninefold from seven days per year to 60. The lords got themselves granted a tight monopoly of wine sales, as well as exemptions from heavy export taxes on cattle payable by merchants. In that way, the landlords gained themselves privileged monopolies of buying and selling for the vital wine and cattle trades.

7.6 Mercantilism and inflation

The post-medieval state acquired most of its eagerly sought revenues by taxation. But the state has always been attracted by the idea of creating its own money in addition to plundering directly the wealth of its subjects. Before the invention of paper money, however, the state was limited in money creation to occasional debasements of the coinage, of which it had long managed to secure a compulsory monopoly. For debasement was a one-shot process, and could not be used, as the state would always like, to create money continually and feed it into state coffers for use in building palaces, pyramids, and other consumption goods for the state apparatus and its power élite.

The highly inflationary instrument of government paper money was first discovered in the Western world in French Quebec in 1685. Monsieur Meules, the governing *intendant* of Quebec, pressed as usual for funds, decided to augment them by dividing some playing cards into quarters, marking them with various denominations of French currency, and then using them to pay for wages and materials. This card money, later redeemed in actual specie, soon became repeatedly issued paper tickets.

The first more familiar form of government paper began five years later, in 1690, in the British colony of Massachusetts. Massachusetts had sent soldiers on one of their customary plunder expeditions against prosperous French Quebec, but this time had been beaten back. The disgruntled Massachusetts soldiery was even more irritated by the fact that their pay had always come out of their individual shares of French booty sold at auction, but that now there was no money for them to collect. The Massachusetts government, beset by demands for payment of their salary by a mutinous soldiery, was not able to borrow the money from Boston merchants, who shrewdly considered its credit rating unworthy. Finally, Massachusetts hit upon the expedient of issuing 7 000 pounds in paper notes, supposed to be redeemable in specie in a few years. Inevitably, the few years began to stretch out on the horizon, and the government, delighted with this new-found way of acquiring seemingly costless revenue, poured on the printing presses, and quickly issued 40 000 more paper pounds. Fatefully, paper money had been born.

It was to be two decades before the French government, under the influence of the fanatically inflationist Scottish theoretician John Law, turned on the taps of paper money inflation at home. The English government turned instead to a more subtle device for accomplishing the same objective: the creation of a new institution in history: a central bank.

The key to English history in the seventeenth and eighteenth centuries is the perpetual wars in which the English state was continually engaged. Wars meant gigantic financial requirements for the Crown. Before the advent of the central bank and government paper, any government not willing to tax the country for the full cost of war relied on an ever more extensive public debt. But if the public debt continues to rise, and taxes are not increased, something has to give, and the piper must be paid.

Before the seventeenth century, loans were generally made by banks, and 'banks' were institutions in which capitalists lent out funds that they had saved. There was no deposit banking; merchants who wanted a safe place to keep their surplus gold deposited them in the King's Mint in the Tower of London – an institution accustomed to storing gold. This habit, however, proved highly costly, for King Charles I, needing money shortly before the outbreak of the civil war in 1638, simply confiscated the huge sum of 200 000 pounds in gold stored at the Mint – announcing it to be a 'loan' from the depositors. Understandably shaken by their experience, merchants began depositing their gold in the coffers of private goldsmiths, who were also accustomed to the storing and safe keeping of precious metals. Soon, goldsmiths' notes began to function as private bank notes, the product of deposit banking.

The Restoration government soon needed to raise a great deal of money for wars with the Dutch. Taxes were greatly increased, and the Crown borrowed extensively from the goldsmiths. In late 1671, King Charles II asked the bankers for further large loans to finance a new fleet. Upon the goldsmiths' refusal, the king proclaimed, on 5 January 1672, a 'stop of the Exchequer', that is, a wilful refusal to pay any interest or principal on much of the outstanding public debt. Some of the 'stopped' debt was owed by the government to suppliers and pensioners, but the vast bulk was held by the victimized goldsmiths. Indeed, of the total stopped debt of 1.21 million pounds, 1.17 million was owned by the goldsmiths.

Five years later, in 1677, the Crown grudgingly began paying interest on the stopped debt. But by the time of the eviction of James II in 1688, only a little over six years of interest had been paid out of the 12 years' debt. Furthermore, the interest was paid at the arbitrary rate of 6 per cent, even though the king had originally contracted to pay interest at rates ranging from 8 to 10 per cent.

The goldsmiths were even more intensively thwarted by the new government of William and Mary, ushered in by the Glorious Revolution of 1688. The new regime simply refused to pay any interest or principal on the stopped debt. The hapless creditors took the case to court, but while the judges agreed in principle with the creditors' case, their decision was overruled by the Lord Keeper, who candidly argued that the government's financial problems must take precedence over justice and property right.

The upshot of the 'stop' was that the House of Commons settled the affair in 1701, decreeing that half of the capital sum of the debt be simply wiped out; and that interest on the other half begin to be paid at the end of 1705, at the remarkable rate of 3 per cent. Even that low rate was later cut to two-and-a-half.

The consequences of this declaration of bankruptcy by the king were as could be predicted: public credit was severely impaired, and financial disaster struck for the goldsmiths, whose notes were no longer acceptable to the public, and for their depositors. Most of the leading goldsmith–creditors went bankrupt by the 1680s, and many ended their lives in debtors' prison. Private deposit banking had received a crippling blow, a blow which would only be overcome by the creation of a central bank.

The stop of the Exchequer, then, coming only two decades after the confiscation of the gold at the Mint, managed virtually to destroy at one blow private deposit banking and the government's credit. But endless wars with France were now looming, and where would government get the money to finance them?[9]

Salvation came in the form of a group of promoters, headed by the Scot, William Paterson. Paterson approached a special committee of the House of Commons formed in early 1693 to study the problem of raising funds, and proposed a remarkable new scheme. In return for a set of important special privileges from the state, Paterson and his group would form the Bank of England, which would issue new notes, most of which would be used to finance the government's deficit. In short, since there were not enough private savers willing to finance the deficit, Paterson and company were graciously willing to buy interest-bearing government bonds, to be paid for by newly created bank notes, carrying a raft of special privileges with them. As soon as Parliament duly chartered the Bank of England in 1694, King William himself and various MPs rushed to become shareholders of this new money-creating bonanza.

William Paterson urged the English government to grant Bank of England notes legal tender power, but this was going too far, even for the British Crown. But Parliament did give the bank the advantage of holding deposits of all government funds.

The new institution of government-privileged central banking soon demonstrated its inflationary power. The Bank of England quickly issued the enormous sum of 760 000 pounds, most of which were used to buy government debt. This issue had an immediate and substantial inflationary impact, and in two short years, the Bank of England was insolvent after a bank run, an insolvency gleefully abetted by its competitors, the private goldsmiths, who were happy to return to it the swollen Bank of England notes for redemption of specie.

At this point, the English government made a fateful decision: in May 1696, it simply allowed the bank to 'suspend specie payment'. In short, it allowed the bank to refuse indefinitely to pay its contractual obligations to redeem its notes in gold, while at the same time continuing blithely in operation, issuing notes and enforcing payments upon its *own* debtors. The bank resumed specie payments two years later, but this act set a precedent for British and American banking from that point on. Whenever the bank inflated itself into financial trouble, the government stood ready to allow it to suspend specie payments. During the last wars with France, in the late eighteenth and early nineteenth century, the bank was allowed to suspend payments for two decades.

The same year, 1696, the Bank of England had another scare: the spectre of competition. A Tory financial group tried to establish a national land bank, to compete with the Whig-dominated central bank. The attempt failed, but the Bank of England moved quickly to induce Parliament, in 1697, to pass a law prohibiting any new corporate bank from being established in England. Any new bank would have to be either proprietary or owned by a partnership, thereby severely limiting the extent of competition with the bank. Furthermore, counterfeiting of Bank of England notes was now made punishable by death. In 1708, Parliament followed up this set of privileges by another crucial one: it now became unlawful for any corporate bank other than the Bank of England, and for any bank partnership over six persons, to issue notes. And, moreover, incorporated banks and partnerships over six were also prohibited from making any short-term loans. The Bank of England now only had to compete with tiny banks.

Thus, by the end of the seventeenth century, the states of western Europe, particularly England and France, had discovered a grand new route towards the aggrandizement of state power: revenue through inflationary creation of paper money, either by government or, more subtly, by a privileged, monopolistic, central bank. In England, private banks of deposit were inspired to proliferate (especially checking accounts) under this umbrella, and the government was at last able to expand the public debt to fight its endless wars; during the French war of 1702–13, for example it was able to finance 31 per cent of its budget via public debt.

7.7 Notes

1. Jacob Viner, *Studies in the Theory of International Trade* (New York: Harper & Bros, 1937), pp. 58–9.
2. Ibid., p. 59.
3. Eli F. Heckscher, *Mercantilism* (1935, 2nd ed., New York: Macmillan, 1955) vol. I, p. 162.
4. Charles Woolsey Cole, *French Mercantilism, 1683–1700* (New York: Columbia University Press, 1943), p. 176.
5. Harry A. Miskimin, *The Economy of Later Renaissance Europe: 1460–1600* (Cambridge: Cambridge University Press, 1977), p. 92.

6. S.T. Bindoff, *Tudor England* (Baltimore: Penguin Books, 1950), p. 228.
7. Ibid., p. 291.
8. Harry A. Miskimin, *The Economy of Later Renaissance Europe: 1460–1600* (Cambridge: Cambridge University Press, 1977), p. 60.
9. Of the 66 years from 1688 to 1756, fully 34, or more than half, were spent in wars with France. Later wars, such as 1756–63, 1777–83, and 1794–1814, were even more spectacular, so that of the 124 years from 1688 to 1814, no less than 67 were spent by England in wars with the 'French threat'.

8 French mercantilist thought in the seventeenth century

8.1 Building the ruling élite

The system of mercantilism needed no high-flown 'theory' to get launched. It came naturally to the ruling castes of the burgeoning nation-states. The king, seconded by the nobility, favoured high government expenditures, military conquests, and high taxes to build up their common and individual power and wealth. The king naturally favoured alliances with nobles and with cartellizing and monopoly guilds and companies, for these built up his political power through alliances and his revenue through sales and fees from the beneficiaries. Neither did the cartellizing companies need much of a theory to come out in favour of themselves acquiring monopoly privilege. Subsidy to export, keeping out of imports, needed no theory either: nor did increasing the supply of money and credit to the kings, nobles or favoured business groups. Neither did the famous urge of mercantilists to build up the supply of bullion in the country: that supply in effect meant increased bullion flowing into the coffers of kings, nobles and monopoly export companies. And who does not want the supply of money in their pockets to rise?

Theory came later; theory came either to sell to the deluded masses the necessity and benevolence of the new system, or to sell to the king the particular scheme being promoted by the pamphleteer or his confrères. Mercantilist 'theory' was a set of rationales designed to uphold or expand particular vested economic interests.

Many twentieth century historians have lauded the mercantilists for their proto-Keynesian concern for 'full employment', thus showing allegedly surprising modern tendencies. It should be stressed, however, that the mercantilist concern for full employment was scarcely humanitarian. On the contrary, their desire was to stamp out idleness, and to force the idle, the vagrant, and the 'sturdy beggars' to work. In short, for the mercantilists, 'full employment' frankly implied its logical corollary: forced labour. Thus, in 1545, the 'sturdy beggars' of Paris were forced to work for long hours, and two years later, 'to take away all opportunity for idleness from the healthy', all women able but unwilling to work were whipped and driven out of Paris, while all men in the same category were sent to the galleys as slave labour.

The class basis of this mercantilist horror of idleness should be instantly noted. The nobility and the clergy, for example, were scarcely concerned with *their own* idleness; it was only that of the lower classes that must be ended by any means necessary. The same is true of the privileged merchants of the third estate. The thinly veiled excuse was the necessity of increasing 'the productivity of the nation', but these classes *constituted* the ruling élite, and such forced ending of idleness, whether on public works or in private production, was a boon to the rulers. It not only increased production for the latter's benefit; it also lowered wage rates by adding to the supply of labour by coercion.

Thus, at the meeting of the states general, the parliamentary body of France, in 1576, all three estates united in their call for forced labour. The clergy urged that 'no idle person...be allowed or tolerated'. The third estate wanted 'sturdy beggars' to be put to work, whipped or exiled. The nobles urged that 'sturdy beggars and idlers' be forced to work and whipped if they refused to comply.

The same states-general made their special pleading all too painfully clear in the matter of protective tariffs. The estates called for the prohibition of imports of all manufactured goods and the export of all raw materials. The purpose of both measures was to throw a wall of monopoly protection around domestic manufactures and to force producers of raw materials to sell their goods to those domestic businesses at an artificially low price. The excuse that such measures were necessary to 'keep bullion' or money 'at home' would seem patently absurd to any objective person. For if French consumers are to be prevented from buying imports in order to safeguard 'their bullion', what might happen otherwise? Was there really any danger of Frenchmen sending all their bullion abroad and keeping none for themselves? Clearly, such an event would be absurd, but *even* if it happened – the worst-case scenario – there is an evident hard maximum limit to any outflow of bullion from home. For where are the consumers bent on further importation going to get more bullion? Clearly, only by exporting other products abroad.

Consequently, the 'keeping money at home' argument is patently fraudulent, whether in seventeenth century France or in the twentieth century United States. The states-general were interested in protecting certain French industries, period.

The 'keeping money at home' argument was also a convenient stick to beat foreign businessmen or financiers who could outcompete natives. Thus the prospect of German bankers and Italian financiers flourishing in France gave rise to paroxysms of fury at the 'ill-gotten gains' of foreigners, taking money out of the country, fury that was of course fed by the typically mercantilist egregious 'Montaigne fallacy' that one man's (or one nation's) gain on the market was *ipso facto* another man's (or nation's loss). These disgruntled Frenchmen often suggested that foreign financiers be expelled from the country, but the kings were typically too bogged down in debt to afford such counsel.

8.2 The first major French mercantilist: Barthélemy de Laffemas

The first French mercantilist of note was Barthélemy de Laffemas (1545–1612), an uneducated son of a very poor Protestant family in Dauphiné. All his life he was the servitor of Henry of Navarre, the Protestant pretender, rising in 1582 to the exalted post of honorary tailor and valet to his master. When Henry of Navarre became King Henry IV, Laffemas's fortune was made, and he became in 1601 controller-general of commerce and head of the Commission of Commerce, to remain so until the king's death. Like a devoted dog who dies shortly after his master, Laffemas, now broken in power, died a year after Henry was assassinated in 1610. Laffemas comes to our attention because of the literally dozens of execrably written pamphlets he produced during his decades in power, on behalf of the mercantile system which he was helping to put into place in France.

Laffemas's focal point, his criterion for numerous economic policies, was whether or not they brought bullion into the kingdom. But note that these views need not necessarily be interpreted as dim-witted reliance on money-as-wealth; for when Laffemas wrote that gold and silver were 'the sinews and support of kingdoms and monarchies...the true matter and substance which maintains the state against...enemies', he was of course quite right. The more money kings can amass from their subjects, the wealthier and more powerful they would become. There is nothing odd or fallacious about *that*. The fallacy existed – should the argument be taken seriously – for anyone who identified the king's interest with that of all of French society.

The one spark of economic intelligence here came with the fact that Laffemas was one of the first mercantilists to shrewdly advise the king not to directly prohibit the export of bullion. Far better, he believed, to allow bullion to flow in and out of the country freely, and then strictly regulate commerce and industry in such a way that bullion would flow into the country.

Apart from that, Laffemas's economic advice was a dreary litany: prohibit all manufactured imports, prohibit fairs which drained money out of the kingdom and into the hands of foreigners, force merchants to buy only raw materials abroad and not manufactures, prohibit the export of raw materials. Guilds must be revived and used to regulate all urban work and to keep up the quality of products; committees of masters should supervise guilds; a bureau of manufactures should supervise them, and so on up to the royal court.

Promoting the usual mercantilist cant, Laffemas assured agriculture that it would benefit, not suffer, from the establishment of protected manufactures, since these would supply a home market for farm products. That this would be a highly inefficient and costly home market Laffemas did not bother to add.

Everyone who opposed his views, according to Laffemas, was selfish, ignorant, and/or a traitor, and should be dealt with accordingly. All who disobeyed the regulations and prohibitions should suffer confiscation of their goods as well as death.

Like most of his mercantilist confrères, Barthélemy de Laffemas was enamoured of the idea of full employment and the eradication of idleness.

Full employment, of course, meant coerced employment, and Laffemas called for an end to idleness by putting the idle to work, the reluctant to be forced into it by 'chains and prisons'. Taverns and cabarets were to be severely restricted, and confirmed drunkards arrested and put into the pillory.

Protectionism begins by trying to ensure national self-sufficiency in goods that can be made at home, and then continues by expanding the definition of what can indeed be made. For when profitability on the market is abandoned as a criterion, virtually every good in creation can be made – at *some* cost – at home. If Americans wanted to, they could undoubtedly grow all their bananas in hothouses in Maine or Montana at astronomical cost. But what would be the point, apart from subsidies to a few privileged hothouse growers?

One of Barthélemy de Laffemas's daftest projects, which as controller-general he did his best to put into effect, was to make France self-sufficient in one of her favourite luxury imports: silks. Many of his pamphlets and practical efforts were devoted to force-feeding an enormous expansion of the French silk industry, hitherto small and confined to the south of France.

Laffemas insisted that the climate of France was ideal for raising silkworms; any belief to the contrary, any subversive talk that France was largely too cold and stormy for silk growing, was merely propaganda spread by the 'evil designs of certain French merchants, retailers of foreign silks'. Laffemas pointed to his own successful silk-growing, to King Henry's planting of mulberry trees (on which silkworms were fed). He advocated a law compelling all property owners, including the clergy and monasteries, to plant two or three mulberry trees per acre. He painted a beautiful picture of vast profits that were sure to flow from mulberry trees and silk culture. Laffemas also claimed magical medicinal properties for mulberries: they would cure toothache and stomach trouble, relieve burns, chase away vermin, and be an antidote to poisons.

Even though Laffemas persuaded the king to pour hundreds of thousands of *livres* into fostering the growth of mulberry trees and silk culture, and the king duly ordered each diocese in France to establish a nursery of 50 000 mulberries, the great silk experiment proved an abject failure. The climate of most of France indeed proved inhospitable, a product of hard reality rather than misinformation spread by selfish and traitorous importers. The mass of the French clergy understandably dragged their feet at suddenly being forced to become silk producers. France continued to be a heavy net importer of silks.

Laffemas's main if not only disciple was his son Isaac. At the tender age of 19, young Isaac de Laffemas (1587–1657), keen to become the heir of his powerful father in every sense, published a *History of Commerce in France* (1606). The *History* was scarcely a memorable work, distinguished mainly for the fawning praise which he lavished upon his father and on King Henry, and on the slavish repetition of his father's pet notions and nostrums. The tone of this work may be gauged from the fact that Isaac lauded Henry IV as the source of all that is good in France. Addressing his Majesty, young Isaac wrote that heaven 'has favored my father in having let him live during your reign'.

With the fall of his father from grace and his subsequent death, Isaac's career as a political economist came to an untimely end, and he ended his days as a minor but faithful lieutenant of the chief minister, Cardinal Richelieu.

8.3 The first 'Colbert': the duc de Sully

What Jean-Baptiste Colbert would be in the last half of the seventeenth century to Louis XIV, Maximilien de Béthune, Baron de Rosny, the duc de Sully (1560–1641) was to Henry IV. The young Béthune was born a Huguenot aristocrat, Baron de Rosny. Naturally, he too gravitated to the court of Henry of Navarre, and fought and was wounded during the religious wars. It is characteristic of Rosny that he urged Henry IV to turn Catholic in order to save his throne, although he himself refused to do so.

The arrogant and ruthless Rosny quickly became Henry IV's leading minister as superintendent of finance, and for his services was made by his master the duc de Sully. Sully's own views stem from his *Memoirs* (1638), written in old age as a glowing apologia for his own term in office, for Sully had been forcibly retired to private life after the assassination of his royal patron. In his *Memoirs*, Sully claims to have opposed the more crackpot schemes of his fellow top bureaucrat Laffemas. Thus, he writes at length of his opposition to Laffemas's silk fiasco. Silk could not readily grow in the French climate, he had warned, and also it would lead Frenchmen into undue luxury.

It is not, of course, that Sully was not a mercantilist. It is just that, instead of proceeding with the folly of force-feeding domestic luxury industries, such as silk, he would have passed laws directly against luxurious consumption. He was eager to ban the export of gold and silver directly, paying fees to himself and others for ferreting out evaders of the law. Some of his specific views, of course, such as on the silk scheme, might be a rewriting of history to make himself look good to contemporaries; after all, neither Laffemas nor King Henry were then alive to verify his recollections. Others might be simply the product of bureaucratic infighting with his fellow economic czar.

A dedicated absolutist, who indeed did much to entrench centralized absolutism in France, the Duc de Sully was basically as much a protectionist as his colleague Laffemas, despite the claim of some historians that Sully (and his monarch) was some sort of 'free-trader'. The one significant case where Sully opposed a Laffemas protection scheme was the latter's proposal to ban all imports of textiles. But here the basic reason was his loyalty to the city of

Lyons, the leading Protestant stronghold in south-eastern France, which would have suffered greatly from the prohibition of such trade. Throughout his career, Sully fought to uphold the fortunes and privileges of Lyons.

8.4 The eccentric poet: Antoine de Montchrétien

One of the most bizarre characters in the history of economic thought was the poet and dramatist Antoine de Montchrétien (c.1575–1621). Born in Falaise, in Normandy, Montchrétian grew up in a middle-class household, his father probably having been an apothecary. He went to a fashionable school at Caen, and at the age of 20 began to write poetry and tragic plays, some of which, including *Hector* and *L'Écossaise*, are still considered classics of French literature. At 30 Montchrétien became involved in a scandalous duel, and fled to England. After travelling in Holland, he returned to France around 1610 and married a rich Norman widow, who financed his start in the hardware business. He thereupon set up a factory at Ousonne-sur-Loire, where he produced knives and scythes.

In 1615, at the age of 40, Antoine de Montchrétien published his one and only work on economics, the *Traicté de l'Oeconomie Politique* (*Treatise on Political Economy*). The only distinction of this book was its title, for it was the first time in history that the phrase 'political economy' had ever appeared. The *Treatise* is a rambling, disorganized account of the economic resources of the country, and a plea to the twin rulers of France (the young King Louis XIII and his Regent and Queen Mother, Marie de Medici) to impose order, rule with an iron hand, and advance the greatness of their nation-state, France. As Charles Cole puts it, the book 'is based in large part on the tacit assumption that control and direction of the economic life of the country is one of the chief functions of government, and it is a plea for greater activity in economic matters on the part of the rulers'.[1] One sentence from the work will convey its essential spirit: 'Your Majesties possess a great state, agreeable in geographic situation, abounding in wealth, flourishing in peoples, powerful in good and strong cities, invincible in arms, triumphant in glory'. All France needs, Montchrétien opined, is 'order': 'Order is the entelechy of states'.

The alleged need for a state-imposed order was linked neatly with Montchrétien's conscious echoing of the Montaigne fallacy: 'It is said that no one ever loses without another gaining. This is true and is borne out in the realm of commerce more than anywhere else'.

For Montchrétien, the French Crown in particular was supposed to regulate and foster production and trade, and especially manufactures, so that France could become self-sufficient. Foreign goods and foreign manufacturers should be driven out of France. Thus Dutch linen manufacturers were at the time allowed to operate in France; that must be ended. English textiles should be banned. France must be made self-sufficient in silk, Montchrétien asserted, and he claimed that the fiasco of silk subsidy in the reign of Henry IV had come about only because of faithlessness on the part of the monarch's aides. Furthermore, since 'whatever is foreign corrupts us', foreign books should be prohibited, since they 'poison our spirits' and 'corrupt our manners'.

Nor did Montchrétien neglect his own scythe business. It was a national tragedy, he warned, that German scythes were outcompeting French products, even though French scythes were superior. One wonders, then, why French consumers were perverse enough to prefer the German product – unless, of course, its price was lower.

Idleness, according to Montchrétien, was evil and had to be stamped out, by force if necessary. Man, to Montchrétien, is born to live in continual labour; the policy of the state should therefore be to make sure that no part of the population ever remains idle. Idle hands are the devil's hands; idleness corrupts the strength of men and the chastity of women. Idleness, in short, is the mother of all sins. The criminals and the unruly should, therefore, be made to work. As for so many other mercantilists, full employment for Montchrétien meant at bottom coerced employment.

The most pervasive motif in Montchrétien's work was his deep and abiding hatred and revulsion towards foreigners, towards their imported products and towards their persons. Foreigners, he fulminated, 'are leeches who attach themselves to this great [French] body, suck out its best blood, and gorge themselves with it, then leave the skin and detach themselves'. All in all, France, 'once so pure, so clean', had been turned into 'a bilge, a sewer, a cesspool for other countries'.

It is impossible to know if Montchrétien was hoping for great things from the French monarch, but in any case nothing happened, and so he began to ordain himself into the nobility, by simply calling himself the 'sieur de Vateville'. And even though he implied in several spots in his *Treatise* that he was Catholic, and declared his adoration for the absolute monarchy often enough, yet he took part in a Huguenot uprising in Normandy in 1621, and was killed in battle. Four days later, a judicial tribunal condemned the dead man posthumously, dragged, broke and burned his body, and then scattered his ashes to the winds. Such was the punishment handed out to Antoine de Montchrétien by his much vaunted absolute rulers.

8.5 The grandiose failure of François du Noyer

François du Noyer, sieur de Saint-Martin, had a dream. It was a grandiose vision of the future. All around him, in the early seventeenth century, and in all major nations of the West, the state was creating monopoly companies. Then why not, du Noyer reasoned, go all the way? If monopoly companies for specific products or specific areas of trade were good, why not go one better? Why not one big company, one gigantic monopoly for virtually everything?

King Henry IV listened to du Noyer's schemes with interest. They were, after all, only logical conclusions of doctrines and notions that were everywhere in the air. But it was not until 1613 that du Noyer worked out his plan in detail, and set it before the council of state. It was to be an enormous, virtually all-inclusive company, to be called the French Royal Company of the Holy Sepulchre of Jerusalem. The company, to be headed of course by du Noyer himself, was to have either a privileged monopoly, or the right to regulate all other firms, in virtually every trade. Thus, the Royal Company was to make cloth, and regulate all other manufacture and preparation of all types of cloth; control all aspects of wine making, and all merchants and hotels buying wine would have to invest certain sums in the company, at a low fixed return; hold four privileged fairs a year in Paris; have a monopoly of all public coaches; control all mines in France; obtain gratis various unoccupied Crown lands and abandoned quarries; dig canals, erect mills; have a monopoly on sale of playing cards; make munitions; borrow and lend money; and numerous other activities. Furthermore, du Noyer would have the Royal Company obtain extraordinary powers from the Crown:

- it would have the right to seize beggars and vagabonds and take them to the French colonies, which it would presumably run;
- all convicted criminals would be sentenced to forced labor for the company in the colonies;
- all bankrupts who had managed to save some money from their wreckage would be forced to invest that amount in the company;
- all people exiled from France could be let back into the country by serving or paying money to the company;
- all who conducted trade higher than their rank or privileges would be forced to join the company;
- all business documents whatsoever would have to use stamped paper sold to them by the company.

The council of state was impressed by du Noyer's vision and ordered an investigation of the project. The following year, 1614, the Royal Company plan was approved by the states-general of France, and various generals, admirals, and other high-level officials joined in the praise. Du Noyer reached the peak of his influence, being given the old Laffemas post of controller-general of commerce. It seemed as if the grandiloquent Royal Company plan was actually going to be adopted. Du Noyer elaborated on his plan in a pamphlet which he presented to the king in 1615.

The king, or rather the regent, Marie de Medici, was impressed, and in 1616 recreated the old Commission of Commerce, formerly headed by

Laffemas, with instructions to study the du Noyer project in detail. The commission met, and the following year approved the plan of the Royal Company, and urged that all persons carrying on trade be forced to invest their money exclusively in it. In short, the Royal Company would be the monopoly company to end all companies. The delighted du Noyer, in the meanwhile, seeing his cherished scheme close to fruition, published a longer pamphlet on the plan, urging his one big company upon France. Like the king himself, the Royal Company would be unique and universal, and its capital would come from both private and royal sources.

The Royal Company project seemed to keep barrelling along, the council of state granting its approval in 1618, and again in 1620, when King Louis XIII himself gave it his warm endorsement. In early 1621, public criers throughout Paris announced the glad tidings that the Royal Company had been formed, and was open to receive funds for investment.

The problem, however, was money. No one seemed to want to provide actual cash or even pledges to the new enterprise, however grandiloquent and privileged it appeared to be. The king urged every city in France to join, but the cities kept hanging back, pleading that they had no funds. In desperation, controller-general of commerce du Noyer scaled down the Royal Company to concentrate only on commerce and trade with the Indies and other overseas areas. Finally, du Noyer narrowed the scope of his beloved company's capital still further to just Paris and Brittany. But even the Bretons proved not to be interested.

The coming to power as prime minister of Cardinal Richelieu in 1624 put the du Noyer scheme into abeyance. But four years later, the project had its final fling. The king urged the commission of Commerce to act, and in the spring of 1629, it again approved the plan, this time adding to its original grandiose powers the right to make treaties with foreign countries, and to establish colonial islands for entrepôt trade.

After nearly three decades of planning and lobbying, du Noyer now needed only the simple signature of King Louis to put his hypertrophied vision into effect. But for some reason, the royal signature never came. No one knows quite why. Perhaps the powerful Richelieu didn't want a rival's scheme to be approved. Or perhaps the king was getting weary of the aging monomaniac and his untiring enthusiasm. Repeated entreaties and importuning, however, fell only on deaf ears. The Royal Company was at last dead, stillborn, and old du Noyer's loss was the French public's gain.

8.6 Under the rule of the cardinals, 1624–61

The 1620s to the 1650s were decades of rule in France by two very secular cardinals. The first was the stern, implacable, cunning, and charismatic Armand Jean du Plessis, Cardinal de Richelieu (1585–1642). A scion of an old family of lesser nobility in Poitou, Richelieu's father, François, had been a particular favourite of Henry III and Henry IV. As a result, young Armand was made bishop of Luçon by Henry IV in 1606. Eight years later, Richelieu attracted the attention of the Queen Mother, Marie de Medici, and became chief adviser in her exile. He was made a cardinal in 1622, and became prime minister in 1624, to remain so until his death 20 years later.

Richelieu's main interest was his participation in the Thirty Years' War (1618–48), which devastated Germany for decades to come. This war symbolized a fundamental shift in European wars from the strictly religious conflicts of the previous century to the political nation-state ambitions of the seventeenth century. Thus Richelieu, the at least nominally Catholic (albeit *politique*) cardinal of a Catholic country, found himself heading a largely Protestant European coalition against the Catholic Habsburgs of Austria and Spain.

The cardinal's theoretical views were set forth in two books written near the end of his life, his *Memoirs on the Reign of Louis XIII* and his *Political Testament*. While his major practical interest had not been domestic or economic affairs, he had helped build up the absolutism of the French state. In his works, he repeated the usual absolutist mercantilist views of the France of his era. France should be self-sufficient in all things, the navy and merchant marine built up, monopolies granted, the idle put to work or locked up in institutions, and luxurious consumption prohibited.

An interesting new variant was Richelieu's candid attitude towards the mass of Frenchmen as simply animals to be prodded or coerced in ways that were optimal for the French state. Thus taxes should not be so high that commerce and industry are discouraged, but neither should they be so low as to leave the public too well off. For if the people were too comfortable and complacent, it would be impossible to 'contain them in the rules of their duty'. Richelieu added the revealing comment that 'It is necessary to compare them [the people] to mules, who, being accustomed to burdens, are spoiled by a long rest more than by work'.

It is clear that in the course of promoting the interests of the nation-state and of his monarch, Richelieu did not neglect his own concerns. A receiver of a modest annual income of 25 000 *livres* upon his entry into the post of prime minister, by the end of his career in office Cardinal Richelieu was earning some 3 million *livres* per annum. Apparently, the cardinal had no problem in serving the enrichment of his sovereign and of himself at the same time.

Richelieu's successor was a fascinating character, a Sicilian whose father was a high official attached to the powerful Colonna family. Jules Mazarin (1602–61) was educated in Rome by the Jesuits, and then became a Church official at the University of Alcalá in Spain. Returning to Rome to earn his doctorate in law, Mazarin was a captain of infantry, and then a papal diplomat of note. He was made a church canon without ever having been a priest. While serving as papal nuncio to France, he gained the favour of the great Richelieu, who offered Mazarin a high official post if he should become a naturalized French citizen.

It is not many men who emigrate, become a citizen of another land (as Mazarin did in 1639), and then become prime minister of that country only three years later. Mazarin, however, achieved that feat, becoming cardinal (still without being a priest) in 1641, and succeeding Richelieu when the latter died a year later. Mazarin was shrewd enough to court the favour of the queen, so that when Louis XIII died the next year, and the queen became regent, Mazarin could continue in his powerful post. Except for a year or two's hiatus, Mazarin continued as prime minister until his death in 1661.

Mazarin had far less interest in economic affairs than his predecessor, and was no theoretician, devoting himself largely to diplomacy and war. He didn't need much theoretical insight, however, to amass a fortune in high office that put even his predecessor to shame. By the end of his rule, he had accumulated an immense personal fortune of approximately 50 million *livres*.

One noteworthy work written during Mazarin's term was by a Carmelite monk, Jean Éon, whose religious name was Mathias de Saint-Jean (c.1600–81). Éon was born in Saint-Malo, in Brittany, and became a friend and adviser of the governor of Brittany, a relative of Richelieu's, Marshal de la Meilleraye. Éon eventually became Carmelite provincial in Touraine, and refused the opportunity to become attorney-general of that province.

During Éon's life in Brittany, the Breton merchants became interested in founding a privileged commercial company, and in 1641 a group of merchants, consulting with de la Meilleraye, worked out plans for a large company, centred at Nantes, to be called the Société de la Bourse Commune de Nantes. The company was approved by the council of state in 1646, but it provoked an anonymous pamphlet in opposition. Éon was hired by the city of Nantes, and encouraged by la Meilleraye to write a book in defence of the company. The result was the lengthy *Honourable Commerce or Political Considerations* (*Le Commerce honorable ou considérations politiques*) (Nantes, 1647). The book was dedicated to Éon's friend and patron la Meilleraye, whom he extolled as inheriting the mantle of economic leadership of the nation from Richelieu.

Éon's book was a compilation of standard mercantilist doctrines and need not be examined in detail here. He almost rivalled Montchrétien in his hatred for foreigners, and in his wish to drastically curtail their activities in or selling to France. Two of his personal and original contributions were his paean to the sea, shipping, and the seafaring life, and his eulogy to the city of Nantes, its glory and its unique suitability for locating a privileged company.

8.7 Colbert and Louis XIV

Jean-Baptiste Colbert (1619–83) was no scholar or theorist, but he knew with firm conviction what ideas he liked, and these were the mercantilist notions that had filled the air in France and the rest of Europe for generations. Colbert's accomplishment, while functioning as the Sun King's economic czar, was to put this compendium of mercantilist ideas into effect on a grand scale. Colbert was convinced that the ideas were good, just and correct, and he fervently believed that any opponent was completely wrong, either ignorant or biased by personal motives and special pleading. His opponents, such as businessmen who preferred competition or free exchange, were narrow, short-sighted, and selfish; only he, Jean-Baptiste Colbert, had the long-run interests of the nation and the nation-state at heart. Merchants, he repeatedly declared, were little men with only 'little private interests'. For example, they often preferred liberty to compete with each other, whereas it is in the 'public interest' and the 'good of the state' to see to it that all products are uniform in make-up and quality. Colbert was speaking here, of course, of the joint interests of the state, its rulers and bureaucracy, and of cartellists, all of whose private interests were in fact at stake. But although the myth of the 'public' was, as usual, a mask for particular individuals and groups, their interests were indeed far grander than those of 'little' individual merchants.

The mercantilist ideas of Colbert were familiar: encouraging and keeping bullion in the country so that it can flow into the coffers of the state; prohibiting the export of bullion; cartellizing through compulsory high standards of quality; subsidizing of exports; and restriction on imports until France became self-sufficient. Colbert's ideas on taxation were those of almost every minister of finance everywhere, except they were more clearly and far more candidly expressed: 'The art of taxation', he said, 'consists in so plucking the goose as to obtain the largest amount of feathers with the least amount of hissing'. There is no more dramatic encapsulation of the inherently conflicting interests of the people *vs* the state. From the point of view of the state and its rulers, the people are but a giant goose to be plucked as efficaciously as possible.

Furthermore, that swelling the coffers of the king and the state was the simple reason for the otherwise silly 'bullionist' doctrines of the mercantilists can be seen in this revealing statement of Colbert's to the king: 'The universal rule of finances should be always to watch, and use every care, and all the authority of Your Majesty, to attract money into the kingdom, to spread it out into all the provinces so as to pay their taxes'.

Like other mercantilists, Colbert warmly embraced the 'Montaigne fallacy' about trade. Trade was war and conflict. The total amount of trade in the world, the total number of ships, the total production of manufacturing, was fixed. One nation could only improve its trade, or shipping or manufactures, by depriving some other country of this fixed quantum. One nation's gain must be another's loss. Colbert gloried in the fact that French trade was growing, allegedly at the expense of misery inflicted on other nations. As Colbert wrote to King Louis XIV in 1669, 'This state is flourishing not only in itself, but also by the want which it has inflicted upon all the neighbouring states'.

In reality, trade and conquest are not akin, but are diametric opposites. Each party to every exchange benefits, whether the exchange is between nationals of the same country or of different countries. Political boundaries have nothing to do with the economic gain from trade and markets. In exchange, one man's gain is only accomplished by contributing to the gain of someone else; just as both 'nation' (i.e. people living in certain countries or any other geographical area) mutually benefit from trade between them. Colbert's theories, however, fitted in with deep hostility toward all foreigners, particularly such prosperous nations as England and Holland.

Like other mercantilists, Colbert detested the idleness of others, and sought to force them into working for the nation and state. All vagabonds must be driven out of the country or put to forced labour as galley-slaves. Holidays should be reduced, so that people would work harder.

Colbert was unusual among mercantilists in giving especial care to bringing the intellectual and artistic life of the nation under state control. The object was to make sure that art and intellect served to glorify the king and his works. An enormous amount of money was poured into palaces and *chateaux* for the king, the mightiest of which was approximately 40 million *livres* on the great, isolated palace at Versailles. During Colbert's term, some 80 million *livres* were spent on royal edifices. Moreover, Colbert mobilized artists and intellectuals into academies, and supported them by grants and government projects. The French Academy, created shortly before as an uninfluential semi-private group, was nationalized by Colbert and put in charge of the French language. The Academy of Painting and Sculpture, founded under Mazarin and given a legal monopoly of art instruction, was reinforced by Colbert, who imposed strict regulations on these artists so that their work would be proper and orderly and always in service to the king. Colbert founded an academy of architecture to work on royal buildings and to inculcate the proper architectural principles.

Neither were music nor the theatre safe from the all-encompassing rule of Colbert. Colbert preferred the Italian opera form to the French ballet, and so doomed the latter to the benefit of the Italian import. In 1659, the Abbé Perrin produced the first French opera, and so a decade later, Colbert conferred upon the abbé a monopoly of all rights to present musical performances. Perrin, however, was a poor manager, and he went bankrupt. While in a debtor's prison, Perrin sold his monopoly right to Jean Batiste Lulli, an Italian musician and composer. Lulli was given the right to form the Royal Academy of Music, and Lulli's permission was necessary for any further musical performance with more than two instruments.

Similarly, Colbert created a theatrical monopoly. In 1673, he forced two existing theatres to unite: when a third troupe was later forced to join them, the *Comédie française* was thereby formed in 1680. The *Comédie française* was given a monopoly of all dramatic performances in Paris, was subjected to tight state regulation and control, and aided by state funds.

With regulation and monopoly came subsidy and subvention. Pensions, grants, no-show appointments as valets of the king, lucrative appointments as artists to the king, exemptions from taxes or from the wrath of creditors, all poured out into the arts. Similarly, for the theatre, writers, scientists, historians, philosophers, mathematicians and essayists. All manner of largesse poured out to them from the state trough. It was subvention that put to shame any contemporary national endowment for the humanities or national science foundation. The outpouring truly subverted any sort of spirit of independence that French intellectuals might have attained. The mind of a whole nation had been corrupted into the service of the state.

What manner of man was this, then, this grand bureaucrat who scorned the interests of mere individuals and merchants as petty and narrow, who presumed always to speak and act for the 'national' and even 'public' interest? Jean-Baptiste Colbert was born in Reims, into a merchant family. His father, Nicolas, purchased a minor government office in Paris; his more influential uncle, Odart Colbert, was a successful merchant-banker. Jean-Baptiste was an uneducated young man, but his uncle knew a banker for Cardinal Mazarin. More importantly, one of Odart's sons married the sister of an important government official, Michel Le Tellier. Uncle Odart got young Colbert a job working for Le Tellier, who had just been appointed to the post of secretary of state for military affairs. Jean-Baptiste's lifelong service in the top French bureaucracy had begun. After seven years in this post, Colbert married Marie Charon, after obtaining for her father, a wealthy financial official, an important tax exemption.

Soon Colbert became a counsellor of state, and then one of the top aides of Cardinal Mazarin. Soon after Mazarin's death, Colbert rose to become virtual economic czar of Louis XIV, keeping this status until his death.

Cold, humourless, hard and implacable, 'a man of marble' as he was called by a contemporary, Jean-Baptiste Colbert yet had the wit to engage in boundless flattery and demeaning personal service to his royal patron. Thus Colbert wrote to Louis on the occasion of a military victory: 'One must, Sire, remain in silent wonder, and thank God every day for having caused us to be born in the reign of a king like Your Majesty'. And no service to the Sun King was too demeaning. Colbert searched for the king's missing swans, supplied

Louis with his favourite oranges, arranged for the birth of the king's illegitimate children, and bought jewels for mistresses on the king's behalf. Colbert's personal philosophy was best summed up in his advice to his beloved son, Seignelay, on how to get ahead in the world. He told his son that 'the chief end that he should set himself is to make himself agreeable to the king, he should work with great industry, during his whole life to know well what might be agreeable to His Majesty'.

Colbert was well rewarded for his life of hard work and abject sycophancy in the service of the king. Apparently only the interests of individual merchants and citizens were narrow and 'petty'. Colbert had little difficulty in identifying the lucrative feathering of his own nest with the 'public interest', national glory, and the common weal. A stream of offices, benefices, pensions and grants streamed into his coffers from the ever grateful king. In addition, Colbert received special bonuses or 'gratifications' from the king; thus, in one order, in February 1679, Colbert received a gratification of no less than 400 000 *livres*. The overall sum poured into Colbert's coffers was immense, including lands, and bribes for subsidies and exemptions from grateful lobbyists and economic interests. All in all, he amassed at least 10 million *livres*, notable to be sure, but not the enormous extent of Cardinal Mazarin's boodle as prime minister.

Colbert also did extremely well by his extensive family. Brothers, cousins, sons and daughters of Colbert were showered with favours, and became bishops, ambassadors, military commanders, *intendants*, and abbesses of leading convents. The Colbert family certainly did well by doing 'good' on behalf of the sovereign and the 'public interest' of France.

After Colbert's death in 1683, his successors under Louis XIV developed and strengthened the policy of *Colbertisme*. Protective tariffs were greatly increased, imports of various goods limited to specific ports, quality regulations strengthened, and innovations hobbled for the protection of the industrial and occupational status quo. *Colbertisme* was frozen into the French political economy.

8.8 Louis XIV: apogee of absolutism (1638–1714)

For his part, Louis XIV had no trouble fitting the absolutist role. Even more than Colbert, he totally identified his own private interest as monarch with the interests of the state and with the 'public good'. Whether or not Louis uttered the famous words often attributed to him, 'I am the state', he certainly believed and acted upon them, as did his father Louis XIII before him, who had said, 'It is not I who speak, it is my state'. Statism logically implies that the state owns all the property in the land, and that all who live on or use such property do so only by the sufferance of the 'true' owner. And Louis certainly believed that he was the true owner of all property in France. Hence justice was '*my* justice', and hence he claimed the inherent right to tax all his subjects at will. And why not indeed, if they were all truly existing in his realm only at his, the owner's pleasure?

Furthermore, virtually everyone, even the king's opponents, believed that he ruled by divine grace and divine right. Previously, Cardinal Richelieu had called kings the images of God. Early in the Sun King's reign, court propagandist Daniel de Priézac, in his *Political Discourses* (1652, 1666), called monarchical sovereignty a 'great light that never sets'. Furthermore, that light is a great divine Mystery hidden from mere mortals. As de Priézac put it:

> the source of the majesty of kings is so high, its essence so hidden and its force so divine that it should not seem strange that it should make men reverent without their being permitted to understand it, just as is true with celestial things.[2]

In contrast to the adulatory worshippers at the shrine of the king's quasi-divinity were the Montaigne-type sceptics and pessimists about human nature who fed the stream of panegyrics to Louis XIV in their own way. In a set of three *Sceptical Discourses* (1664), the cynical Samuel Sorbière, admirer and translator of Thomas Hobbes, decried the tendencies of bestial and corrupt modern man in grabbing from the public trough and having no sense of the common good. But there is, opined Sorbière, a way out: absolute submission to the commands of the (presumably superhuman) king, so that order is established out of perpetual conflict. In that total submission, the people will find their way back to the instinctual child-like simplicity of the state of nature preceding their entry into civil society. As Professor Keohane writes of Sorbière: 'as the subjects of an absolute despot, they would live much the same way, he argues, in serene simplicity, totally dependent on the sovereign for their lives and fortunes, protected against the encroachments of their fellows, happy in their slavery'[3]

King Louis XIV was able to combine both strands into a worshipful blend of absolutist thought. On the one hand, as he makes clear in his private *Memoirs*, written for the instruction of his son, his view of human nature (at least of the nature of ordinary mortals) was pessimistic and Machiavellian. Individuals are by nature limited, striving always for their own personal ends, and heedless of the reasons why they should be subordinated to the commands of others. The king, on the other hand, is superhuman, a man who is above all and sees all and is the only one working for the 'public' good, which is identical with his own. And the Sun King also took unto himself quasi-divine status; for he, Louis XIV, is like the sun,

> the noblest of all...which, by virtue of its uniqueness, by the brilliance that surrounds it, by the light it imparts to the other heavenly bodies that seem to pay it

> court, by its equal and just distribution of this same light to all the various parts of the world, by the good that it does everywhere, constantly producing life, joy, and activity everywhere, by its perpetual yet always imperceptible movement, by never departing or deviating from its steady and invariable course, assuredly makes a most vivid and a most beautiful image for a great monarch.

Professor Keohane justly comments that Louis XIV 'is not content to compare himself to God; he compares in such a manner that it is clear that it is God who is the copy'.[4]

The acme of absolutist thought was provided by Jacques-Bénigne Bossuet (1627–1704), bishop of Meaux, court theologian and political theorist under Louis XIV. The whole state, opined the bishop, 'is in the person of the prince...In him is the will of the whole people'. The kings identify with the public good, because 'God has raised them to a condition where they no longer have anything to desire for themselves'. Absolutism is necessary, asserted Bossuet, because any constitutional limits on the prince raise the dread spectre of 'anarchy', than which nothing can be worse. The only limits on the power of the sovereign should be those he imposes on himself in his own interest, which must be identical to the public interest whenever the prince 'regards the state as his possession, to be cultivated and passed on to his descendants'.

Finally, Bossuet conflates the king and God as follows:

> Majesty is the image of the grandeur of God in the prince. God is infinite, God is all. The prince, as prince, is not to be considered an individual man: he is the public person, the whole state is included in him...Just as all perfection and all virtue are united in God, so all the power of the individuals is brought together in the person of the prince. What grandeur, that a single man can contain so much.[5]

Catholic political thought had come a long way from the Spanish scholastics.

8.9 Notes

1. Charles Woolsey Cole, *Colbert and a Century of French Mercantilism* (1939, Hamden, Conn.: Archon Books, 1964), vol. I, p. 85.
2. Quoted in Nannerl O. Keohane, *Philosophy and the State in France: The Renaissance to the Enlightenment* (Princeton, NJ: Princeton University Press, 1980), p. 241.
3. Ibid., p. 244.
4. Passage from the *Memoirs* quoted in Keohane, op. cit., note 2, p. 251.
5. Quoted in Keohane, op. cit., note 2, p. 252.

9 The liberal reaction against mercantilism in seventeenth century France

9.1 The *croquants'* rebellion

The kings and their minions did not impose an accelerating burden of absolutism without provoking grave, deep and continuing opposition. Indeed, there were repeated rebellions by groups of peasants and nobles in France from the 1630s to the 1670s. Generally, the focus of discontent and uprising was rising taxes, as well as the losses of rights and privileges. There were also similar rebellions in Spain, in mid-century, and in autocratic Russia, throughout the seventeenth century.

Consider, for example, the remonstrances of the peasants in the first great French rebellion of the seventeenth century, the *croquants'* (literally, 'crunchers') revolt in 1636 in south-western France. The *croquants'* rebellion was precipitated by a sudden near-doubling of direct taxes upon the peasantry to raise funds for the war against Spain. The *intendant* La Force, sent to investigate the disturbances, reported on the peasants' grievances and demands. The peasants focused on the eternal and acclerating increases of taxation. They pointed out that in the reign of Henry IV more taxes had been collected than in all previous reigns of the monarchy taken together; and that in but two years of the reign of Louis XIII they had paid more than in all the years of Henry IV. The peasants also protested that the royal tax-collectors carried off their cattle, clothes and tools, merely to cover the costs of enforcement, so that the principal of the tax debt could never be reduced. The result was ruin. Deprived of their means of labour, the peasants had been forced to leave their fields untilled, and even to leave their ancient lands and beg for bread. In a letter to his superior, La Force feels compelled to endorse their complaints: 'It is not, Monseigneur, that I am not, by natural feeling, touched with very great compassion when I see the extraordinary poverty in which these people live'.

The peasants protested that they were not subversives; they were willing to pay the old customary taxes, provided the recent increases were repealed. New taxes should only be imposed in extreme emergencies, and then only by the states-general (which hadn't met since 1615, and was not to meet again until the eve of the French Revolution). Like deluded subjects at all times and places, the peasants placed the blame for their ills not on the king himself but on his evil and tyrannical ministers, who had led the sovereign astray. The peasants insisted that they had had to revolt in order that 'their cries may reach the ears of the King himself and no longer just those of his Ministers, who advise him so badly'. Whether a ruler be king or president, it is convenient for him to preserve his popularity by deflecting protest and hostility to advisers or prime ministers who surround him.

But despite this unfortunate limitation, the *croquants* had the insight and the wit to zero in on the 'public interest' myth propounded by the royal ministers. The 'needs of the state', the peasants declared, were only a 'pretext for enriching a few private persons' – the hated tax farmers, who had bought the privilege from the Crown of collecting taxes which then went into their pockets; and the 'creatures of the man who rules the state', i.e. Richelieu and his entourage. The peasants called for the abolition of courtiers' pensions, as well as the salaries of all the newly created officials.

The following year, 1637, the *croquants* of the neighbouring region of Périgord rose in rebellion. Addressing King Louis XIII, the commune of Périgord set forth its reasons for the revolt: 'Sire..., we have taken an unusual step in the way we have expressed our grievances, but this is so that we may be listened to by Your Majesty....' Their overriding grievance was against the tax farmers and tax officials, who 'have sent among us a thousand thieves who eat up the flesh of the poor husbandmen to the very bones, and it is they who have forced them to take up arms, changing their ploughshares for swords, in order to ask Your Majesty for justice or else to die like men'.

Shaken by the rebellion, the Crown organized its faithful servitors. The royal printer, F. Mettayer, published a statement by the 'inhabitants of the town of Poitiers', denouncing the 'seditious' commune of Périgord. The Poitiers men declared that 'We know, as Christians and loyal Frenchmen, that the glory of Kings is to command, while the glory of subjects, whoever they may be, is to obey in all humility and willing submission...following God's express commandment'. All the people of France know that the king is the life and soul of the state. The king is directly guided by the Holy Spirit, and further, 'by the superhuman decisions of your royal mind and the miracles accomplished in your happy reign, we perceive plainly that God holds your heart in his hand'. There is therefore only one explanation for the rebellion, concluded the Poitiers loyalists: the rebels must be tools of Satan.

Not all the Catholics agreed, nor even the Catholic clergy of France. In 1639, an armed rebellion broke out in Normandy, resting on two demands: an opposition to oppressive taxation, and a call for Norman autonomy as against the centralized Parisian regime. It was a multi-class movement of the relatively poor, grouped together in an 'army of suffering', and calling themselves the *Nu-Pieds* – the barefoot ones – after the salt-makers in the south-western Norman region of Avranches, who walked barefoot on the sand. The general of the army was a mythical figure named Jean Nu-Pieds; the actual directorate of the army consisted of four priests from the Avranches area, of whom the leader was Father Jean Morel, parish priest of Saint-Gervais. Morel called himself 'Colonel Sandhills', but he was a poet–propagandist as well as army commander. In his 'manifesto of the High Unconquerable Captain Jean Nu-Pieds, General of the Army of Suffering', directed against the 'men made rich by their taxes', Father Morel wrote:

> And I, shall I leave a people languishing

> Beneath the heel of tyranny, and allow a *crowd of outsiders* [non-Normans]
> To oppress this people daily with their tax-farms?

The reference to 'outsiders' shows the continuing strength of particularist, or separatist national movements in France, in this case Normandy. The Norman and *croquants* movements were rising against centralizing Parisian imperialism imposed only recently on independent or autonomous nations as much as against the high taxes themselves.

9.2 Claude Joly and the *fronde*

The most prominent rebellions in the mid-seventeenth century France were those of the nobles and the judges and known as the *fronde*. The leading theoretician of the parliamentary (judges') *fronde* was Claude Joly, whose *Receuil de maximes veritables* was published in 1653. Joly's treatise was a collection of constitutionalist maxims, remnants of a pre-absolutist age, and included trenchant attacks on two contributions of Cardinals Richelieu and Mazarin to political thought and practice in France. One was the new notion that the king is rightly the master – in effect the owner – of the persons and property of all inhabitants of France. The other was the Machiavellian view that successful public policy requires the systematic use of immoral means.

The king's power, warned Joly, is limited and not automatically sanctioned by divine law. Frenchmen possess just title to their lives and properties, and are not the slaves of a despot or tyrant. The king's original divine power is mediated through the French people, Joly added, and the king cannot rightfully tax the French without the consent of the states-general. The fact that Joly was reviled by the king and his party as a rebel and a traitor, he declared, shows that the old constitution has been overcome by new views holding the king to have unlimited authority above all law. For Joly, this new view was 'pure usurpation', bred in the monstrous cauldron of 'Machiavel'.

9.3 A single tax

In the late sixteenth century, Jean Bodin and others had raised the question of removing many or all of the crippling network of taxation, and substituting a single universal direct tax proportionate to property or income. With taxes far higher and more oppressive by the mid-seventeenth century, the call for a simpler, single direct tax was heard once again. Not only the people, but even the Crown, would benefit by eliminating a legion of unproductive and parasitic tax farmers and other tax officials.

One of the earliest of these tax reformers was Isaac Loppin, who published *Les mines gallicanes* in 1638. The tract went through four editions, including one during the *fronde* era in 1648, and directly influenced later tax reformers. Loppin explained how all members of society, from the poorest to the king, suffered from the depredations of the tax officials: 'without excepting even the sacred person of His Majesty, there is not a single inhabitant of his Kingdom who, from the top of his head to the soles of his feet, does not carry some vestment or eat some food which is not burdened by the said subsidies and imposts'. Loppin urged the abolition of all existing taxes, and their replacement by a small fixed tax per year on the wealthiest 10 per cent of the population.

Loppin's pamphlet greatly influenced a one-time assistant to the secretary of state for foreign affairs, the Sieur de Bresson. Bresson addressed a tract to King Louis XIV in 1675, entitled *Propositions au Roi*. He realistically denounced the tax 'officials and exacters' as having 'no other goal than their private interests'. He then pointed out that the king himself was at the mercy of the tax collectors, and repeated the above quotation from Loppin word for word. Bresson divided up the wealthiest 10 per cent or so of the non-privileged into 19 income classes, and suggested a single direct tax upon them, graduated by class.

In the meanwhile, in 1668, Geraud de Cordemoy urged his own single tax plan upon the government. In his *Letter Concerning the Reform of State*, Cordemoy urged a single head tax, payable by everyone. He set forth the plan in the form of a dream recounting an ideal state in a distant land, a land enjoying such a single head tax (or capitation) paid 'by each person' for the 'charges and necessities of state'. Furthermore, in an unusual twist, Cordemoy declared that such a head tax would be 'voluntary', since everyone would know that he was much better off then he had been in the current, existing system.

An immensely popular work, written about the same time, was Paul Hay, Marquis du Chastelet's *Traité de la politique de la France*. The *Traité* was written in 1667, with copies circulating throughout France until its publication two years later. Attacking the oppressive burden of taxation, Chastelet called for a tax on property extending to the previously exempt estates of the nobility, and the transformation of the onerous salt tax into a universal direct tax on income. He also urged relief of the tax burden on the peasantry by accepting payment in kind as a legal substitute for specie.

A more radical plan, originating in the late 1650s, was conceived by a marshall of France, and governor of the principality of Sedan, Abraham de Fabert. Fabert died in 1662, but in 1679, an unknown author presented the Fabert plan to the chancellor of France. Fabert had called for transformation of the salt tax into a graduated direct tax upon the non-privileged members of society. This plan was not designed as a single tax, but 'all new taxes' could be abolished, and other taxes could be brought down to their original rates. Reminiscent of Bresson, Fabert's plan was to divide the non-privileged Frenchmen into 30 income classes, the tax graduated by class. Collection costs for enforcing the tax would be reduced to a minimum, and the king would be liberated from 100 000 'blood-sucking' tax officials. In 1684, a second edition of the Fabert-based pamphlet added a substantial amount of statistical backing to the plan.

9.4 Rising opposition to collectivism by merchants and nobles

The imposition of Colbert's regime of statism, monopoly and prohibitive tariffs, combined with Louis XIV's high taxation and centralization, gave rise, by the late 1660s, to a growing tide of opposition by merchants and nobility alike. An important compendium of criticisms was the anonymous treatise, *Mémoires pour servir à l'histoire*, published in 1668. The *Mémoires* comprise the first extended published polemic against Colbert and Colbertism. Politically, the author denounced Colbert for substituting centralizing innovations for the old constitution. Attacking Colbert's policies across the board, especially tariffs and monopolies, the book pointed out that the French refusal to purchase from the Dutch had induced the Dutch to cease purchasing from France. On trade, the *Mémoires* made the important point that the Colbertian ideal of national self-sufficiency was contrary to natural law, since providence had created a great diversity of natural resources throughout the world, in order that mankind be united by the bonds of mutual interdependence through international trade.

After an upsurge of denunciations of Colbert in the late 1660s, the controller-general reacted by cracking down on all dissent. In consequence, when Colbert died on 6 September 1683, there was intense joy throughout France, and especially in Paris. In fact, only protection by the soldiery prevented the populace from demonstrating their attitude by dragging Colbert's body through the streets of Paris. Many oppressed Frenchman exulted that a new dawn had arrived: 'Taxes would cease and the Golden Age would return'.

Such was not to be, however, and absolutism and consequent economic distress became even worse. But the death of Colbert allowed a raft of dissent to arise once more. A torrent of hatred poured out against Colbert's son, nephew, and other of his hand-picked successors.[1] The outpouring of opposition, encouraged by official inquiries and investigations of the Colbertian past, was not merely personal, however. It was also in opposition to the mercantilism stifling the economy. In May 1684, a nobleman accused Colbert of being responsible for the 'ruin of finance and trade'. The establishment of subsidized and privileged manufactures 'has deprived commerce of liberty...and denied merchants the means to attract money from abroad'. The high protective tariffs, the unknown nobleman pointed out, crippled foreign demand for French farm products, and thereby reduced the French farmers to penury.

This line of attack on Colbertism was developed in the following year by Gatien de Courtilz de Sanras, Sieur du Verger, who published a book on *The*

New Interests of the Princes of Europe. Trying to bolster domestic producers, the French government had only succeeded in wrecking them by crippling their export markets. This popular work had gone into four editions by 1689. In the same year, the famous collection of tracts, published in Amsterdam, *Les soupirs de la France esclave* (*The Sighs of an Enslaved France*) also inveighed against protective tariffs as leading to misery and the crushing of commerce.

Particularly eloquent in the *Soupirs* collection was the attack on Colbertism by the merchant Michel le Vassor, who wrote:

> the king by the frightful and excessive taxes which he levies on all goods has drawn to himself all the money, and commerce has dried up. There are no rigors and cruelties which have not been employed upon the merchants by the farmers of the customs, a thousand trickeries to find grounds for making confiscations... Besides this, certain merchants, through the favor of the Court, put commerce into monopoly and get privileges given to them to exclude all the others...And finally the prohibition of foreign goods, far from turning out well for commerce, is, on the contrary, what has ruined it...And all through this the despotic and sovereign power which prides itself on every whim, on reordering everything and reforming all things by an absolute power.[2]

During this depressed period, the directors of Colbert's French East India Company denied, in 1685, that they had caused the hard times by exporting specie in order to import goods from the Indies. Arguing for 'freedom of trade' in their *Responses aux mémoires*, when they really only valued *their own* freedom to import from their privileged monopoly position, the directors yet tapped an important vein of free trade thought:

> Experience has shown that trade cannot be conducted without a total liberty and with a mutual correspondence with foreign countries. The moment we...violated [trade]...the foreigners withdrew. They attracted French workers and established our manufactures in their country...and have dispensed with ours.

The directors also defended vigorously their practice of exporting specie in exchange for Asian imports. They escalated their reply by pointing out that in Holland (always a country whose prosperity and trade was admired and envied during the seventeenth century)

> the ports are always open for the entry and exit of specie with every possible liberty...moreover, in Holland the same liberty is accorded for the export of money in the coin of the country. It is this great freedom which attracts abundance to the point where it is and renders them [the Dutch] masters of all trade.

During the intense merchant agitation for freedom of trade and enterprise during the 1680s, Louis XIV's *intendant* at Rouen reported on advice given him by two leading merchants of the city. On 5 October 1685, René de Marillac wrote to the controller-general that the two merchants had declared:

> The greatest secret is to leave trade entirely free; men are sufficiently attracted to it by their own interests...Never have manufactures been so depressed, and trade also, since we have taken it into our heads to increase them by way of authority.

One of these two merchants, Thomas Le Gendre, was supposed to have been the first, during a slightly earlier period, to have coined the famous phrase, *laissez-faire*. The great late eighteenth century *laissez-faire* thinker and statesman, Anne Robert Jacques Turgot, reports as a family tradition that Le Gendre had told Colbert: '*Laissez-nous faire*' (leave us alone). Turgot's affluent grandparents were close friends of the immensely wealthy Le Gendre and his family, and they also had mutual business dealings.

Thomas Le Gendre (1638–1706), coiner of the phrase *laissez-faire* as applied to policies and the economy, was the most eminent of a long line of merchant-bankers traced back to the early sixteenth century. A multi-millionaire, Le Gendre owned vast interests in Africa and the New World, was the leading importer of alum from the Levant, and was frequently called upon to arbitrate disputes between merchants at home and abroad.

Despite his wealth, multi-national commercial connections, and public honours, Thomas Le Gendre had what seemed to be only a negative rather than positive influence upon the French government. Time and again the Crown refused to allow him permission to send vessels abroad or to load merchandise on to foreign ships. This treatment only changed in the 1690s, when the government, engaged in war with Protestant England and Holland, made use of Le Gendre and other ex-Protestants to trade with their contacts in those countries while the war was going on.

Not only the merchants, but also some *intendants*, were joining the *laissez-faire* camp during the 1680s. On 29 August 1686 the *intendant* in Flanders, Dugué de Bagnols, wrote a bitter protest against a decree of the previous year levying a 20 per cent tariff on imports from the Levant, except for goods carried on French ships from the Middle East that had entered the ports of Marseille or Rouen. Dugué pointed out that textile firms in northern France should not have to pay more for their imported thread by being forced to buy it from inefficient French ships. And all to subsidize Marseille merchants and shippers who could not compete successfully with the English and Dutch in the Levant! Dugué generalized this insight into a *laissez-faire* position:

> Trade can flourish and subsist only when merchants are free to procure the merchandise they need in the places where they are [sold] at the lowest price, and every time we wish to compel them to buy in one place at the exclusion of all

> others, merchandise will become more expensive and trade will consequently fall into ruin.[3]

9.5 The merchants and the council of commerce

In June 1700, King Louis XIV, seeking advice from the nation's leading merchants, established a council of commerce, in which merchants of ten leading towns elected ten deputies who would serve as a kind of advisory economic parliament. The king soon came to regret this step, for the merchants' representatives seized the occasion to unleash a torrent of attack against the mercantilist polices developed by the Sun King.[4]

In particular, the enraged merchants zeroed in on the grants of monopoly privilege bestowed by the government on chartered companies. Pointing out that such monopolies restrict trade and raise prices, a number of merchants declared: 'It is a most certain maxim that nothing but competition and liberty in trade can render commerce beneficial to the State; and that all monopolies or traffic appropriated to companies exclusive of others are infinitely burdensome and pernicious'.

The most consistent and most radical of the merchants' voices was the deputy from the western port city of Nantes, Joachim Descazeaux du Hallay, a wealthy shipper and merchant and former associate of Thomas Le Gendre. Arguing vehemently against privileged monopolies that restrict trade, Descazeaux widened his argument into a general plea for freedom and free competition. Free competition, Descazeaux pointed out, benefits the public by supplying abundant goods at low prices. Even business losses, he declared perceptively, benefit the public, since they reflect plentiful production at low prices. Furthermore, liberty causes innovations and fuels the spirit of enterprise:

> Liberty is the soul and element of commerce; she excites the genius and application of merchants who never cease to meditate on new methods to make discoveries and found enterprises. [Liberty] kindles a perpetual movement which produces abundance everywhere. The moment we limit the genius of merchants by restrictions, we destroy trade.

9.6 Marshal Vauban: royal engineer and single taxer

The bluff, hearty, patriotic Maréchal Sebastian Le Prestre, Seigneur de Vauban (1633–1707), was scarcely a fervent or militant oppositionist to royal or Colbertist policies. The leading military engineer in France, the man who constructed the mighty military fortifications guarding the French state, ennobled by Louis XIV for his services, was scarcely an opponent of the Crown. Although a loyal monarchist and absolutist, Vauban, after revocation of the Edict of Nantes in 1685, grew deeply troubled at the policies of Louis XIV, especially the crippling system of taxation as well as the oppression of the Huguenots. Upon the revocation, the naive Vauban, convinced that the good king was surrounded by evil or purblind advisers, wrote a *Mémoire* for the recall of the Huguenots' addressed to the king. Vauban pointed out that the revocation had disrupted trade and commerce, and was causing opposition to the monarchy itself.

The heedlessness of the king did not daunt Vauban, who continued to write similar pleas to King Louis. Finally, at the end of his life, in 1707, this man who had risen from birth in poverty in St Leger to become the land's greatest military engineer, a marshal and a nobleman, published his comprehensive treatise, *Projet de dixme royale* (*Project for a royal tithe*). Vauban proposed the abolition of most of the oppressive network of taxation, and its replacement by a single tax, a proportional tenth of the income of each subject. The reasoning was that the state provided the people with the service of security, and that those who receive such service should pay accordingly. One wonders, however, how anyone can demonstrate that those who receive such a service are enjoying the service in proportion to their income. Furthermore, *every other* service on the market is paid for, not in proportion to the buyer's income, but in a uniform single price, paid by one and all. The purchasers of bread, or automobiles, or stereo sets, pay a single price for each product, and not in proportion to their income or wealth. Why then do so for the alleged service of security?

At any rate, Vauban was highly effective in pointing out that the impoverished producers of the country were shouldering a large part of the burden of taxation, and was eloquent in urging their relief.

Vauban refused to publish the *Dixme royale* widely in 1707, and only circulated a small number of copies among friends. This did not save the aged marshal from Louis XIV's wrath, however. The king's censors and police condemned the book, and the publishers were hunted down and punished. Marshal Vauban died on the day the king's order was executed.

9.7 Fleury, Fénélon, and the Burgundy circle

During the early 1670s, the devout Abbé Claude Fleury (1640–1723), a young theologian, moralist, and man of letters, launched an influential opposition to the absolutism and mercantilism of Louis XIV. In a small pamphlet, *Pensées politiques*, Fleury upheld the agrarian ideal and opposed the mercantilist forced subsidization of industry. Furthermore, in a companion work, *Reflections on the works of Machiavelli*, Fleury attacked Montaigne-type scepticism, which resulted in endorsing an unrestrained exercise of power over depraved men who were virtually devoid of reason. He also denounced Machiavelli's view that politics should be divorced from ethics. Combining the latter themes, Fleury contended that man can use reason to take the path of justice and virtue, while Machiavelli's prince was a godless tyrant who had no desire to lead his subjects to happiness. In contrast to Machiavelli's view that 'men are bad', Fleury countered sensibly that 'they are for the most part neither very bad nor very good', and that the ruler had the duty to improve their virtue and happiness.

The outstanding clerical opponent of absolutism and mercantilism in late seventeenth century France, however, was not so much Fleury as his friend and student, François de Salignac de la Mothe, Archbishop Fénélon of Cambrai (1651–1715). Fénélon led a powerful cabal at court who were deeply opposed to the absolutist and mercantilist policies of the king and determined to reform them in the direction of free trade, limited government and *laissez-faire*. By means of his post as religious instructor to the king's mistress, Madame de Maintenon,[5] Fénélon got himself appointed in 1689 as preceptor to the royal children, in particular the young Duke of Burgundy, grandson of Louis XIV, who seemed destined one day to be king. Assisted by Fleury, Fénélon made the duke into a disciple, surrounding him with ardent oppositionists to the policies of the Sun King.

In 1693, Fénélon, incensed at the continuing wars against the English and Dutch, wrote the king an impassioned and hard-hitting though anonymous letter, which he probably sent only to Madame de Maintenon. Blaming the king's evil ministers, he declared:

> Sire...for the past thirty years your...ministers have violated and overturned all the ancient maxims of state in order to raise your power, which was theirs because it was in their hands, to the highest possible point. We no longer heard of the State nor of its rules; they only spoke of the King and his pleasure. They have increased your revenues and your expenditures to the infinite. They have elevated you to the heavens...and impoverished all of France so as to introduce and maintain an incurable and monstrous luxury at Court. They wanted to raise you on the ruins of all classes in the State, as if you could become great by oppressing your subjects...

The king's ministers, Fénélon continued, only wish to crush all who resist. They have made the king's name 'odious', have wanted 'only slaves', and have 'caused bloody wars'. The wars and their attendant taxes have crushed trade and the poor, driving the people to desperation 'by exacting from them for your wars, the bread which they have endeavored to earn with the sweat from their brows'.[6]

Fénélon's *magnum opus* was his political novel, *Télémaque*, written for the edification of the young Duke of Burgundy, on whom he and his confrères pinned all the hopes for the radical liberalization of France. *Télémaque* was written during 1695 and 1696, and published without his permission in 1699. Télémaque was a mythical young prince, who travelled through the world of antiquity seeking instruction on the wisest forms of government. What

Télémaque learned were the lessons of pure *laissez-faire*. For example, young Télémaque asked Mentor, a wise man among the Phoenicians, how that people was able to flourish so remarkably in world commerce. Mentor answered, *laissez-faire*:

> Above all never do anything to interfere with trade in order to turn it to your views. The Prince must not concern himself [with trade] for fear of hindering it. He must leave all profits to his subjects who earned them, otherwise they will become discouraged...Trade is like certain springs; if you turn them from their course they will dry up. Profit and convenience can alone attract foreigners to your shores; if you make trade difficult and less useful for them they will gradually withdraw and not return...[7]

Similarly, in the land of Salente, 'the liberty of commerce was entire', by which Fénélon explicitly meant the absence of state interference in domestic as well as foreign trade. Every good entered and left the country with complete freedom; trade 'was similar to the ebb and flow of the tide'.

In his *Treatise on the Existence of God*, Fénélon attacked mercantilist nationalism by stressing the unity of all peoples dispersed over the earth. Moreover, he stressed that human reason is 'independent and above man, [and] is the same in all countries'. And just as God unites all peoples through a common and universal reason, so the sea and the earth unite mankind by providing communication and resources which can be exchanged for one another. Fénélon waxed eloquent on natural specialization and free trade uniting all peoples:

> It is the effect of a wise overruling Providence that no land yields all that is useful to human life. For want invites men to commerce, in order to supply one another's necessities. Want therefore is the natural tie of society between nations; otherwise all peoples would be reduced to one sort of food and clothing, and nothing would invite them to know and visit one another.

Following his mentor Fleury, Fénélon stressed the importance and productivity of agriculture, and attacked rulers for impoverishing the countryside through crippling taxation, and for diverting resources from agriculture to luxury products.

Fénélon was eloquent in his attack on tyranny and absolutism. Absolute monarchs, he thundered:

> take all and ruin everything. They are sole possessors of the entire state, but the whole realm languishes. The countryside is uncultivated and almost deserted, towns diminish every day, trade stagnates...The King's absolute power creates as many slaves as he has subjects...This monstrous power swollen to its most violent excess cannot endure; it has no support in the heart of the people...At the first blow the idol will fall, crack and be crushed underfoot. Contempt, hate, vengeance, defiance, in a word all passions will unite against so odious a rule.

To Fénélon, 'war is the greatest of evils', and France's pernicious policy of constant wars was the result of her nationalist and mercantilist economic policies. Cursed be those rulers, declared Fénélon, who augment their power at the expense of other nations and who seek a 'monstrous glory' in the blood of their fellow men.

To educate the young duke of Burgundy on the evils of war, Fénélon engaged a man who was called 'one of the cleverest men of the century'. François Le Blanc had published a massive treatise on money and coinage in 1690 (*An Historical Treatise on the Moneys of France from the beginning of the Monarchy until the Present*). There Le Blanc had condemned kings for engaging in debasement for their monetary profit. Fénélon commissioned Le Blanc to write a tome for the young duke on all the treaties between the nations of Europe, and the causes and consequences of all the wars that ensued, as well as the ways they might have been avoided. Unfortunately, Le Blanc died before he could finish this monumental task.

One of the key figures in the Burgundy circle was Charles de Sainte-Maure, the duc de Montausier. Montausier was governor of the royal dauphin, and Le Blanc (before taking on the book) and Abbé Fleury were both employees in the service of Montausier. Le Blanc's place in teaching the duke had been preceded by Pierre Daniel Huet, bishop of Avranches. Huet, a friend of Le Blanc, denounced French mercantilist and protectionist policies in 1694, and praised the free trade that had brought prosperity to the Dutch.

In 1711, the Grand Dauphin, son of Louis XIV, died, and the Burgundy circle was overjoyed, since the duke was now in line for the throne to succeed the aged Sun King. But tragedy struck the following year, when the duke, his wife and his eldest son were all struck dead of measles. All the hopes, all the plans, were cruelly destroyed and, Fénélon wrote to a friend in despair, 'Men work by their education to form a subject full of courage and ornamented by knowledge; then God comes along to destroy this house of cards...'.

The tragic end of the Burgundy circle illuminates a crucial strategic flaw in the plans, not only of the Burgundy circle, but also of the physiocrats, Turgot, and other *laissez-faire* thinkers of the later eighteenth century. For their hopes and their strategic vision were invariably to work within the matrix of the monarchy and its virtually absolute rule. The idea, in short, was to get into court, influence the corridors of power, and induce the king to adopt libertarian ideas and impose a *laissez-faire* revolution, so to speak, from the top. If the king could not be persuaded directly, then a new king's ideas and values would be formed from childhood by liberal preceptors and tutors.

Reliance on the good will of the king, however, suffered from several inherent defects. One, as in the case of the Duke of Burgundy, was reliance on the existence and good health of one person. A second is a more systemic flaw: Even if one can convince the king that the interests of his subjects require liberty and *laissez-faire*, the standard argument that *his own* revenue will increase proportionately to their prosperity is a shaky one. For the king's revenue might well be maximized, certainly in the short run and even in the long run, by tyrannically sweating his subjects to attain the maximum possible revenue. And relying on the altruism of the monarch is a shaky reed at best. For all these reasons, appealing to a monarch to impose *laissez-faire* from above can only be a losing strategy. A far better strategy would have been to organize a mass opposition from below among the ruled and exploited masses, an opposition that would have given *laissez-faire* a far more solid groundwork in adherence by the bulk of the population. In the long run, of course, mass opposition, even revolution, was precisely what happened to France, a revolution from below that was partially if not largely inspired by *laissez-faire* ideals. The erudite and sophisticated *laissez-faire* thinkers of the seventeenth and eighteenth centuries, however, would have rebuffed such a suggested strategy as certainly inconvenient and probably lunatic, especially in the light of the failure of the various inchoate peasant and other *fronde* rebellions of the mid-seventeenth century. Not least of all, men of influential and privileged status themselves are rarely inclined to toss all their privileges aside to engage in the lonely and dangerous task of working outside the inherited political system.

9.8 The *laissez-faire* utilitarian: the Seigneur de Belesbat

One of the influential anti-mercantilist and pro-*laissez-faire* thinkers of the last decades of Louis XIV was Charles Paul Hurault de l'Hopital, Seigneur de Belesbat (d. 1706). The great-grandson of a chancellor of France, Belesbat was an influential member, during the 1690s, of an oppositional political salon in the Luxembourg palace in the Luxembourg gardens district of Paris. The salon met weekly at the home of Belesbat's first cousin, François Thimoleon, the abbé de Choisy.

In the autumn of 1692, Belesbat presented six memoirs to Louis XIV, copies and extracts of which were reproduced throughout France. Belesbat, too, focused on the wars with the Dutch as being the key to the economic problems of France. States became wealthy, advised Belesbat, not by seizing or destroying the commerce of other nations, but by encouraging trade that conformed to the natural interest of the nation. Instead of the French government trying artificially to capture Dutch commerce, it should allow its own agriculture to flourish.

Belesbat, too, emphasized that God had woven all peoples into an interdependent network of reciprocal advantage by means of trade and specialization: 'There is nothing that one [country] lacks which the others do not produce. ...God...having created men for society, has so well divided them that they cannot do without one another'. Restrictions on trade by government only crippled this natural interdependence; therefore, merchants should be free to pursue 'the commerce of their choice'. The direction of economic activities in each country is usually determined by the natural resources and the type of capital investment in that area.

It is not the case, concluded Belesbat, that trade in one country benefits one party at the expense of others. Instead, the reverse is true. Moreover, freedom for merchants in domestic trade was as important as in foreign trade. The network of trade and exchange is internal as well as external. Furthermore, in a prefigurement of the Hayekian argument for the free market, Belesbat noted, as Professor Rothkrug points out, that

> Every transaction, either domestic or foreign, required complete freedom because it was carried out in special circumstances by merchants whose fortunes depended partially upon the secret and unique procedures by which each conducted his business.[8]

State regulation, then, far from protecting the market, would cripple the liberty necessary to any prosperous trade. Natural resources, Belesbat explained, are worthless without people to cultivate them and to engage in trade and commerce. Belesbat then engaged in a sophisticated analysis of the elements necessary for successful market activity:

> We call commerce an exchange between men of the things they mutually need...In both [domestic and foreign trade] the principles for success are the same. And despite the fact that there is an infinite number of ways in which to practice trade, all different, they are founded on a great liberty, large capital investment, a lot of good faith, much application, and a great secrecy. Each merchant, having his particular views, in such a way that he who profits from a sale of his products, does not prevent the one who buys them from profiting considerably by disposing of them...Thus the entire success of commerce, consisting as it does in liberty, large capital investment, application, and secrecy, prevents princes from ever intervening without destroying the principles.

Thus Belesbat, in addition to a sensitive appreciation of the role of individual entrepreneurship and energy by the merchant, and of the mutual profitability of exchange, sees, if only vaguely, that the great variety of individual trade can yet be analysed correctly in a small number of formal laws, laws or truths which apply to all entrepreneurship and exchange.

In one vital area, Belesbat advanced significantly beyond the *laissez-faire* views of Fénélon and others, who were so opposed to the luxury of the absolutist court and the *nouveau riche* bureaucracy that they wished the government to restrict luxury production and trade. Belesbat swept away such inconsistent exceptions to *laissez-faire*. The natural laws of trade, which for him encompassed considerations of utility, applied to luxury as well as to all other branches of production and trade.

Belesbat eloquently concluded from his analysis that 'It must be taken as a principle that liberty is the soul of commerce, without which...good harbors, great rivers, and...fertile [lands] are of no use. When liberty is absent nothing is of any avail'.[9] In short, the government should 'let commerce go where it wishes' (*laissant faire le commerce que l'on voudra*).

The Seigneur de Belesbat made it clear that he grounded his hope of applying libertarianism in an extreme form of early utilitarianism, a utilitarianism that he expected would be applied by the king. The king was urged to channel people's self-interest into free and harmonious activities by seeing to it that virtue is rewarded and evil (theft and other interference with trade) is punished. In that way, men would become accustomed to pursue virtue. Belesbat went very far in utilitarianism by maintaining that 'justice' was always and only utility or self-interest. A fatal weakness in his theory was the confident view that the self-interest of the king, who was supposed to put all this into effect, was always identical to the harmonious self-interest of his subjects.

Belesbat also anticipated the later view that Montaigne-type scepticism about reason, rather than providing support for going along with state absolutism, teaches men humility so that they will accept liberty and the free market. Reason, however, is not the sole, and not even the main, motive for the drive for the exercise of power: acquisition of wealth and privilege would seem to be motive enough. And since there will always be people and groups who will seek to seize and aggrandize state power for their own purposes, scepticism towards reason and a rational political philosophy seems more likely to subvert any determined opposition to statism than to hinder any statist drive for power.

9.9 Boisguilbert and *laissez-faire*

The best known of the late seventeenth century French advocates of *laissez-faire* is Pierre le Pesant, Sieur de Boisguilbert (1646–1714). Born in Rouen into a high-born Norman family of judicial officers, and a cousin of the poet–dramatist Corneille brothers, Boisguilbert was educated by the Jesuits, and eventually purchased two judicial offices at Rouen. He served there as lieutenant-general of the court from 1690 until his death. Boisguilbert was also a large landowner, businessman, *litterateur*, translator, attorney and historian.

Boisguilbert was a combination of genius and crank. His first and most important work, *Le Détail de la France* (*A Detailed Account of France*), published in 1695, was revealingly subtitled *La France ruinée sous le règne de Louis XIV* (*France Ruined Under the Rule of Louis XIV*).[10] Boisguilbert penned innumerable letters to successive controllers-general of France on the virtues of free trade and *laissez-faire*, and on the evils of government intervention. After 1699, Boisguilbert kept hammering away at controller-general

Michel Chamillart for years, but to no effect. Chamillart kept refusing him permission to print his tomes, but Boisguilbert published them anyway, finally printing his collected works under the title *Le Détail de la France* in 1707. In that year, the same year that Vauban's *Dixme Royale* was censored, Boisguilbert's work was also outlawed, and its author sent into brief exile. He returned under promise of silence, but promptly reprinted his book four times between 1708 and 1712.

Arguing for *laissez-faire*, Boisguilbert denounced the mercantilist preoccupation with amassing specie, pointing out that the essence of wealth is in goods not coin. Money, Boisguilbert explained, is just a convenience. Thus the influx of bullion from the New World in the sixteenth century only served to raise prices. If nature were left to herself, all men would enjoy plenty and the government's attempts to improve upon nature only caused havoc. The simple remedy for the manifold evils under which France was suffering was, as Professor Keohane puts it: 'for the government to stop interfering with natural patterns of trade and commerce, and *laissez faire la nature*. No superhuman effort for reform was needed, only the cessation of ill-considered effort'.[11]

Collective or social harmony, Boisguilbert wrote, arises from the efforts of innumerable individuals to advance their self-interest and their happiness. If the government removed all artificial restrictions upon trade, all participants would have incentive to produce and exchange, and self-interest would then be free to do its constructive work. Only the use of coercion or state privilege pits one self-interest against another, whereas submission to the wise natural order would ensure harmony between individual greed and universal benefit. As Keohane summarizes Boisguilbert, 'So long as we do not interfere with her [Nature's] workings, our attempts to get as much as we can for ourselves will maximize everybody's happiness in the long run'.[12] It is not, then, that individuals *aim* at the general good while pursuing their own self-interest. On the contrary, it is the glory of the natural order that, while individuals aim at their own 'private utility', they will also promote the interests of all. Although individuals may try to subvert the laws and gain at the expense of their neighbours, the natural order of liberty and *laissez-faire* will maintain peace, harmony, and universal benefit. As Boisguilbert declares, 'But nature alone can introduce that order and maintain the peace. Any other authority spoils everything by trying to interfere, no matter how well-intentioned it may be'. In the free market established by the natural order, 'the pure desire for profit will be the soul of every market for buyer and seller alike; and it is with the aid of that equilibrium or balance that each partner to the transaction is equally required to listen to reason, and submit to it'.

The natural order of the free market prevents any exploitation from taking place. Thus: 'Nature or Providence [had]...so ordered the business of life that, provided it is left alone (*on le laisse faire*) it is not within the power of the most powerful in buying goods from some poor wretch to prevent the sale from providing the subsistence of the latter'. Everything works out all right 'provided that nature is left alone (*on laisse faire la nature*)...[i.e.] provided that it is left free and that no one meddles with this business save to grant protection in it to all and to prevent violence'.[13]

Boisguilbert also specifically demonstrated the counterproductive results of government intervention. Thus, when the French government tried to alleviate hunger by lowering grain prices and controlling trade, all it accomplished was to diminish the cultivation and production of grain, and hence to intensify the very hunger that the government was trying to relieve. Such intervention, in the summary of Professor Keohane,

> would make sense only if grain, like manna or mushrooms, sprang up without human effort, since it ignores the effects of low prices on the habits of cultivators. If government simply ceased tampering, the French economy, like a city from which a siege is lifted, would regain its health. Free to set their own price for grain, and to import grain freely throughout the land, Frenchmen would be plentifully supplied with bread.[14]

In illustrating the nature and advantages of specialization and trade, Boisguilbert is one of the first economists to begin with the simplest hypothetical exchange: two workers, one producing wheat and the other wool, and then to extend the analysis to a small town, and finally to the entire world. This method of 'successive approximation', of beginning with the simplest, and then extending the analysis step by step, would eventually prove to be the most fruitful way of developing an economic theory to analyse the economic world.

Graphically illustrating the respective workings of power and market, Boisguilbert supposes a tyrant who tortures his subjects by tying them up within sight of each other, each surrounded by an abundance of the particular good that he produces: food, clothing, liquor, water, etc. They would be made instantly happy if the tyrant were to remove their chains and allow them to exchange their surplus goods for those of one another. But if the tyrant says, no he can only remove the chains of his people when some war or other is settled, or at some future time, he is only adding ridicule and mockery to their grievous torture. Here, Boisguilbert was bitterly mocking the reply that Louis XIV and his ministers habitually made to the pleas of reformers and oppositionists: 'We must wait for the peace'. Again, like the other oppositionists, war was exposed as the standard excuse for maintaining the crippling interventions of government.

Like Belesbat, Boisguilbert had no patience with inconsistent reformers who tried to make an exception to *laissez-faire* in luxury products. To

Boisguilbert, natural wealth was not just biological necessities; rather 'true wealth consists of a full enjoyment, not only of the necessaries of life, but even of all the superfluities and all that which can give pleasure to the senses'.

In addition, Boisguilbert was perhaps the first to integrate discussion of fiscal policy with his general economic doctrines. Adopting Vauban's proposal for the elimination of all taxes and their substitution by a single direct tax of 10 per cent on all incomes, Boisguilbert analysed and bitterly denounced the effects of indirect taxes on agriculture. Heavy taxes on grain, he pointed out, have raised costs and crippled grain production and trade. For four decades, he argued, the French government had virtually declared war on consumption and trade by its monstrous taxation, resulting in severe depression in every area of the economy.

On the free market, in contrast, everyone benefits, for 'trade is nothing but reciprocal utility; and all parties, buyers and sellers, must have an equal interest or necessity to buy or to sell'.

Hence, with Belesbat and Boisguilbert, the focus of the classical liberal attack on statism shifted from moralistic denunciation of luxury or pernicious Machiavellism to meeting mercantilist doctrine on its own utilitarian grounds. Even setting aside classical morality, then, utility and general happiness require the private property and *laissez-faire* of the natural order. In a sense, old-fashioned natural law had been extended to the economic sphere and to the meshing of individual utility and self-interest through the working of the free market. In contrast to devout mystics like Fénélon, Belesbat and Boisguilbert were in harmony with the new mechanistic cosmologies of Isaac Newton and others of the late seventeenth century. God had created a set of natural laws of the world and of society; it was the task of man's reason, a reason universal to all, regardless of nation or custom, to understand those laws and to achieve their self-interest and happiness within them. In the economy, free trade and free markets, through the harmony of reciprocal benefits, advanced the interest and happiness of all by each seeking his own personal utility and self-interest. The Golden Rule, and absence of violence, was the natural moral law that uncovered the key to social harmony and economic prosperity. While such analysis was not in itself anti-Christian, it certainly replaced the ascetic aspects of Christianity with an optimistic, more man-centred, creed; and also it was consistent with the rising religion of deism, in which God was the creator, or clock-winder, who created the mechanism of the universe and its self-subsistent natural laws, and then retired from the scene.

As Professor Spengler has pointed out:

> the eighteenth century conceptualized the economic (or social) universe. It made the hidden processes of the social order visible even as the seventeenth had

> become aware of those of the physical order and made them visible; it generalized to the realm of man the notion of the 'frame' hidden behind 'the most common Phenomena' and the 'Invisible Hand' by which 'Nature works' in 'all things'.

As for Boisguilbert, his contribution was to be

> among the first, if not the first, to conceive, albeit imperfectly, of the system of relations that underlies the economic order...His contribution consisted in his sequestering (however imperfectly) the economic order from the total societal system, in becoming aware of the comparatively autonomous character of this order, in discovering the essentially mechanical and psychological connections binding men together in an economic order and in drawing attention to the manner in which the economic order was subject to disturbances by impulses originating in the political order.[15]

It should also be mentioned that it surely seemed easier to convince the king and his ruling élite of the general utility of private property and the free market, than to convince them that they were behaving as the heads of an immoral and criminal system of organized theft. So that the basic strategy of trying to convert the king led inexorably to at least a broadly utilitarian approach to the problems of freedom and government intervention.

9.10 Optimistic handbook at the turn of the century

The rapid spread and even social dominance of these new ideas of *laissez-faire*, crypto-deism, and the morality of utility and the Golden Rule, may be seen in the *Dialogues*, a virtual handbook of fashionable manners and ideas for the social climber, published in 1701 by the young *littérateur*, Nicholas Baudot de Juilly. In *Dialogues*, Baudot, son of a tax farmer in Vendôme, after lauding the manners taught in fashionable salons, proceeds to the ruling ideas of the day, where he vulgarizes the *laissez-faire* doctrine into one grounded in a frank and candid hedonism. The desire for pleasure and for the avoidance of pain was grounded in the natural drive for self-preservation. Furthermore, the God of Christianity, in the hands of Baudot, became a quasi-deistic god who has provided 'all nature' as a 'great feast where in His inexhaustible goodness God has convened us'. The Garden of Eden had been a realm of enjoyment and sensate pleasure; the purpose of Jesus's arrival on earth was to recall mankind to that original enjoyment. Asceticism, furthermore, causes economic misery. Specialization, trade, and the pursuit of wealth in the marketplace were the truest, and therefore the God-given, forms of charity.

As Baudot put it: God had 'purposely permitted us to multiply our needs in order to cause money to circulate among all men, passing from the purses of the rich to those of the poor'.

Trade, then, is the genuine charity:

> All this [regional specialization and communication] has been so admirably accomplished in order to bind men to one another, who in effect should form only one single family so that the need they would have for one another would accomplish among them what charity alone ought to do. It is for this reason that men..., however different in mores, language, and Religion ... are becoming united from one end of the world to another by reciprocal trade. It is also for this reason that they exchange equally things which are agreeable and those that which are necessary, so that they can not only sustain life as in a pasture like beasts, but also to render it sweeter, more humane and more polished by pleasures.

9.11 Notes

1. In his 'Justification of M. Colbert', his nephew, Nicolas Desmaretz, whom Colbert had wanted to succeed him, wrote angrily that: 'The memory of Monsieur Colbert was attacked with great animosity after his death. At that time all authority was in the hands of his enemies, and they had the pleasure of exercising their hatred by violent persecution against all those whom he employed...' Quoted by Lionel Rothkrug, *Opposition to Louis XIV: The Political and Social Origins of the French Enlightenment* (Princeton, NJ: Princeton University Press, 1965), p. 223.
2. Quoted in Charles Woolsey Cole, *French Mercantilism, 1683–1700* (1943, New York: Octagon Books, 1965), p. 248.
3. Rothkrug, op. cit., note 1, pp. 231–2.
4. In addition to the ten elected deputies, the king appointed two merchants 'representatives' from Paris. Unsurprisingly, they proved far tamer in their attitudes toward the Crown.
5. Madame Françoise d'Aubigne, Marquise de Maintenon (1635–1719).
6. Rothkrug, op. cit., note 1, pp. 267–9.
7. Rothkrug, op. cit., note 1, p. 270.
8. Rothkrug, op. cit., note 1, p. 333.
9. See Rothkrug, op. cit., note 1, pp. 333–4.
10. Under the circumstances, the title of the English translation two years later, *The Desolation of France*, does not seem inaccurate.
11. N.O. Keohane, *Philosophy and the State in France: The Renaissance to the Enlightenment* (Princeton, NJ: Princeton University Press, 1980), p. 352.
12. Ibid., p. 353.
13. Quoted in Cole, op. cit., note 2, p. 266. Or, in another place: 'il est seulement nécessaire de laisser agir la nature'. (It is only necessary to let nature act.) See Joseph J. Spengler, 'Boisguilbert's Economic Views Vis-à-vis those of Contemporary *Réformateurs*', *History of Political Economy*, 16 (Spring 1984), p. 81n.
14. Keohane, op. cit., note 11, pp. 354–5.
15. Spengler, op. cit., note 13, pp. 73–4. Spengler adds that the term 'invisible hand' was first used by the English writer Joseph Glanville, in his *The Vanity of Dogmatizing* (1661), a century before Adam Smith used the concept similarly. In his philosophical essays, Smith treated philosophy as 'representing the invisible chains which bind together' seemingly unconnected phenomena. Ibid., p. 73n.

10 Mercantilism and freedom in England from the Tudors to the Civil War

10.1 Tudor and Stuart absolutism

Dominant in English political thought from the early sixteenth to the early seventeenth century was a form of simplistic and militant absolutist thought that has been called the 'correspondence theory' or the 'political theory of order'. This royalist doctrine was fashioned for the Tudor–Stuart age in which the king struggled to establish his absolute power as against the international influence of the old religion, Catholicism, and over the Calvinist Puritans, who had definite republican and populist tendencies. In contrast, God was now supposed to be speaking through the English king and therefore through the head of the Anglican Church.

The basic philosophic groundwork was the 'natural order' – the 'great chain of being' – which, since the Middle Ages, had been seen as strictly hierarchical, with God at the head and man as the highest of his material creatures. But then came the fundamental methodology: flimsy analogy, or 'argument by correspondence'. Just as God was sovereign, and superior to various ranks of angels and finally to man and then other inferior earthly creatures in the 'macrocosm', so in the individual 'microcosm', within each person, the head must be sovereign over the body, and reason and will dominant over the appetites. Similarly, the father is sovereign over his family. More specifically and pointedly in the political realm, the king, the father of his people, must be sovereign over the body politic.

This flimsy organicist analogy was pushed to great lengths. The head in the human body 'was' the king in the body politic; health in the former constituted social well-being in the latter; the circulation of the blood was the same as circulation of money; rule of the rational soul was royal sovereignty, and so on. The only 'argument' was correspondence: that the 'governmental' and social ranking alleged to exist in the heavenly sphere must be duplicated in earthly government and in social life.

One problem with the argument from correspondence is that freedom of the human will enters into politics and social life but does not do so elsewhere. It is rare for the liver to 'rebel' against the head, and yet an important conclusion of this royalist political philosophy was that political rebellion is as evil and anti-natural as such 'rebellion' by the liver. Similarly, individual subjects *must* obey the divinely appointed monarch, else the divine order collapses into anarchy and disorder, and corruption and decay then rule in human life.

While the liver has not often rebelled against the head, the royal absolutists *did*, of course, have an analogy to fall back on in heavenly government: Satan's wicked rebellion against the sovereignty of God. Similarly, the great fact of human history was Adam's Fall, brought on by rebelliousness against divine authority and by overweening self-pride.

God and the king; Satan, Adam, and rebellious subjects; these were the analogies and correspondences that the royal absolutists tried to drive home.

Thus, Anglican Church homilies on obedience, in 1547 and 1570, called obedience to the sovereign 'the very root of all virtues', while 'a wicked boldness' is the source of all sin and misery. As the homilies stated: all 'sins possible to be committed against God or man be contained in rebellion', which 'turn(s) all good order upside down...'. It is the absolute duty of all inferiors 'always and only to obey', just as the body obeys the soul, and as the universe obeys God.

In stark contrast to the scholastics, as well as to Calvinist or Leaguer monarchomach thinkers, the Anglican preachers of order stressed time and again that the subjects must obey the king in any and all circumstances, whether or not the king or his actions were good or evil. There must be no resistance whatever, even to evil princes. The king is the divinely mandated representative of God on earth by hereditary right. To question, much less to disobey the king, therefore, was not only treason but blasphemy. Disobeying the king is disobeying God. As the influential *Mirror for Magistrates*, which went through many editions from 1559 to 1587, maintained: 'God ordains all magistrates'. Therefore, God ordains 'good when he favoureth the people; and evil when he will punish them'. In short, good kings are a blessing sent to the people by God; wicked kings are a punishment equally sent by the divinity. In either case the duty of the subject is absolute obedience to God's/the king's commands. 'And therefore whosoever rebelleth against any ruler either good or bad, rebelleth against GOD, and shall be sure of a wretched end...'

To the royalist thinkers, the rising claims of individual freedom and the natural rights of each individual only led to mischief and destruction of God's rational order. Thus Richard Hooker (c.1554–1600), the leading Anglican theologian of the sixteenth century, in his famous *Laws of Ecclesiastical Polity* (1594–97), lashed out at any notion of individualism. Though himself a moderate on royal absolutism, Hooker wrote that the idea of every man 'his own commander' 'shaketh universally the fabric of government, tendeth to anarchy and mere confusion, dissolveth families, dissipateth colleges, corporations, armies, overthroweth kingdoms, churches and whatsoever is now through the providence of God by authority and power upheld'.

One of the most extreme royal absolutists in the Tudor–Stuart era was Edward Forset (c.1553–1630), a playwright, owner of the manor of Tyburn, a justice of the peace and MP. Forset's *magnum opus* was *A Comparative Discourse of the Bodies Natural and Politic* (1606), whose very title reeks of the argument by correspondence and the political philosophy of order. At some points, Forset came close to saying that a monarch could *never* harm his people: in other words, however evil his deeds may *seem*, they must *really* be good, virtually by definition. Indeed, at one point, Forset came close to the justification of a king's acts by mystery and power as in the Book of Job. Thus, as Professor Greenleaf puts it in his discussion of Forset's doctrine: 'the seemingly evil acts of a ruler were only an appearance the real nature of which was misconstrued by the fallible minds of the citizens'.[1] The strong implication, of course, is that the mind of the monarch, in contrast to that of the lowly citizen, is *in*fallible.

Probably the most intelligent and surely the most influential of the absolutist order-theorists in seventeenth century England was Sir Robert Filmer (1588–1653). Towards the end of his life, this obscure Kentish nobleman published a series of royal absolutist essays in the late 1640s and early 1650s. Then, three decades later, a Filmer revival took place, his collected essays being published in 1679 and his most famous work, *Patriarcha or the Natural Power of Kings*, written in the late 1630s or early 1640s, was printed for the first time the following year. Filmer immediately and posthumously became the leading defender of royal absolutism from the older perspective of order theory.

Filmer angrily rejected the idea that 'by law of nature all men are born free' as 'heathen' doctrine. Linking individualism and self-direction to sinful rebellion against God, Filmer warned against the 'very desire for freedom which caused Adam's fall from grace.'[2]

Most notable in Filmer was his searching critique of the rising contractarian doctrine, which laid the foundation of, and therefore justified, the state in some original social contract. Thomas Hobbes (1588–1679) had spent all his life in service as a tutor, companion, and intellectual guide to the Cavendishes, who were related to the royal Stuart family. Hobbes had worked out a contractarian justification for royal absolutism during the 1640s.

Filmer spotted crucial flaws in Hobbes's social contract theory which were to apply just as fully to John Locke's libertarian version four decades later:

> Filmer asked how likely it was,...that all men would agree to a contract, as was necessary before it could become universally binding; he wanted to know how and why a contract should bind all subsequent generations; he suggested it was unreasonable to invoke the specious notion of tacit consent...[3]

Filmer also trenchantly criticized the growing classical liberal idea of grounding government in the consent of the governed. Governments, he pointed out, could not then be stable, for governments could sometimes find that consent to be withdrawn. Once concede the power of the people to consent as well as the natural law of 'equal freedom from subjection', and the logical consequence must be anarchism. For then

> every petty company hath a right to make a kingdom by itself; and not only every city, but every village, and every family, nay, every particular man, a liberty to choose himself to be his own King if he please; and he were a madman that being by nature free, would choose any man but himself to be his own governor. Thus to avoid the having but of one King of the whole world, we shall run into a liberty of

> having as many Kings as there be men in the world, which upon the matter, is to have no king at all, but to leave all men to their natural liberty.[4]

It should be noted that Filmer and other absolutists of the era found great inspiration in the French theorist Jean Bodin, who has been called the political writer most favourably and most often cited in England during the first half of the seventeenth century.

10.2 Sir Thomas Smith: mercantilist for sound money

The honour – if that be the proper term – of being the first English mercantilist writer should have gone, for four centuries, to Sir Thomas Smith the Elder (1513–77). Instead, his remarkable work, *A Discourse on the Commonwealth of this Realm of England*, written in 1549 and published anonymously in 1581, was at first unidentified, and since its 1893 reprint has been incorrectly attributed to another Tudor official, John Hales (d. 1571).

Thomas Smith was born into a poor family of small shepherds in the county of Essex. Impoverished but brilliant, Smith managed to enter Cambridge, where his scholarly abilities were soon recognized. There he rose to become Regius professor of civil law, and then vice-chancellor of the university. Smith was a notable orator and a learned and brilliant polymath, who wrote books on Greek pronunciation and English spelling, and was deeply interested in mathematics, chemistry, linguistics and history.

Smith embarked on a career as politician and bureaucrat by becoming a secretary under the protectorate of Lord Somerset, from 1547 to 1549. Though an Anglican, Smith was a moderate who cared little for religious matters, so he was able to serve as Privy Councillor under Catholic Queen Mary, on the recommendation of his old Cambridge colleague, the Catholic Bishop Stephen Gardiner. Under Queen Elizabeth, his influence continued through the powerful position at court of his old Cambridge student, Sir William Cecil, later Lord Burghley. Smith, however, was often out of power, a fate helped by his arrogant, boorish and feisty personality.

Thomas Smith was a bitter critic of debasement, and he therefore became a vocal opponent of his mentor, Lord Somerset's, policy of repeated debasement in order to acquire increased revenue for the Crown. Sent into exile from the court in 1549, Smith brooded and then did what was characteristic of him: marshalled and wrote down his thoughts in the form of a treatise. This penetrating, lively work was written in the form of a dialogue among several characters, with The Doctor being the spokesman for the author's own views. Later Smith was to repeat the dialogue form in his book, *Dialogue on the Queen's Marriage* (1561). The former work was not meant for publication, Smith noting in the tract that 'it is dangerous to meddle in the king's matters', as indeed it was.

The basic thrust of the *Discourse on the Commonwealth* was an attack on debasement, and its consequences in high prices, inflation and social unrest. Debasement, and not the arbitrary decision of farmers or merchants, is responsible for higher prices. The principal losers from this policy are people on fixed incomes. The *Discourse* was published after Sir Thomas's death by his nephew William; included are later passages, interpolated by Thomas during the 1570s, attributing the Elizabethan inflation of the later sixteenth century to another factor: the influx of newly mined specie from the western hemisphere. It is not known whether Smith was familiar with the similar Navarrus analysis of 1556, or the Bodin analysis of French inflation 12 years later, or whether this was Smith's independent discovery as price inflation moved from Spain northwards into Europe.

In 1562, Smith returned to the debasement theme, in a lengthy work, still unpublished, 'The Wages of a Roman Footsoldier, or A Treatise on the Money of the Romans'. This treatise on Roman money and coinage was written in answer to a question posed to him by his friend and colleague Cecil, at this point Queen Elizabeth's principal secretary. Again, Smith returns to his attack on debasement as evidence of 'the decay of the state', and as a cause of 'excessive prices'.

In both the *Discourse* and the 'Treatise' Smith took the convenient if fallacious position that the king himself is the greatest loser from the high prices caused by debasement. Since debasement adds to the king's revenue immediately and before prices have had a chance to rise, the king, on the contrary, is the prime beneficiary of debasement and other measures of monetary inflation.

Smith's *Discourse* is strikingly modern in frankly grounding its social analysis in the individual's drive for his own self-interest. Self-interest, Smith declared, is 'a natural fact of human life to be channelled by constructive policy rather than thwarted by repressive legislation'. Not that Smith abandons nascent mercantilism for any sort of liberal or *laissez-faire* outlook. Self-interest is not to be left alone within a property rights framework. It is to be channelled and directed by government to a 'common goal' set by the state. But at least Smith was wise enough to point out that it is better for men to be 'provoked with lucre' towards proper goals than to have governments 'take this reward from them'. In short, government should work in tandem with the powerful incentive provided by individual self-interest.

Smith sees that economic incentives are always at work in the market to move economic resources out of less profitable, and into more profitable, uses. And governments should work with such incentives, rather than against them.

Smith, however, was assuredly a mercantilist, as seen by his desire to foster the manufacture of woollen cloth within England, and his desire to prohibit the export of raw wool to be manufactured abroad.

John Hales came from a prominent Kentish family, and was a friend and fellow Tudor official of Smith. Yet his economic and social philosophy was very different. In 1549, for example, the year that Smith's *Discourse* was written (and which included an attack on new taxes on manufactured cloth) Hales was the very person responsible for instituting the tax. Hales also disliked two favourite themes of the *Discourse*: love for the civil law, and admiration for sheep farming. Hales, furthermore, far from being indifferent to religion, was a deacon and a dedicated organizer of Bible readings.

Most important in any contrast between Hales and the author of the *Discourse*, Hales attributed the high prices, not to debasement, but to three very different supply-side factors: scarcity of cattle and poultry; speculation; and excessively high taxes. None of these factors in truth can account for any general price increase.

Finally, Hales took the old-fashioned moral position of attributing all ills, including high prices, to man's all-pervasive greed. (Why greed should have *increased* rapidly in recent years to account for high prices was of course a problem that was not even addressed.) Greed and the desire for profit were the great social evils. The only cure for all this, opined Hales, was to purge man of self-love: 'To remove the self love that is in many men, to take away the inordinate desire of riches wherewith many be cumbered, to expel and quench the insatiable thirst of ungodly greediness, wherewith they be diseased...' and to replace this 'diseased' self-love by a twin other-love of Church-and-state: 'to make us know and remember that we all...be but members of one body mystical of our Saviour Christ and of the body of the realm'.

Again, in his *Defence*, written the same year as the *Discourse*, John Hales expressly denies that self-love can be in any sense the foundation of the public good: 'It may not be lawful for everyman to use his own as he listeth, but everyman must use that he hath to the most benefit of his country. There must be something devised to quench the insatiable thirst of greediness of men, covetousness must be weeded out by the roots, for it is the destruction of all good things'.

Sir Thomas Smith was responsible, rather than his associate Sir Thomas Gresham (c.1519–79), for the first expression of 'Gresham's law' in England. Until recently, it had been thought that the well-known and anonymous *Memorandum for the Understanding of the Exchange* had been submitted by Gresham to Queen Elizabeth early in her reign in 1559. It now turns out, however, that the *Memorandum* was written by Smith early in Queen Mary's reign, in 1554. The *Memorandum* was certainly not a free market tract, advocating as it did various state controls over the foreign exchange market. It did, however, not only denounce debasement and call for a high-valued currency, but it also enunciated 'Gresham's law' that the cause of a shortage of gold coin in England was the legal undervaluation of gold.

Gresham, fiscal agent of the Crown in Antwerp, himself adhered to 'Gresham's law', which was set forth by the royal commission of 1560 that he heavily influenced. Gresham was also a full-fledged statist and architect of Tudor monopoly privilege. A member of the monopoly wool cloth export company, the Merchant Adventurers, Gresham was the chief architect of England's tightening of that monopoly during the 1550s and 1560s: banning Hanseatic merchants from exporting English cloth, increasing tariffs on foreign cloth and, finally, making the Adventurers far more oligarchic and tightly controlled from the top.

Influenced greatly by the *Memorandum*, and echoing its Gresham's law position, was the younger Sir Richard Martin (1534–1617), goldsmith, warden and master of the Mint during all of Queen Elizabeth's reign. Trained as a goldsmith from youth, Martin also served as prime warden of the Worshipful Company of Goldsmiths, alderman of London for many years and was twice Lord Mayor. In the royal commission of 1576 on currency and the exchanges, whose members were hand-picked by Sir Thomas Smith, then principal secretary to the queen, Gresham and Martin, as well as Cecil, were all included. The commission did not include Smith himself, who had fallen ill. Their backing of Gresham's law was echoed a generation later by the royal commission of 1600, on which Martin served, and prepared the principal memoranda.

10.3 The 'economic liberalism' of Sir Edward Coke

It used to be held that the famous 'anti-monopoly' common law decisions of Chief Justice Sir Edward Coke (1552–1634), the eminent early seventeenth century jurist, were an expression of the alleged commitment of a rising class of puritan merchants to economic liberalism and *laissez-faire*. A particularly prominent advocate of this thesis is the prolific English Marxist historian, Christopher Hill, who needs this view to fit into the Marxian schema of the English Civil War.

It turns out, however, that there are many grave flaws in this thesis. Coke himself was a moderate Anglican, and not particularly concerned with religious issues. He was also not in any sense a merchant or a spokesman for merchants; he was a country gentleman from Norfolk who successively married two heiresses, and spent most of his career as a government lawyer, successively attorney-general and chief justice. Also, Coke showed no interest whatever in the new juristic concerns of merchants: such new branches of the law as joint-stock ownership, insurance bankruptcy, negotiable instruments and commercial contracts.

More important, Coke never displayed any sympathy for *laissez-faire*. As an MP, Coke supported many mercantilist measures. Furthermore, he had imbibed from his close associate, William Cecil, Lord Burghley, an admiration for the elaborate Tudor structure of state controls. His approach to foreign trade was profoundly mercantilist. Thus, in the 1621 session of Parliament, after he had broken with the Crown, Coke deplored the economic effects of the alleged scarcity of coin. He attacked the unfavourable balance of trade, deplored the fact that the East India Company was allowed to export bullion, and attacked the import trade with France as introducing into England immoral luxury items, such as 'wines and lace, and such like trifles'. Coke also called for outlawing the importation of tobacco from Spain.

Coke also tried his best to cripple the new practice of exporting unfinished cloth to the Continent and then re-importing the finished cloth. He consistently advocated prohibiting the importation of foreign cloths, as well as the export of unfinished cloth, and also tried to outlaw the export of raw wool to be used by foreign manufactures.

In general, Sir Edward Coke had no quarrel with government regulation and control of trade, or with the creation of monopolies; what he objected to was the *king* doing the regulating or monopolizing, rather than Parliament. Coke favoured the detailed regulation and cartellization of industry, the wage controls, and compulsory employment, imposed by the Statute of Artificers of 1563. He supported the laws against 'forestalling and engrossing' which, under the guise of attacks on monopoly and high prices, were actually price-raising and cartellizing devices prohibiting speculation in food products and prohibiting sales outside officially designated local 'markets'. Laws against forestalling were lobbied for by privileged owners of local markets trying to exclude competitors and to raise their own prices.

Most important, Coke's well-known opposition to government-granted monopolies was merely an opposition to grants by the king rather than to grants by parliament. Thus, in the famous Statute of Monopolies, passed in 1623 and drafted largely by Coke, Parliament abolished royal grants of monopoly privilege, but explicitly reserved to itself the right to grant such privileges, which it soon proceeded to do. The statute also specifically exempted from abolition large categories of royal monopoly, including such industries as printing, gunpowder and saltpetre, the rights of 'corporations' such as London to prevent non-Londoners from engaging in trade within the city limits, or monopoly corporations engaged in foreign trade. Furthermore, Coke personally favoured the monopoly Russia, Virginia, and East India Companies.

Coke's legal–economic philosophy might be summed up in a phrase he used in Parliament, in 1621: 'That no Commodity can be banished, but by Act of Parliament'.[5]

10.4 The 'bullionist' attack on foreign exchange, and on the East India trade

Having survived the assaults of ignorant moralists before the Reformation, the foreign exchange market was subjected, during the far more secular age of the late sixteenth century onwards, to the assaults of regulators on behalf of the nation-state. Writers who have been misnamed 'bullionists' adopted the ignorant view that an outflow of gold or silver bullion abroad was iniquitous, and that this calamity was brought about by the machinations of evil foreign exchange dealers, who deliberately sought gain by depreciating he value of the nation's currency. Nowhere was there any insight that the outflow of bullion might have been performing an economic function, or was the result of underlying supply and demand forces. Despite their insights into Gresham's law and debasement, Thomas Smith and Gresham would have to be placed in the 'bullionist' category. The policy conclusion of the bullionists was all too simple: the state should outlaw the export of bullion and should severely regulate or even nationalize the foreign exchange market.

The exchange dealers battled back, with sensible and powerful arguments. Thus in 1576 they argued, in a 'Protest against the State Control of Exchange Business', that state intervention would cause a drying up of commerce. On the low value of the English pound, they replied that 'we can say nothing but that our exchanges are made with a mutual consent between merchant and merchant, and that abundance of the deliveries or of the takers make the exchange rise and fall'.

One prominent bullionist of the early seventeenth century was Thomas Milles (c.1550–c.1627). In a series of tracts from 1601 to 1611, Milles advances the old bullionist position. Foreign exchange transactions, Milles opined, were evil; they were institutions with which private merchants and bankers, 'covetous persons (whose end is private gain)', rule in the place of kings. Something new, however, had been added. For the powerful East India Company had been chartered in 1600, to monopolize all trade with the Far East and the Indies. The East India trade was unique in that Europeans purchased a great deal of valuable muslins and spices, but the Indies in turn bought very little from Europe except gold and silver. European nations, therefore, had an 'unfavourable balance of trade' with the Far East, and the India trade therefore quickly became a favourite target for mercantilist writers. Not only were goods being imported from the East as against few exports, but specie, bullion, seemed to flow eternally eastwards. Milles therefore took up the bullionist cudgels by calling for restriction or prohibition of the Indies trade, and attacking the activities of the East India Company.

Milles was also eager to intensify regulations against the Merchant Adventurers, the governmentally privileged monopoly for the export of woollen cloth to the Netherlands. Instead, he craved a return to the old privileged raw wool export monopoly of the Merchant Staple. In fact, Milles went so far as to call the old regulated Staple trade the 'first step towards heaven'.

It is certainly likely that Milles's eagerness to regulate and prohibit foreign trade and bullion flows was connected with his own occupation as customs official. The more regulation, the more work and power for Thomas Milles.

Stung to the quick, the secretary of the Merchant Adventurers, John Wheeler (c.1553–1611) replied to Milles's charges in his *Treatise of Commerce*, in 1601. Wheeler upheld the 'orderly competition' of the 3500 merchant members joined together in the privileged monopoly, as against the unorganized, dispersed, 'straggling and promiscuous trade' of free competition. He also engaged in semantic trickery by asserting that monopoly by definition means only 'single seller'; hundreds of merchants linked together into a privileged export company were able, after all, to act virtually as one privileged firm. In Wheeler's own words, these merchants were 'united and held together by their good government and by their politic and merchantilike orders' – backed up, we must not forget, by the armed might of the state. Sneering at the idea of free competition, Wheeler smugly opined that any merchant who loses a little liberty will be better off 'being restrained...in that estate, than if he were left to his own greedy appetite'. When John Kayll, over a decade later in *The Trades Increase* (1615), protested that the monopoly of the Merchant Adventurers would 'unjustly keep others out forever', his pamphlet was suppressed by the archbishop of Canterbury and he earned a stint in jail for his pains.[6]

Later, in the 1650s, Thomas Violet had a Milles-type motive for special pleading in his call for prohibition of the export of bullion. Violet had been a professional 'searcher' and government informer seeking out violations of the law prohibiting the export of bullion. Now, in *A True discoverie to the commons of England* (1651), he sought to reinstate that good old law, and he accompanied his call for reinstatement of bullion prohibition with a request that he himself be employed once again to seek out violators. To the embarrassing fact that he, Violet, had himself been convicted and punished for violating these very provisions, he countered with a ready quip, 'an old deer-stealer is the best keeper of a park'.

The most distinguished bullionist of the early seventeenth century was Gerard de Malynes (d.1641). Malynes was a Fleming born in Antwerp to the prominent van Mechelen family, probably changing his name to Malynes when he emigrated to London in the 1580s (perhaps in response to the Spanish persecution of Protestants in the Netherlands in that era). Malynes was listed as an alien in the records of that period, and as a member of the 'Dutch' Protestant Church. He is also depicted in the records as a 'merchant stranger', that is, as a merchant from abroad.

Malynes turned out be a speculator and an unscrupulous, even crooked, businessman, embezzling money from his Dutch business associates. He was often on the verge of bankruptcy, and his partner and father-in-law, the Antwerp-born Willem Vermuyden, died in debtors' prison. Malynes, nonetheless, was a linguist, and highly educated scholar, deeply interested in literature, the Latin language, mathematics and classical Greek philosophy. He was also well versed in scholastic doctrine.

A member of a royal commission of 1600 to study economic problems, Malynes began his bullionist writings in 1601, in particular *A Treatise on the Canker of England's Commonwealth*, and published many tracts on into the 1620s. Like Gresham and the sixteenth century bullionists, Malynes fulminated against the foreign exchange dealers, asserting superficially and incorrectly that exchange rates were set by wilful conspiracies of exchange dealers. Malynes was more rigorous than previous bullionists; instead of institutions to control exchange dealings, he advocated a government 'bank' which would enjoy a monopoly on all foreign exchange transactions.

Intertwined with his star-crossed business career was Malynes's service in government, becoming at various times a top bureaucrat at the Royal Mint and a financial adviser to the Crown. Malynes also had a personal stake in the revival of rigorous exchange control, for he himself eagerly anticipated filling the resurrected post of royal exchanger. To Malynes, there was a 'just' exchange rate at the legal par, and the government's task was to enforce it.

In an earlier tract in 1601, *Saint George for England Allegorically Described*, Malynes, harking back to an old theme, denounced foreign exchange dealings as 'usury', and expressed the hope that by tight control this usury could die a gradual death.

To advocate rigorous exchange control, Malynes of course had to deny that the foreign exchange market could in any way equilibrate or regulate itself, or that exchange rates were set by supply and demand forces. To Malynes goes the dubious credit for the emergence of the spurious and pernicious 'terms-of-trade' fallacy. This doctrine argues that a balance of trade deficit and export of bullion will not regulate itself. For higher foreign exchange rates and cheaper domestic currency, will *not*, as one might believe, spur exports and retard imports. Instead, the 'unfavourable' terms of trade of, say, the pound in terms of foreign currency will lead to even more imports and fewer exports, thus driving more bullion out of the country. Even if a cheaper pound will bring in less foreign exchange revenue (a highly unlikely event seen more often in armchair speculation than in practice), one wonders *where* the English would continue to find either foreign currency or specie to pay for the higher-priced foreign products. Surely the specie would eventually run out, and for that reason alone, *some* market mechanism would have to come into play to restrict foreign imports or the export of specie.

Thus Malynes managed to take the absurd position that, *whatever* happens in the foreign exchange market, specie will keep flowing out of England. Flowing out if the pound should be expensive, since this will restrict exports and encourage imports (a correct insight), but *also* flowing out if the reverse happens, because of the 'terms-of-trade' argument. The specie outflow was therefore blamed on the metaphysical malevolence of the exchange dealers, and it could only be cured by severe government control, including prohibition of the export of bullion. Malynes also advocated control of the exchange rate at the legal mint par, which would mean in the context of the time a substantial appreciation, or higher value, of the pound sterling. Yet, continuing in the faulty terms-of-trade mode, Malynes saw no problem of specie outflow from such a marked appreciation of the currency. In fact, he hailed the higher domestic prices that would supposedly draw *more* specie into the country.

In a similar bizarre twist, Malynes, correctly noting that the inflationary influx of specie from the New World had hit the other countries of Western Europe before coming into England, yet concluded that this was a terrible event for England. For instead of realizing that lower prices made English goods more competitive abroad, Malynes concluded that these 'unfavourable terms of trade' put England into a poor competitive position and led to a permanent outflow of specie.

In view of his record in propounding tissues of egregious fallacies, it is curious that Malynes has had a good press among historians of economic thought, even among those who disagree with his basic outlook. They seem to laud him for recognizing that prices vary directly with the quantity of money, so that a country losing gold will find its prices falling, whereas a country accumulating gold will see its prices rise. But Malynes, eager to indict the workings of international prices and exchanges rather than explain how they work, was scarcely willing to develop the full implication of his occasional insights. Furthermore, considering that this 'quantity theory' had long been known, and developed and integrated for centuries, by the Spanish scholastics, Bodin, and others, Malynes's achievements seem dubious at best.

10.5 The East India apologists strike back

England suffered a severe recession in the early 1620s, and Gerard Malynes returned to the attack, publishing a series of tracts repeating his well-known views, and calling for stringent measures to curb the Merchant Adventurers and especially the East India Company, as well as any other traders who dared to export bullion from the kingdom. His influence was bolstered by having been a member of the royal commission on the exchanges in 1621.

Taking up the torch in defence of the Merchant Adventurers was one of its members, Edward Misselden (d. 1654). In a tract entitled *Free Trade or the Means to Make Trade Flourish* (1622), following service on a Privy Council committee of inquiry on the depression of trade, Misselden advanced somewhat beyond Malynes's analysis. He acknowledged that bullion was exported from England, not due to the machinations of wicked exchange dealers, but from imports exceeding exports, from what would later be called an 'unfavourable balance of trade'. Misselden, then, was not concerned with regulating the exchanges. But he *did* want the state to force a favourable balance into being by subsidizing exports, restricting or prohibiting imports, and cracking down on the export of bullion. In short, he called for the usual set of mercantilist measures. Misselden was largely concerned to defend his Merchant Adventurers. Like Wheeler a generation earlier, he maintained that his company was not at all a monopolist, but simply the organization of orderly and structured competition. Besides, wrote Misselden, his Merchant Adventurers exported cloth to Europe and therefore fitted in with the interests of England. The truly evil firm was the privileged East India Company, which had a decidedly unfavourable balance of trade of its own with the Indies, and which continually exported bullion abroad.

Misselden now entered into a series of angry pamphlet debates with Malynes, who replied in the same year with *The Maintenance of Free Trade*. (Neither party, of course, had the slightest interest in what would now be called 'free trade'.) In 1623, Misselden accepted a post as deputy governor of the Merchant Adventurers in Holland, perhaps as a reward for his stirring defence of the company in the public prints. But, in addition, the East India Company, seeing in Misselden an effective champion and a troublesome foe, made him a member and one of their commissioners in Holland during the same year. As a result, when his second pamphlet, *The Circle of Commerce*, was published in 1623, Misselden displayed a miraculous change of heart. For the East India Company had been suddenly transformed from villain to hero. Misselden, quite sensibly, now pointed out that while the East India Company did export specie in exchange for products from the Indies, it can and does *re*-export these goods in exchange for specie.

The outstanding defender of the East India Company in the early seventeenth century was one of its prominent directors, Sir Thomas Mun (1571–1641). Mun was early engaged as a merchant in the Mediterranean trade, especially with Italy and the Middle East. In 1615, Mun was elected a director of the East India Company, and after that he 'spent his life in actively promoting its interests'. He entered the lists on behalf of the company in 1621, with his tract, *A Discourse of Trade from England unto the East-Indies*. The following year he and Misselden were both members of the Privy Council committee of inquiry. Mun's second and major work, *England's Treasure by Forraign Trade, or the Balance of Forraign Trade is the Rule of our Treasure*, taking a broader view of the economy, was written about 1630 and published posthumously by Mun's son John in 1664. When published, it carried the stamp of approval of Henry Bennett, secretary of state in the Restoration government, and also an architect of England's mercantilist policy against the Dutch. The pamphlet was highly influential and was reprinted in several editions, the last being published in 1986.

Thomas Mun set forth what would become the standard mercantilist line. He pointed out that there was nothing particularly evil about the East India Company trade. The company imported valuable drugs, spices, dyes and cloth from the Indies, and it re-exported most of these products to other countries. Overall, in fact, the company has actually imported more specie than it has exported. In any case, the focus of English policy should not be on the specific trade of one company or with one country, but on the overall or general balance of trade. There it must make sure that the country exports more than it purchases from abroad, thereby also increasing the wealth of the nation. As Mun succinctly put it at the beginning of *England's Treasure*: 'The ordinary means to increase our wealth and treasure is by foreign trade, wherein we must ever observe this rule: to sell more to strangers yearly than we consume of theirs in value'. To that end, Mun advocated sumptuary laws banning consumption of imported goods, protective tariffs, and subsidies and directives to consume domestic manufactures. Mun, on the other hand, opposed any direct restrictions on the export of bullion, such as conducted by the East India Company.

Mun was wise enough in combating the fallacies of Malynes and Misselden. Against Malynes, he pointed out that the movements of the exchange rate reflect, not the manipulations of bankers and dealers, but the supply and demand of currencies: 'That which causes an under or overvaluing of monies by exchange is the plenty or scarcity thereof'. Misselden had advocated debasement of the currency as a means of increasing the price level. Such increase, Misselden had argued in pre-Keynesian fashion, 'will be abundantly recompensed unto all in the plenty of money, and quickening of trade, in every man's hand'. As a leader of the Merchant Adventurers, Misselden was undoubtedly highly interested in the spur that debasement would give to exports. But Mun denounced debasement, first, as bringing confusion by changing the measure of value, and second by increasing prices all around: 'If the common measure be changed, our lands, leases, wares both foreign and domestic, must alter in proportion'.

Neither did Mun bend his energies towards an export surplus because he was enamoured of the idea of accumulating specie in England. Adhering to the quantity theory of money, Mun realized that such accumulation would simply drive prices up, which would not only be to no avail but would discourage exports. Mun wanted to accumulate specie not for its own sake, nor to drive up prices at home, but to 'drive trade', to increase foreign trade still further. An expansion of foreign trade *per se* seems to be Thomas Mun's main objective. And this overriding goal is not very puzzling from a leader of the great East India Company.

Furthermore, foreign trade, for Thomas Mun fully as much as for Montaigne, increased the national power – as well as the power of English traders – at the expense of other nations. England and her inhabitants only wax great at the expense of foreigners. As Mun put it succinctly, in trade 'one man's necessity becomes another man's opportunity', and 'one man's loss is another man's gain'. In an odd prefigurement of the Keynesian view that national debt held at home is immaterial because 'we only owe it to ourselves', Mun and his fellow mercantilists considered internal trade unimportant because there we only transfer wealth among ourselves. The export balance in foreign trade then becomes of crucial importance, so that the export merchant becomes by far the most productive occupation in the economy.

That Mun was far from being a primitive inflationist is seen by the scorn he properly and contemptuously heaped upon the common plea – and favourite mercantilist complaint – that business and the economy were suffering from a 'scarcity of money'. (The conclusion invariably drawn from such analysis is that the government was duty-bound to do something quickly to augment the money stock.) Mun wittily riposted in his *Discourse of Trade*:

> concerning the evil or want of silver, I think it hath been, and is a general disease of all nations, and so will continue until the end of the world; for poor and rich complain they never have enough; but it seems that the malady is grown mortal here with us, and therefore it cries out for remedy. Well, I hope it is but imagination maketh us sick, when all our parts be sound and strong...

Thomas Mun may have been the most prominent and sophisticated of the early seventeenth century mercantilists in England. Yet, as Schumpeter points out, these were all pamphleteers not particularly interested in analysis of the economy, special pleaders rather than aspiring scientists.[7]

Perhaps the best economic analyst of all in this period was Rice Vaughn, whose *A Discourse of Coin and Coinage*, though published in 1675, was written in the mid-1620s. Vaughn, in the first place, held that the disappearance of silver during this period was the effect of what we now call 'Gresham's law': the bimetallic undervaluation by the English government of silver as against gold. Since silver, rather than gold, was the money for most transactions, this undervaluation had a certain deflationary effect. In the course of his tract, Vaughn pointed out that an export surplus will not have the desired effect of bringing precious metals into the kingdom, if the value of the gold or silver pound in England is low in terms of purchasing power; for then goods will be imported instead of the monetary metals, and the export surplus will disappear.[8] Vaughn was also astute enough to recognize that prices do not all move together when the value of money changes: for example, that domestic prices usually lag behind the debasement or devaluation of money standards.

Most importantly, Rice Vaughn, remarkably, harked back to the scholastic continental subjective utility and scarcity tradition in the determination of the values and prices of goods. Vaughn concisely pointed out that the value of a good is dependent on its subjective utility and hence demand by consumers ('Use and delight, or the opinion of them, are the true causes why all things have a Value and Price set upon them'), while the actual price is determined by the interaction of this subjective utility with the relative scarcity of the good ('the proportion of that value and price is wholly governed by rarity and abundance').[9]

10.6 Prophet of 'empiricism': Sir Francis Bacon

The status and reputation of Sir Francis Bacon (1561–1626) is one of the great puzzles in the history of social thought. On the one hand, Bacon was universally hailed as the greatest man of his age. Over a century later, in the great manifesto of the French Enlightenment, the *Encyclopédie*, Bacon was hailed extravagantly as 'the greatest, the most universal, and the most eloquent of philosophers'. Yet what had he actually accomplished to warrant all the accolades?

This prolific statesman and writer, with great fanfare and self-advertisement, in a series of books from the 1600s to the 1620s, set forth a series of injunctions about *the* proper method of scientific inquiry into the world, including social as well as natural sciences. Essentially, Bacon wrote numerous exhortations to everyone else to engage in detailed factual investigation into all life, all the world, all human history. Francis Bacon was the prophet of primitive and naive empiricism, the guru of fact-grubbing. Look at 'the facts', all 'the facts', long enough, he opined, and knowledge, including theoretical knowledge, will rise phoenix-like, self-supporting and self-sustained, out of the mountainous heap of data.

Although he talked impressively about surveying in detail all the facts of human knowledge, Bacon himself never came close to fulfilling this monstrous task. Essentially, he was the meta-empiricist, the head coach and cheerleader of fact-grubbing, exhorting *other* people to gather all the facts and castigating any alternative method of knowledge. He claimed to have invented a new logic, the only correct form of material knowledge – 'induction' – by which enormous masses of details could somehow form themselves into general truths.

This sort of 'accomplishment' is dubious at best. Not only was it a prolegomenon to knowledge rather than knowledge itself; it was completely wrong about how science has ever done its work. No scientific truths are ever discovered by inchoate fact-digging. The scientist must first have framed hypotheses; in short, the scientist, before gathering and collating facts, must have a pretty good idea of what to look for, and why. Once in a while, social scientists get misled by Baconian notions into *thinking* that their knowledge is 'purely factual', without presuppositions and therefore 'scientific', when what this really means is that their presuppositions and assumptions remain hidden from view.

The mystery, then, is why Sir Francis Bacon's dubious achievement garnered so much praise. One reason is that he succeeded in capturing the *Zeitgeist*: he was the right man for his notions at the right time. For Bacon came after two centuries of sniping at scholasticism, which was now ripe for an open and all-out assault. Echoing many other thinkers of past generations but putting it squarely and bluntly, Bacon divided all knowledge into two parts, divine and natural. Man's knowledge of supernatural and spiritual matters came from divine revelation, and that was that. On the other hand, knowledge of material affairs, man and the world around him, was wholly empirical, inductive, arrived at through the senses. In neither case was there any room for human reason, that great conduit of knowledge lauded by classical philosophy from the Greeks to the scholastics. Knowledge of spiritual and divine matters was purely fideistic, the product of faith in divine revelation. Earthly knowledge was purely sensate and empirical; there was no room for reason there either.

In ethical and political philosophy, then, Bacon found no room for the classical doctrine that human reason supplies knowledge of ethics through investigation of natural law. Instead, ethical knowledge is purely relative, the tentative accumulation of mounds of unsifted historical data. And if there is no rational knowledge of ethics or natural law, then there are no natural rights limits to be placed on the power and actions of the state. Curiously enough, Bacon had the best of both worlds by proclaiming that endless arrays of facts were not just the only conduit to knowledge, but that they would enable man to arrive at an ethics that would improve his life. The ultimate purpose of engaging in all the fact-grubbing was utilitarian. Yet how he expected valid ethical laws to emerge out of all this busy empiricism was left unexplained.

Recent research, however, has cleared up some of the lacunae in Bacon's methodological position. For it turns out that much of Bacon's vaunted 'empiricism' was not just ordinary science, but the allegedly empirical mystical mumbo-jumbo that various renaissance thinkers had cobbled out of the 'Ancient Wisdom'. Renaissance mysticism was a pseudo-science that combined the occult and magic traditions of the hermetic literature, with that of a Christianized version of the Jewish Cabala. A year after Bacon died, his proposed despotic utopia, the *New Atlantis* (1627) was published. In the renaissance mystic tradition, Bacon proposed a utopia ruled by enlightened despots, in which all men are happy and content. Happiness was achieved because Adam's sin was not, as in the standard Christian tradition, trying to know too much and to become in some sense divine. On the contrary, the mystical hermetic view held that Adam's sin was turning his back on the Ancient Wisdom that could have been revealed to him. In contrast, man will now be made happy because wise rulers, possessed of this divine knowledge, will guide man to perfection and happiness by fulfilling his true God-like nature. In Bacon's utopian novel, the symbols he used heavily – such as the 'rose' or 'rosy' cross – reveal Bacon's closeness to the newly founded and mysterious Rosicrucian Order, which added to the rest of the Ancient Wisdom the pseudo-science of alchemy, in which man becomes as God in helping to create the universe.[10]

The arrogant Baconian claim to be the prophet of the only true scientific method takes on a high irony when we realize that Francis Bacon's vision of science was close to that of the magic-oriented occultists of the Rosicrucian Order. And since renaissance occult 'knowledge' was definitely part of the new spirit of the age, and later even of the allegedly 'rational' Enlightenment as well, Francis Bacon may be considered far closer to the *Zeitgeist* of his day than current Baconians would care to acknowledge.

Francis Bacon was also in tune with the *Zeitgeist* in another way. The simple-minded proclamation of the absolute power and glory of the English king was no longer as tenable as it had appeared to the Anglican theorists of the sixteenth or even to Bacon's absolutist contemporaries of the early seventeenth century. The naive argument by 'correspondence' – the analogies to the lordship of God, the head on a single man's body, and to the king as head of the great body politic – was no longer being accepted as self-evident truth. The new discoveries, and the expansion of the economy and of the nations of Europe into new worlds, made the older view that any change wrought by human beings merely corrupted God's static order of nature increasingly untenable. The idea that every man and group was born into a divinely ordained fixed order and station in life was rebutted by the increasing mobility and social and economic progress of the western world. And so the old admixture of the material and the divine into one heady brew of unquestioned absolutism could no longer command respect. A new fallback position for the state and the monarch was necessary, one more in tune with the new fashion of 'science' and scientific advance.

And so the 'scientific realism' of Sir Francis Bacon was perfectly suited to the new task. The idea that the king was quasi-divine or received an absolute divine imprimatur would no longer do. Sir Francis Bacon in the service of the state was far more the 'realistic political scientist' heralded by Machiavelli. Indeed, Bacon consciously modelled himself on Machiavelli's teachings. Like the neo-pagan Machiavelli, Bacon called upon his prince to do great deeds, to achieve glory. He particularly called upon the king to achieve empire, to expand and to conquer territories overseas. Domestically, Bacon was what might be called a moderate absolutist. The king's prerogative was still dominant, but this should be within the ancient historical constitution, and should follow the law, and there should be at least discussions and debates in the courts and in Parliament about royal decrees.

Bacon went beyond most other apologists of empire by declaring it a high moral duty of the king to expand, as well as preserve, the 'bonds of empire'. The duty to conquer went even beyond Machiavelli, who worried about undue speed in achieving conquest. To stand ready to serve the high duty of expanding empire, the British nation had to be trained in the study of arms and particularly in naval prowess, and had to display the virtue of fortitude, to be 'stout and warlike'.

This brings us to the last and not the least of the reasons for Bacon's enormous influence beyond the merits of his achievements. For Sir Francis Bacon, Baron Verulam, Viscount St Albans, was one of the leading politicians and members of the power élite in Great Britain. He was, first, the youngest son of Sir Nicholas Bacon (1509–79), a close friend and brother-in-law of Sir William Cecil, Lord Burghley, a leading aide to Queen Elizabeth. As a result, Nicholas Bacon became Privy Councillor, Lord Chancellor, and the Lord Keeper of the Great Seal.

Francis Bacon was, therefore, born with a silver spoon. As a young attorney, Bacon became an MP and, in 1591, a confidential adviser to the earl of Essex, favourite of the queen. As Essex began to lose favour with the queen, the ever alert Bacon sensed the shift in the wind and turned against his old patron, taking the lead in the condemnation that led to Essex's execution. To explain this sordid affair, Bacon was assigned by the queen to write what became the official public denunciation of Essex. Later, to quiet a festering canker of criticism, Bacon was moved to write an *Apology* for his own treacherous role in the Essex affair.

Despite Bacon's apologia, the queen, for obvious reasons, continued not to trust him very much, and political preferment eluded the highly placed courtier. Under the new king James I, however, Bacon came into his own, his career propelled by his cousin Thomas Cecil, the second Lord Burghley. In 1608, Bacon became the king's solicitor, and then attorney-general. Finally, in 1617, he followed in his father's footsteps as Lord Keeper of the Great Seal, and the following year became Lord Chancellor.

After three years in the nation's highest political post, however, Sir Francis Bacon was laid low. Charges of systematic bribery and corruption against him were proved and he then confessed his guilt, retiring to private life and to pursuing his publishing career. Characteristically, while Bacon admitted to taking bribes, he claimed that they never affected his judgement, and that his 'intentions' had remained forever 'pure'. Judging him by his own empirical method, however, one may be permitted to be sceptical of such 'metaphysical' claims.

In the narrowly economic sphere, Bacon's output was sparse and his opinions unremarkable, except for their scarcely being in the forefront of modern or scientific advance. On the balance of trade, he took the standard broadly mercantilist line. Thus, in his 'Advice to Sir George Villiers', written in 1616 but only first published in 1661, Bacon hailed the export 'trade of merchandise which the English drive in foreign parts'. The crucial point of the trade is 'that the exportation exceed in value the importation; for then the balance of trade must of necessity by returned in coin or bullion'. On the ancient question of usury, Bacon took a surprisingly reactionary and moralistic stand, calling for its prohibition on moral and religious grounds. More interestingly, he also declared that allowing high interest rates restricted beneficial agricultural improvements on behalf of riskier (and presumably less worthy) projects – an indication that some of the clamour to repress usury came from blue-chip investors who balked at the competition of more speculative borrowers willing to pay higher interest. In a similar vein, Bacon also attacked the charging of interest because it drew men from their appointed callings and brought them income they did not really 'earn'.

10.7 The Baconians: Sir William Petty and 'political arithmetic'

Since Bacon's thought fitted well into the spirit of the age, it is not surprising that he developed enthusiastic followers. One little recognized follower was Thomas Hobbes, the philosophic apologist for monarchical absolutism who, on the eve of the Civil War, was searching for a 'modern' defence of monarchical despotism which relied neither on the outworn correspondence theory of order, nor on the Grotian variant of natural law as did his friends in the Tew circle. Grotius's conservative version of consent theory held that the right of sovereignty had indeed originated with the people, but that the people, at some murkily distant point in the past, had surrendered their sovereignty irrevocably to the king. This defence of royal absolutism had been continued in England by the Tew circle, Hobbes's only disagreement being that each individual, in the last analysis, had the 'right of self-preservation' and therefore had the right to disobey any orders from the king that were tantamount to the particular individual's murder.[11] But more importantly, Hobbes's political theory forswore scholastic natural law methodology for a 'modern' mechanistic, scientistic methodology far more in keeping with Francis Bacon. This shift is not surprising, considering that Hobbes served his philosophic apprenticeship as secretary to Bacon himself. Later on, in addition to a life in service to the royalist Cavendish family, Hobbes served as a mathematical tutor to the future King Charles II.

The leading Baconian in political economy, who was also fittingly a pioneer in statistics and in the alleged science of 'political arithmetic', was the fascinating opportunist and adventurer Sir William Petty (1623–87). Petty was the son of a poor rural cloth-worker from the county of Hampshire. He learnt Latin at a country school, and was put to sea as a cabin-boy at 13. When his leg was broken at sea, he was put ashore in France by the captain.

Petty got himself admitted to the Jesuit university at Caen by applying for admission in Latin. There he received an excellent education in languages and mathematics, supporting himself by tutoring and trading in custom jewellery. Soon, Petty was off to Holland to study medicine; there he became friendly with Dr John Pell, professor of mathematics at Amsterdam. Travelling to Paris to study anatomy, Petty was armed with an introduction by Pell to Thomas Hobbes. Soon, Petty became Hobbes's secretary and research assistant, and from Hobbes imbibed Baconian and Hobbesian empiricism, mechanism and absolutism. Through Hobbes, Petty also joined advanced circles, including new scientists plus the philosophic friends of science. We must remember that science did not enjoy the professional specialization of the twentieth century, and new scientific discoveries were often made in an atmosphere of scientists surrounded by dilettantish philosophical cheerleaders. Through Hobbes, Petty participated in the Parisian circle of Father Marin Mersenne, which included scientists such as Fermat and Gassendi as well as philosopher–mathematicians Pascal and Descartes.

After a year in Paris, Petty returned to England in 1646 to continue his medical studies at Oxford. Armed again with an introduction opening crucial doors from Professor Pell, Petty was embraced by the man who has been called 'the master of ceremonies to the new learning', the enthusiastic Baconian, half-English Prussian immigrant from Poland and exile from Catholic rule, Samuel Hartlib (1599–1670). Pell was Hartlib's earliest disciple, and his first job had been schoolmaster at a school run by the wealthy and well-connected Hartlib, whose father had been 'merchant-royal' to the king of Poland. With Hartlib's backing, Petty's career at Oxford now zoomed upward with incredible speed. Petty was welcomed into a circle of mathematicians, scientists and physicians who had gathered at Oxford to escape the Civil War and engage in multi-partisan, trans-religious Baconian science. This group, which called itself the 'invisible college', not only received Petty warmly but they even met periodically at his lodgings which, being at an apothecary's house, was convenient to scientific and alchemical experimentation in drugs. Hardly did Petty become a fellow of Brasenose College in Oxford than he was made vice-principal, and hardly did he become a physician when he was made professor of anatomy. Finally, Hartlib got his friend and protegé Petty made professor of music in 1651 at the Gresham College in London, a new college dedicated to the experimental and mechanical arts. Petty apparently taught the applied mathematics of music. At only 28, William Petty had been vaulted to the top of the academic profession. The rapidity of Petty's climb was undoubtedly aided by the fact that the new republican regime tossed out previously openly royalist incumbents, and the 'invisible college' Baconians were able to sail under the colours of value-free, Baconian science.

Hartlib also wrote voluminously inductive histories of trade, especially agriculture, helping to further the Baconian programme. Hartlib himself was a friend and disciple of his fellow-Baconian, the mystical millennialist Czech theologian and educationist Johann Amos Comenius (1592–1670). Comenius, a bishop in the pietist Hussite Moravian church and an exile from Catholic rule, was employed by the Swedish government to organize its school system. He went beyond Bacon to invent a new hermetic religious system, pansophism, which promised to combine all the sciences in a mystical road to all knowledge. Hartlib subscribed to these gnostic tenets, and he also followed Bacon in outlining his own new utopia, which he called *Macaria* (1641).

Hartlib and Comenius were the favourite philosophers and theoreticians of the puritan country gentry, the party of the Pyms and the Cromwells. Indeed, in the summer of 1641, when the country Puritans thought that they had successfully achieved lasting rule under the king, Parliament eagerly brought Comenius to England, and it was during the Autumn that Hartlib published his *Macaria*, a welfare state utopia he expected to institute in England. Arrived in England, Comenius drew up his own plans for a pansophical 'reform', or transformation of the English educational system, led by a 'pansophical college'. Comenius proclaimed 'that the last age of the world is drawing near, in which Christ and his Church shall triumph,... an age of Enlightenment, in which the earth shall be filled with the knowledge of God, as the waters cover the sea.'[12]

The renewed outbreak of the Civil War put an end to plans for quiet social and educational reconstruction, and so Comenius returned to the continent of Europe the following year, 1642. But Hartlib and the others remained, and continued under munificent puritan patronage; during Cromwell's Protectorate, these Baconians flourished, and Pell and other Hartlib disciples were used by Cromwell as envoys to various Protestant countries in Europe.

One of Hartlib's favourite continuing projects was to try to found new colleges and institutions to promote the new science. One prospective donee was the wealthy, aristocratic, and much younger friend, the distinguished physicist Robert Boyle (1627–91). At one point, Hartlib tried to get Boyle to finance William Petty in compiling a 'history of [all] trades'; at another point Petty, in his first published work at the age of 25, urged Hartlib to finance a new college to advance 'real learning', which would be a '*gymnasium medicum* or a college of tradesmen'. This college, wrote Petty, would provide 'the best and most effectual opportunities and means for writing a history of trades in perfection and exactness...'[13] Neither of these particular projects was to pan out.

No sooner had William Petty reached the apex of academia in 1651, however, and before giving his first lecture, than he left the university world for good. He was out to make a fortune, and he saw his opportunity in the midst of Cromwell's devastating conquest and decimation of Ireland. A fellow Oxford 'invisible', Jonathan Goddard, had gone off to become physician-in-chief of Cromwell's army in Ireland, and had returned two years later to the prestigious post of warden of Merton College; taking a two-year leave from Oxford, Petty went to Ireland as Goddard's replacement. When Petty got to Ireland, he found a golden opportunity to make his fortune. Cromwell had despoiled Irish lands, and decided to pay his soldiers and the financial supporters of his military campaign by handing out conquered and confiscated Irish land. But to parcel out the land, it first had to be surveyed, and this task was being conducted by a surveyor-general, a friend of Petty and Hartlib, Dr Benjamin Worsley, a fellow-physician who had published influential pamphlets that led to the Navigation Act of 1652, a mercantilist measure for the subsidizing and privileging of English shipping. Petty, however, did not let friendship stand in his way. Reaching Ireland in the autumn of 1652 and sizing up the situation, Petty launched a propaganda campaign denouncing the alleged slowness of Worsley's survey, and promising to perform the task himself in a mere 13 months. Getting the job in February 1653, despite the ferocious opposition of Worsley, Petty indeed completed the task on time.

With the huge sum of cash earned from this job, Petty set about accumulating ownership of the confiscated Irish lands: some lands he acquired in lieu of cash payment; others he got by buying land claims from needy English soldiers. By 1660, William Petty had accumulated Irish landed estates totalling 100 000 acres, making him one of the largest landowners in Ireland. In fact, his eventual accumulation of Irish land was still greater, for by the time of his death in 1687 Petty owned 270 000 acres in south Kerry alone. By the late 1650s, Petty was back in London, serving for a time in Parliament and renewing his friendships in scientific circles.

Back in England, Petty joined a Baconian–Hartlibian circle headed by another German emigré, Theodore Haak, the organizing secretary of Comenius's English disciples. Other members included Dr Jonathan Goddard, now Protector Cromwell's personal physician; and the famed architect Christopher Wren, whose first architectural work was a transparent three-storey beehive-like structure built for Hartlib. The group met largely in the Oxford home of Cromwell's brother-in-law, John Wilkins, whom the protector had made ruler of Oxford University.

The Baconians, it must be understood, though flourishing under Cromwell, were never truly committed to any particular form of government. Like Bacon himself, they could flourish under an absolute monarchy. Monarchy, republic, Parliament, Crown, Church – all these forms of government made no particular difference to these 'scientific', 'value-free' would-be rulers of the nation. So long as the regime was sufficiently statist, and at least nominally Protestant, the polity could afford ample scope for the dreams of power and 'science' held by these Baconian philosophers and men of affairs.

Hence Petty and his colleagues, always seekers of the main chance whatever the government, were well placed when the Stuart monarchy was restored in 1660.[14] Petty himself was well received at the court of Charles II, who granted him a knighthood, and in 1662 Petty's and his colleagues' Baconian dreams culminated when Petty became a founding member of the newly chartered Royal Society of London for the Improving of Natural Knowledge. The Royal Society was specifically dedicated to the Baconian project of empirical observation and experiment, first to the study of the natural world and technology, and then to the study of society.[15] Throughout his life, Petty remained an active member of the Royal Society, especially contributing to its studies of the history of trades and technology. Petty's own contribution, 'political arithmetic', or statistics, he saw as the application of the empiricist Baconian programme to the social world.

True to Petty's goal of 'empirical' science, each of his studies was designed to promote his own economic or political advancement. His major publication, a *Treatise of Taxes and Contributions*, was published in 1662, and went into three further editions in his lifetime. Petty, however, was disappointed, since the tract did not lead to his hoped-for public office or political influence. Petty's later tracts were written, but not published, in his lifetime, the others being published in 1690 or later, after his death. This was because, in the words of a generally admiring historian, they were written 'not for publication but for circulation in the corridors of power or with a view to acquiring influence and jobs – which he never managed to obtain.[16] And even though Petty's daughter, from a marriage a few years later, was to give rise to the aristocratic Shelburne and Landsdowne families, Petty derived little enjoyment from his vast ill-gotten lands in Ireland, since he had to spend half his days in that country, defending his claims from lawsuits from royalist claimants, or his lands from 'bandits' who believed that he had despoiled their land.

As befitted a presumed experimental scientist, Petty claimed several important inventions, only one of which, however – the double-hulled ship – ever came to fruition. He spent a great deal of money building several versions of this ship, but they all suffered from the same problem: even though very fast, they all 'had an embarrassing tendency to break up in a storm', a defect, we are told, 'in which Charles II took a certain amount of malicious glee'.[17]

What then was there about Sir William Petty that, despite his gifts, his seizure of the main chance, and his powerful friends, brought him up sharply against a 'glass ceiling', that limited his political influence and his power at court, and that led even the king of England to treat his discomfiture with 'malicious glee'? Apart from his sabotage of Benjamin Worsley, the problem was that Petty could not resist the impolitic dig, whether he was wickedly mimicking the aristocracy at a party, or was reproving His Majesty's policies in the very pamphlet he was writing to court the king's favour. Not being a gentleman by birth, Sir William could ill afford to act less than a gentleman to his betters.

While publishing his *Treatise of Taxes*, Petty delivered several papers to the Royal Society on the histories of the dyeing of cloth, and shipping, advancing the Baconian history of trades programme. His major work, the *Political Arithmetic*, was written in the 1670s and published posthumously in 1690. The goal was to show that England, far from suffering from a decline as commonly believed, was actually wealthier than ever before. In the *Political Arithmetic*, Petty claimed to eschew mere 'words' and 'intellectual arguments', and state only 'arguments of sense' – that is, derived from sensate facts of nature, which could all be boiled down to 'number, weight, and measure' – a slogan which he enjoyed repeating on many occasions. Thus, at the end of an essay on algebra, Petty grandiloquently maintained that he had at last applied algebra 'to other than purely mathematical matters, viz: to policy, by the name of Political Arithmetic, by reducing many terms of matter to terms of number, weight, and measure, in order to be handled mathematically'.[18]

In fact, there is virtually no mathematics in Petty; what there is are statistics, loosely gathered, and arbitrarily asserted, employing many hidden assumptions, to arrive at preordained ideological conclusions.

As William Letwin writes, in his rewarding study of Petty:

> Petty's way with numbers, here as always, was utterly cavalier. The facts, whatever they were, always had a congenial way of upholding Petty's conclusions. Or rather, Petty's factual assertions did; for he was not averse to citing authorities mysterious, unknown, and even non-existent, when he needed their help.

Letwin then cites the conclusion of Major Greenwood, a modern historian of statistics: 'It is not I believe too cynical to say that any calculation Petty made would have produced war losses around 600,000'.[19] At one point, Petty actually submits the justification for his arbitrary figures and assumptions that they make no difference anyway since the figures are not totally false, and therefore can illustrate the method of arriving at knowledge. But fake illustrations, of course, are scarcely an advertisement for the method of political arithmetic. Thus Petty tried to come to conclusions pleasing to the king – that England was gaining not declining in wealth – by borrowing the spurious precision of numbers and the prestige of science. Sometimes his conclusions were so wildly optimistic as to abandon all sense: as when he claimed that it was 'a very feasible matter, for the King of England's subjects, to gain the universal trade of the whole commercial world'.[20]

In the course of his discussions, Petty delivered himself of some economic theories – *qualitative* not quantitative theories we might add – in violation of his stated programme. They were either not very remarkable – urging the king not to levy taxes that are so high that they will lead to severe declines in output or employment – or incorrect, such as attributing the value of goods not to the demand for them but to their costs of production.

Indeed, the quality of Petty's economic reasoning was generally that of a jejune mercantilist. Like all early modern writers, with the exception of Botero, Petty was a naive expansionist on population: the more people, the more 'income' and output will increase. Like mercantilists generally, Petty counselled and identified with the aristocratic power élite rather than with the labourers. His yen for increased or 'full' employment stemmed from a wish to increase the national output at the command of the state and employed by the élite. So little was Petty, like most mercantilists, concerned for the labouring classes that he denounced them for becoming more idle and drunken whenever their real wages rose. Petty, in fact, was more imaginative than his mercantilist confrères in proposing a governmental price-support scheme for keeping up the price of corn – specifically in order to prevent real wage rates from ever rising and thereby keeping the workers' noses to the grindstone and preventing them from enjoying more idleness (or leisure). Petty, indeed, denounced these labourers as 'the vile and brutish part of mankind'. Sometimes Petty's imagination ran away with him, his zeal for increasing the labouring population of England leading him to recommend, in the *Political Arithmetic*, forcibly moving the bulk of the population of Scotland and Ireland to England, allegedly in 'their own interests', so as to increase English productivity and to raise rents in England.[21]

The seventeenth century enthusiasm for the sciences, building upon the quasi-underground age-old numerological mysticism of the hermetic and cabala tradition, led to an arrogant frenzy of enthusiasm for quantitative and mathematical study of social life as well, among the scientists and especially their cheering sections. The eminent Harvard sociologist Pitirim Sorokin has perceptively referred to this frenzy, from that day to the present, as 'quantophrenia' and 'metromania'. Thus, writes Sorokin:

> The mathematical study of psychosocial phenomena was especially cultivated in the seventeenth and the eighteenth centuries. Spinoza, Descartes, Leibnitz, Newton... and others, began to build a universal quantitative science, *Pantometrika* or *Mathesis universae*, with its branches of *Psychometrika*, *Ethicometrika*, and *Sociometrika* designed for investigating psychosocial phenomena along the lines of geometry and physical mechanics. 'All truths are discovered only through measurement', and 'without mathematics human beings would live as animals and beasts', were the mottoes of the Social Physicists of these centuries.[22]

William Letwin writes perceptively of this metrophrenic phenomenon among the Baconians of England during the Stuart Restoration period. The 'scientific revolution' of this period, writes Letwin, 'owed much of its vigor to faith...the simple belief that many things in nature, as yet mysterious, could and should be measured precisely'. Unfortunately, 'Hand in hand with this revolutionary ideal went a devout but misplaced notion that to measure and to understand were one and the same. Restoration scientists believed that to cast a mathematical mantle over a problem was tantamount to solving it'. As a result, Letwin goes on,

> The scientists united themselves in the Royal Society and set off on an absolute orgy of measurement....the virtuosi continued, endlessly and pointlessly, to record, catalogue and count. The best minds of England squandered their talents in minutely recording temperature, wind and the look of the skies hour by hour, in various corners of the land. Their efforts produced nothing more than the unusable records.

This impassioned energy was turned also to the measurement of economic and social dimensions of various sorts. The search for number, weight and measure was conducted in the happy belief that good numbers would inevitably make for good policy.[23]

Unfortunately, this quantophrenia and metrophrenia seems to have taken over the modern economics profession. Fortunately for the development of economic thought, however, the quantophrenic enthusiasm in the social sciences dribbled away after the effusion of some Baconian writers in the 1690s. It would be nice to think that this decline was speeded up by the brilliant and devastating satires directed against the Baconians in the 1720s by the great Tory libertarian Anglo-Irish satirist Jonathan Swift (1667–1745). In his classic *Gulliver's Travels*, Swift effectively lampooned the crazed scientists of Laputa and elsewhere who were putting into effect what would now be called the Baconian 'research programme'. Finally, in 1729, Swift followed up this satire with his famous *Modest Proposal*, what Letwin justly calls 'the last word on political arithmetic as an instrument of social policy'. For Swift went after Petty, taking as his text Petty's claim that the more people the better, and in particular, Petty's serious proposal, in his *Treatise of Taxes*, to cure Ireland's alleged cause of poverty, underpopulation, by urging government subsidies for births among unmarried Irish women. The subsidies were to be financed by a tax on all Irish, especially on Irish men. The subsidies were only to be allowed if the woman kept records registering each father's time of cohabitation, and signed agreements by the father on the disposal of the children.

Swift's *Modest Proposal* satirized every aspect of Petty's style, from the solemnly avowed absurd policy proposals, to the fake precision of the numerological style. Thus, the *Modest Proposal* doggedly stated:

> The number of souls in this Kingdom being usually reckoned one million and a half, of these I calculate there may be about two hundred thousand couples whose wives are breeders; from which number I subtract thirty thousand couples who are able to maintain their own children...this being granted, there will remain a hundred and seventy thousand breeders.

After making due deductions for miscarriage, or for children who die each year, Swift is left with 'a hundred and twenty thousand children of poor parents annually born'. After demonstrating that there is no way by which these poor children can be reared or employed, Swift concludes with his famous 'modest' proposal, not 'liable to the least objection'. Being assured by a knowledgeable American in London that a young healthy well-nursed child of one year old is 'a most delicious, nourishing and wholesome food, whether stewed, roasted, baked or boiled', Swift then goes on to demonstrate, in the best value-free, numerological, empiricist Pettyite manner, the economic advantages of selling 100 000 children per annum to be eaten.

Most of the special pleading economic writers of the day ended their tracts professing no personal gain and their devotion to the public weal. And so Swift ends his *Modest Proposal* accordingly!

> I profess, in the sincerity of my heart, that I have not the least personal interest in endeavouring to promote this necessary work, having no other motive than the public good of my country, by advancing our trade, providing for infants, relieving the poor, and giving some pleasure to the rich. I have no children by which I can propose to get a single penny, the youngest being nine years old, and my wife past child-bearing.[24]

10.8 Notes

1. W.H. Greenleaf, *Order, Empiricism and Politics: Two Traditions of English Political Thought* (London: Oxford University Press, 1964), p. 52.
2. In the paraphrase of Professor Greenleaf, op. cit., note 1, p. 92.
3. Greenleaf, op. cit., note 1, p. 93.
4. In Peter Laslett (ed.), *Patriarcha and Other Political Works of Sir Robert Filmer* (Oxford: Basil Blackwell, 1949), p. 286. Quoted in Carl Watner, '"Oh, Ye are for Anarchy!": Consent Theory in the Radical Libertarian Tradition', *Journal of Libertarian Studies*, VIII (Winter 1986), p. 119.
5. Coke did not fully break with the king and adopt the Parliament-over-all position until 1621. In 1616, he was ousted from his post in the Privy Council, but immediately won his way back into King James's favour by marrying his daughter to Sir John Villiers, the older brother of the duke of Buckingham. He was still a privy councillor in 1621, and was expected to remain in the Court Party, but the king's by-passing him for promotion to Lord Chancellor led to Coke's final break with the Crown.
6. See Joyce Oldham Appleby, *Economic Thought and Ideology in Seventeenth-Century England* (Princeton, NJ: Princeton University Press, 1978), p. 106.
7. As Schumpeter puts it, these men were 'special pleaders for or against some individual interest, such as the Company of Merchant Adventurers or the East India Company; advocates or foes of a particular measure or policy.... All of them flourished...owing to the rapid increase of the opportunities for printing and publishing. Newspapers also, rare

ventures in the sixteenth century, became plentiful in the seventeenth...' J.A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), pp. 160–61.

8. Barry E. Supple, *Commercial Crisis and Change in England, 1600–1642* (Cambridge: Cambridge University Press, 1964), pp. 219–20.
9. Appleby, op. cit., note 6, pp. 49, 179; also see Terence W. Hutchison, *Before Adam Smith: The Emergence of Political Economy, 1662–1776* (Oxford: Basil Blackwell, 1988), p. 386.
10. For a fascinating discussion of Bacon's important role in immanentizing the sacral in the form of the pseudo-science of the Ancient Wisdom, see Stephen A. McKnight, *Sacralizing the Secular: the Renaissance Origins of Modernity* (Baton Rouge, LA: L.S.U. Press, 1989), pp. 92–7. Also see Frances Yates, 'Francis Bacon, 'Under the Shadow of Jehova's Wings', in *The Rosicrucian Enlightenment* (London, Routledge and Kegan Paul, 1972). Paolo Rossi, *Francis Bacon: From Magic to Science* (Chicago: University of Chicago, 1968).
11. On Hobbes and the Tew circle, see the illuminating work by Richard Tuck, *Natural Rights Theories* (Cambridge: Cambridge University Press, 1979).
12. See the fascinating article by H.R. Trevor-Roper, 'Three Foreigners and the Philosophy of the English Revolution', *Encounter*, 14 (Feb. 1960), pp. 3–20, esp. p. 15, and on Comenius and his neo-Rosicrucian group, Yates, op. cit., note 1, pp. 156–92. Also see the illuminating discussion in William Letwin, *The Origins of Scientific Economics* (Garden City, NY: Doubleday, 1965), pp. 125–6, 134–5.
13. In Petty's *The Advice of W.P. to Mr. Samuel Hartlib, for the advancement of some particular parts of learning*...See Letwin, op. cit., note 12, pp. 136–7.
14. The exception was poor Hartlib, who lost his Cromwellian pension and died in 1670 after fleeing his creditors to Holland.
15. The Royal Society was headed by Dr John Wilkins, head of Oxford University and later bishop of Chester. In addition to being Cromwell's brother-in-law, Wilkins, author of the book *Mathematical Magick* (1648), was a leading adept of the hermetic and magic-steeped Rosicrucian movement as well as of the leading Elizabethan *magus*, Dr John Dee and his hermetic alchemist disciple, Robert Fludd. See Yates, op. cit., note 10, pp. 182ff.
16. Hutchison, op. cit., note 9, p. 29.
17. Letwin, op. cit., note 12, p. 131.
18. Letwin, op. cit., note 12, p. 140.
19. Letwin, op. cit., note 12, pp. 144–5.
20. Hutchison, op. cit., note 9, p. 39.
21. Hutchison, op. cit., note 9, pp. 38–9. Also see in particular Edgar S. Furniss, *The Position of the Laborer in a System of Nationalism: A Study of the Labor Theories of the Later English Mercantilists* (1920, NY: Kelley & Millman, 1957), pp. 128, 134.
22. Pitirim A. Sorokin, *Fads and Foibles in Modern Sociology* (Chicago: Henry Regnery, 1956), p. 103, p. 110 and passim.
23. Letwin, op. cit., note 12, pp. 106–7.
24. Letwin, op. cit., note 12, pp. 149–51. On the libertarian impact of Swift's writings, see Caroline Robbins, *The Eighteenth-Century Commonwealthman* (Cambridge, Mass.: Harvard University Press, 1959), pp. 152–3; and James A. Preu, *The Dean and the Anarchist* (Tallahassee, Fl: Florida State University Press, 1959). On the *Modest Proposal*, see Louis A. Landa, 'A Modest Proposal and Populousness', in *Essays in Eighteenth-Century English Literature* (1942, Princeton, NJ: Princeton University Press, 1980), pp. 39–48.

11 Mercantilism and freedom in England from the Civil War to 1750

11.1 The Pettyites: Davenant, King and 'the law of demand'

Jonathan Swift's *A Modest Proposal* should have provided the last word on political arithmetic, except that an epilogue has been furnished by the quantophrenic and metromanic folly of modern historians of economic thought, who have resurrected a Baconian or Pettyite 'quantitative law' expounded in the 1690s as if it were a veritable marvel of anticipation of modern econometrics.

Charles Davenant (1656–1714), son of a poet laureate and dramatist, was an attorney who spent his life scrambling for the main chance. To supplement his meagre income from law practice, he managed to obtain the appointment of commissioner of excise in 1678. By the mid-1680s, Davenant was making a handsome salary as commissioner and was also an MP. His comfortable and placid existence, however, was grievously disrupted by the Revolution of 1688, which lost Davenant his high post; moreover, substantial loans of his to the Crown of Charles II remained unrepaid.

A Tory confronting a Whig regime, Davenant now began to turn his attention to writing economic tracts on the problems of the day. All his publications centred around special pleading for his own political interests, a quest for subsidy or for resuming his high post in the government. Davenant's first tract, *An Essay upon the Ways and Means of supplying the War* was published in 1694, after five years of war with the Dutch, and after the same number of years of Davenant's trying unsuccessfully to get back his old post as commissioner of excise. The burden of the tract was denouncing the government for financing any part of the war by public debt, and urging instead that it rely almost totally on the excise, coincidentally Davenant's own area of expertise. After again denouncing the government that stubbornly refused to see his own virtues, Davenant turned to another area of self-interest.

Davenant has been termed inconsistent and confused on the free trade issue, sometimes appearing to favour free trade and other times favouring protection. But these inconsistencies magically clear up if we realize that Davenant, in an attempt to get on the East India Company bandwagon, revived the by now grand seventeenth century tradition of arguing about the rights and wrongs of the East India trade. Davenant unsurprisingly took the standard Munian line of supporting an overall, or general, 'favourable' balance of trade, but pointed out the absurdity of trying to balance trade with each country, and defending the East India Company's deficit with the Far East. Davenant's pro-East India trade position was expressed in his 1696 tract, *Essay on the East India Trade.* The following year, Davenant urged the East India Company to send him to India; failing that, Davenant continued to curry favour with the company by publishing two *Discourses on the Publick Revenues and on the Trade of England* (1697–98), and another *Essay* *upon...the Balance of Trade* in 1699, continuing his Munian foreign trade analysis.

By 1698, indeed Charles Davenant's fortune had changed; he was now a Tory MP and the East India Company agreed to send him to India. From then on, Davenant's writings were mainly strictly political, and in 1703 he finally achieved his objective of regaining a high government post, inspector-general of exports and imports. Davenant was in and out of trouble, however, his writings changing radically from 'moderation' to 'extremism' and back with each change of the political winds, or from Tory to Whig, until he ended his career generally scorned and trusted by none, in financial difficulties and living on the largesse of his old friend James Brydges, the Duke of Chandos. All in all, his biographer Professor Waddell does not seem too severe when he concludes that:

> Davenant's career was thus not much of a success. He lacked the force of personality and obvious integrity necessary for the role...he...tried to play – that of a partisan pamphleteer who was yet a man of independent judgment and not a mere hack. He was on the losing side in nearly every controversy he joined.... He proved incapable of managing his own affairs and became a burden on his friends.... He was neither an original thinker, nor a practical man of affairs, but merely a competent publicist. The relationship between his writings and his personal circumstances suggests that his enemies had some excuse for regarding him as a purely self-seeking and mercenary time-server.[1]

It is intriguing that Davenant, as a devoted follower of political arithmetic, would try to justify his self-seeking wavering by employing political arithmetic as a kind of cost–benefit analysis, in which the statesman, possessing 'a computing head', arrives at a balance of advantages, 'by summing up the difficulties on either side, and by computing upon the whole. In that way, he shall be able to form a sound judgment and to give right advice; and this is what we mean by Political Arithmetic'.[2]

Davenant would be a forgotten and no-account minor mercantilist writer, except for the extravagant praise lavished by modern quantophrenic historians of thought upon a previously unknown and alleged 'economic law' discovered by Davenant and by his quiet political arithmetical and political ally, the accountant Gregory King (1648–1712). This 'law of demand' is now hailed as the origin of econometrics, predating Bernoulli's alleged law of the diminishing utility of money of 1738 (see below). Embarrassing adulation has been heaped upon this absurd 'law' by modern economists zealously trying to find prefigurements of econometric 'science'. There has been much confusion on the precise credit for authorship of this alleged law, how attribution should be shared between King and Davenant, and even, solemnly, whether it should be called the 'Davenant–King' or the 'King–Davenant' law, as valueless a piece of scholarly disputation as has appeared in many a moon. The law first appeared in Davenant's *Essay upon...the Balance of Trade* of 1699, citing an unpublished manuscript by King, the *Natural and Political Observations*...written in 1696.[3] The 'law' states baldly, and without evidence, that the following will happen when the supply of the harvest of corn (wheat) is reduced below the usual amount: not simply, as has been known since the scholastics, that a lower supply of a product will tend to raise the price, but that the effect will be a definite quantitative relation, as follows:

Reduction of corn harvest	Increase in corn price
1/10	3/10
2/10	8/10
3/10	16/10
4/10	28/10
5/10	45/10

Modern economists have generally, *pace* Alfred Marshall, grievously misinterpreted this quantitative statement as a 'demand schedule', or tabular basis for a demand curve, and as a pioneering attempt to 'measure' the elasticity of such a curve. But the grave fallacy here is that this quantitative relation has nothing whatever to do with the consumer demand schedule that plays such a deservedly important part in modern economics. The genuine demand schedule is hypothetical, subjective, and instantaneous: all it says is that at a given moment, at price x, consumers would purchase a certain quantity y of the product. And the point of this schedule is precisely that we don't know and *can't* know this subjective relation, that there is no way to find out, and that the only point of the demand schedule is to show that, at any given time, the demand curve is 'falling', that is, as the price falls the quantity demanded increases, and vice versa. Properly, the law is qualitative and never quantitative, and there is never any way to establish such quantities.

What the pro-Davenant 'law' economists fail to realize, then, is that even if this Davenant table were based on historical fact, all it would establish is *not* a demand schedule or curve, but only the factual 'equilibrium' points each year, that is, each year's price and quantity produced. These points have nothing to do with any genuine demand schedule or 'law of demand', which is strictly qualitative and subjective to the minds of consumers.

Second, even if these historical data were correct, they would *only* establish a relation for the particular years and particular markets in question; they would in no sense establish any sort of 'law' for the same continuing quantitative relationship between supply and price in any other year or place.

But finally, there is no evidence that this table is based on any factual evidence *at all*! Thus, despite the solemn repetition of this table from the late nineteenth century onwards, and despite its alleged pioneering of econometric science, this Davenant–King table has no value whatever either as factual data, as statistics, as econometrics, or as economic theory. It is testimony only to the quantophrenic folly of modern economics.[4]

And yet economists, striving desperately to maintain that the Davenant–King 'law' *must* have clothes, have taken one of two contradictory directions in presuming the importance of the law, and sometimes have taken both stances at once. Thus Jevons (1871), without any evidence at all, simply assumed that the Davenant–King table was 'accurate' and pronounced it a scandal that economists and statisticians hadn't yet matched these numbers in accuracy. On the other hand, William Whewell, an odd combination of expert Cambridge mathematician and arch-empiricist in the philosophy of science and economics had, two decades earlier (1850), sensed that the Davenant table was really the mere working out of a mathematical formula, and yet he still assumed that it must have been based on empirical observations. Similarly, in his recent careful study, Professor Creedy has convincingly shown that the King–Davenant numbers were the working out of the mathematical formula of 'factoral expansion of a polynomial', a method first discovered by the English mathematician James Gregory and then used by Isaac Newton for his great work in physics. But, after usefully pointing out how King could have rapidly discovered and used the new Gregory–Newton method Creedy, instead of concluding sensibly that the statistical or econometric soundness of the Davenant–King 'law' lies in ruins, blithely proceeds to save the theory by simply asserting that it 'was quite possible' that the polynomial formula 'was fitted to actual observations'. 'Quite possible', but there is no evidence whatever, and, since this 'law' was never replicated, and was even changed by King, it is far more likely that, enchanted with the new maths as Creedy himself concedes, 'hypothetical values of coefficients were used with an arbitrarily chosen polynomial in order to generate the basic "data"'; in other words, that King and/or Davenant made it all up, as part of their 'new science'.[5]

11.2 Liberty and property: the Levellers and Locke

The turmoil of the English Civil War in the 1640s and 1650s generated political and institutional upheaval, and stimulated radical thinking about politics. Since the Civil War was fought over religion and politics, much of the new thinking was grounded in, or inspired by, religious principles and visions. Thus, as we shall see further in the chapter on 'The roots of Marxism' (Chapter 9 in Volume II), millennial communist sects popped up again, for the first time since the Anabaptist frenzy of the early sixteenth century in

Germany and Holland. Particularly prominent in the frenzy of the Civil War Left were the Diggers, the Ranters, and the Fifth Monarchists.[6]

At the opposite pole of new thought generated by the Civil War was the prominence, in the midst of the forces of the mainstream republican Left, of the world's first self-consciously libertarian mass movement: the Levellers. In a series of notable debates within the Republican Army – notably between the Cromwellians and the Levellers – the Levellers, led by John Lilburne, Richard Overton and William Walwyn, worked out a remarkably consistent libertarian doctrine, upholding the rights of 'self-ownership', private property, religious freedom for the individual, and minimal government interference in society. The rights of each individual to his person and property, furthermore, were 'natural', that is, they were derived from the nature of man and the universe, and therefore were not dependent on, nor could they be abrogated by, government. And while the economy was scarcely a primary focus of the Levellers, their adherence to a free market economy was a simple derivation from their stress on liberty and the rights of private property.

For a while it seemed that the Levellers would triumph in the Civil War, but Cromwell decided to resolve the army debates by the use of force, and he established his coercive dictatorship and radical puritan theocracy by placing the Leveller leadership in jail. The victory of Cromwell and his Puritans over the Levellers proved fateful for the course of English history. For it meant that 'republicanism', in the eyes of the English, would be forever associated with the bloody rule of Cromwell's saints, the reign of religious fanaticism, and the sacking of the great English cathedrals. Hence the death of Cromwell led swiftly to the restoration of the Stuarts, and the permanent discrediting of the republican cause. It is likely, on the contrary, that a Leveller rule of freedom, religious toleration and minimal government might have proved roughly acceptable to the English people, and might have ensured a far more libertarian English polity than actually evolved after the Restoration and the Whig Settlement.[7]

Historiographical discussion of the great libertarian political theorist John Locke (1632–1704), who emerged to prominence after the Civil War, and particularly in the 1680s, has been mired in a welter of conflicting interpretations. Was Locke a radically individualistic political thinker or a conservative Protestant scholastic? An individualist or a majoritarian? A pure philosopher or a revolutionary intriguer? A radical harbinger of modernity or one who harked back to the medieval or to classical virtue?

Most of these interpretations are, oddly enough, not really contradictory. By this point, we should realize that the scholastics may have dominated medieval and post-medieval traditions, but that despite this fact, they were pioneers and elaborators of the natural law *and* natural rights traditions. The pitting of 'tradition' vs 'modernity' is largely an artificial antithesis. 'Moderns' like Locke or perhaps even Hobbes may have been individualists and 'right-thinkers', but they were also steeped in scholasticism and natural law. Locke may have been and indeed was an ardent Protestant, but he was also a Protestant scholastic, heavily influenced by the founder of Protestant scholasticism, the Dutchman Hugo Grotius, who in turn was heavily influenced by the late Spanish Catholic scholastics. As we have already seen, such great late sixteenth century Spanish Jesuit scholastics as Suarez and Mariana were contractual natural rights thinkers, with Mariana being positively 'pre-Lockean' in his insistence on the right of the people to resume the rights of sovereignty they had previously delegated to the king. While Locke developed libertarian natural rights thought more fully than his predecessors, it was still squarely embedded in the scholastic natural law tradition.[8]

Neither are John Pocock and his followers convincing in trying to posit an artificial distinction and clash between the libertarian concerns of Locke or his later followers on the one hand, and devotion to 'classical virtue' on the other. In this view eighteenth century Lockean libertarians from 'Cato' to Jefferson become magically transmuted from radical individualists and free marketeers into nostalgic reactionaries harking back to ancient or renaissance 'classical virtue'. Followers of such virtue somehow become old-fashioned communitarians rather than modern individualists. And yet, why can't libertarians and opposers of government intervention *also* oppose government 'corruption' and extravagance? Indeed, the two generally go together. As soon as we realize that, generally, and certainly until Bentham, devotees of liberty, property and free markets have generally been moralists as well as adherents of a free market economy, the Pocockian antitheses begin to fall apart. To seventeenth and eighteenth century libertarians, indeed to libertarians in most times and places, attacks on government intervention and on government moral corruption go happily hand in hand.[9]

There are still anomalies in John Locke's career and thought, but they can be cleared up by the explicit discussion and implications of the impressive work by Richard Ashcraft.[10] Essentially Ashcraft demonstrates that Locke's career can be divided into two parts. Locke's father, a country lawyer and son of minor puritan country gentry, fought in Cromwell's army and was able to use the political pull of his mentor Colonel Alexander Popham, MP, to get John into the prominent Westminster School. At Westminster, and then at Christ Church, Oxford, Locke obtained a BA and then an MA in 1658, then become a lecturer at the college in Greek and rhetoric in 1662, and became a medical student and then a physician in order to stay at Oxford without having to take holy orders.

Despite or perhaps because of Locke's puritan background and patronage, he clearly came under the influence of the Baconian scientists at Oxford, notably including Robert Boyle, and hence he tended to adopt the 'scientific', empiricist, low-key absolutist viewpoint of his friends and mentors. While at Oxford, Locke and his colleagues enthusiastically welcomed the restoration of Charles II, and indeed the king himself ordered Oxford University to keep Locke as medical student without having to take holy orders. While at Oxford, Locke adopted the empiricist methodology and sensate philosophy of the Baconians, leading to his later *Essay Concerning Human Understanding*. Moreover, in 1661, Locke, this later champion of religious toleration, wrote two tracts denouncing religious tolerance, and favouring the absolute state enforcing religious orthodoxy. In 1668, Locke was elected to the Royal Society, joining his fellow Baconian scientists.

Something happened to John Locke in the year 1666, however, when he became a physician and in the following year when he became personal secretary, advisor, writer, theoretician, and close friend of the great Lord Ashley (Anthony Ashley Cooper), who in 1672 was named the first Earl Shaftesbury. It was due to Shaftesbury that Locke, from then on, was to plunge into political and economic philosophy, and into public service as well as revolutionary intrigue. Locke adopted from Shaftesbury the entire classical liberal Whig outlook, and it was Shaftesbury who converted Locke into a firm and lifelong champion of religious toleration and into a libertarian exponent of self-ownership, property rights, and a free market economy. It was Shaftesbury who made Locke into a libertarian and who stimulated the development of Locke's libertarian system.

John Locke, in short, quickly became a Shaftesburyite, and thereby a classical liberal and libertarian. All his life and even after Shaftesbury's death in 1683, Locke only had words of adulation for his friend and mentor. Locke's epitaph for Shaftesbury declared that the latter was 'a vigorous and indefatigable champion of civil and ecclesiastical liberty'. The editor of the definitive edition of Locke's *Two Treatises of Government* justly writes that 'Without Shaftesbury, Locke would not have been Locke at all'. This truth has been hidden all too often by historians who have had an absurdly monastic horror of how political theory and philosophy often develop: in the heat of political and ideological battle. Instead, many felt they had to hide this relationship in order to construct an idealized image of Locke the pure and detached philosopher, separate from the grubby and mundane political concerns of the real world.[11]

Professor Ashcraft also shows how Locke and Shaftesbury began to build up, even consciously, a neo-Leveller movement, elaborating doctrines very similar to those of the Levellers. Locke's entire structure of thought in his *Two Treatises of Government*, written in 1681–82 as a schema for justifying the forthcoming Whig revolution against the Stuarts, was an elaboration and creative development of Leveller doctrine: the beginnings in self-ownership or self-propriety, the deduced right to property and free exchange, the justification of government as a device to protect such rights, and the right of overturning a government that violates, or becomes destructive of, those ends. One of the former Leveller leaders, Major John Wildman, was even close to the Locke–Shaftesbury set during the 1680s.

The deep affinity between Locke and scholastic thought has been obscured by the undeniable fact that to Locke, Shaftesbury and the Whigs, the real enemy of civil and religious liberty, the great advocate of monarchical absolutism, during the late seventeenth century and into the eighteenth century, was the Catholic Church. For by the mid-seventeenth century, Catholicism, or 'popery', was identified not with the natural rights and the checks on royal despotism as of yore, but with the absolutism of Louis XIV of France, the leading absolutist state in Europe, and earlier with absolutist Spain. For the Reformation, after a century, had succeeded in taking the wraps off monarchical tyranny in the Catholic as well as Protestant countries. Ever since the turn of the seventeenth century, indeed, the Catholic Church in France, Jansenist and royalist in spirit, had been more a creature of royal absolutism than a check on its excesses. In fact, by the seventeenth century, the case could be made that the most prosperous country in Europe which was also the freest – in economics, in civil liberties, in a decentralized polity and in abstinence from imperial adventures – was Protestant Holland.[12]

Thus it was easy for the English Whigs and classical liberals to identify the absolutism, the arbitrary taxes, the controls, and the incessant wars of the Stuarts with the Catholicism towards which the Stuarts were not so secretly moving, as well as with the spectre of Louis XIV, towards whom the Stuarts were moving as well. As a result, the English and American colonial tradition, even the libertarian tradition, became imbued with a fanatical anti-Catholicism; the idea of including evil Catholics in the rubric of religious toleration was rarely entertained.

One common confusion about Locke's systematic theory of property needs to be cleared up: Locke's theory of labour. Locke grounded his theory of natural property rights in each individual's right of self-ownership, of a 'propriety' in his own person. What then establishes anyone's original right of material, or landed or natural resource property, apart from his own person? In Locke's brilliant and very sensible theory, property is brought out of the commons, or out of non-property, into one's private ownership, in the same way that a man brings non-used property into use: that is, by 'mixing his self-owned labour', his personal energy, with a previously unused and unowned natural resource, thereby bringing that resource into productive use and hence into his private property. Private property of a material resource is established by first use. These two axioms: self-ownership of each person, and the first use, or 'homesteading', of natural resources, establishes the 'naturalness', the morality, and the property rights underlying the entire free market economy. For if a man justly owns material property he has settled in and worked on, he has the deduced right to exchange those property titles for the property someone else has settled in and worked on with *his* labour. For if someone owns property, he has a right to exchange it for someone else's property, or to give that property away to a willing recipient. This chain of deduction establishes the right of free exchange and free contract, and the right of bequest, and hence the entire property rights structure of the market economy.

Many historians, especially Marxists, have taken glee in claiming that John Locke is thereby the founder of the Marxian 'labour theory of value' (which Marx in turn acquired from Smith and especially Ricardo). But Locke's is a labour theory of *property*, that is, how material property justly comes into ownership by means of labour exertion or 'mixing'. This theory has absolutely nothing to do with what determines the *value* or price of goods or services on the market, and therefore has nothing to do with the later 'labour theory of value'.

11.3 Child, Locke, the rate of interest, and the coinage

One of the most prominent economic writers of the latter half of the seventeenth century in England was the eminent Sir Josiah Child (1630–99). He was a wealthy merchant who was usually affiliated with the powerful East India Company and indeed rose to be its governor, and the central concern in his economic writings was the by now traditional apologetics for the East India interests. That is: no one need worry about balance of trade from one specific country to another; a broader look at a nation's balance should be taken; and therefore the East India Company's notorious gold and silver exports to, or deficits with, the Far East are justified if we consider the company's re-exports to, and hence surpluses with, other countries. Because of this broader emphasis on the overall balance of trade, later economists often associated Child with a free trade, *laissez-faire* approach.

Unwary historians were also entrapped by many of Child's fulminations against monopolies and monopolistic privileges granted by the state to cities, guilds or trading companies. Again, they assume that Child was an advocate of *laissez-faire*; what they overlooked was that Child was always careful to defend, as a special exception, the monopoly granted to the East India Company.[13]

Child never attained the genuine *laissez-faire* view that even the overall balance of trade was unimportant; on the contrary, he insisted that gold and silver bullion could only be exported freely if the overall effect of such export would be a net import of specie, in other words, an overall favourable balance of trade.[14]

Unfortunately, Child's work was interpreted as solid *laissez-faire* doctrine in the eighteenth century, and particularly by the mid-eighteenth century devotee of *laissez-faire*, Viscount de Gournay, who translated Child into French as part of his programme of spreading *laissez-faire* doctrine in France. As a result, Child's work achieved undeserving fame in the following century.

One of Josiah Child's main deviations from free market and *laissez-faire* doctrine was to agitate for one of the favourite programmes of the mercantilists: to push the legal maximum rate of interest ever lower. Formerly discredited 'usury laws' were making a comeback on faulty economic rather than natural law or theological grounds.

From the early decades of the seventeenth century, English mercantilists were bitter at the superior prosperity and economic growth enjoyed by the Dutch. Observing that the rate of interest was lower in Holland than in England, they chose to leap to the causal analysis that the *cause* of the superior Dutch prosperity was Holland's low rate of interest, and that therefore it was the task of the English government to force the maximum rate of interest down until the interest rate was lower than in Holland. The first prominent mercantilist tract calling for lowering the interest rate was that of the country gentleman Sir Thomas Culpeper, in his brief *Tract Against the High Rate of Usury* (1621). Culpeper declared that Dutch prosperity was caused by their low rate of interest; that the English high interest rate crippled trade; and therefore that the government should force maximum interest rates down to outcompete the Dutch. Culpeper's pamphlet played a role in Parliament's lowering the maximum usury rate from 10 to 8 per cent. Culpeper's tract was reprinted several times, and Parliament duly pushed the maximum rate in later years down to 8 and then 6 per cent.

Each time, however, resistance increased, especially as government intervention forced down the maximum rate repeatedly. Finally, in 1668, the mercantilists tried for their most important conquest: a lowering of the maximum interest rate from 6 to 4 per cent, which would presumably result in rates below the Dutch. As a propaganda accompaniment to this bill, Culpeper's son, Sir Thomas Culpeper, in 1668 reprinted his father's tract, along with one of his own, whose title says it all: *A Discourse showing the many Advantages which will accrue to this Kingdom by the Abatement of Usury together with the Absolute Necessity of Reducing Interest of Money to the lowest Rate it bears in other Countreys.*

Culpeper Senior's pamphlet was published along with the influential contribution by the already eminent merchant and man of affairs, Josiah Child, in his first pamphlet, *Brief Observations concerning trade, and interest of money.* Child was a prominent member of the king's council of trade, established in 1668 to advise him on economic matters. Child treated lowering the maximum rate of interest to 4 per cent as virtually a panacea for all economic ills. A lower rate of interest would vivify trade, and raise the price of land; it would even cure drunkenness.

Josiah Child's pamphlet and his testimony before Parliament were centrepieces of the debate swirling around the proposal. Child's critics pointed out effectively that low interest in a country is the *effect* of plentiful savings and of prosperity, and not their cause. Thus, Edward Waller, during the House of Commons debate, pointed out that 'it is with money as it is with other commodities, when they are most plentiful then they are cheapest, so make money [savings] plentiful and the interest will be low'. Colonel Silius Titus pressed on to demonstrate that, since low interest is the consequence and not the cause of wealth, any maximum usury law would be counterproductive: for by outlawing currently legal loans, 'its effect would be to make usurers call in their loans. Traders would be ruined, and mortgages foreclosed; gentlemen who needed to borrow would be forced to break the law....'[15]

Child feebly replied to his critics that usurers would never not lend their money, that they were forced to take the legal maximum or lump it. On the idea that low interest was an effect not a cause, Child merely recited the previous times that English government had forced interest lower, from 10 to 8 to 6 per cent. Why not then a step further? Child, of course, did not deign to take the scenario further and ask why the state did not have the power to force the interest rate down to zero.

Child's critics raised another telling point: how is it that the Dutch were able to get their interest rates low purely by economic means; how come the Dutch did not *need* a usury statute? Child's absurd rejoinder was that the Dutch *would have* pushed their interest rate down by statute if their market rate had not fallen low by itself.

It should be noted that this low interest deviation from *laissez-faire* accorded with Josiah Child's personal economic interest. As a leading East India merchant, Child and his colleagues were great borrowers not lenders, and so were interested in cheap credit. Even more revealing was Child's reply to the charge of the author of *Interest of Money Mistaken* that Child was trying to 'engross all trade into the hands of a few rich merchants who have money enough of their own to trade with, to the excluding of all young men that want it'. Child replied to that shrewd thrust that, on the contrary, his East India Company was not in need of a low rate since it could borrow as much money as it pleased at 4 per cent. But that of course is precisely the point. Sir Josiah Child and his ilk were eager to push down the rate of interest below the free market level in order to create a shortage of credit, and thereby to ration credit to the prime borrowers – to large firms who could afford to pay 4 per cent or less and *away* from more speculative borrowers. It was precisely because Child knew full well that a forced lowering of interest rates would indeed 'engross all trade into the hands of a few rich merchants' that Child and his colleagues were so eager to put this mercantilist measure into effect.[16]

When the House of Lords' committee held hearings on the interest-lowering bill during 1668–69, it decided to hold testimony from members of the king's council of trade, of whom Josiah Child was a central figure. But another important figure was a very different member of the council of trade, and also a member of the Lords' committee, the great Lord Ashley, John Locke's new and powerful patron. As a classical liberal, Ashley opposed the bill, and at his behest, Locke wrote his first work on economic matters, the influential though as yet unpublished manuscript, 'Some of the Consequences that are like to follow upon Lessening of Interest to Four Percent' (1668). Locke made clear in this early work his profound insight, as well as thoroughgoing commitment, to a free market economy, as well as to his later structure of property rights theory.

Locke displayed straightaway his skill at polemics; the essay was basically a critique of Child's influential work. First, Locke cut through the holistic rhetoric; of course, he pointed out, the borrowing merchant will be happy to pay only 4 per cent interest; but this gain to the borrower is not a gain for the national or general good, since the lender loses by the same amount. Not only would a forced lowering of interest be at best redistributive, but, Locke added, the measure would restrict the supply of savings and credit, thereby making the economy worse off. It would be better, he concluded, if the legal rate of interest were set at the 'natural rate', that is the free market rate 'which the present scarcity [of funds] makes it naturally at...'. In short, the best interest rate is the free market, or the 'natural' interest rate, set by the workings of free man under natural law, i.e. the rate determined by the supply of and demand for money loans at any given time.

Whether or not Locke or Ashley proved decisive, the House of Lords finally killed the 4 per cent bill in 1669. Three years later, Ashley became chancellor of the Exchequer as Earl Shaftesbury, and the following year Locke became secretary to the council for trade and plantations, which replaced the old council of trade. At the end of 1674, however, Shaftesbury was fired, the council of trade and plantations was disbanded, and Locke followed his mentor into political opposition, revolutionary intrigues, and exile in Holland.

John Locke finally returned to London with the overthrow of the Stuarts and the Revolution of 1688, returning in triumph on the same ship as Queen Mary. Locke returned to England to find the old East India crowd up to their old tricks. England was in dire financial straits, Charles II having ruined public credit with his Stop of the Exchequer, and the East India people had once again introduced a bill in 1690 for the compulsory lowering of interest to 4 per cent. At the same time, Sir Josiah Child was brought back to expand his pamphlet into a *Discourse About Trade* (1690), an anonymous book reprinted three years later as *A New Discourse of Trade*, with Child's name blazoned on the title page. It was the *New Discourse* that was to make such an excessive impression on eighteenth century thinkers. In addition to the renewed arguments for lower interest, the *Discourse* and the *New Discourse* added more apologetics for the East India line on trade and on monopolies.

In response, John Locke's new political patron, now that Shaftesbury had died, Sir John Somers, MP, apparently asked Locke to expand *his* 1668 paper to refute Child's and other proponents of the 4 per cent bill. Locke responded the following year with his expanded book, *Some Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money* (1692) which brought Locke's previously unpublished arguments into public debate. Locke's work may have been influential in the 4 per cent bill once again being killed in the House of Lords.

The latter part of Locke's *Considerations* was devoted to the great recoinage controversy, into which England had been plunged since 1690. In that year, England's basic money stock of silver coins had deteriorated so far, due to erosion and coin-clipping, and the contrast of these inferior 'hammered' coins to the newer, uneroded and unclipped 'milled' coins was so great, that Gresham's law began to operate intensely. People either circulated the overvalued eroded coins and hoarded the better ones, or else passed the poor coins at their lower weight rather than at their face value. By 1690 the older hammered coins had lost approximately one-third of their worth compared to their face value.

It was increasingly clear that the Mint had to offer recoinage into the new superior coins. But at what rate? Mercantilists, who tended to be inflationist, clamoured for debasement, that is, recoinage at the lighter weight, devaluating silver coin and increasing the supply of money. In the meanwhile, the monetary problem was aggravated by a burst of bank credit inflation created by the new Bank of England, founded in 1694 to inflate the money supply and finance the government's deficit. As the coinage problem came to a head in that same year, William Lowndes (1652–1724), secretary of the treasury and the government's main monetary expert, issued a 'Report on the Amendment of Silver Coin' in 1695 calling for accepting the extant debasement, and for officially debasing the coinage by 25 per cent, lightening the currency name by a 25 per cent lower weight of silver. In his *Considerations*, Locke had denounced debasement as deceitful and illusionist: what determined the real value of a coin, he declared, was the amount of silver in the coin, and not the name granted to it by the authorities. Debasement, Locke warned in his magnificently hard-money discussion, is illusory and inflationist: if coins, for example, are devalued by one-twentieth, 'when men go to market to buy any other commodities with their new, but lighter money, they will find 20s of their new money will buy no more than 19 would before'. Debasement merely dilutes the real value, the purchasing power, of each currency unit.

Threatened by the Lowndes report, Locke's patron John Somers, who had been made Lord Keeper of the Great Seal in a new Whig ministry in 1694, asked Locke to rebut Lowndes's position before the Privy Council. Locke published his rebuttal later in the year 1695, *Further Considerations Concerning Raising the Value of Money*. This publication was so well received that it went into three editions within a year. Locke superbly put his finger on the supposed function of the Mint: to maintain the currency as purely a definition, or standard of weight of silver; any debasement, any change of standards, would be as arbitrary, fraudulent, and unjust as the government's changing the definition of a foot or a yard. Locke put it dramatically: 'one may as rationally hope to lengthen a foot by dividing it into fifteen parts instead of twelve, and calling them inches...'.

Furthermore, government, the supported guarantor of contracts, thereby leads in contract-breaking:

> The reason why it should not be changed is this: because the public authority is guarantee for the performance of all legal contracts. But men are absolved from the performance of their legal contracts, if the quantity of silver under settled and legal denominations be altered...the landlord here and creditor are each defrauded of twenty percent of what they contracted for and is their due...[17]

One of Locke's opponents both on coinage and on interest was the prominent builder, fire insurance magnate and land bank projector, Nicholas Barbon (1637–98). Barbon, son of the fanatic London Anabaptist preacher and leather merchant and MP Praisegod Barbon,[18] studied medicine and became an MD in Holland, moving to London and going into business in the early 1660s. In the same year as Child's *Discourse About Trade*, Barbon, who had just been elected to Parliament, published the similarly titled *Discourse of Trade* (1690), again timed to push for the 4 per cent interest bill in Parliament. An inveterate debtor and projector, Barbon of course would have liked to push down his interest costs.

In 1696, Barbon returned to the lists in a bitter attack on Locke's *Further Considerations* on the coinage. Arguing against Locke's market commodity, or 'metallist', view of money, Barbon, urging devaluation of silver, countered with the nominalist and statist view that money is not the market commodity but whatever government says it is. Wrote Barbon: 'Money is the instrument and measure of commerce and not silver. It is the instrument of commerce from the authority of that government where it is coined...'[19]

Fortunately, Locke's view triumphed, and the recoinage was decided and carried out in 1696 on Lockean lines: the integrity of the weight of the silver denomination of currency was preserved. In the same year, Locke became the dominant commissioner of the newly constituted board of trade. Locke was appointed by his champion Sir John Somers who had become chief minister from 1697 to 1700. When the Somers regime fell in 1700, Locke was ousted from the board of trade, to retire until his death four years later. The Lockean recoinage was assisted by Locke's old friend, the great physicist Sir Isaac Newton (1642–1727) who, while still a professor of mathematics at Cambridge from 1669 on, also became warden of the Mint in 1696, and rose to master of the Mint three years later, continuing in that post until his death in 1727. Newton agreed with Locke's hard-money views of recoinage.

Barbon and Locke set the trend for two contrasting strands in eighteenth century monetary thought: Locke, the Protestant scholastic, was essentially in the hard-money, metallist, anti-inflationist tradition of the scholastics; Barbon, on the other hand, helped set the tone for the inflationist schemers and projectors of the next century.[20]

11.4 The North brothers, deductions from axioms, and Tory *laissez-faire*

Weighing in on the side of John Locke, not only on interest rates but also in a general and comprehensive vision of economic *laissez-faire* that even surpassed Locke, were two brothers, Dudley and Roger North, who came from a distinguished Tory family. Here was a fascinating convergence of views of a radical Whig, and high Tories and zealous subjects of Charles and James II. This juncture presaged a later meeting of minds of 'extreme Left' and 'extreme Right' during the eighteenth century, when the imperialist–Whig–mercantilist one-party Establishment, from 1715 to the 1750s, was opposed on the Left by radical libertarian Commonwealthmen and on the Right by the anti-imperialist, Catholic or proto-Catholic opposition, all agreeing on denunciations of the mercantilistic, high tax, high public debt, central banking state.[21]

Dudley and Roger North were sons of the fourth Baron North. Showing little aptitude for schooling, Dudley (1641–91), went to Turkey and became a prominent trader, as well as a director of both the Levant Company, which had been granted a monopoly of English trade with the Middle East, and the African Company, which enjoyed a monopoly of trade with that continent. Dudley North returned to London from Turkey in 1681, just in time to aid King Charles and his elder brother, Francis, Lord Guilford (1637–85), in the patriotic cause of trying to indict John Locke's patron, Lord Shaftesbury, on the charge of treason. Francis, a distinguished jurist, had risen swiftly from solicitor-general to attorney-general, to Lord Chief Justice of the Common Pleas, and finally, in 1682 at the age of 45, to Lord Keeper of the Great Seal, the highest law office in England. Indictments for treason had to be handed down by grand juries appointed by sheriffs of London, and so Dudley North, in a famous and irregular election, ran for and was elected sheriff, after which he and his juries became scourges of the Whig party.

At the end of the year, Dudley North was knighted by the king for his services, and soon rose in appointive office, becoming commissioner of the customs, MP and manager for King James II of all revenue matters in Parliament.

Toward the end of his brief but distinguished term in government service, Sir Dudley was inspired to think deeply about the two main monetary and financial questions agitating Parliament: the 1690 law to push down the rate of interest, and the recoinage question. Dudley wrote two *Discourses upon Trade* in 1691, one on interest and one on coinage, along with a postscript, that was scheduled for publication as a pamphlet when Dudley North died unexpectedly on December 31. His younger brother Roger (1653–1734), who was helping Dudley edit the booklet, then revised the draft, added a preface, and published it anonymously in early 1692. Despite the booklet's brilliance, and its systematic devotion to *laissez-faire* and hard-money views, the tract sank without a trace, and was not at all influential in the development of eighteenth century economic thought or in monetary or financial policy.

Roger North was not only the youngest of the brothers, he outlived them all by decades. Himself a queen's attorney-general, he spent much of his life defending his brothers' reputations. He wrote voluminously in his lifetime on music, accounting, law, the English constitution, and on numerous philosophic and scientific subjects, but natural reticence led him to keep all these writings unpublished. A decade after Roger's death, his biographies, or *Lives*, of three of his eminent brothers were published, in two volumes, in 1742 and 1744.[22]

Even the publication of these two well-written volumes, however, made no dent in the history of economic thought until resurrected and praised by James Mill and by John Ramsay McCulloch in the early nineteenth century.[23]

Roger North, who in his preface explained the groundwork and methodology of his brother and made his conclusions more consistent, pointed out the innovation in Dudley's method of economic analysis. For Dudley pioneered, at least in the history of English thought, the method which would later be adopted by Cantillon and Say and Senior, and which Ludwig von Mises would, in the twentieth century, call 'praxeology'. Praxeology is economic theory resting on a few broad, self-evident axioms grounded in apprehension of reality, then logically deducing the implications of these emphatically true axioms. But if *A* implies *B*, *C*, etc., and *A* is definitely true, the deductions can be accepted as truths as well.

Roger wrote of Dudley's method in his preface: 'I find trade here treated at another rate than usually has been; I mean philosophically; for...he begins at the quick, *from principles indisputably true*....[24] The older method of reasoning, Roger North added, 'dealt in abstracts more than truths', in 'forming hypotheses to fit abundance of precarious and insensible principles'. In contrast, the new method, which North attributed to Descartes, builds knowledge 'upon clear and evident truths'.

In addressing trade and its problems, Dudley North began in his first discourse by setting forth the clear and simple general axiom or principle: 'Trade is nothing else but a commutation of superfluities'. In other words, as Buridan and the scholastics had emphasized but the world had forgotten: men only 'commute' or exchange goods or services because each benefits more from the good he receives than from the good he gives up in exchange (his 'superfluity'). Trade, therefore, whether intranational or international, benefits both parties; trade is not a Montaigne–mercantilist form of warfare where one party or nation exploits, or benefits at the expense of the other trader. Wealth and riches, then, are the goods that people are able to produce and accumulate, and not the money, the gold or silver, that enables them to buy those goods. Dudley North concludes that 'he who is most diligent, and raises most fruits or makes most of manufactory, will abound most in what others make or raise, and consequently be free from want and enjoy most conveniences, which is truly to be rich, although there were no such thing as gold, silver or the like...'.

There is no magic, then, to gold or silver; they are simply commodities selected by the market for their special qualities to be monies; as Dudley North says, gold and silver, in contrast to other market metals, are 'by nature very fine, and more scarce than others', and 'imperishable, as well as convenient for easy storage...'.

Proceeding from there, North rediscovers the scholastic analysis of money. If gold and silver are commodities, their value is determined, as are all other commodities on the market, by supply and demand.

Having laid the groundwork in systematic and general analysis, Dudley North proceeds to the vexed question of the rate of interest. In the market, North points out, some people, in consequence of hard work and judgement, are able to accumulate property. If the property is accumulated in the form of land, the landowners will rent out some of the land to those who wish to cultivate it. Similarly, those who accumulate property in terms of money will 'rent out' their money, charging a rate of interest. And just as the rental price of land on the market will be determined by the supply and demand of land, so the interest rate – the price of loans – will be determined by the supply and demand for credit.

Since interest is a market price, government control will have consequences as injurious as the control of any price. Interest is low because the supply of capital is high; low interest itself does not create abundance of capital. As Letwin paraphrases North: 'Nothing can lower interest rates except an increased supply of capital and as no law can by fiat increase the community's supply of capital, the proposed law is futile and injurious'.[25] Furthermore, North pointed out: usury laws will reduce the supply of savings and capital and thereby *raise* instead of lower the market rate of interest; and the quantity of trade will diminish. Moreover, intervention to reduce interest rates is unjust, because all prices should be treated alike, and be equally free.

In his discourse on coinage, North did not really deal with the recoinage question, but he anticipated Smith, Ricardo and the classical economists in his keen and principled hard-money analysis. Everyone cries about a 'shortage of money', North noted, but what they really *want* is more goods, or, in the case of merchants, what they really mean is that the prices for their goods are not satisfactory. Analysing the components of the demand for money and its supply, North traced transactions and emergency demands, as well the different aspects of money supply. Unfortunately, he faltered when discussing how much money a nation really *needed*, failing to realize that *any* supply on the market is optimal; he believed that an increase in trade required an increase in the supply of money, not understanding that an increased demand for money could simply raise the market value of money (i.e. lowering prices), thereby increasing the value of each unit of currency.

Despite this failure, however, North ended up in the right *laissez-faire* place, for he pioneered breaking down the supply of money into coin and bullion. He demonstrated that coin, being more suitable for exchange, would tend to command a market premium over bullion. However, the coin premium is regulated by the respective supplies and demands for coin and bullion. Thus, if there is an increase in the stock of coin, the premium over bullion would fall, and coin would tend to be melted down into bullion. If, on the other hand, there is a shortage of coin, the coin premium would rise, and more people would mint bullion into coin. In this way, coin and bullion would tend to be kept in equilibrium. North likened the process to two 'buckets': 'Thus the buckets work alternately; when money is scarce, bullion is coined; when bullion is scarce money is melted'.

So although Dudley North never reached the point of saying that the supply of *money*, compared to trade, is always optimal, he arrived at a similar *laissez-faire*, or market-equilibrating, conclusion by saying that no one has to worry about the supply of *coin*, which will always be kept optimal on the market.

As a result of his systematic, praxeological analysis, Dudley North arrived at firm, principled *laissez-faire* conclusions across the board. He opposed any usury laws: 'It will be found best for the nation to leave the borrower and the lender to make their own bargains'. He opposed any sumptuary laws; he denounced laws trying to keep gold and silver inside a country as doomed to failure. Government laws and decrees could only diminish, and never promote human energy, thrift and ingenuity.

But it was Dudley's brother Roger who took the final step, not only in explaining his brother's methodology, but also in expounding consistent *laissez-faire* conclusions. Attacking government intervention across the board, Roger North declared:

> There can be no trade unprofitable to the public, for if it prove so, men leave off; and wherever the trades thrive, the public, of which they are part, thrives also. No law can set prices in trade, the rates of which must and will make themselves. But when such laws do happen to lay any hold, it is so much impediment to trade... All favour to one trade or interest against another is an abuse...

Therefore, concluded Roger, 'Laws to hamper trade, whether foreign or domestic, relating to money or other merchandises, are not the ingredients to make a people rich...'

What *can* government do for a prosperous economy? 'If peace be procured, easy justice maintained, the navigation not clogged, the industrious encouraged...' in short, wrote North: 'It is peace, industry and freedom that brings trade and wealth, and nothing else'.[26]

11.5 The inflationists

It is not surprising that mercantilists, with their concentration on greater revenues and power to the state, should fasten on inflationist schemes of creating bank paper and credit, as well as government paper money. Such proposals and schemes, however, had to wait for the discovery of printing in the fifteenth century, for the development of bank paper and fractional reserves in sixteenth century Italy, and finally, for the invention of government paper money and central banking, both dubious innovations of Britain in the 1690s.

The first English inflationist was William Potter, whose most famous tract was *The Key of Wealth* (1650). It was Potter whose theories and proposed schemes set the stage for more famous inflationist followers, such as the Scotsman John Law. Potter, who worked in the government land office, began with the generally agreed axiom that a greater amount of money is beneficial to society. But with impeccable logic, Potter asked: if more money is good, why shouldn't a perpetual and greater increase of money be even better? Why indeed? Why not an increasing supply of money leading to infinity?

Potter offered a plethora of money-creating schemes, in which paper money would be secured, not by specie, which is inconveniently scarce, but by the 'nation's land'. More relevantly, of course, paper notes can actually be redeemed in physical gold or silver coin, whereas redemption of notes 'in land' would prove a chimera. How are you supposed to carry around a few acres of land with you to make exchanges? But that of course is the idea of a 'land bank': money seemingly and in the eyes of the deluded public backed by the land of the nation, but actually not backed at all.

William Potter saw other wonders emerging from a land bank. Thus, increasing the money supply would increase land values, and thereby increase the 'value of the backing' of the money: a sort of magical perpetual motion machine! Actually, of course, the increased land values simply reflect the increasing prices and values caused by the manufacture of more money.

Since Potter was anxious to inflate money and land values, he was almost frantically opposed to 'hoarding', since he realized that if the new money were 'hoarded', that is piled up in cash balances and not spent, the supposed benefits of inflation would not accrue. Indeed, one reason Potter greatly preferred paper money to specie is that paper is far less likely to be 'hoarded'; this means, of course, that paper money is far more likely to depreciate sharply in value as people try to get rid of it rather than add to their cash holdings.

William Potter, however, was cagey about prices rising as a result of his proposed monetary inflation. He believed, instead, that the increased money supply would greatly expand the 'volume of trade' and therefore the amount of production of goods, and that wealth would therefore accumulate. Potter preferred to believe that all the increased money supply would be absorbed in increased production, so that prices would not rise at all; but even if prices rose, everyone would be better off. Rising prices, of course, is the Achilles heel of inflationists' schemes, so that all of them deprecate the extent of subsequent price inflation and currency depreciation. They did not recognize, of course, that the 'volume of trade' may increase in money terms, but that this gain, like the alleged rise in land values, would simply reflect the increase in all monetary terms and values as more money supply is created and spreads throughout the system.

The argument of the alleged increase of trade and production largely rested on a flimsy analogy to the physical sciences. The Englishman William Harvey had only recently, in 1628, discovered the circulation of the blood within the human body. And Potter launched the very popular analogy between blood in the human body and money in the body economic. Just as people depend on the circulation of their blood, so the economy needs the circulation of money. But the inflationist notion of the more money the better can scarcely be supported by this feeble analogy; after all, who advocates the more blood the better in the human body, or the faster the circulation the better?[27]

In his bold moments, William Potter actually maintained that monetary inflation would cause prices to fall(!). Trade would be vivified and production would increase so greatly that supply would rise, and prices would fall.

William Potter, however, proved to be only preparation for the *locus classicus* of inflationism, the prince of proto-Keynesian money cranks, both theorist and activist, John Law of Lauriston (1671–1729). Son of James Law, a wealthy Scottish goldsmith and banker, John was born and grew up in Edinburgh, proceeding to squander his father's substantial inheritance on gambling and fast living. Convicted of killing a love rival in a duel in London in 1694, Law bribed his way out of prison and escaped to the Continent. After a decade in Europe pondering monetary problems, Law returned in 1703 to Scotland, where he was not subject to arrest. There, Law concentrated on developing and publishing his monetary theory *cum* scheme, which he presented to the Scottish Parliament in 1705, publishing the memorandum the same year in his famous or infamous tract, *Money and Trade Considered, with a Proposal for Supplying the Nation with Money* (Edinburgh, 1705). The Scottish Parliament considered but turned down his scheme; the following year, the advent of the union of Scotland with England forced Law to flee to the Continent once more, since he was still wanted by English law under the old murder charge.

Karl Marx, in a sense, should have been proud of the way John Law 'unified theory and practice' in his proposal. On the one hand, Law was the theorist, arguing for a central land bank to issue inconvertible paper money, or rather, paper money 'backed' mystically by the land of the nation. As a crucial part of his proposal, the grateful nation – in this case Scotland – was supposed to appoint Law himself, the expert and theoretician, in charge of putting this inflationist central bank scheme into effect.

John Law, as his subtitle states, proposed to 'supply the nation' with a sufficiency of money. The increased money was supposed to vivify trade, increase employment and production – the 'employment' motif providing a nice proto-Keynesian touch. Law stressed, in opposition to the scholastic hard-money tradition, that money is a mere government creation, that it has no intrinsic value as a metal. Its only function is to be a medium of exchange, and not any store of value for the future.

Even more than William Potter, John Law assured the nation that the increased money supply and bank credit would not raise prices, especially under Law's own wise *aegis*. On the contrary, Law anticipated Irving Fisher and the monetarists by assuring that his paper money inflation would lead to 'stability of value', presumably stability of the price of labour, or the purchasing power of money.

Law also anticipated Adam Smith in the latter part of the eighteenth century in his fallacious justification for fractional-reserve banking that it would provide a costless 'highway in the air' – furnishing a money supply without spending resources on the mining of gold or silver. In the same way, of course, *any* expenditure of resource can be considered a 'waste' if we supply our own assumptions that are not held by people on the free market. Thus, as Professor Walter Block has pointed out, *if there were no crime*, all expenditure on locks, fences, guards, alarm systems, etc. could be denounced as 'wasted resources' by external observers criticizing these expenditures. Similarly, if there were no such thing as governmental inflation, market expenditure on gold or silver could be considered 'wasteful' by observers.

If domestic price rises constitute the Achilles heel of monetary inflation, another worry has been the outflow of gold and silver from the country, in short, an 'unfavourable balance of trade' or of 'payment'. But John Law dismissed this problem too. On the contrary, he declared that an increase in the money supply would expand employment and output and 'therefore' increase exports, thus causing a *favourable* balance of payment, with gold and silver flowing into the country. Note that there is no analysis of *why* an increase in the money supply should increase output or employment, let alone drag exports along with it in this seemingly universal expansion.

Interestingly enough, one of Law's talking points about the need for more money was, as in the case of low interest, based on a striking misinterpretation of the reasons for the prosperity of the Dutch, whom all other nations envied in the seventeenth century. We have seen that everyone saw that the Dutch had low interest rates, leading English mercantilists to put the cart before the horse and attribute Dutch prosperity to low interest rates, instead of realizing that high savings and higher standards of living had brought about these low interest rates. Hence the mercantilists suggested that England force the maximum usury rate still lower.

Similarly, John Law saw that prosperous Holland enjoyed a plenty of metallic money; he attributed the prosperity to the abundance of money, and proposed to supply paper money instead. Again, he overlooked the point that it was Dutch property and high production and export that brought a plenitude of coin into the country. The export surplus and abundant coin was a reflection of Dutch prosperity, not its cause.[28]

Not that John Law neglected the low interest argument for Dutch prosperity. But instead of direct usury laws, Law proposed to arrive at low interest rates in what would become the standard inflationist manner: expanding bank credit and bank money and thereby pushing down the rate of interest. Indeed, Law worked out a proto-Keynesian mechanism: increasing the quantity of money would lower interest rates, thereby expanding investment and capital accumulation and assuring general prosperity.

To Law, as to Potter before him and Keynes after him, the main enemy of his scheme was the menace of 'hoarding', a practice which would defeat the purpose of greater spending; instead, lower spending would diminish trade and create unemployment. As in the case of the late nineteenth century German money crank Silvio Gesell, Law proposed a statute that would prohibit the hoarding of money.[29]

It took John Law another decade to find a ruler of a country gullible enough to fall for his scheme. Law found his 'mark' in the regent of France, a country that had been thrown into confusion and turmoil upon the death of its seemingly eternal ruler, Louis XIV, in 1715. The regent, the duke of Orleans, set Law up as head of the Banque Générale in 1716, a central bank with a grant of the monopoly of the issue of bank notes in France. Soon the banque became the Banque Royale. Originally, banque notes were receivable in French taxes and were redeemable in silver; soon, however, silver redeemability was ended. Quickly, by 1717, John Law had all monetary and financial power in the realm placed into his hands. To his old scheme he added the financing of the massive government debt. He was made the head of the new Mississippi Company, as well as director-general of French finances; the notes of the Mississippi Company were allegedly 'backed' by the vast, undeveloped land which the French government owned in the Louisiana territory in North America. Law's bank created the notorious hyperinflationary 'Mississippi bubble'; notes, bank credit, prices and monetary values skyrocketed from 1717 to 1720. One aristocratic observer in Paris noted that for the first time the world 'millionaire' had become prevalent, as suddenly many people seemed to possess millions. Finally, in 1720, the bubble collapsed, Law ended a pauper heavily in debt, and he was forced once again to flee the country. As before, he roamed Europe, making a precarious living as a gambler, and trying to find another country that would adopt his scheme. He died in 1729, in Naples, trying to persuade the Neapolitan government to make him its inflationary central banker.[30]

The cataclysm of John Law's experiment and his Mississippi bubble provided a warning lesson to all reflective writers and theorists on money throughout the eighteenth century. As we shall see below, hard-money doctrines prevailed easily throughout the century, from Law's former partner and outwitter Richard Cantillon down to the founding fathers of the American Republic. But there were some who refused to learn any lessons from the Law failure, and whose outlook was heavily influenced by John Law.[31]

Perhaps the most prominent of the post-Law inflationists in the eighteenth century was the eminent Anglo-Irish idealist philosopher, Bishop George Berkeley (1685–1753). Berkeley studied at Trinity College, Dublin, the intellectual centre of the Anglo-Irish Establishment, and his great philosophical works were all written in his 20s, while he was a fellow at Trinity. Berkeley then spent several years in the late 1720s vainly trying to establish a Christian college in Newport, Rhode Island. After that, Berkeley was appointed dean of Derry and then bishop of Cloyne.

Berkeley's major pronouncements on economic questions came in his pamphlet, *The Querist* (1735–37), published in three instalments. *The Querist* was highly influential, ten editions being published in Berkeley's lifetime. It was written solely as a series of 900 loaded questions, by which Berkeley hoped to influence public opinion through sheer rhetoric without having to engage in reasoning. Berkeley's monetary views were heavily influenced by John Law. A typical example of one of Berkeley's loaded queries is 'whether the public is not more benefited by a shilling that circulates than a pound that lies dead?' Money, for Berkeley, was a mere ticket, and the centrepiece of *The Querist* was the advocation of a Law-type central bank that would expand money and credit, lower interest rates (as Berkeley put it, 'put an end to usury'), and expand employment and prosperity.

Berkeley was shrewd enough to recognize that he had to answer objections based on John Law's egregious flop, and so he hastened to put some distance between his own schemes and the 'madness of France'. Like Law before him, Berkeley promised that *his* proposed bank notes would only be injected into the economy 'by slow degrees', and that he or his surrogates would take pains to keep the expansion of bank credit 'proportional' to the 'multiplication of trade and business'. In that way, prices would supposedly not rise. But of course Berkeley embodied the usual inflationist failure to see that 'the multiplication of trade and business' *in money terms* would precisely be the result of the monetary inflation and the consequent inflation of all prices and monetary values. (Berkeley's manipulative query on this theme is: 'Whether therefore bank bills should at any time be multiplied, but as trade and business were also multiplied?')

11.6 The hard-money response

The bulk of the eighteenth century response to the doctrines and failures of John Law, however, was understandably to return to and redouble devotion to the original continental tradition of hard money, a tradition now challenged by the new institutions of central banking and fractional-reserve banking. One of the earliest and most brilliant responses, which cannot be limited to the term 'hard money', was that of Law's former partner and sceptic in the Mississippi bubble, Richard Cantillon, who virtually founded modern economics in his remarkable *Essay* written about 1730. (On Cantillon, see Chapter 12.)

The most immediate hard-money reaction to Law in England was also one of the most remarkable. Isaac Gervaise (d. 1739) was born in Paris of a French Protestant father who owned a firm manufacturing and trading in silk. Gervaise senior moved to London, where his son Isaac was employed in the family firm. In 1720, Gervaise published a brief but extraordinary pamphlet of less than 30 pages, *The System or Theory of the Trade of the World.*[32] In the course of attacking Law's doctrine of bank credit and monetary expansion, Gervaise arrived, before Cantillon and Hume, at the process towards international monetary equilibrium, or the specie-flow-price 'mechanism'. Without artificial bank credit expansion, Gervaise pointed out, the supply of money in each country would tend to be proportionate to its production or volume of trade. Each nation's consumption and production, and its imports and exports, would tend to be in balance. If this equilibrium should be disturbed, and, for example, 'excessive' gold or silver flow into a particular country, then this excess would be spent on imports, the balance of trade would tilt and imports exceed exports, and this excess would have to be paid for by an outflow of specie. This outflow, in turn, would reduce the excess of money and return the country to a monetary and foreign trade balance.

But, Gervaise charged, schemes such as John Law's upset this balance: bank credit, serving as substitute money, artificially and unnaturally increases the money supply, expanding consumption including imports, raising domestic prices and lowering exports, so that the increased bank credit will cause an outflow of specie. The artificial credit can bring no lasting gain. There is also a strong hint in Gervaise that the credit expansion will only manage to divert investment and production from those 'natural' fields serving consumers efficiently into those areas that will prove to be wasteful and uneconomic.[33]

Gervaise's analysis of the effects of monetary expansion was also significant in being more akin to Cantillon, by stressing the expansion of money inducing people to spend more, than to Hume, who confined his analysis to the increased money supply causing rising prices – neglecting the outflow of specie caused by greater monetary spending, on imports as well as on domestic products.[34]

From his analysis of natural law, trade, self-equilibration on the market and their disruptions by government, Isaac Gervaise proceeded to a strong recommendation of all-out free trade, free of any distortions or restrictions by government. Gervaise's uncompromising free trade conclusion was all the more remarkable because his own firm enjoyed monopoly privileges conferred on it by the English Parliament. But Gervaise courageously concluded that 'trade is never in a better condition, than when it's natural and free; and forcing it either by laws, or taxes being always dangerous; because though the intended benefit or advantage be perceived, it is difficult to perceive its contrecoup; which ever is at least in full proportion to the benefit'. Here Gervaise anticipated the keen insights of the nineteenth century French *laissez-faire* economist Frédéric Bastiat, who stressed that government intervention stemmed from the fact that the benefits of subsidies or privileges are often direct and immediate, whereas the greater unfortunate consequences are more remote and indirect. The former are 'seen' whereas the latter are 'unseen', and therefore the seeming benefits get all the attention. Gervaise concluded with a plea for freedom and natural law that would anticipate Turgot and other French *laissez-faire* thinkers of his century: 'Man naturally seeks, and finds, the most easy and natural means of attaining his ends, and cannot be diverted from those means, but by force, and against his will'.[35]

Isaac Gervaise wrote no more on economic questions, but he did become a distinguished Anglican clergyman, which makes it all the more puzzling that his exceptional and innovating pamphlet exerted no influence whatever on English opinion. It was lost to the world until resurrected by historians in the twentieth century.

Another hard-money advocate who developed a theory of international monetary equilibrium was a timber merchant of Dutch extraction, Jacob Vanderlint (d. 1740), in his tract, *Money Answers All Things* (1734). Despite the title, Vanderlint's theme was that money is distributed properly and optimally on the free market. There is a tendency on the market for all nations' prices to be equal, and if one country should acquire more money, its higher price level would soon draw the money out of the country until prices are back in equilibrium. It doesn't matter, then, how much specie a nation may have, since prices would adjust. Thus, if a nation had little specie, its prices would be low and it would outcompete other nations, with gold and silver consequently flowing into the country. Indeed, so concerned was Vanderlint to keep prices low and competitive with other nations that he unknowingly replicated Cantillon's advice for rulers or other worthies to hoard their gold and silver so as to keep national prices low.[36]

Vanderlint consistently carried over his hard-money analysis to the problem of expanding bank credit. Bank credit, Vanderlint pointed out, expands the money supply, and so, 'as the Price of things will hence be rais'd, it must and will make us the Market, to receive the Commodities of every Country whose Prices of Things are cheaper than ours ...[and hence] turn the Balance of Trade against us...'.[37]

Vanderlint, like Gervaise, was thus a severe critic of inflation and fractional-reserve banking, as well as an analyst of the international harmonies of money, prices and the balance of trade on the free market. Like Gervaise, Vanderlint was also an advocate of unrestricted free trade, concluding 'In general, there should never be any restraints of any kind on trade, nor any greater taxes than are unavoidable'. Attempts to fix the price of gold and silver or to prohibit the export of coin are also futile: 'it's no less absurd for the government to fix the price they will give for gold and silver brought to be coined, than it would be to make a law to fix and ascertain the prices of every other commodity'. Vanderlint also deplored the rise, during the eighteenth century, of the war-making state, and of the high taxes and public debts which war brings in its wake. Indeed, for Vanderlint, free trade and free markets, and international peace, go hand in hand, while war is the enemy of freedom. War, warned Vanderlint, is 'one of the greatest calamities to which mankind can be subjected; the end of which none can well foresee, and the burdens of which (i.e. public debts and taxes) are seldom discharged in one generation...'. Eloquently, Vanderlint concluded that 'it's monstrous to imagine, the author of this world hath constituted things so as to make it any ways necessary for mankind to murder and destroy each other'.[38]

The culminating hard-money theorist in eighteenth century England was Joseph Harris (1702–64), who published a massive two-volume *Essays Upon Money and Coins* (1757–58). Harris began life as a country blacksmith, but then went to London, where he became a prominent writer on navigation, mathematics and astronomy. He was an employee at the Mint, and was made assay master of the Mint in 1748.

Harris was a hard-money critic of debasement or fractional-reserve banking and bank credit expansion. He was an explicit follower of Cantillon's analysis of money flows. Thus he saw, with Cantillon, that international monetary matters tended towards an equilibrium, but he also saw, with Cantillon, that inflows or increases of the money supply did not simply raise prices; they also necessarily affected the distribution of money, benefiting some people at the expense of others. Hence the flows of money, though self-adjusting, would cause economic harm, especially during the adjustment process. As Hutchison sums up Harris's view: 'Inflows of money enrich some at the expense of others, and such processes may for a time cause distress'. Sudden fluctuations of money, therefore, whether flowing in or out, 'would be pernicious while it lasted and for some time afterwards'.[39]

As a result of his analysis, Harris was determinedly opposed to any alteration whatever of the monometallic monetary standard of a country (Harris favoured silver over gold as being more stable). As Harris emphatically warned: 'The established standard of money should not be violated or altered, under any pretence whatsoever'.[40]

11.7 *Laissez-faire* by mid-century: Tucker and Townshend

If a hard-money stance had been pretty well established in English thought by the middle of the eighteenth century, so too had a corresponding if not fully consistent commitment to free markets and freedom of international trade. The Vanderlint-Cantillon–Harris analysis of international trade and money flows lent powerful arguments in the direction of freedom of trade. And, as we shall see in later chapters, the Scottish views of Carmichael, Hutchison and Hume were leading in the same direction in the northern part of Great Britain.

Josiah Tucker (1713–99), Anglican clergyman and dean of Gloucester from 1758 on,[41] was a celebrated eighteenth century writer on religion, politics and economics who was extravagantly hailed in his day as a free trader by such men as the great *laissez-faire* statesman and economist A.R.J. Turgot, who translated two of Tucker's works into French.[42] But Tucker's devotion to freedom of trade was only moderate, and marred by inconsistencies and contradictions. Thus Tucker favoured absolute prohibition on the export of raw materials, tariffs on manufactures, protective tariffs for infant industries, government compulsion – under severe penalties – of landlords to set aside 20 out of every 400 acres for timber, and heavy taxes on consumption of sports, recreation and luxuries. In general, even though he anticipated Adam Smith in praising the consequences of self-interest and 'self-love', he also believed in the importance of government directing and guiding the activities based on self-interest. He was also a characteristic mercantilist in urging the government to encourage ever greater population. It is true, however, that Tucker attacked the restrictionism of the navigation acts and the usury laws, both areas in which he was closer to a free trade position than that of the chronically over-praised Adam Smith.

On one free market point, moreover, Tucker was consistent and determined: opposition to war and conquest. In a letter to Lord Kames, during the Seven Years' War with France, Tucker wrote: 'War, conquests and colonies are our present system and mine is just the opposite'. Interestingly enough, however, Tucker was not at all moved by sympathy for the American cause. On the contrary, he believed that Britain had the full right to tax the colonies. But Tucker's opposition to war triumphed, including a war to keep the colonies; to Tucker America 'ever was a millstone hanging about the neck of this country, to weigh it down; and as we ourselves had not the wisdom to cut the rope and to let the burden off, the Americans have kindly done it for us'.[43]

Actually, Josiah Tucker's main historical contribution was to highlight the views of a far sounder *laissez-faire* economist who has been shamefully neglected by virtually all historians of economic thought. Charles, the third Viscount Townshend (1700–64), has been virtually unknown, and often confused with his son of the same name who was infamously responsible for the fateful Townshend taxes on tea and other imports into the American colonies.

Our Lord Townshend was a scion of one of the great agricultural estates in England, son of the well-known diplomat and scientific farmer 'Turnip' Townshend, and husband of the glamorous socialite Audrey. Lord Townshend's first published pamphlet cut against his own personal economic interest by denouncing the policy of large subsidies on the export of corn. The pamphlet, *National Thoughts* (1751), was signed 'By a Landowner" to emphasize this point of arguing against his own subsidy.[44]

Dean Tucker struck up a correspondence with Townshend, in defence of the export bounty on corn. But soon Tucker was converted on the issue. Thus Townshend pointed out the folly of the British government subsidizing foreigners by allowing them to buy cheaper corn than the British themselves had to pay. Tucker was especially admiring of Townshend's uniqueness in arguing particular cases from general principles instead of the other way round, and specifically the general interest in favouring free competition as against grants of monopoly by government. Thus, Tucker writes to Townshend that

> I am mightily pleased with your Lordship's...manner of accounting for People's frequent and gross Mistakes in the Affairs of Commerce...by arguing from Particulars to Generals; whereas in this case a Man should form to himself a General Plan drawn from the Properties of Commerce, and then descend to Particulars and Individuals, and observe whether they are cooperating with the general Interest: Unless he doth this, he studies Trade only as a Monopolist, and doth more Hurt than Good to the Community.[45]

Tucker declared himself convinced that 'bounties cannot be of any national service to a manufacture which is passed its infancy'.

A bit later in this correspondence, Lord Townshend demonstrated his adherence to free market principles by criticizing the inconsistencies of Sir Matthew Decker, a director of the East India Company. Decker (1679–1749), a Dutch immigrant, had also attacked the corn bounty, but Townshend was sharply critical because 'Notwithstanding this sound Doctrine he [Decker] proposes to form [monopoly] Companies and to erect [governmental] Magazines of Corn in every County.... A most surprising absurdity and inconsistency'.[46] Of course, the inconsistency is not so surprising if we realize that Decker was a director of the greatest monopoly company of them all. Townshend then goes on to point out that if, as he advocates, 'Trade and Industry and all our Ports were thrown open and all Duties, Prohibitions, Bounties, and Monopolies of every kind whatever were taken off and destroyed', then 'private Traders here would erect Warehouses for Corn as they have done for other manufactures and we should then have them on a regular and natural footing and this Island would then be, as Holland has been, the great market of Europe for Corn. But as long as the Bounty remains this cannot be...'.

In *National Thoughts* Lord Townshend was worried about the poor, and paternalistically advocated removing the enforceability in court of small amounts of debt in order to help their condition. In later letters, however, Townshend introduced a bill in Parliament which would, instead, increase the mobility of the labouring poor by removing 'certain Disabilities and Restraints' upon them. Professor Rashid speculates that the change in stance came about because, 'having accepted the validity of laissez-faire, Townshend came to believe that the poor could not be helped more than by making them free to help themselves'.[47]

So eager was Lord Townshend to spread the principles of free markets and free trade that in 1756 he sponsored prizes at Cambridge for essays on economic topics. Essay contests after the first year were discontinued because Townshend and the university could not agree on essay questions. Thus Cambridge turned down Townshend's suggested topic: 'What influence has Trade on the Morals of a Nation?' Lord Townshend was indignant at Cambridge University's implicit denial of any connection between trade and morality, and he replied indignantly and with keen perception: 'There is not any moral Duty which is not of a Commercial nature. Freedom of Trade is nothing more than a freedom to be moral Agents'. This latter sentence expresses the crucial libertarian insight of the unity between free moral agency and freedom to act, produce, and exchange property.

Other questions suggested by Lord Townshend also put the libertarian rhetorical case very well:

- 'Has a free trade or a free Government the greater effect in promoting the wealth and strength of a Nation?'
- 'Can any restraints be laid on trade or industry without lessening the advantages of them? And if there can, what are they?'
- 'Is there any method of raising taxes without prejudice to Trade? And if there is what is it?'[48]

Despite his neglect by historians, Lord Townshend's views seem to have had substantial influence in his day. The prominent *Monthly Review* guessed the identity of 'the Landowner' author of *National Thoughts* immediately upon publication, and the pamphlet was quoted in another tract on the corn bounty the following year. Lord Townshend had a prominent connection with the important periodical, *The Gazetteer*. And in 1768, four years after Lord Townshend's death, an anonymous pamphlet on *Considerations on the Utility and Equity of the East India Trade* argued, once again, for breaking the East India Company monopoly, and lamented the death of Lord Townshend, so sound and knowledgeable on commercial questions.

Clearly, Lord Townshend was far more influential in mid-eighteenth century England than later historians would know. Moreover, he was both an example and an embodiment of a rising tide of *laissez-faire* sentiment in the Britain of that era.

11.8 Notes

1. D.A.G. Waddell, 'Charles Davenant (1656–1714) – A Biographical Sketch', *Economic History Review*, ser. 2, 11 (1958), p. 288.
2. W. Letwin, *The Origins of Scientific Economics* (Garden City, NY: Doubleday, 1965), p. 122. Also see T.W. Hutchison, *Before Adam Smith: The Emergence of Political Economy, 1662–1776* (Oxford: Basil Blackwell, 1988), p. 51. Professor Hutchison, however, takes Davenant's scientific posturing all too seriously.
3. King's manuscript remained unpublished for over a century, when it was published in 1802, by George Chalmers. King was an antiquarian clerk and accountant who wrote several unpublished tracts on statistics and political arithmetic. *The Natural and Political Observations* was published, along with another previously unpublished tract by King, in George E. Barnett (ed.), *Two Tracts by Gregory King* (Baltimore: Johns Hopkins University Press, 1936).
4. The shakiness of both the factual data and the 'law' can be seen by the fact that, in a slightly later tract, King presented a totally different quantitative 'law', amounting to:

Reduction in supply	Price increase
2/10	30/10
3/4	40/10

Hutchison, op. cit., note 2, p. 387.

5. John Creedy, 'On the King–Davenant Law of Demand', *Scottish Journal of Political Economy*, 33 (August 1986), pp. 208–10, and ibid., pp. 193–212. Also see the presentation in John Creedy, *Demand and Exchange in Economic Analysis* (Aldershot, Hants: Edward Elgar, 1992), pp. 7–23, a similar account with slightly different wording.
6. There was a direct filtration of ideas from Thomas Müntzer and the communist Anabaptists into England. One of Müntzer's collaborators, Henry Niclaes, survived the smashing of Anabaptism to found familism, a pantheistic creed claiming that man *is* God, and calling for the establishment of the Kingdom of (man) God on earth, as the only place such a kingdom could ever exist. Familist ideas were carried to England by a disciple of Niclaes, Christopher Vittels, a Dutch joiner, and familism spread in England during the late sixteenth century. A centre of familism in early seventeenth century England was in Grindleton, in Yorkshire. There, in the decade after 1615, 'the Grindletonians' were led by Grindleton's Anglican curate, the Rev. Roger Brearly. Part of the attraction of familism was its antinomianism, the view that truly godly persons, such as themselves, could never commit a sin, by definition, and therefore antinomians usually flaunted behaviour generally considered sinful in order to demonstrate to one and all their godly and 'sin-free' status.
7. The Levellers have acquired a left-wing colouration because of their label, and because they have been admired by Marxist historians, enthusiastic about their radicalism, and as the most consistent figures in the 'bourgeois revolution' of the seventeenth and later centuries. The Levellers, however, were in no sense egalitarians, except in the *laissez-faire* libertarian sense that they were opposed to special privileges granted by the state. On the Levellers, see especially Don M. Wolfe (ed), *Leveller Manifestoes of the Puritan Revolution* (1944, New York: Humanities Press, 1967), including the editor's lengthy introduction; and the latest collection of Leveller tracts in A.L. Morton (ed), *Freedom in Arms: A Selection of Leveller Writings* (London: Lawrence & Wishart, 1975). Also see the classic H.N. Brailsford, *The Levellers and the English Revolution* (Stanford, Calif.: Stanford University Press, 1961).

   One of the best brief summaries of Leveller doctrine is in C.B. Macpherson, *The Political Theory of Possessive Individualism: Hobbes to Locke* (Oxford: Clarendon Press, 1962), pp. 137–59.
8. Much mischief has been wrought by the interpretation of Leo Strauss and his followers that Locke was a natural rights-er who (following Hobbes) broke with the wise ancient tradition of natural law. Actually, Locke the natural rights-er developed the scholastic natural law tradition, and was the opposite of Hobbes's right-wing Grotian apologia for state absolutism. On Hobbes, Locke, and the Tew circle, see Richard Tuck, *Natural Rights: Their Origin and Development* (Cambridge: Cambridge University Press, 1979). Leo Strauss's interpretation is in his *Natural Right and History* (Chicago: University of Chicago Press, 1953). For a critique of Strauss, and insistence that Locke was not a Hobbesian but in the natural law tradition, see Raghuveer Singh, 'John Locke and the Theory of Natural Law', *Political Studies*, 9 (June 1961), pp. 105–18.
9. The *locus classicus* of the Pocockian thesis is J.G.A. Pocock, *The Machiavellian Movement* (Princeton, NJ: Princeton University Press, 1975). In addition to the contrasting works of Isaac Kramnick and Joyce Appleby, see in particular the scintillating refutation of Pocock's central example: the alleged 'classical virtue' emphasis of the radically Lockean *Cato's Letters*, which provided the greatest single libertarian influence on the American revolutionaries. Ronald Hamowy, '*Cato's Letters*: John Locke and the Republican Paradigm', *History of Political Thought*, 11 (1990), pp. 273–94.
10. Richard Ashcraft, *Revolutionary Politics and Locke's Two Treatises on Government* (Princeton, NJ: Princeton University Press, 1986).
11. Ibid., pp. 75–82, 370–71.

12. A more detailed analysis of seventeenth century Dutch politics would show, however, that the free market, decentralized, pro-peace party was the republicans or Arminians, followers of the Protestant theologian Jacobus Arminius, who was theologically closer to Catholics in believing in free will for salvation. On the other hand, the 'Calvinist' party in Holland favoured the Orange monarchy, statism, controlled markets, and a warlike foreign policy.
13. As Letwin states, '[Child] urged that foreign trade – except that with the East Indies – be opened to anyone who chose to engage in it; and the argument is studded with catchwords suggestive of *laissez-faire*.... No doubt Child opposed certain mercantilist restrictions, as many other mercantilists did, but he did not oppose them in principle. He objected to those restrictions which embarrassed the branches of industry that concerned him and consistently advocated restrictions which fostered those branches. His position was exactly analogous with that of a textile manufacturer, for instance, who opposes import restrictions or protective duties on the fibers he buys while insisting that heavy duties be placed on foreign finished goods that compete with those he sells...' Letwin, op. cit., note 2, pp. 46–7.
14. Schumpeter's favourable assessment of Child rests on his assumption that Child was the author of the tract by 'Philopatris' that took the *laissez-faire* view that money was simply another commodity and that therefore it didn't matter whether it was imported or exported. But for a convincing demonstration that Child was not 'Philopatris', see Letwin, op. cit., note 2, pp. 50, 253–5.
15. Letwin, op. cit., note 2, p. 8. Also see the critical pamphlets of Thomas Manley, *Usury at Six Per Cent Examined* (1669), and the anonymous tract with the fully revealing title: *Interest of Money Mistaken, Or, A Treatise proving that the abatement of interest is the effect and not the cause of the riches of a nation....* (1668).
16. See Henry W. Spiegel, *The Growth of Economic Thought* (3rd ed., Durham, NC: Duke University Press, 1991), pp. 154–5.
17. In Hutchison, op. cit., note 2, p. 67. See in particular, the discussions in Letwin, op. cit., note 2, pp. 69–81, 182–4, 260–70.
18. Actually, Praisegod's real Christian name was highly unwieldy, even if more pious. He was named 'Unless-Jesus-Christ-Had-Died-For-Thee-Thou-Hadst-Been-Damned' Barbon.
19. In Barbon's *A Discourse Concerning Coining the New Money Lighter, In Answer to Mr. Lock's Considerations*...(1696). See Letwin, op. cit., note 2, pp. 78–9.
20. Despite the hostility to Locke's point of view among modern inflationist and Keynesian historians, it is clear from Letwin's account, op. cit., note 2, pp. 69–77, 260–70, that the calamitous price contraction that inflationists would have expected from the monetary contraction of the Lockean recoinage did not take place.

    On Locke's clearly scholastic-influenced view of the just price as the market price, as expressed in his book *Venditio* (1695), see Karen I. Vaughn, *John Locke: Economist and Social Scientist* (Chicago: University of Chicago Press, 1980), pp. 123–31.
21. A complicating point is that the Whig Establishment was run at the top by Robert Walpole and the Pelham family, who were really *laissez-faire*, pro-peace liberals trying to run a Whig Party of totally contrasting principles. Walpole managed this feat in the 1720s through the 1740s, and the Pelhams continued for some years after, largely by brilliant political manipulation and by tactical management of what both Left and Right denounced as 'corruption'. The main device by which Walpole managed to placate the Whig magnates temporarily was to pass the mercantilist measures in Parliament (e.g. restricting American colonial trade and production) and then simply failing to enforce them. See Murray N. Rothbard, *Conceived in Liberty, Vol. II: 'Salutary Neglect'* (New Rochelle, NY: Arlington House, 1975), Part III.
22. The 1742 *Life* was of Francis, Baron Guilford, and the 1744 *Lives* were biographies of Dudley, and of Dudley's younger brother, John (1645–83), who in his brief life became professor of Greek and master of Trinity College, Cambridge. The first and eldest brother, Charles North (1630–90), lived a retired life and little is known of him.
23. For an excellent discussion of the contributions of Dudley and Roger North, see Letwin, op. cit., note 2, pp. 196–220, 271–94.

24. Letwin, op. cit., note 2, p. 204. Italics added by Letwin.
25. Letwin, op. cit., note 2, p. 209.
26. Letwin, op. cit., note 2, pp. 215–16.
27. The following year, in his famed *Leviathan* (1651), the authoritarian political philosopher Thomas Hobbes also used the money–blood analogy; after writing on how money 'goes round about, nourishing (as it passeth) every part thereof [of the commonwealth],' Hobbes adds that 'natural blood is in like manner made of the fruits of the earth; and circulating nourisheth by the way, every member of the body of man'. See Jacob Viner, *Studies in the Theory of International Trade* (New York: Harper & Bros, 1937), p. 37n.
28. Charles Rist justly criticized Law that: 'To infer from the abundance of metallic money in a prosperous country that it is enough to "create" paper money...in a poor country in order to develop industry or natural resources in which it is lacking, is an idea that affronts common sense...Scotland, a country of shepherds and fisherman, mountainous and poor in raw materials...could have increased its currency, but it would have given the country neither industry, nor trade, nor agriculture, nor a prosperous shipping industry. That could be attained only by the labour and frugality of its inhabitants'. Charles Rist, *History of Monetary and Credit Theory from John Law to the Present Day* (1940, New York: A.M. Kelley, 1966), pp. 47–8.
29. See Joseph T. Salerno, 'Two Traditions in Modern Monetary Theory: John Law and A.R.J. Turgot', *Journal des Économistes et des Études Humaines*, 2, note 2–3 (June–Sept 1991), pp. 340–41.
30. For the relations between Law and Cantillon in this dramatic period, see Chapter 12 on Cantillon. On the interrelationships of Law, Cantillon, and the contemporaneous Mississippi and South Sea bubbles, see Antoin E. Murphy, *Richard Cantillon: Entrepreneur and Economist* (Oxford: The Clarendon Press, 1986); on the evolution of Law's doctrines, see Antoin E. Murphy, 'The Evolution of John Law's Theories and Policies, 1707–1715', *European Economic Review*, 34 (July 1991), pp. 1109–25. For an analysis of Law's doctrines and his unheralded influence upon modern economics, see Salerno, op. cit., note 29, pp. 337–79. For Law's influence on Adam Smith, see also Roy Green, *Classical Theories of Money, Output and Inflation* (New York: St Martin's Press, 1992), pp. 110–27.
31. For example, Sir Humphrey Mackworth 'plagiarized' Law and his inflationist arguments in his tract, *A Proposal for Payment of the Publick Debts* (2nd ed., 1720). See Viner, op. cit., note 27, pp. 44–5.
32. The full title of the Gervaise pamphlet reveals its grounding in the denunciation of Law-like monetary and credit expansion: *The System or Theory of the Trade of the World, Treating of the Different Kinds of Value, of the Balances of Trade, of Exchange, of Manufactures, of Companies, and Shewing the Pernicious Consequences of Credit, and That it Destroys the Purpose of National Trade.*
33. Gervaise wrote: 'All the profit a nation gains by unnaturally swelling its denominator [its supply of money], consists only in the inhabitants living for a time in proportion to that swelling so as to make a greater figure than the rest of the world, but always at the cost of their coin, or of their store of real and exportable labour... [N]o thing in the world is of any solid or durable worth, but what is the produce of labour; and whatever else bears a denomination of value, is only a shadow without substance, which must either be wrought for, or vanish to its primitive nothing...' See Hutchison, op. cit., note 2, pp. 127–8.
34. Sekine is right in calling this Gervaise–Cantillon analysis 'the cash-balance effect' rather than a Keynesian 'income effect'. Thomas T. Sekine, 'The Discovery of International Monetary Equilibrium by Vanderlint, Cantillon, Gervaise, and Hume', *Economia Internazionale*, 26 no. 2 (May 1973), pp. 270–74.
35. Hutchison, op. cit., note 2, p. 128.
36. By hoarding specie, Vanderlint counselled, 'by thus keeping so much of those Metals out of Trade...it will...prevent our Markets from rising so high, as to hinder the Exportation of our Commodities, or give too great Encouragement to the Importation of Foreign Goods'. See Chi-Yuen Wu, *An Outline of International Price Theories* (London: George Routledge & Sons, 1939), p. 64.
37. Ibid., pp. 64–5.

38. Hutchison, op. cit., note 2, p. 132–3.
39. The latter quote is from Harris. See Hutchison, op. cit., note 2, p. 244.
40. For David Hume's similar, 100 per cent reserve banking analysis at about the same time in Scotland, see Chapter 15 on the Scottish Enlightenment.
41. Tucker was the son of a Welsh farmer and salt officer who went to Oxford and, after graduation, became an Anglican clergyman. His admirers like to repeat the story, apparently true, that Tucker walked back and forth from Wales to Oxford at the beginning and end of each term, leaving his father to use the sole family horse. No doubt admirable for Josiah, although the story does not improve his economic performance.
42. Tucker's first work on economics was his *Essay on Trade* (1749), which was something of a best-seller, going into four editions by 1764. He then planned to write a comprehensive treatise on economics, but only two fragmentary parts were written, both printed privately for friends and not published: *The Elements of Commerce and Theory of Taxes* (1755) and *Instruction for Travellers* (1757).

    In our time, Hutchison suffers from excessive admiration of Tucker. His intemperate remark that Jacob Viner's calling Tucker a 'mercantilist' is a 'kind of *reductio ad absurdum* of that problematic term' is uncalled-for; Viner's treatment of Tucker is judicious and well-balanced. Hutchison, op. cit., note 2, p. 238; Viner, op. cit., note 27, p. 64, 71–2, 87, 98–100.
43. Tucker's view found an echo in other exasperated British Tories. Thus the great John Wesley, founder of Methodism, stated, 'I say, as Dean Tucker, "Let them drop" ...Four-and-thirty millions they have cost us to support them since Queen Anne died. [1715] Let them cost us no more.' The celebrated Dr Johnson, in his *Taxation No Tyranny* (1775) observed that 'The Dean of Gloucester has proposed, and seems to propose it seriously, that we should at once release our claims, declare them masters of themselves, and whistle them down the wind...It is however a little hard, that having so lately fought and conquered for their safety, we should govern them no longer'. Johnson countered with a 'wild proposal' of his own: 'Let us restore to the French what we have taken from them. We shall [then] see our colonists at our feet...' Tucker, however, would undoubtedly have seriously agreed to Johnson's attempted *reductio ad absurdum*. See George Shelton, *Dean Tucker and Eighteenth-Century Economic and Political Thought* (New York: St Martin's Press, 1981), pp. 214–5.
44. The full title was: *National Thoughts, Recommended to the Serious Attention of the Public. With an Appendix, Shewing the Damages Arising from a Bounty on Corn.* In Salim Rashid, 'Lord Townshend and the Influence of Moral Philosophy on *Laissez Faire*', *The Journal of Libertarian Studies*, 8, no. 1 (Winter 1986), pp. 69–74. Rashid is virtually the only historian to resurrect Townshend and demonstrate his importance. But see Shelton, op. cit., note 43, pp. 79, 88.

    Rashid points out that several leading scholarly libraries have erroneously attributed authorship of this pamphlet to Townshend's son. Rashid, op. cit., p. 73.
45. Tucker to Townshend, 22 April 1752. Rashid, op. cit., note 44, p. 73.
46. It is amusing to contrast Townshend's critical attitude toward Decker with the laudatory appraisal of T.W. Hutchison, who virtually finds Decker a free trade hero, calling for 'the abolition of all duties', and opposing the Navigation Act as well as retaliatory tariffs. Rashid, op. cit., note 44, p. 71; Hutchison, op. cit., note 2, pp. 393–4.
47. The Townshend bill was introduced in 1753, but no action was taken on it. Rashid, op. cit., note 44, pp. 71, 73.
48. Rashid, op. cit., note 44, p. 72. The libertarian answers, presumably to be elicited by Lord Townshend's questions, are, respectively: free trade, no, and no.

12 The founding father of modern economics: Richard Cantillon

Most people, economists and laymen alike, think that economics sprang full-blown, so to speak, from the head of Adam Smith in the late eighteenth century. What has become known as the first, or 'classical' period of modern economic thought then developed, out of Smith, through David Ricardo, including an aggregative approach, and a cost-of-production, or even a labour, theory of value. We now know, however, that this account is flatly incorrect. For modern economic thought, i.e., analysis centring on explaining the market economy, developed a half-century before Smith's *Wealth of Nations*, not in Britain but in France. More significantly, the French writers, despite their diversity, must be set down not as pre-Ricardian but as proto-'Austrian', that is, as forerunners of the individualistic, micro, deductive, and subjective value approach that originated in Vienna in the 1870s.

12.1 Cantillon the man

The honour of being called the 'father of modern economics' belongs, then, not to its usual recipient, Adam Smith, but to a gallicized Irish merchant, banker, and adventurer who wrote the first treatise on economics more than four decades before the publication of the *Wealth of Nations*. Richard Cantillon (c. early 1680s–1734) is one of the most fascinating characters in the history of social or economic thought. Little is known about Cantillon's life despite the fact that he died a multimillionaire, but the best modern researches show that he was born in Ireland in County Kerry of a family of Irish landed gentry, who had been dispossessed by the depredations of the English puritan invader Oliver Cromwell. Cantillon's first cousin once removed, also named Richard, emigrated to Paris to become a successful banker, thereby perpetuating the tradition, born in the sixteenth century, of religio-political exiles from Britain emigrating to France.[1] The Cantillons were part of the Catholic emigration, centring, by the end of the seventeenth century, around the Stuart pretender to the throne of Great Britain.

Richard Cantillon joined the emigration to Paris in 1714, quickly becoming the chief assistant to his cousin at the latter's bank. Moreover, Richard's mother's uncle, Sir Daniel Arthur, was a prominent banker in London and Paris, and Arthur had named Richard's cousin as the Paris correspondent of his London-based bank.[2] In two years, Cantillon was in a position to buy his cousin's ownership of the bank.

Richard Cantillon was now in the important position of banker for the Stuart court in exile, as well as for the bulk of the British and Irish emigrés in Paris. But his most important *coup* came from his association with the Scottish adventurer and arch-inflationist John Law (1571–1729), who had captured the imagination and the greed of the regent of France. The death of the aged Louis XIV in 1715 had inaugurated a looser and more optimistic regime, control of which had been seized by the regent, the duke of Orleans.

John Law persuaded the regent that France could find permanent prosperity and need have no further worries about the public debt. The French government need only finance heavy deficits by a massive infusion of the relatively new device of government paper money. Becoming the leading financier of the French government, and even controller-general of the finances of France, Law set loose a rampant inflation that generated the wildly speculative Mississippi bubble (1717–20). The bubble created instant millionaires before it collapsed, leaving John Law in poverty and disgrace. Indeed, the very word 'millionaire' was coined during the heady years of the Mississippi bubble.[3]

But when the dust had settled, the shrewd Richard Cantillon emerged, after being a top partner in John Law's Mississippi speculations, as a multimillionaire. Legend has it that, at the beginning of his meteoric career running French finances, John Law had come to Cantillon and warned him that 'If we were in England we would have to strike a deal and settle matters, but as we are in France, I can send you this evening to the Bastille, if you do not give me your word to leave the kingdom within twenty-four hours'. To which Cantillon is supposed to have replied: 'Hold on, I will not go and I will make your system succeed'. In any case, we know that Law, Cantillon, and the English speculator, Joseph Edward ('Beau') Gage, formed a private company in November 1718. Gage was so wealthy from paper speculation in Law's government-sponsored paper-issue bank, the Mississippi Company, that he seriously attempted, in this period, to purchase the kingdom of Poland from its king, Augustus.

As the Mississippi bubble careened onward, Cantillon, an astute analyst of monetary affairs, saw deeply that the bubble was bound to burst soon, and he took steps to make millions out of the foolishness of his partners and clients. Lending money to Gage and others with which to buy inflated Mississippi Company shares, Cantillon quietly sold all of his own shares as well as the inflated shares that his borrowers had left him as collateral, locked all his papers in a strongbox, took his accumulated millions and left town for Italy, there to await in safety 'the financial storm that he could see developing'. After Gage and the other Cantillon clients went broke in the 1720 crash, Cantillon pursued them to repay his loans, for which they had been happy to pay a rate of interest up to 55 per cent, which had incorporated a huge inflation premium.

Richard Cantillon returned to Paris a multimillionaire, albeit unpopular with his former associates and debtors. Soon he married Mary Anne, daughter of the late Count Daniel O'Mahony, an Irish general. His mother-in-law, Charlotte Bulkeley, was the sister-in-law of James Fitzjames, the duke of Berwick, marshal of France and the natural son of the English King James II; he was, therefore, the Stuart pretender, James III. Cantillon thus married into an Irish military family closely connected with the Stuarts and with the French court.

At some time during the early 1730s, probably around 1730, this successful banker and speculator wrote his great work, in French, the *Essai sur la nature du commerce en général*. In the fashion of the day, the result of the censorship of that era, this treatise was not published, but circulated widely in manuscript, in literary and intellectual circles, until it was finally published two decades later, in 1755.

Richard Cantillon's exit from this life was as mysterious and adventurous as his overall career. In May 1734, while living in London, in one of his many houses in the leading cities of Europe, Cantillon died in a fire that burned his house to the ground. It was subsequently found that he was murdered inside the house, the fire being presumably set to cover the murder. Three of his servants were tried for his murder and found not guilty, while his French cook, who had been dismissed three weeks earlier, fled overseas with a considerable amount of valuables. The runaway cook was never found. Earl Egmont, whose brother lived next door to Cantillon, wrote in his diary that Cantillon 'was a debauched man, and his servants of bad reputation'. And so ended, under highly mysterious circumstances, the only leading economist in history who lost his life as a victim of murder.[4]

12.2 Methodology

Richard Cantillon's *Essai* has been justly called by W. Stanley Jevons 'the first treatise on economics', and the historian of economic thought Charles Gide referred to it as the first systematic treatment of political economy. The best overall assessment is that of F.A. Hayek, the Austrian economist who has done important work in the history of thought: 'this gifted independent observer, enjoying an unsurpassed vantage point in the midst of the action, coordinated what he saw with the eyes of the born theoretician and was the first person who succeeded in penetrating and presenting to us almost the entire field which we now call economics.[5]

The scholastics had written general treatises on almost all of human knowledge, in which discussions of economics or the market played a subordinate part; and in the mercantilist era the mercantilists and their critics delivered at best intelligent *aperçus* on particular economic – usually economic policy – topics. But Richard Cantillon was the first theorist to demarcate an independent area of investigation – economics – and to write a general treatise on all its aspects.

One reason that Cantillon was the 'first of the moderns' is that he emancipated economic analysis from its previous intertwining with ethical and political concerns. The mercantilists, dominant in economic thought for the preceding century or two, were special pleaders whose titbits of analysis were pressed into the service of political ends, either in subsidizing particular interests or in building up the power of the state. The medieval and renaissance scholastics, while incomparably more thoughtful and systematic, had imbedded their economic analysis in a moral and theological framework. To break out of the mercantilist morass, it was necessary to step aside, to focus on the economic features of human action and to analyse them, abstracting them from other concerns, however important. Separating out economic analysis from ethics, politics, or even concrete economic data did not mean that these matters were unimportant or should never be brought back in. For it was impossible to decide the ethics of economic life, or what government should or should not do, without finding out how the market worked, or what the effect of interventions might be. Cantillon presumably, at least dimly, saw the need for this at least temporary emancipation of economic analysis.

Furthermore, Cantillon was one of the first to use such unique tools of economic abstraction as what Ludwig von Mises would later identify as the indispensable method of economic reasoning: the Gedanken-experiment (or thought-experiment). Human life is not a laboratory, where all variables can be kept fixed by the experimenter, who can then vary one in order to determine its effects. In human life, all factors, including human action, are variable, and nothing remains constant. But the theorist can analyse cause-and-effect relations by substituting mental abstractions for laboratory experiment. He can hold variables fixed mentally (the method of assuming 'all other things equal') and then reason out the effects of allowing one variable to change. By starting with simple 'models' and introducing successive complications as the simpler ones are analysed, the economist can at last discover the nature and operations of the market economy in the real world. Thus the economist can validly conclude from his analysis that 'All other things equal (*ceteris paribus*), an increase in demand will raise price'.

In the 1690s, as we have seen (Chapter 9), a leader of the emergent classical liberal opposition to the statism and mercantilism of Louis XIV, the provincial judge the Sieur de Boisguilbert, had introduced into economics the method of abstraction and successive approximations, beginning with the simplest model and proceeding in increasing complexity. In illustrating the nature and advantages of specialization and trade, Boisguilbert had begun with the simplest hypothetical exchange: two workers, one producing wool, the other wheat, and then extended his analysis to a small town, and finally to the entire world.

Richard Cantillon greatly developed this systematic method of abstractions and successive approximations. He liberally used the *ceteris paribus* method. Through this analytic method he uncovered 'natural' cause-and-effect relations in the market economy. The France of Cantillon's day was a country of great landed feudal estates, the result of the conquests of previous centuries. And so Cantillon brilliantly began the economic analysis in his *Essai* with the assumption that the whole world consists of one giant estate.

In that admittedly 'unrealistic' but illuminating construct, all production is dependent on the wishes, the desires, of the monopoly owner, who simply tells everyone what to do. Put another way, production depends on demand, except that here there is in effect one demander, the monopoly landowner.

Cantillon then makes one simple realistic change in his model. The landowner has farmed out the land to various producers of all kinds. But as soon as that happens, the economy cannot continue with one man giving orders. For its continued operation, the individual producers must exchange their products, and a free market economy comes into being, with its attendant competition, trade and price system. Furthermore, money arises out of this exchange as a commodity serving as a much-needed medium of exchange and 'measure' of values.

12.3 Value and price

Cantillon engaged in the first sophisticated modern analysis of market pricing, showing in detail how demand interacts with existing stock to form prices. In contrast to the later Smith–Ricardo classicists, and foreshadowing the Austrians, Cantillon was largely interested in price formation in the real world, i.e. actual market prices, rather than in the chimera of long-run 'normal' pricing. In an important recent interchange on Cantillon, Professor Vincent Tarascio interprets him as a classicist or neoclassicist, at least in so far as holding that market prices tend in the long run to approach the 'intrinsic value' of a good, that is, the cost of production, in terms of land and labour inputs, of the product. This was the Smith–Ricardo theory of 'equilibrium' pricing, which has been basically expanded into Walrasian 'general equilibrium' theory.

But while there are passages in Cantillon justifying this approach, and the term 'intrinsic value' is certainly an unfortunate one, Professor David O'Mahony, in a perceptive comment on the Tarascio article, points out that Cantillon's approach was, in reality, pre-Austrian. First, O'Mahony shows that Cantillon's market price analysis was the Austrian one of a given existing *stock* of a good evaluated and demanded by consumers.

Quoting from Cantillon: 'It is clear that the quantity of product or of merchandise offered for sale, in proportion to the demand or number of Buyers, is the basis on which is fixed or always supposed to be fixed the actual market prices…'. Demand, in turn, is subjective, dependent on 'humours, fancies, mode of living', etc. These subjective valuations are what impart value to the products offered for sale. It is the 'consent of mankind', says Cantillon, which gives value to 'lace, linen, fine cloths, copper and other metals'. For Cantillon, actual market prices are determined by demand: 'It often happens that many things which actually have this intrinsic value are not sold in the market at that value: That will depend on the humors and fancies of men and on their consumption'. Thus the value of products is imparted by consumer valuation: a crucial proto-Austrian insight derived from medieval and late Spanish scholastics. For centuries, in fact, the scholastic and post-scholastic position had been that the value of goods is determined by 'utility' and 'scarcity', by subjective valuation of a given supply. The more utility the higher the value, and the more abundant the supply the lower the value and price of any good on the market. Cantillon's is a sophisticated and elaborated development of the scholastic approach.

While Cantillon considers the 'intrinsic value of a thing' 'the measure of the Land and Labour which enter into its Production', he concedes immediately that subjective valuation by consumers rather than 'intrinsic value' determines price.[6]

Going into detail on intrinsic value, Cantillon refers to the hypothetical case of an American who travels to Europe to sell beaver skins for hats, but is then 'rightly astonished to learn that woollen hats are as serviceable as those made of beaver, and that all the difference, which causes so long a sea journey, is in the fancy of those who think beaver hats lighter and more agreeable to the eye and the touch'. In short: the entire cost of production, all the labour and effort that went into the production and transport of beaver skins, means nothing unless the product satisfies the consumer enough to pay for the costs, and to enable the product to compete with another commodity made more cheaply at home. It is consumer demand that determines sales as well as price.

O'Mahony goes on to point out that Cantillon's monopoly estate model clearly shows that demand (in this case that of the world monopoly landowner) and not cost of production determines price. Cantillon, then, did *not* foreshadow the classical equilibrium theory that cost of production constituted the long-run, and presumably therefore the most important, determinant of market price. On the contrary, for Cantillon, cost of production had a very different function: deciding whether a business could make profits or else have to suffer losses and go out of business. If consumer value and therefore the selling price of a product is high enough to more than cover costs, the firm makes a profit; if not high enough, it suffers losses and eventually has to go out of business. This is an important part of the Austrian view of the role of costs. Thus Cantillon discusses costs and prices in the manufacture of Brussels lace:

> If the price which the Ladies pay for the Lace does not cover all the costs and profits there will be no encouragement for this Manufacture, and the undertaker will cease to carry it on or become bankrupt; but as we have supposed this Manufacture is continued, it is necessary that all costs be covered by the prices paid by the Ladies of Paris....

Hence the movement toward long-run equilibrium is *not* a process of adjusting market prices to intrinsic long-run costs of production, but one of labourers and entrepreneurs moving in and out of various lines of production until costs of production and selling prices are equal. As O'Mahony well puts it:

> For Cantillon then it is not so much that intrinsic values exist automatically and spontaneously and that market prices are drawn towards them, as that the prices offered in the market determine whether or not it is worth producing things. In other words, it is the prices offered that determine what production costs can be incurred not that production costs determine what the prices must be.

Of course, there is a big gap, both in Cantillon's approach and that of the later Smith–Ricardo classicists, as well as of the modern Ricardian neoclassicists: Where do the 'costs of production' come from? In contrast to the Cantillon and classical approach, they are neither intrinsic nor mandated from some mysterious force outside the economic system. Costs of production, as it took the Austrians to finally point out, are themselves determined by the expected consumer demand for goods and services.

12.4 Uncertainty and the entrepreneur

One of Cantillon's remarkable contributions to economic thought is that he was the first to stress and analyse the entrepreneur.[7] To this real-world merchant, banker and speculator, it would have been inconceivable to fall into the Ricardian, Walrasian and neoclassical trap of assuming that the market is characterized by perfect knowledge and a static world of certainty. The real-world marketplace is permeated by uncertainty, and it is the function of the businessman, the 'undertaker', the entrepreneur, to meet and bear that uncertainty by investing, paying expenses and then hoping for a profitable return. Profits, then, are a reward for successful forecasting, for successful uncertainty-bearing, in the process of production. The crucial Smithian–Ricardian and Walrasian (classical and neoclassical) assumption that the economy is perpetually in a state of long-run equilibrium fatally rules out the real world of uncertainty. Instead, it focuses on a never-never land of no change, and hence of perfect certainty and perfect knowledge of present and future.

Thus Cantillon divides producers in the market economy into two classes: 'hired people' who receive fixed wages, or fixed land rents, and entrepreneurs with non-fixed, uncertain returns. The farmer–entrepreneur bears the risk of fixed costs of production and of uncertain selling prices, while the merchant or manufacturer pays similar fixed costs and relies on an uncertain return. Except for those who only sell 'their own labour', business entrepreneurs must lay out monies which, after they have done so, are 'fixed' or given from their point of view. Since sales and selling prices are uncertain and not fixed, their business income becomes an uncertain residual.

Cantillon also sees that the pervasive uncertainty borne by the entrepreneurs is partly the consequence of a decentralized market. In a world of one monopoly owner, the owner himself decides upon prices and production, and there is little entrepreneurial uncertainty. But in the real world, the decentralized entrepreneurs face a great deal of uncertainty and must bear its risks. For Cantillon, competition and entrepreneurship go hand in hand.

As in the case of Frank Knight and the modern Austrians, Cantillon's theory of entrepreneurship focuses on his function, his role as uncertainty-bearer in the market, rather than, as in the case of Joseph Schumpeter, on facets of his personality.

Cantillon's concept also anticipates von Mises and the modern Austrians in another respect: his entrepreneur performs not a disruptive (as in Schumpeter) but an *equilibrating* function, that is, by successfully forecasting and investing resources in the future, the entrepreneur helps adjust and balance supply and demand in the various markets.

Professor Tarascio points out that Cantillon's pioneering insight into the pervasive uncertainty of the market was largely forgotten, and before long dropped out of economic thought until independently resurrected in the twentieth century by Knight and by such modern Austrians as Ludwig von Mises and F.A. Hayek. But, as Professor O'Mahony wryly comments: 'To acknowledge his [Cantillon's] recognition of uncertainty when we look at him as Professor Tarascio does from a current perspective is thus more of a reflection on many modern economists whose capacity to ignore uncertainty is nothing short of bizarre than a tribute to Cantillon's prescience'.

Bizarre it may well be, but there is a method to the madness. For, as Professor O'Mahony himself understands full well, modern economics is a set of formal models and equations purporting to fully determine human behaviour, at least in the economic realm. And there is no way that uncertainty can be compressed into determinate mathematical models. As O'Mahony puts it, one might 'ask if entrepreneurial activity can in the nature of things be made the subject of formal representations or models at all. If they could, would there be any room for uncertainty, in the true sense of the term, and, therefore, any room for entrepreneurship itself?' Economic theory, in short, must choose between formally elegant but false and distorting mathematical models, and the 'literary' analysis of real human life itself.

12.5 Population theory

Richard Cantillon's theory of wages is dependent on population in a way that was copied almost word for word by Adam Smith in the *Wealth of Nations*, which in turn inspired Malthus's famous anti-populationist hysteria. Cantillon's long-run wage theory depends on the supply of labour, which in turn depends on levels and growth of population. In contrast to the later Malthus, however, Cantillon engaged in a sophisticated analysis of the determinants of population growth. Natural resources, cultural factors, and the state of technology he diagnosed as particularly important. He saw prophetically that the colonization of North America would not be a simple displacement of one people by another, but that new agricultural technology would support a far larger population per acre of land. Hence the extent to which existing resources, land and labour, can be utilized depends on the existing state of technology. Thus pre-colonial North America was not 'overpopulated' by Indians, as some had believed; instead, the Indian population level had adjusted to the given resources and technology available. In short, Cantillon foreshadowed the modern theory of 'optimum' population, in which the size of population tends to adjust to the most productive level given the resources and technology available.

While Cantillon described a pre-Malthusian alleged tendency of human beings to multiply like 'rats in a barn', without limit, he also recognized that religious and cultural values can modify such tendencies. An increase in the demand for agricultural products that are land-intensive would tend to reduce the demand for agricultural labour and eventually cause a fall in the supply of such labour and hence of the population as a whole. (Cantillon, it must be remembered, was writing in an age when the overwhelming bulk of the population was engaged in agriculture.) An increase in the demand for labour-intensive farm products, on the other hand, would bring about an increase in the demand for labour and hence of the population. Living, once again, in a country and an era of large feudal landed estates, Cantillon observed that it was the tastes of the proprietary classes that determined the consumer tastes and values of society, and hence the demand for products.

It should be noted that in an unusually sophisticated way, Cantillon pointed out that it was outside the scope of economic analysis to decide whether it is better to have a large population of poorer people or a smaller population of people who enjoy a higher standard of living: that must be for the values of the citizenry to decide.

Professor Tarascio points out that Cantillon's population analysis was far more subtle and modern than that of Smith, Ricardo, or Malthus. Rather than worry about a future unchecked population explosion, Cantillon's theoretical framework accounted for the current cultural change to smaller families in industrialized countries, as well as the likelihood that population will adjust itself downward to any future depletion of resources. Cantillon pointed out, for example, that as ancient civilizations declined, their population size declined along with them. The number of inhabitants of the Roman state in Italy, for example, declined from 25 million to about 6 million over a period of 17 centuries.

12.6 Spatial economics

Richard Cantillon was also the founder of spatial economies, of the analysis of economic activity in relation to geographic space. In a sense, of course, mercantilists, by advocating a favourable balance of geographical trade, analysed (even if badly) economic activities to the extent that they crossed national borders. Spatial analysis, as Professor Hebert has pointed out, deals with *distance* (transportation cost, and its relation to prices as well as to the location of economic activities), and *area* (the geographical development and boundaries of markets). Cantillon not only developed location theory but integrated it into his general microeconomic analysis. In particular, he saw that the prices of produce, even when money and monetary prices were in equilibrium, would always be higher in the cities than in their place of production by an amount needed to cover the costs and risks of transport. In consequence, products that are bulky and/or perishable would be too costly or impossible to transport to the cities, and hence would be far cheaper at their places of production. Such products, then, would generally be grown in border areas around the cities, where the transport costs to the urban markets are not prohibitive. In manufacturing, furthermore, Cantillon saw that in cases where plants have to use bulky, low value-per-unit-weight raw materials, they would tend to locate near the output of such materials. For in that case it would be less costly to transport the less bulky, more valuable finished products to urban markets than to ship the raw materials.

On the location of areas of urban markets, Cantillon was highly suggestive, pointing out that it is far less costly for buyers and sellers to gather at one spot than to travel around the periphery seeking each other out and finding out the various prices that buyers were willing to pay or sellers were willing to accept. In modern terms, Cantillon might say that central markets develop naturally because they enormously lower the transaction, transport, information and other costs of trade.

While Cantillon, therefore, saw how markets and the location of economic activity were able to regulate themselves harmoniously, he was not a consistent free trader internally just as he was not in the foreign trade area. Internally, he held inconsistently that manufacturers needed 'much encouragement and capital' to find and invest in the optimum locations.

12.7 Money and process analysis

A highlight of Cantillon's theory of money is his treatment of the value of money as a special case of the value of market commodities in general. As in the case of any product, the alleged 'intrinsic value' of gold is the cost of its production. The value of gold and silver, like other commodities, is set by the values and hence the demands of users in the market – by the 'consent of mankind'. As in the case of other commodities, too, Cantillon has no cost of production theory of the value of gold and silver; he simply holds, as elsewhere, that these products can only be produced if costs can be covered by the value of the product.

The process of aligning costs and values in gold, however, takes a relatively long time since its annual output is a small proportion of the total stock in existence. If the nominal value of gold falls below its cost of production, it will cease being mined; and if costs fall sharply, production of gold will be stepped up, thus tending to align costs and normal values. Cantillon recognized that government paper and bank money virtually *have no* costs of production, and therefore no 'intrinsic value' in his terminology, but he pointed out that market forces keep the value of such fiduciary money at par with the value of the gold or silver in which that paper can be redeemed. As a consequence, an increase in the supply 'of fictitious or imaginary money has the same effect as increase in the circulation of real money'. But, Cantillon noted, let confidence in the money be damaged, and monetary disorder ensues and the fictitious money collapses. He pointed out, too, that government is particularly subject to the temptation to print fictitious money – a lesson he had undoubtedly learned from or at least seen embodied in, the John Law experiment. Cantillon also provided a sound analysis of how the market determines the ratio of the values of gold and silver.

One of the superb features of Cantillon's *Essai* is that he was the first, in a pre-Austrian analysis, to understand that money enters the economy as a step-by-step process and hence does not simply increase or raise prices in a homogeneous aggregate.[8] Hence he criticized John Locke's naive quantity theory of money – a theory still basically followed by monetarist and neoclassical economists alike – which holds that a change in the total supply of money causes only a uniform proportionate change in all prices. In short, an increased money supply is not supposed to cause changes in the relative prices of the various goods.

Thus Cantillon, asking 'in what way and in what proportion the increase of money raises prices?', answers in an excellent process analysis:

> in general an increase of actual money causes in a State a corresponding increase of consumption which gradually brings about increased prices. If the increase of actual money comes from Mines of gold and silver in the State the Owner of these Mines, the Adventurers, the Smelters, the Refiners, and all the other workers will increase their expenses in proportion to their gains. They will consume...more... commodities. They will consequently give employment to several Mechanicks who had not so much to do before and who for the same reason will increase their expenses. All this increase of expense in Meat, Wine, Wool, etc. diminishes the share of the other inhabitants of the State who do not participate at first in the wealth of the Mines in question. The alteration of the Market, or the demand for Meat, Wine, Wool, etc., being more intense than usual, will not fail to raise their prices. These high prices will determine the Farmers to employ more land to

produce them in another year; these same Farmers will profit by this rise of prices and will increase the expenditure of their Families like the others. Those then who will suffer from this dearness and increased consumption will be first of all the Landowners, during the term of their Leases, then their Domestic Servants and all the Workmen or fixed Wage-earners who support the families on their wages. All these must diminish their expenditure in proportion to the new consumption...it is thus, approximately, that a considerable increase of Money from the Mines increases consumption....

In short, the early receivers of the new money will increase spending according to their preferences, raising prices in these goods, at the expense of a lower standard of living among the late receivers of the new money, or among those on fixed incomes who don't receive the new money at all. Furthermore, relative prices will be changed in the course of the general price rise, since the increased spending is 'directed more or less to certain kinds of products or merchandise according to the idea of those who acquire the money, [and] market prices will rise more for certain things than for others...'. Moreover, the overall price rise will not necessarily be proportionate to the increase in the supply of money. Specifically, since those who receive new money will scarcely do so in the same proportion as their previous cash balances, their demands, and hence prices, will not all rise to the same degree. Thus, 'in England the price of Meat might be tripled while the price of Corn rises no more than a fourth'. Cantillon summed up his insight splendidly, while hinting at the important truth that economic laws are qualitative but not quantitative:

An increase of money circulating in a State always causes there an increase of consumption and a higher standard of expenses. But the dearness caused by this money does not affect equally all the kinds of products and merchandise proportionably to the quantity of money, unless what is added continues in the same circulation as the money before, that is to say unless those who offered in the Market one ounce of silver be the same and only ones who now offer two ounces when the amount of money in circulation is doubled in quantity, and that is hardly ever the case. I conceive that when a large surplus of money is brought into a State the new money gives a new turn to consumption and even a new speed to circulation. But it is not possible to say exactly to what extent.[9]

Not only that, but as Professor Hebert has pointed out, Cantillon also provided a remarkable proto-Austrian analysis of the different effects of the money going into consumption or investment. If the new funds are spent on consumer goods, then goods will be purchased 'according to the inclination of those who acquire the money', so that the prices of those goods will be driven up and relative prices necessarily changed. If, in contrast, the increased money comes first into the hands of lenders, they will increase the supply of credit and temporarily lower the rate of interest, thereby increasing investment. Repudiating the common superficial view, brought back to economics in the twentieth century by John Maynard Keynes, that interest is purely a monetary phenomenon, Cantillon held that the rate of interest is determined by the number and interactions of lenders and borrowers, just as the prices of particular goods are determined by the interaction of buyers and sellers. Thus, Cantillon pointed out that

> If the abundance of money in a State comes into the hands of money-lenders it will doubtless bring down the current rate of interest by increasing the number of money-lenders: but if it comes into the hands of those who spend it will have quite the opposite effect and will raise the rate of interest by increasing the number of entrepreneurs who will find activity by this increased spending and who will need to borrow in order to extend their enterprise to every class of customers.

An increased supply of money, therefore, can either lower or raise interest rates temporarily, depending on who receives the new money – lenders, or people who will be inspired by their new-found wealth to borrow for new enterprises. In his analysis of expanding credit lowering the rate of interest, furthermore, Cantillon provides the first hints of the later Austrian theory of the business cycle.

In addition, Cantillon presented the first sophisticated analysis of how the demand for money, or rather its inverse, the speed or velocity of circulation, affects the impact of money and hence the movement of prices. As he put it, 'an acceleration or greater rapidity in circulation of money in exchange, is equivalent to an increase of actual money up to a point'. One of the reasons why prices do not change in exact proportion to a change in the quantity of money is alterations in velocity: 'A river which runs and winds about in its bed will not flow with double the speed when the amount of water is doubled'. Cantillon also saw that the demand for cash balances will depend on the frequency of payments made in the society. As Monroe sums up Cantillon's position: 'the longer the interval between payments, the larger are the sums which have to accumulate in the payers' hands, and the more money is required in the country'.[10] If people save large sums, furthermore, they may have to 'keep money locked up for considerable periods'. On the other hand, the development of more efficient clearing systems for debts, as well as of paper money, will economize on cash: 'The rapidity of circulation is increased by the practice of offsetting accounts between merchants, and by the use of bankers' and goldsmiths' notes, for these men do not keep an equivalent amount of money on hand'. Cantillon summed up his analysis of the interaction of quantity and velocity: 'According to the principles we have established the quantity of money circulating in exchange fixes and determines the price of everything in a State taking into account the rapidity or sluggishness of circulation'.

Cantillon also provided a masterful discussion of the relations between gold and silver, and advocated freely fluctuating exchange rates between gold and silver, attacking any attempts, certainly any long-lived attempts, to fix the exchange rate between them. For such a rate is soon bound to vary from the market rate. Thus Cantillon saw the problem in trying to maintain a bimetallic standard with fixed parities between two precious metals.

All in all we can understand Hayek's enthusiasm when he concludes that Cantillon's monetary theory 'constitutes, without doubt, the supreme achievement of a man who was the greatest pre-classical figure in at least this field and whom the classical writers themselves in many instances not only failed to surpass but even failed to equal'.[11]

12.8 International monetary relations

One of the most notable features – and certainly the one drawing the most attention from historians – of Cantillon's extensive monetary theory was his pioneering analysis of the tendency towards international monetary equilibrium, or the specie-flow-price mechanism that has been generally attributed to the later writings of David Hume.

Cantillon applied his 'micro-analysis' of changes of the money supply *within* a country to changes in the distribution of money between countries. For over two centuries, mercantilist writers and statesmen in Europe had advocated an increased supply of specie in a country as a means of building up state power, and they were increasingly clear that, short of having gold or silver mines a nation could only increase its stock of money by having a favourable balance of trade. It was clear to the mercantilists that this was not a policy every nation could successfully pursue, for the 'favourable' balances of trade of some nations would necessarily have to be offset by the 'unfavourable' balances of others. In this disequilibrium situation, it was every nation for itself, as each attempted to benefit at the expense of other nations by restrictionist and warlike policies. But there was a further problem in the background; since most writers were at least roughly familiar with the 'quantity theory', or supply–demand analysis of the value of money, an inner contradiction loomed. For if nation *A* managed to acquire a favourable balance of trade and to accumulate specie, the increase of specie would raise prices in nation *A*, make the country's products uncompetitive in the world markets, and bring the favourable balance to an end.

No one was more lucid about the problem of money and international payments than Cantillon. He pointed out that specie can either be acquired within a country by mining ore, or through subsidies, warfare, 'invisible' payments, borrowing, or a favourable balance of trade with other countries. But then, in the Cantillon process analysis, either the mine owners or the exporters would spend or lend the money. Part of the expenditure of the new money would surely be spent abroad, and furthermore the increased stock of money would raise prices at home, making domestic goods less competitive. Exports would fall and imports of cheaper foreign products would increase, and gold would flow out of the country, reversing the favourable balance of trade.

In this way, Cantillon worked out an international monetary theory integrated with his domestic analysis, and was one of the first to work out a theory of international monetary equilibrium. For the world market managed to frustrate, at least in the long run, governmental attempts to intervene and secure favourable balances of trade. It should be noted, further, that Cantillon's analysis contained the basis of both major parts of the equilibrating specie-flow-price mechanism: the expenditure of new monetary cash balances increasing imports; and the increase of domestic prices caused by a higher money supply, the price effect lowering exports and adding to imports.

Richard Cantillon understood the grave inner contradiction of mercantilism: increased specie raising prices and thereby destroying the favourable balance of payments that brought the specie. His unsatisfactory way out was to advise the king to hoard much of the increased stock so as not to drive up prices; unsatisfactory because money is meant to be spent eventually, and once spent the dreaded price increase would willy-nilly take place.

Professor Salerno, however, has introduced a cautionary note in the encomiums to Cantillon, pointing out that he has been called only a 'semi-equilibrium' theorist because he did not portray a satisfactory picture of what the equilibrium state would be like, and he did not think of the world economy as tending firmly towards equilibrium. As a result, Cantillon did not present a theory of the international distribution of gold and silver in equilibrium.[12] He thought of the economy instead as engaging in endless cycles of disequilibrium rather than as tending towards equilibrium.

12.9 The self-regulation of the market

There is no point wasting time in fruitless speculation on whether or not Richard Cantillon was a 'mercantilist'. Eighteenth century writers did not group themselves into such categories. While he inconsistently suggested, in accordance with state-building notions of the age, that the king should amass treasure from a favourable balance of trade, the entire thrust of Cantillon's work was in a free trade, *laissez-faire* direction. For it was clear that mercantilist measures would ultimately be self-defeating. More important, Cantillon was the first to show in detail that all parts of the market economy fit together in a 'natural', self-regulative, equilibrating pattern, with existing supply and demand determining prices and wages, and ultimately the pattern of production. Consumer values, furthermore, determined demand, with population adjusting to cultural and economic factors. The equilibrators of the economy were the entrepreneurs, who adjust to and cope with the all-pervasive uncertainty of the market. And if the market economy, despite the 'chaos' it might seem to superficial observers, is really harmoniously self-regulating, then government intervention as such is either counterproductive or unnecessary.

Particularly instructive is Cantillon's attitude towards usury laws, that vexed question which had at last brought unwarranted discredit on the entire economic analysis of the medieval renaissance Catholic scholastics. This shrewd merchant and banker saw that particular interest rates, on the market, are proportionate to the risks of default faced by the creditor. High interest is the result of high risk, not of exploitation or oppression. As Cantillon wrote: 'All the Merchants in a State are in the habit of lending merchandise or produce for a time to Retailers, and proportion the rate of their profit or interest to that of their risk'. High rates of interest bring about only a small profit, because of the high proportion of default on risky loans. Cantillon observed too that the later Catholic scholastics had eventually if reluctantly agreed to allow high rates of interest for risky loans. Furthermore, there should be no imposed maximum on interest, since only the lenders and borrowers can determine their own fears and needs: 'for they would be hard put to find any certain limit since the business depends in reality on the fears of the Lenders and the needs of the Borrowers'.

Finally, Cantillon saw that usury laws could only restrict credit and thereby drive up interest rates even further on the inevitable black markets. Hence, usury laws would not lower interest rates but rather raise them: 'because the Contracting parties, obedient to the force of competition or the current price settled by the proportion of Lender or Borrowers, will make secret bargains, and this legal constraint will only embarrass trade and raise the rate of interest instead of settling it'.

12.10 Influence

Richard Cantillon's pioneering *Essai* was widely read and highly influential throughout the eighteenth century. It was widely read as was the custom of the day, in 'underground' manuscript form, by literary, scientific and intellectual people interested in the advance of thought and in the practical problems of the day. The wide reliance on such manuscripts resulted from the severe French censorship of that period.

The *Essai*, then, was widely read from its writing in the early 1730s, and still more so after its publication in 1755. It was read eagerly and thoroughly by the first school of economists, the physiocrats, and by their great associate, or fellow-traveller, A.R.J. Turgot. In that cosmopolitan eighteenth century society where British and French intellectuals intermingled, the *Essai* was certainly read and echoed by the eminent Scottish philosopher, David Hume. And it has the honour of being one of the very few books cited by

Hume's close friend Adam Smith – a man whose hyperdeveloped sense of his own originality prevented him from citing or recognizing many predecessors. Cantillon was thus highly influential among Continental and British economists until the publication of the *Wealth of Nations* in 1776. After the publication of that work, however, the knowledge and influence of Cantillon fell prey to the general post-Smithian custom of ignoring any and every economist preceding Adam Smith. The general nineteenth century habit of obliterating knowledge of economists before Adam Smith committed grave injustice against earlier economists and gave rise to the erroneous – and still widely held – illusion that economic science sprang full-blown out of the head of one Great Man, much as Athena was supposed to have sprung, fully grown and fully armed, from the brow of Zeus. But the most malignant aspect of this Smith-worship is that the lost economists were in many respects far sounder than Adam Smith, and in forgetting them, much of sound economics was lost for at least a century. In many ways, as we shall see, Adam Smith deflected economics, the economics of the Continental tradition beginning with the medieval and later scholastics and continuing through French and Italian writers of the eighteenth century, from a correct path, and on to a very different and fallacious one. Smithian 'classical economics', as we have come to call it, was mired in aggregative analysis, cost-of-production theory of value, static equilibrium states, artificial division into 'micro' and 'macro', and an entire baggage of holistic and static analysis.

The unfortunate erasure of pre-Smithian economics enabled Smithian classical economics to take hold and dominate economic thought for 100 years. The 'marginal revolution' of the 1870s, especially the Austrian theory beginning in that decade, in many ways returned economics to the proper individualistic, micro and subjective value pre-Smithian path on the European continent. It is no accident that Cantillon himself was rediscovered in 1881 by the quasi-'Austrian' English marginal revolutionist W. Stanley Jevons, who was commendably eager to rediscover lost economists buried by the dominant Smith–Ricardo orthodoxy.

But economics has unfortunately far from rid itself of the Smith–Ricardo baggage. The current revival of Austrian theory, and the increasing search for a way out of contemporary orthodoxy by many mainstream economists, is an attempt to complete the promise of the badly named 'marginal revolution' (really an individualist–subjectivist revolution), and to complete the casting out of the classical British paradigm.

12.11 Notes

1. Considerable confusion has been sown in Cantillon studies by the fact that Richard's cousin, father, great-grandfather, and great-great-grandfather were all named Richard.
2. To add to the genealogical confusion, Richard's mother, Bridget, was also a Cantillon, from County Limerick. Richard's father and his bride Bridget were distant cousins in the

Cantillon family. Richard's grandfather and Bridget's great-grandfather were both sons of Sir Richard Cantillon I.

3. At the height of the bubble, the duchess of Orleans wrote, in wonder: 'It is inconceivable what wealth there is in France now. Everybody speaks in millions. I don't understand it at all, but I see clearly that the god Mammon reigns an absolute monarch in Paris'. Quoted in John Carswell, *The South Sea Bubble* (Stanford: Stanford University Press, 1960), p. 101.
4. The Egmont quote is in Antoin E. Murphy, 'Richard Cantillon–Banker and Economist', *Journal of Libertarian Studies* 7 (Autumn 1985), p. 185.
5. F.A. von Hayek, 'Introduction to a German translation of Cantillon's *Essai*' (Jena: Gustav Fischer, 1931); from translation of Hayek's Introduction by Micháel Ó'Súilleábháin, *Journal of Libertarian Studies*, 7 (Autumn 1985), p. 227.
6. In an Aristotelian flourish, Cantillon declared that land 'is the source or matter from which Wealth is extracted', while 'human labour is the form which produces it', while wealth, however, is not intrinsic in the goods but is 'in itself no other than the sustenance, the conveniences, and the comforts of life'.
7. In the *Essai*, a work of only 165 pages, Cantillon makes no less than 110 separate references to the entrepreneur.
8. Vickers aptly writes that 'In Cantillon, as opposed to other writers of the first half of the [eighteenth] century, the move in theory and in explanation toward a dynamic as opposed to a definitional and static description of monetary affairs took on a microscopic, micro-economic form. His economic analysis always started from individual economic magnitude and quantities'. And again: 'Market prices, money prices, and levels of activity and employment were not to be regarded as homogeneous variables. The *Essai* is interested in the *structure* of market prices, the structure of market supply conditions, and the structure of activity in the economy'. Douglas Vickers, *Studies in the Theory of Money 1690–1776* (Philadelphia: Chilton Co., 1959), pp. 187–8.
9. See the citations and discussion in Chi-Yuen Wu, *An Outline of International Price Theories* (London: George Routledge & Sons, 1939), pp. 66–7.
10. Arthur Eli Monroe, *Monetary Theory before Adam Smith* (1923, repr. Gloucester, Mass.: Peter Smith, 1965), pp. 255–6.
11. von Hayek, op. cit., note 5, p. 226.
12. Salerno points out that at least in this respect Cantillon's treatment was inferior to the neglected pamphlet by an unknown English author, Isaac Gervaise, *The System or Theory of the Trade of the World* (1720). Gervaise worked out the process of equilibration and, believing as he did in a firm trend toward an equilibrium position, he was the first to point out that in such equilibrium, the precious metals would be distributed in accordance with the international demand for them. That demand would be embodied in the productive activities of each particular nation. Gervaise's pamphlet remained unread until resurrected by Professor Jacob Viner in the mid-twentieth century. Isaac Gervaise, *The System or Theory of the Trade of the World*, ed. J.M. Letiche (Baltimore: Johns Hopkins University Press, 1954).

    Gervaise, however, was inferior to Cantillon, presenting an aggregative, macroeconomic approach instead of the latter's pioneering microeconomic process analysis.

13 Physiocracy in mid-eighteenth century France

13.1 The sect

The first self-conscious school of economic thought developed in France shortly after the publication of Cantillon's *Essai*. They called themselves 'the economists', but later came to be called the 'physiocrats', after their prime politico-economical principle: *physio-cracy* (the rule of nature). The physiocrats had an authentic leader – the creator of the physiocratic paradigm – a leading propagandist, and several highly placed disciples and editors of journals. The physiocrats promoted each other, reviewed each others' prolific works in glowing terms, met frequently and periodically in *salons* to deliver papers and discuss each other's essays, and generally behaved as a self-conscious movement. They had a cadre of hard-core physiocrats, and a penumbra of influential fellow-travellers and sympathizers. Unfortunately, the physiocrats soon took on the dimensions of a cult as well as a school, heaping lavish and uncritical praise upon their leader, who thus became a guru as well as the creator of an important paradigm in economic thought.

The founder, leader, and guru of physiocracy was Dr François Quesnay (1694–1774), a restless, charismatic and intellectually curious soul who was typical of Enlightenment intellectuals of the eighteenth century. Smitten with the physical sciences, as so many intellectuals were in the shadow of the great Isaac Newton, Quesnay, son of a well-to-do farmer, read widely in his chosen profession of medicine. Gaining fame as a surgeon and physician, Quesnay wrote medical works and also became expert in agricultural science, writing on its technology. In 1749, at the age of 55, Quesnay became personal physician to King Louis XV's mistress, Madame de Pompadour, and a few years later also became personal physician to the king himself.

It was in the late 1750s, when in his mid-60s, that Dr Quesnay began to dabble in economic topics. The founding of the physiocratic movement may be dated precisely at the moment in July 1757 when the guru met his chief adept and propagandist. For it was then that Dr Quesnay met the restless, flighty, enthusiastic, and slightly crackpot Victor Riqueti, the Marquis de Mirabeau (1715–89). Mirabeau, a disgruntled aristocrat with plenty of leisure time on his hands, had just published the first several parts of a multi-part work, a grandiloquently entitled best-seller *L'Ami des hommes* (*The Friend of Man*). This work had charmed many Frenchmen through its very flamboyance and lack of system, as well as its curious use of an archaic seventeenth-century style. While writing *L'Ami des hommes*, Mirabeau was a quasi-disciple of the later Cantillon, glossing and publishing the *Essai*, but contact with Quesnay soon converted him into the doctor's leading fugleman and propagandist. The ruminations of one seemingly harmless eccentric physician had now become a School of Thought, a force to be reckoned with.

The high placement of the two founding physiocrats served their cause well. Quesnay's crucial place at court, as well as Mirabeau's fame and aristocratic position, gave the movement power and influence. Still, political economy was dangerous in that age of absolutism and censorship, and Quesnay prudently published his work under pseudonyms or through his disciples. Indeed, Mirabeau was imprisoned for a couple of weeks in 1760 for his book, *Théorie de l'impôt* (*Theory of Taxes*) specifically for his blistering attack on oppressive taxation and on the financial system of 'tax farming', in which the king sold the rights to tax to private firms or 'farmers'. He was released, however, by the good offices of Madame de Pompadour.

The physiocrats conducted their operations through a succession of journals, and through periodic salons, some conducted at the home of Dr Quesnay, the most prominent in regular Tuesday evening seminars at the home of the Marquis de Mirabeau. The chief physiocratic figures were: Pierre François Mercier de la Rivière (1720–93), whose *L'Ordre natural et essentiel des sociétés politiques* (*The Natural and Essential Order of Political Societies*) (1767) was the major work on political philosophy of the school; the Abbé Nicolas Baudeau (1730–92), the editor and journalist of the physiocrats; Guillaume François Le Trosne (1728–80), jurist and economist; and the youngest member of the group, the secretary, editor, and government official Pierre Samuel Du Pont de Nemours (1739–1817), who would later emigrate to the United States to found the famous gunpowder manufacturing family.

In no way did the cult aspect of the physiocratic group show itself more starkly than in the adjectives used about their master. His followers claimed that Quesnay looked like Socrates, and they habitually referred to him as the 'Confucius of Europe'. Indeed, despite the fact that Adam Smith and others spoke of his great 'modesty', Dr Quesnay identified himself with the alleged wisdom and glory of the Chinese sage. Mirabeau went so far as to proclaim that the three greatest inventions in the history of mankind were writing, money, and Quesnay's famous diagram, the *Tableau économique*.

The sect lasted for less than two decades, going rapidly downhill after the mid-1770s. Several factors accounted for the precipitate decline. One was the death of Quesnay in 1774, and the fact that in his later years the physician had lost much interest in his cult and had shifted to work on mathematics, where he claimed to have solved the age-old problem of squaring the circle. Furthermore, the fall from grace as finance minister of their fellow-traveller, A.R.J. Turgot, two years later, and the disgrace heaped upon Mirabeau by a public smear campaign launched by his wife and children at about the same time, caused physiocracy to fall from influence. And the advent of Smith's *Wealth of Nations* in the same year soon led to the unfortunate habit of ignoring all pre-Smithian thought, as if the new science of 'political economy' had been created single-handed and *ex nihilo* by Adam Smith.

13.2 *Laissez-faire* and free trade

The main stress of the physiocrats was in two areas: political economy and technical economic analysis, and the difference in the quality of their respective contributions is so great as to be almost stupefying. For in general political economy, they were usually perceptive and made important contributions, whereas in technical economics they introduced egregious and often bizarre fallacies which were to plague economics for a long time to come.

In political economy, the physiocrats were among the first *laissez-faire* thinkers, casting aside contemptuously the entire mercantilist baggage. They called for complete internal and external free enterprise and free trade, unfettered by subsidies, monopoly privileges or restrictions. By removing such restrictions and exactions, commerce, agriculture and the entire economy would flourish. On international trade, while the physiocrats lacked the specie-flow-price mechanism of the brilliant and sophisticated Cantillon, they were far bolder than he in laying down the gauntlet to all mercantilist fallacies and restrictions. It is absurd and self-contradictory, they pointed out, for a nation to attempt to sell a great deal to foreign countries and to buy very little; selling and buying are only two sides of the same coin. Furthermore, the physiocrats anticipated the classical economic insight that money is not crucial, that in the long run, commodities – real goods – exchange for each other, with money simply an intermediary. Therefore, the key goal is not to amass bullion, or to follow the chimera of a permanently favourable balance of trade, but to have a high standard of living in terms of real products. Seeking to amass specie means that people in a nation are giving up real goods in order to acquire mere money; hence, they are losing rather than gaining wealth in real terms. Indeed, the whole point of money is to exchange it for real wealth, and if people insist on piling up an unused hoard of specie they will lose wealth permanently.

When Turgot became finance minister of France in 1774, his first act was to decree freedom of import and export of grain. The preamble of his edict, drawn up by his aide Du Pont de Nemours, summed up the *laissez-faire* policy of the physiocrats – and of Turgot – in a fine and succinct manner: the new free trade policy, it declared, was designed

> to animate and extend the cultivation of the land, whose produce is the most real and certain wealth of a state; to maintain abundance by granaries and the entry of foreign corn, to prevent corn from falling to a price which would discourage the producer; to remove monopoly by shutting out private license in favor of free and full competition, and by maintaining among different countries that communication of exchange of superfluities for necessities which is so comformable to the order established by Divine Providence.[1]

Although the physiocrats were officially in favour of complete freedom of trade, their besetting passion – and this reflects their often bizarre economics – were repealing all restrictions on free export of grain. It is understandable that they would concentrate on the elimination of a long-standing restriction, but they seemed to show little zeal for the freedom of *importation* of grain or for the freedom of export of manufactures. All this was wrapped up in the physiocrats' unremitting enthusiasm for high agricultural prices, almost as a good in itself. Indeed, the physiocrats frowned on exports of manufactured products as competing with, and lowering the price of, agricultural exports. Dr Quesnay went so far as to write that 'happy the land which has no exports of manufactures because agricultural exports maintain farm prices at too high a level to permit the sterile class to sell its products abroad'. As we shall see below, 'sterile' by definition meant everyone outside agriculture.

13.3 *Laissez-faire* forerunner: the marquis d'Argenson

While the physiocrats were the first economists to stress and develop the case for *laissez-faire*, they had distinguished forerunners among statesmen and merchants in France. As we have seen, the *laissez-faire* concept developed among classical liberal oppositionists to the absolutism of late seventeenth century France. They included merchants such as Thomas Le Gendre and utilitarian officials like Belesbat and Boisguilbert.

Bridging the gap between turn of the eighteenth century *laissez-faire* writers and the physiocrats of the 1760s and 1770s was the eminent statesman, René-Louis de Voyer de Paulmy, Marquis d'Argenson (1694–1757). The heir of a long line of ministers, magistrates, and *intendants*, d'Argenson's ambition was to become prime minister and save France from what he saw as impending revolution by instituting *laissez-faire*. A voracious reader and prolific writer throughout his life, d'Argenson only published in his lifetime a few articles in his *Journal Oeconomique* in the early 1750s, and these were not printed but widely circulated in manuscript form. For a long while, d'Argenson was erroneously credited by historians with originating the phrase '*laissez-faire*' in one of the articles in his *Journal* of 1751.

While d'Argenson did not originate the term, *laissez-faire* was his repeated cry to the French authorities, a cry he continued to stress even though his ideas were dismissed as eccentric by all his governmental colleagues. As *intendant* in his early years on the Flemish border, d'Argenson was struck with what he saw to be the economic and social superiority of free people and free markets across the border in Flanders. He then became greatly influenced by the writings of Fénélon, Belesbat, and Boisguilbert.

D'Argenson saw self-love and self-interest as the mainspring of human action, as bringing about energy and productivity in the pursuit of each man's happiness. Human social life, to d'Argenson, has the 'natural tendency to inherent harmony when artificial constraints and artificial harmony and artificial stimuli are removed'. Looking to an enlightened monarch to remove these artificial subsidies and restrictions, d'Argenson pointed out that in the ideal society, the sovereign would have very little to do. 'One spoils everything by meddling too much... The best government is that which governs least'. Thereby the marquis anticipated the famous phrase attributed to Thomas Jefferson.

D'Argenson concluded that 'each individual [should] be left alone to labor on his own behalf, instead of suffering constraint and ill-conceived precautions. Then everything will go beautifully...'. Then continuing the proto-Hayekian point made by Belesbat:

> It is precisely this perfection of liberty that makes a science of commerce impossible, in the sense that our speculative thinkers understand it. They want to direct commerce by their orders and regulations; but to do this one would need to be thoroughly acquainted with the interests involved in commerce...from one individual to another. In the absence of such knowledge, it [a science of commerce] can only be...much worse than ignorance in its bad effects...Therefore, *laissez-faire*! (*Eh, qu'on laisse-faire*!')

13.4 Natural law and property rights

Not only were the physiocrats generally consistent advocates of *laissez-faire*, but they also supported the operation of a free market and the natural rights of person and property. John Locke and the Levellers in England had transformed the rather vague and holistic notions of natural law into the clear-cut, firmly individualistic concepts of the natural rights of every individual human being. But the physiocrats were the first to apply natural rights and property rights concepts fully to the free market economy. In a sense, they completed the work of Locke and brought full Lockeanism to economics. Quesnay and the others were also inspired by the typically eighteenth century Enlightenment version of natural law: where the individual's rights of person and property were deeply embedded in a set of natural laws that had been worked out by the creator and were clearly discoverable in the light of human reason. In a profound sense, then, eighteenth century natural rights theory was a refined variant of medieval and post-medieval scholastic natural law. The rights were now clearly individualistic and not societal or pertaining to the state; and the set of natural laws was discoverable by human reason. The seventeenth century Dutch Protestant, and in essence Protestant scholastic, Hugo Grotius, deeply influenced by the late Spanish scholastics, developed a natural law theory which he boldly declared was truly independent of the question of whether God had created them. The seeds of this thought were in St Thomas Aquinas and in later Catholic scholastics, but never had it been formulated as clearly and as starkly as by Grotius. Or, to put it in terms that had fascinated political philosophers since Plato: did God love the good because it *was in fact good*, or is something good because God loves it? The former has always been the answer of those who believe in objective truth and objective ethics, that is, that something might be good or bad in accordance with the objective laws of nature and reality. The latter has been the answer of fideists who believe that no objective rights or ethics exist, and that only the purely arbitrary will of God, as expressed in revelation, can make things good or bad for mankind. Grotius's was the definitive statement of the objectivist, rationalist position, since natural laws for him are discoverable by human reason, and the eighteenth century Enlightenment was essentially the spinning out of the Grotian framework. To Grotius the Enlightenment added Newton, and his vision of the world as a set of harmonious, precisely if not mechanically interacting natural laws. And while Grotius and Newton were fervent Christians as was almost everyone in their epoch, the eighteenth century, starting with their premisses, easily fell into deism, in which God, the great 'clock-maker', or creator of this universe of natural laws, then disappeared from the scene and allowed his creation to work itself out.

From the standpoint of political philosophy, however, it mattered little whether Quesnay and the others (Du Pont was of Huguenot background) were Catholics or deists: for given their world outlook, their attitude toward natural law and natural rights could be the same in either case.

Mercier de la Rivière pointed out in his *L'Ordre naturel* that the general plan of God's creation had provided natural laws for the government of all things, and that man could surely not be any exception to that rule. Man needed only to know through his reason the conditions that would lead to his greatest happiness and then follow that path. All ills of mankind follow from ignorance or disobedience of such laws. In human nature, the right of self-preservation implies the right to property, and any individual property in man's products from the soil requires property in the land itself. But the right to property would be nothing without the freedom of using it, and so liberty is derived from the right to property. People flourish as social animals, and through trade and exchange of property they maximize the happiness of all. Furthermore, since the faculties of human beings are by nature diverse and unequal, an inequality of condition arises naturally from an equal right to liberty of every man. In this way, property rights and free markets, concluded Mercier, is a social order that is natural, evident, simple, immutable and conducive to the happiness of all.

Or, as Quesnay declared in his *Le Droit naturel* (*Natural Law*): 'Every man has a natural right to the free exercise of his faculties provided he does not employ them to the injury of himself or others. This right to liberty implies as a corollary the right to property', and the only function of the government is to defend that right.[2]

Many rulers of Europe were either entranced or intrigued by this fashionable new doctrine of physiocracy, and endeavoured to find out about it from its major theorists. The dauphin of France once complained to Quesnay of the difficulty of being a king, and the physician replied that it was really quite simple. 'What then', asked the dauphin, 'would you do if you were king?' 'Nothing', was the straightforward, stark, and magnificently libertarian answer of Dr Quesnay. 'But then who would govern?' sputtered the dauphin. 'The law', that is, the natural law, was Quesnay's accurate but no doubt unsatisfying reply.

A similar reply was certainly unsatisfactory to Catherine the Great, czarina of all the Russias, who sent for Mercier de la Rivière, jurist and at one time *intendant* (governor) of Martinique, to instruct her on how to govern. Pressed as to what the 'law' should be grounded on, Mercier answered the empress: 'On one [thing] alone, madame, the nature of things and of man'. 'But how then, can a king know what laws to give to a people?' the czarina continued. To which Mercier replied sharply: 'To give or make laws, Madame, is a task which God has left to no one. Ah! What is man, to think himself capable of dictating laws to beings whom he knows not...? The science of government, Mercier added, is to study and recognize the 'laws which God has so evidently engraven in the very organization of man, when He gave him existence'. Mercier added the pertinent warning: 'To seek to go beyond this would be a great misfortune and a destructive undertaking'.

The czarina was polite, but was definitely not amused. 'Monsieur', she replied curtly, 'I am very pleased to have heard you. I wish you good day'.

13.5 The single tax on land

Natural rights, *laissez-faire* libertarians always confront several problems or *lacunae* in their theory. One is taxation. If every individual is to have inviolable property rights, and those rights are to be guaranteed by the government, taxation, itself an infringement of property rights, presents an immediate problem to *laissez-faire* theorists. For *how high* should taxes be, and *who* should pay them?

Classical liberalism, however inchoate, had been born in France as an opposition to the statist absolutism of King Louis XIV in the latter decades of the seventeenth, and the early years of the eighteenth, century. A favourite programme of these liberals, as set forth by Marshal Vauban and by the Sieur de Boisguilbert, among others, was a single tax, a proportional tax on all income or property. The idea was that this simple, direct, universal tax would replace the monstrous and crippling network of taxation that had grown up in seventeenth century France.

To solve the problem of taxation, Dr Quesnay and the physiocrats came up with their own original single tax (*l'impôt unique*) – a single tax on land. The idea was that tax would be low, and that it would be proportional and confined only to a tax on land and on landlords.

The rationale of the *impôt unique* stems from the singular physiocratic view that only land is productive. Land *produces* because it creates matter; whereas all other activities, such as trade, commerce, manufacturing, services, etc. are 'sterile', although admittedly useful, because they only shuffle around or transform matter without creating it. Since only land is productive, and all other activities are sterile, it follows, according to the physiocrats, that any other taxes will wind up being shifted on to land, through the price system. Therefore, the choice is to tax the land indirectly and remotely, while crippling and distorting economic activities, or taxing the land openly and uniformly through the single tax, thereby freeing economic activity from a fearsome tax burden.

From the standpoint of economic theory, the famous physiocratic tenet that only land is productive must be considered bizarre and absurd. It is certainly a tremendous loss of insight compared to Cantillon, who identified land *and labour* as original productive factors, and entrepreneurs as the motor of the market economy who adjust resources to the demands of consumers and to the uncertainty of the market. It is surely true that agriculture was the chief occupation of the day, and that most commerce was the transportation and sale of agricultural products, but this scarcely salvages or excuses the absurdity of the land-as-only-productive-factor doctrine.

It is possible that one explanation for this odd doctrine is to apply to the physiocrats the insight of Professor Roger Garrison on the basic world-outlook of Adam Smith. Smith, in a less outlandish version of the physiocratic bias, held that only *material* output – in contrast to intangible services – is 'productive', while immaterial services are unproductive. Garrison points out that the contrast here is not really between material and immaterial goods and services, but between capital goods and consumer goods – which are basically either direct services or a stream of services to be available in the future. Hence, for Smith, 'productive' labour is only effort that goes into capital goods, into building up productive capacity for the future. Labour in direct service to consumers is 'unproductive'. In short, Smith, despite his reputation as an advocate of the free market, refuses to accept free market allocations to the production of consumer *vis-à-vis* capital goods; he would prefer more investment and growth than the market prefers.

In the same way, could it not be true that the physiocrats had a similar outlook? The physiocrats, too, stressed *material* goods, and agriculture was the main material product. The physiocrats were also greatly concerned with economic growth, with increasing investment and national output, and especially with greater capital investments in agriculture. Indeed, the physiocrats were disgruntled with free market choice, and wanted to strengthen consumer demand for agricultural products in particular. High consumption of farm products was beneficial according to the physiocrats, whereas high consumption of manufactured goods would promote 'unproductive' expenses and crowd out desirable purchases of agricultural products.

Some economists have gone so far as to speculate that the physiocrats would have been overjoyed at a policy of farm-price supports. Professor Spiegel believes that if the physiocrats

> had been faced with a choice between laissez faire and intervention on behalf of farm price supports, they would have chosen intervention. The means to resolve the economic problem that was foremost in their minds was the development of domestic agriculture rather than unconditional reliance on private initiative within a framework of competition.[3]

Perhaps the tip-off on applying the Garrison insight is the common attitude of Smith and the physiocrats on usury laws. Despite their generally consistent advocacy of absolute and inviolate property rights, and of the freedom to trade within and without a nation, Quesnay and the physiocrats championed usury laws, denying the freedom to lend and borrow. Adam Smith had a similar aberration. Smith, as we shall see further below (Chapter 16), and as Garrison pointed out, took this position in a conscious effort to divert credit from 'unproductive' high risk and high interest-paying speculators and consumers and toward 'productive' low risk investors. Similarly, Quesnay denounced the restrictions on investment and capital growth resulting from high interest rates and from the competition of unproductive borrowers crowding out credit that would otherwise go into capitalized agriculture. Usury laws were upheld on traditional moralistic grounds of alleged 'sterility' of money. But to the physiocrats, *all* activity except agriculture was 'unproductive', and so the problem was rather the competition such borrowing imposed on the 'productive sector'. As Elizabeth Fox-Genovese puts it: 'Quesnay... argues that the high interest rate constitutes neither more nor less than a tax upon the productive life of the nation – upon those who do not borrow as much as upon those who do'.[4]

It is true that part of the physiocratic attention here was on government debt, and it is certainly true that government debt raises interest rates and diverts capital from productive to unproductive sectors. But there are two flaws in such an approach. First, not all non-agricultural debt is state debt, and therefore not all higher interest is a 'tax' on producers. This returns us to the eccentric view of the physiocrats that only land is productive. Usury laws would cripple not only government debt, but also other forms of borrowing. And second, it seem odd to allow government debt and then to try to offset its unfortunate effects by the meat-axe approach of imposing restraints on usury. Surely it would be simpler, more direct, and less distorting to tackle the problem at its source and call for the elimination of government debt. Usury laws only make things worse, and injure free and productive credit.

And so Quesnay – himself the son of a well-to-do farmer – was far more interested in subsidizing credit to farmers and keeping out competing borrowers than in stopping government debt.

There is another way of explaining the physiocratic attitude towards land as the sole producer. And that is to concentrate on the proposed *impôt unique*. More specifically, the physiocrats held that the productive classes were the farmers, who rented the land from the landlords and actually tilled it. The landlords were only partially productive, the *partially* coming from the capital advances they had made to the farmers. But the physiocrats were sure that the farmers' returns were all bid away by their competition to rent lands, so that in practice all the 'net product' (*produit net*) – the *only* net product in society – is reaped by the nation's landlords. Therefore, the single tax should be a proportionate tax upon the landlords alone.

Professor Norman J. Ware has interpreted physiocracy and its emphasis on the sole productivity of land as merely a rationalization of the interests of the landlord class. This hypothesis has been taken seriously by many historians of economic thought. But let us ask ourselves: what sort of self-serving doctrine says: 'Please: put all the taxes on me'? The beneficiaries of physiocratic policies would surely be every economic class *except* the landlords, including Dr Quesnay's own class of farmers.[5]

13.6 'Objective' value and cost of production

Although the physiocrats had useful insights into political economy and the importance of the free market, their distinctive contributions to technical economics were not only wrong, but in some cases proved to be a disaster for the future of the economic discipline.

Thus for centuries the mainstream of economic thought, generally embedded in scholastic treatises, held that the value, and therefore the prices, of goods were determined on the market by utility and scarcity, that is, by consumer valuations of a given supply of a product. Scholastic and post-scholastic economics had basically solved the age-old 'value paradox' of diamonds and bread, or diamonds and water: how is it that bread, so useful to man, is worth very little on the market, whereas diamonds, a mere frippery, are so expensive? The solution was that if quantities of supply are taken into account, the seeming contradiction between 'use value' and 'exchange value' disappears. For the supply of bread is so abundant that any given loaf will have a negligible value – in use or in exchange – whereas diamonds are so scarce that they will command a high value on the market. 'Value', then, does not pertain in the abstract to a class of goods; it is imparted by consumers to specific, real units, and such value depends inversely on the supply of a good.

The only thing left to complete the explanation was the 'marginal' insight imparted by the Austrians and other neoclassicals in the 1870s. The scholastics saw that the utility of any good diminishes as its stock increases; the only thing lacking was the marginal analysis that real-world purchases and evaluations focus on the next unit (the 'marginal' unit) of the good. Diminishing utility is diminishing *marginal* utility. But while the capstone of utility and subjective value theory was yet missing, enough was already in place to provide a cogent explanation of value and price.

Despite his troubling injection of 'intrinsic value' as a quantity of land and labour in production, Cantillon had continued in this late scholastic, proto-Austrian, tradition and had indeed made many contributions to it, particularly in the study of money and entrepreneurship. It was the physiocrats who broke with centuries of sound economic reasoning and contributed to what would become, in the hands of Smith and Ricardo, a reactionary and obscurantist destruction of the correct analysis of value.

Dr Quesnay begins his value analysis by disregarding centuries of value theory and tragically sundering the concepts of 'use value' and 'exchange value'. Use value reflects the individual needs and desires of consumers, but, according to Quesnay, these use values of different goods have little or no relation to each other or, therefore, to prices. Exchange value, or relative prices, on the other hand, have no relation to man's needs or to agreements among bargainers and contractors. Instead, Quesnay, the would-be 'scientist', rejected subjective value and insisted that the values of goods are 'objective' and mystically embedded in various goods irrespective of consumers' subjective valuations. This objective embodiment, according to Quesnay, is the cost of production, which in some way determines the 'fundamental price' of every good. As was even true for Cantillon, this 'objective' cost of production appears to be somehow determined externally, from outside the system.

13.7 The *Tableau économique*

Not as devastating for the development of economics as his fallacy of the cost of production or 'productive labour', but more irritating nowadays is Dr Quesnay's *Tableau économique*, the very invention that his glorifier Mirabeau called one of the three great human inventions of all time. The *Tableau*, first published in 1758, was an incomprehensible, jargon-filled chart purporting to depict the flow of expenditures from one economic class to another. Generally dismissed as turgid and irrelevant in its day, it has been rediscovered by twentieth century economists, who are fascinated *because* of its very incomprehensibility. All the better to publish journal articles on!

Dr Quesnay's *Tableau économique* has been hailed for anticipating many of the most cherished developments of twentieth century economics: aggregative concepts, input–output analysis, econometrics, depiction of the 'circular flow' of equilibrium, Keynesian stress on expenditure and consumer demand, and the Keynesian 'multiplier'. In recent years tens of thousands of words have been lovingly expended on trying to piece together what the *Tableau* had to say, and to reconcile it with its own figures and with the economy of the real world.

To the extent that Quesnay's *Tableau* anticipates all these developments, so much the worse for both the forerunner and the later product! It is true that the *Tableau* shows that ultimately real goods exchange for real goods, with money as an intermediary, and that everyone is both a consumer and a producer in the market. But these simple facts were known for centuries, and charts, lines (Quesnay's cherished 'zig-zags'), and numbers can only obscure rather than highlight their importance. At best the chart elaborates spending and income patterns to no purpose.[6] Furthermore, the *Tableau* is holistic, aggregative, and macroeconomic, with no solid grounding in the methodological individualism of sound microeconomics.

The *Tableau* not only introduced ungrounded and unsound macro thinking into economics; it also laid up mischief for the future by anticipating Keynesianism. For it glorified expenditures, including consumption, and worried about savings, which it tended to regard as crippling the economy by 'leaking' out of the constant circular flow of spending. This stress on the vital importance of maintaining spending was faulty and superficial in ignoring two fundamental considerations: saving is spent on investment goods, and the key to harmony and equilibrium is *price* – lower spending can always be equilibrated easily on the market by a fall in prices. It can be laid down as a veritable law that any picture or analysis of the economic system that omits prices from consideration can only be crackpot; and the *Tableau économique* was the first – but alas not the last – economic model which did precisely that.

Dr Quesnay of course gave to his circular flow model his own physiocratic twist: it was particularly important to keep up spending on 'productive' agricultural products, and to avoid diversion of spending to 'sterile' and 'unproductive' products, i.e. to anything else. Keynes, of course, was to avoid the physiocratic bias when he resurrected a similar analysis.

While the analytic merits of macro concepts, input–output analysis and econometrics are highly dubious at best, they are surely worse than nothing if the numbers are incorrect. But Quesnay's figures are spurious, for the France of his day or for any other epoch. And the would-be great mathematician made many simple mistakes in arithmetic in the portrayals of his beloved *Tableau*. At best, then, the *Tableau* was elaborate frippery; at worst, false, mischief-making, and deceptive. And in no sense did the *Tableau* do anything but detract and divert attention from genuine economic analysis and insight.

After contemplating this piece of egregious folly, it is a relief to turn to the blistering satirical attack on the *Tableau* by a conservative statist opponent of the physiocrats, the attorney Simon Nicolas Henri Linguet (1736–94). In his *Réponse Aux Docteurs modernes* (*Reply to the Modern Doctors*) (1771), Linguet begins by ridiculing the idea that the physiocrats were not a cult, or sect:

> Evidence shows it: your mysterious words, *physiocratie, produit net*; your mystic jargon, *ordre, science, le maitre* [the master] your titles of honor showered on your patriarchs; your wreaths scattered through the provinces on obscure if excellent persons...Not a sect? You have a rallying cry, banners, a march, a trumpeter [Du Pont], a uniform for your books, and a sign like freemasons. Not a sect? One cannot touch one of you but all rush to his aid. You all laud and glorify each other, and attack and intimidate your opponents in unmeasured terms.

Linguet then turns his scornful attention to the *Tableau*:

> You affect an inspired tone and seriously discuss on what particular day the symbol of your faith, the masterpiece, the *Tableau Economique* was born – a symbol so mysterious that huge volumes cannot explain it. It is like the Koran of Mohamet. You burn to lay down your lives for your principles, and talk of your apostleship. You attack [the Abbé] Galiani and me because we have no reverence for that ridiculous hieroglyphic which is your holy Gospel. Confucius drew up a table, the I-Ching, of sixty-four terms, also connected by lines, to show the evolution of the elements, and your *Tableau Economique* is justly enough compared to it, but it comes three hundred years too late. Both alike are equally unintelligible. The *Tableau* is an insult to common sense, to reason, and philosophy, with its columns of figures of *reproduction nette* terminating always in a zero, striking symbol of the fruit of the researches of any one simple enough to try in vain to understand it.[7]

13.8 Strategy and influence

One problem that any *laissez-faire* liberal thinker must face is: granted that government interference should be minimal, what form should that government take? Who shall govern?

To French liberals of the latter seventeenth or eighteenth century there seemed to be only one answer: government is and always will be rule by an absolute monarch. Oppositionist rebels had been crushed in the early and mid-seventeenth century, and from then on only one answer was thinkable: the king must be converted to the truths and wisdom of *laissez-faire*. Any idea of inspiring or launching a mass opposition movement against the king was simply out of the question; it was not part of any thinkable dialogue.

The physiocrats, like classical liberals earlier in the eighteenth century, were not simply theorists. The nation had gone awry, and they possessed a political alternative they were trying to promote. But if absolute monarchy was the only conceivable form of government for France, the only strategy for liberals was simple, at least on paper; to convert the king. And so the strategy of classical liberals, from the exertions of the Abbé Claude Fleury and his able student, Archbishop Fénélon in the late seventeenth century, to the physiocrats and Turgot in the late eighteenth, was to convert the ruler.

The liberals were well placed to pursue the strategy of what might be called their projected 'revolution from the top'. For they were all highly placed at court. Archbishop Fénélon placed his hopes in the dauphin, rearing the duke of Burgundy as an ardent classical liberal. But we have seen that these carefully laid plans turned to ashes when the duke died of illness in 1711, only four years before the death of Louis himself.

A half-century later, Dr Quesnay, again working through a king's mistress, this time Madame de Pompadour, used his position at court to try to convert the ruler. Success in France was only partial. When Turgot, who agreed with the physiocrats on *laissez-faire*, became finance minister and started putting sweeping liberal reforms into effect, he quickly ran into a wall of entrenched opposition that removed him from office only two years later. His reforms were angrily repealed. The leading physiocrats were exiled by King Louis XVI, their journal was quickly suppressed, and Mirabeau was ordered to cancel his famous Tuesday evening seminars.

The physiocrats' strategy proved a failure, and there was more to the failure than the vagaries of a particular monarch. For even if the monarch could be convinced that liberty conduced to the happiness and prosperity of his subjects, his own interests are often to maximize state exactions and therefore his own power and wealth. Furthermore, the monarch does not rule alone, but as the head of a ruling coalition of bureaucrats, nobles, privileged monopolists and feudal lords. He rules, in short, as the head of a power élite, or 'ruling class'. It is theoretically conceivable but scarcely likely that a king and the rest of the ruling class will rush to embrace a philosophy and a political economy that will end their power and put them, in effect, out of business. It certainly did not happen in France and so, after the failure of the physiocrats and Turgot, came the French Revolution.

In any event, the physiocrats did manage to convert some rulers, though not the monarch of France. Their leading disciple among the rulers of the world – and one of the most enthusiastic and lovable ones – was Carl Friedrich, margrave of the duchy of Baden (1728–1811) in Germany. Converted by the works of Mirabeau, the margrave wrote a précis of physiocracy, and proceeded to try to institute the system in his realm. The margrave proposed free trade in corn to the German Diet, and in 1770, he introduced the *impôt unique* at 20 per cent of the agricultural 'net product' in three villages of Baden. Administering the experiment was the margrave's chief aide, the enthusiastic German physiocrat Johann August Schlettwein (1731–1802), professor of economics at the University of Giessen. The experiment, however, was abandoned in a few years in two villages, although the single tax continued in the village of Dietlingen until 1792. For a few years, the margrave also imported Du Pont de Nemours to be his adviser and tutor to his son.

In one notable meeting, the fervent margrave of Baden asked his master Mirabeau whether or not the physiocratic ideal was making sovereign rulers unnecessary. Perhaps they might all be reformed out of existence. The margrave had divined the anarchistic – or at least the republican – core underlying the *laissez-faire* libertarian and natural rights doctrine. But Mirabeau, dedicated as were all the physiocrats to absolute monarchy, drew back, sternly reminding his younger pupil that while the role of the sovereign would ideally be limited, he would still be the owner of the public domain and the preserver of social order.

Several other rulers of Europe at least dabbled in physiocracy. One of the most eager was Leopold II, grand duke of Tuscany, later emperor of Austria, who ordered his ministers to consult with Mirabeau and carried out some of the physiocratic reforms. A fellow-traveller was Emperor Joseph II of Austria. Another physiocratic enthusiast was Gustavus III, king of Sweden, who conferred upon Mirabeau the grand cross of the newly founded Order of Wasa, in honour of agriculture. Du Pont in turn, was made a Knight of the Order. More practically, when the physiocratic journal was suppressed upon the fall of Turgot, King Gustavus and the margrave of Baden joined in commissioning Du Pont to edit a journal which would be published in their realms.

But the physiocratic appeal to monarchy lost what little effect it had after the onset of the French Revolution. Indeed, after the revolution, physiocracy, with its pro-agricultural bias and devotion to absolute monarchy, was discredited in France and the rest of Europe.

13.9 Daniel Bernoulli and the founding of mathematical economics

We should not leave the *Tableau* without mentioning a French–Swiss contemporary of Cantillon who prefigured the *Tableau* in one and only one sense: he can be said to be the founder, in the broadest sense, of mathematical economics. As such, his work contained some of the typical flaws and fallacies of that method.

Daniel Bernoulli (1700–82) was born into a family of distinguished mathematicians. His uncle, Jacques Bernoulli (1654–1705), was the first to discover the theory of probability (in his Latin work, *Ars conjectandi*, 1713) and his father Jean (1667–1748) was one of the early developers of the calculus, a method that had been discovered in the late seventeenth century. In 1738, Daniel, trying to solve a problem in probability theory and the theory of gambling by use of the calculus, stumbled on the concept of the law of diminishing marginal utility of money. Bernoulli's essay was published in Latin as an article in a scholarly volume.[8]

Bernoulli was presumably not familiar with the arrival at a similar law, albeit in non-mathematical form, by the Spanish Salamancan scholastics Tomás de Mercado and Francisco Garcia nearly two centuries earlier. Certainly he displayed no familiarity whatever with their monetary theories or with any other aspect of economics, for that matter. And being a mathematician, he got even his own particular point wrong, introducing the form of the Law of Diminishing Marginal Utility that would return to plague economic thought in future centuries. For the use of mathematics necessarily leads the economist to distort reality by making the theory convenient for mathematical symbolism and manipulation. Mathematics takes over, and the reality of human action loses out.

One fundamental flaw of Bernoulli's formulation was to put his symbolism into a ratio, or fractional form. If one insists on putting the concept of diminishing marginal utility of money for each individual into symbolic form, one could say that if a man's wealth, or total monetary assets, at any time is x, and utility or satisfaction is designated as u, and if Δ is the universal symbol for change, that

$$\frac{\Delta u}{\Delta x} \quad \text{diminishes as } x \text{ increases.}$$

But even this relatively innocuous formulation would be incorrect, for utility is *not* a thing, it is not a measurable entity, it cannot be divided, and therefore it is illegitimate to put it in ratio form, as the numerator in a non-existent fraction. Utility is neither a measurable entity, nor, even if it were, could it be commensurate with the money unit involved in the denominator.

Suppose that we ignore this fundamental flaw and accept the ratio as a kind of poetic version of the true law. But this is only the beginning of his problem. For then Bernoulli (and mathematical economists from then on) proceeded to multiply mathematical convenience illicitly, by transforming his symbols into the new calculus form. For if these increases of income or utility are reduced to being infinitesimal, one can use both the symbolism and the powerful manipulations of the differential calculus. Infinitely small increases are the first derivatives of the amount at any given point, and the Δs above can become the first derivatives, d. And then, the discrete jumps of human action can become the magically transformed smooth arcs and curves of the familiar geometric portrayals of modern economic theory.

But Bernoulli did not stop there. Fallacious assumption and method are piled upon each other like Pelion on Ossa. The next step towards a dramatic, seemingly precise conclusion is that every man's marginal utility not only diminishes as his wealth increases, but diminishes in fixed inverse proportion to his wealth. So that, if b is a constant and utility is y instead of u (presumably for convenience in putting utility on the y-axis and wealth on the x-axis), then

$$\frac{dy}{dx} = \frac{b}{x}$$

What evidence does Bernoulli have for this preposterous assumption, for his assertion that an increase in utility will be 'inversely proportionate to the quantity of goods already possessed'? None whatever, for this allegedly precise scientist has only pure assertion to offer.[9] There is no reason, in fact, to assume any such constant proportionality. No such evidence can ever be found, because the entire concept of constant proportion in a non-existent entity is absurd and meaningless. Utility is a subjective evaluation, a ranking by the individual, and there is no measurement, no extension, and therefore no way for it to be proportional to itself.

After coming up with this egregious fallacy, Bernoulli topped it by blithely assuming that *every* individual's marginal utility of money moves in the very same constant proportion, b. Modern economists are familiar with the difficulty, nay the impossibility, of measuring utilities between persons. But they do not give sufficient weight to this impossibility. Since utility is subjective to each individual, it cannot be measured or even compared across persons. But more than that; 'utility' is not a thing or an entity; it is simply the name for a subjective evaluation in the mind of each individual. Therefore it cannot be measured even *within* the mind of each individual, much less calculated or measured from one person to another. Even each individual person can only compare values or utilities ordinally; the idea of his 'measuring' them is absurd and meaningless.

From this multi-illegitimate theory, Bernoulli concluded fallaciously that 'there is no doubt that a gain of one thousand ducats is more significant to a pauper than to a rich man though both gain the same amount'. It depends, of course, on the values and subjective utilities of the particular rich man or pauper, and that dependence can never be measured or even compared by anyone, whether by outside observers or by either of the two people involved.[10]

Bernoulli's dubious contribution won its way into mathematics, having been adopted by the great early nineteenth century French probability theorist Pierre Simon, Marquis de Laplace (1749–1827), in his renowned *Théorie analytique des probabilités* (1812). But it was fortunately completely ignored in economic thought[11] until it was dredged up by Jevons and the mathematically inclined wing of the late nineteenth century marginal utility theorists. Its neglect was undoubtedly aided by its having been written in Latin; no German translation appeared until 1896, nor an English one until 1954.

13.10 Notes

1. Quoted in Henry Higgs, *The Physiocrats* (1897, New York: The Langland Press, 1952, p. 62.
2. See the paraphrase by Higgs, ibid., p. 45.
3. Henry William Spiegel, *The Growth of Economic Thought* (2nd ed., Durham, NC: Duke University Press, 1983), p. 192.
4. Elizabeth Fox-Genovese, *The Origins of Physiocracy* (Ithaca: Cornell University Press, 1976), p. 241.
5. I absorbed this insight from Professor Joseph Dorfman's lectures on the history of economic thought at Columbia University. As far as I know, this view has never seen print.
6. Foley provides the interesting speculation that Dr Quesnay's *Tableau économique* was heavily influenced by his erroneous conception of how blood circulates in the human body. V. Foley, 'The Origin of the Tableau Economique', *History of Political Economy* 5 (Spring 1973), pp. 121–50.
7. In Higgs, op. cit., note 1, pp. 149–50.
8. As 'Specimen Theoriae Novae de Mensura Sortis', in *Commentarii Academiae Scientiarum Imperialis Petropolitanae*, Tomus (1738), pp. 175–92. The article was translated by Louise Sommer as 'Exposition of a New Theory on the Measurement of Risk', *Econometrica*, 22 (Jan. 1954), pp. 23ff.
9. Schumpeter points out that Bernoulli noted that this assumption had been anticipated by a decade by the mathematician Cramer, who, however, had assumed that marginal utility diminished by a constant proportion, not of x but of the square root of x. One wonders how one is supposed to choose between either of these absurd assertions. The lesson is that when genuine science is replaced by arbitrary assumptions, deuces become wild, and any assumption is as good or as bad as any other. J.A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), p. 303.
10. Emil Kauder notes the claim of Oskar Morgenstern that, while 'interindividual comparison of utilities cannot be justified', yet 'we live in making continuously such comparisons...'. Of course we do, but that process has nothing to do with science, and therefore has no place in economic theory, either in literary or mathematical form. Emil Kauder, *A History of Marginal Utility* (Princeton, NJ: Princeton University Press, 1965), p. 34n.
11. With one isolated exception, the important nineteenth century German economist, Friedrich Benedikt Wilhelm von Herrmann (1795–1868), *Staatswirtschaftliche Untersuchungen* (1832).

14 The brilliance of Turgot

14.1 The man

There is a custom in chess tournaments to award 'brilliancy' prizes for particularly resplendent victories. 'Brilliancy' games are brief, lucid and devastating, in which the master innovatively finds ways to new truths and new combinations in the discipline. If we were to award a prize for 'brilliancy' in the history of economic thought, it would surely go to Anne Robert Jacques Turgot, the baron de l'Aulne (1727–81). His career in economics was brief but brilliant and in every way remarkable. In the first place, he died rather young, and second, the time and energy he devoted to economics was comparatively little. He was a busy man of affairs, born in Paris to a distinguished Norman family which had long served as important royal officials. They were royal 'masters of requests', magistrates, *intendants* (governors). Turgot's father, Michel-Étienne, was a councillor of state, president of the Grand Council – an appeals tribunal of the *parlement* of Paris – a master of requests, and top administrator of the city of Paris. His mother was the intellectual and aristocratic Dame Magdelaine-Françoise Martineau.

Turgot had a sparkling career as a student, earning honours at the Seminary of Saint-Sulpice, and then at the great theological faculty of the University of Paris, the Sorbonne. As a younger son of a distinguished but not wealthy family, Turgot was expected to enter the Church, the preferred path of advancement for someone in that position in eighteenth century France. But although he became an Abbé, Turgot decided instead to follow family tradition and join the royal bureaucracy. There he became magistrate, master of requests, *intendant*, and, finally, as we have seen, a short-lived and controversial minister of finance (or 'controller-general') in a heroic but ill-fated attempt to sweep away statist restrictions on the market economy in a virtual revolution from above.

Not only was Turgot a busy administrator, but his intellectual interests were wide-ranging, and most of his spare time was spent in reading and writing, not in economics, but in history, literature, philology and the natural sciences. His contributions to economics were brief, scattered and hastily written, 12 pieces totalling only 188 pages. His longest and most famous work, 'Reflections on the Formation and Distribution of Wealth' (1766), comprised only 53 pages. This brevity only highlights the great contributions to economics made by this remarkable man.

Historians are wont to lump Turgot with the physiocrats, and to treat him as merely a physiocratic disciple in government, although he is treated also as a mere fellow-traveller of physiocracy out of an aesthetic desire to avoid being trapped in sectarian ways. None of this does justice to Turgot. He was a fellow-traveller largely because he shared with the physiocrats a devotion to free trade and *laissez-faire*. He was not a sectarian because he was a unique genius, and the physiocrats were scarcely that. His grasp of economic theory was immeasurably greater than theirs, and his treatment of such matters as capital and interest has scarcely been surpassed to this day.

In the history of thought the style is often the man, and Turgot's clarity and lucidity mirrors the virtues of his thought, and contrasts refreshingly with the prolix and turgid prose of the physiocrat school.

14.2 *Laissez-faire* and free trade

Turgot's mentor in economics and in administration was his great friend Jacques Claude Marie Vincent, Marquis de Gournay (1712–59). Gournay was a successful merchant who then became royal inspector of manufactures and minister of commerce. Although he wrote little, Gournay was a great *teacher* of economics in the best sense, through numberless conversations not only with Turgot but with the physiocrats and others. It was Gournay who spread the word in France about Cantillon's achievement. In addition, Gournay translated English economists such as Sir Josiah Child into French, and his extensive notes on these translations were widely circulated in manuscript in French intellectual circles. It was from Gournay that Turgot absorbed his devotion to *laissez-faire*, and indeed the origin of the phrase 'laissez-faire, laissez-passer' has often been incorrectly attributed to him.

It is fitting, then, that Turgot developed his *laissez-faire* views most fully in one of his early works, the 'Elegy to Gournay' (1759) a tribute offered when the Marquis died young after a long illness.[1]

Turgot made it clear that, for Gournay, the network of detailed mercantilist regulation of industry was not simply intellectual error, but a veritable system of coerced cartelization and special privilege conferred by the state. Turgot spoke of

> innumerable statutes, dictated by the spirit of monopoly, the whole purpose of which were [sic] to discourage industry, to concentrate trade within the hands of few people by multiplying formalities and charges, by subjecting industry to apprenticeships and journeymanships of ten years in some trades which can be learned in ten days, by excluding those who were not sons of masters, or those born outside a certain class, and by prohibiting the employment of women in the manufacture of cloth...

For Turgot, freedom of domestic and foreign trade followed equally from the enormous mutual benefits of free exchange. All the restrictions 'forget that no commercial transactions can be anything other than reciprocal', and that it is absurd to try to sell everything to foreigners while buying nothing from them in return. Turgot then goes on, in his 'Elegy', to make a vital pre-Hayekian point about the uses of indispensable particular knowledge by individual actors and entrepreneurs in the free market. These committed, on-the-spot participants in the market process know far more about their situations than intellectuals aloof from the fray.

> There is no need to prove that each individual is the only competent judge of the most advantageous use of his lands and of his labour. He alone has the particular knowledge without which the most enlightened man could only argue blindly. He learns by repeated trials, by his successes, by his losses, and he acquires a feeling for it which is much more ingenious than the theoretical knowledge of the indifferent observer because it is stimulated by want.

In proceeding to more detailed analysis of the market process, Turgot points out that self-interest is the prime mover of that process, and that, as Gournay had noted, individual interest in the free market must *always* coincide with the general interest. The buyer will select the seller who will give him the best price for the most suitable product, and the seller will sell his best merchandise at the lowest competitive price. Governmental restrictions and special privileges, on the other hand, compel consumers to buy poorer products at high prices. Turgot concludes that 'the general freedom of buying and selling is therefore... the only means of assuring, on the one hand, the seller of a price sufficient to encourage production, and, on the other hand, the consumer of the best merchandise at the lowest price'. Turgot concluded that government should be strictly limited to protecting individuals against 'great injustice' and the nation against invasion. 'The government should always protect the natural liberty of the buyer to buy, and the seller to sell'.

It is possible, Turgot conceded, that there will sometimes, on the free market, be a 'cheating merchant and a duped consumer'. But then, the market will supply its own remedies: 'the cheated consumer will learn by experience and will cease to frequent the cheating merchant, who will fall into discredit and thus will be punished for his fraudulence'.

Turgot, in fact, ridiculed attempts by government to insure against fraud or harm to consumers. In a prophetic rebuttal to the Ralph Naders of all ages, Turgot highlighted in a notable passage the numerous fallacies of alleged state protection:

> To expect the government to prevent such fraud from ever occurring would be like wanting it to provide cushions for all the children who might fall. To assume it to be possible to prevent successfully, by regulation, all possible malpractices of this kind is to sacrifice to a chimerical perfection the whole progress of industry; it is to restrict the imagination of artificers to all narrow limits of the familiar; it is to forbid them all new experiments...
>
> It means forgetting that the execution of these regulations is always entrusted to men who may have all the more interest in fraud or in conniving at fraud since the fraud which they might commit would be covered in some way by the seal of public authority and by the confidence which this seal inspires in the consumers.

Turgot added that all such regulations and inspections 'always involve expenses, and that these expenses are always a tax on the merchandise, and as a result overcharge the domestic consumer and discourage the foreign buyer'.

Turgot concludes with a splendid flourish:

> Thus, with obvious injustice, commerce, and consequently the nation, are charged with a heavy burden to save a few idle people the trouble of instructing themselves or of making inquiries to avoid being cheated. To suppose all consumers to be dupes, and all merchants and manufacturers to be cheats, has the effect of authorizing them to be so, and of degrading all the working members of the community.

Turgot goes on once more to the 'Hayekian' theme of greater knowledge by the particular actors in the market. The entire *laissez-faire* doctrine of Gournay, he points out, is grounded on the 'complete impossibility of directing, by invariant rules and continuous inspection a multitude of transactions which by their immensity alone could not be fully known, and which, moreover, are continually dependent on a multitude of ever changing circumstances which cannot be managed or even foreseen'.

Turgot concludes his elegy to his friend and teacher by noting Gournay's belief that most people were 'well disposed toward the sweet principles of commercial freedom', but prejudice and a search for special privilege often bar the way. Every person, Turgot pointed out, wants to make an exception to the general principle of freedom, and 'this exception is generally based on their personal interest'.

One interesting aspect of the elegy is Turgot's noting of the Dutch influence on the *laissez-faire* views of Gournay. Gournay had had extensive commercial experience in Holland, and the Dutch model of relative free trade and free markets in the seventeenth and eighteenth century, especially under the republic, served as an inspiration throughout Europe. In addition, Turgot notes that one of the books that most influenced Gournay was the *Political Maxims* of Johan de Witt (1623–72), the great martyred leader of the classical liberal republican party in Holland. Indeed, in an article on 'Fairs and Markets', written two years earlier for the great *Encyclopédie*, Turgot had quoted Gournay as praising the free internal markets of Holland. Whereas other nations had confined trade to fairs in limited times and places, 'In Holland there are no fairs at all, but the whole extent of the State and the whole year are, as it were, a continuous fair, because commerce in that country is always and everywhere equally flourishing'.

Turgot's final writings on economics were as *intendant* at Limoges, in the years just before becoming controller-general in 1774. They reflect his embroilment in a struggle for free trade within the royal bureaucracy. In his last work, the 'Letter to the Abbé Terray [the controller-general] on the Duty on

Iron' (1773), Turgot trenchantly lashes out at the system of protective tariffs as a war of all against all using state monopoly privilege as a weapon, at the expense of the consumers:

> I believe, indeed, that iron masters, who know only about their own iron, imagine that they would earn more if they had fewer competitors. There is no merchant who would not like to be the sole seller of his commodity. There is no branch of trade in which those who are engaged in it do not seek to ward off competition, and do not find some sophisms to make people believe that it is in the State's interest to prevent at least the competition from abroad, which they most easily represent as the enemy of the national commerce. If we listen to them, and we have listened to them too often, all branches of commerce will be infected by this kind of monopoly. These fools do not see that this same monopoly which they practice, not, as they would have the government believe, against foreigners but against their own fellow-citizens, consumers of the commodity, is returned to them by these fellow citizens, who are sellers in their turn, in all the other branches of commerce where the first in their turn become buyers.

Turgot indeed, in anticipation of Bastiat three-quarters of a century later, calls this system a 'war of reciprocal oppression, in which the government lends its authority to all against all', in short a 'balance of annoyance and injustice between all kinds of industry' where everyone loses. He concludes that 'Whatever sophisms are collected by the self-interest of a few merchants, the truth is that all branches of commerce ought to be free, equally free, and entirely free…'.[2]

Turgot was close to the physiocrats, not only in advocating freedom of trade, but also in calling for a single tax on the 'net product' of land. Even more than in the case of physiocrats, one gets the impression with Turgot that his real passion was in getting rid of the stifling taxes on all other walks of life, rather than in imposing them on agricultural land. Turgot's views on taxes were most fully, if still briefly, worked out in his 'Plan for a Paper on Taxation in General' (1763), an outline of an unfinished essay he had begun to write as *intendant* at Limoges for the benefit of the controller-general. Turgot claimed that taxes on towns were shifted backwards to agriculture, and showed how taxation crippled commerce and how urban taxes distorted the location of towns and led to the illegal evasion of duties. Privileged monopolies, furthermore, raised prices severely and encouraged smuggling. Taxes on capital destroyed accumulated thrift and hobbled industry. Turgot's eloquence was confined to pillorying bad taxes rather than elaborating on the alleged virtues of the land tax. Turgot's summation of the tax system was trenchant and hard-hitting: 'It seems that Public Finance, like a greedy monster, has been lying in wait for the entire wealth of the people'.

On one aspect of politics Turgot parted apparently from the physiocrats. Evidently, Turgot's strategy was the same as theirs: attempting to convince the king of the virtues of *laissez-faire*. And yet one of Turgot's most incisive epigrams, delivered to a friend, was: 'I am not an *Enclopédiste* because I believe in God; I am not an *économiste* because I would have no king'. However, the latter was clearly not Turgot's publicly stated view; nor did it guide his public actions.

14.3 Value, exchange and price

One of the most remarkable contributions by Turgot was an unpublished and unfinished paper, 'Value and Money', written around 1769.[3] In this paper Turgot, working in a method of successive approximations and abstractions, developed an Austrian-type theory first of Crusoe economics, then of an isolated two-person exchange, which he later expanded to four persons and then to a complete market. By concentrating first on the economics of an isolated Crusoe figure, Turgot was able to work out economic laws that transcend exchange and apply to all individual actions. In short, praxeological theory transcends and is deeper than market exchange; it applies to all action.

First, Turgot examines an isolated man, and works out a sophisticated analysis of his value or utility scale. By valuing and forming preference scales of different objects, Crusoe confers value on various economic goods, and compares and chooses between them on the basis of their relative worth to him. Thus these goods acquire different values. Crusoe chooses not only between various present uses of goods but also between consuming them now and accumulating them for 'future needs'. He also sees clearly that more abundance of a good leads to a lower value, and vice versa. Like his French and other continental precursors, then, Turgot sees that the subjective utility of a good diminishes as its supply to a person increases; and like them, he lacks only the concept of the marginal unit to complete the theory. But he went far beyond his predecessors in the precision and clarity of his analysis. He also sees that the subjective values of goods (their 'esteem-value' to consumers) will change rapidly on the market, and there is at least a hint in his discussion that he realized that this subjective value is strictly ordinal and not subject to measurement (and therefore to most mathematical procedures).

Turgot begins his analysis at the very beginning; one isolated man, one object of valuation:

> Let us consider this man as exerting his abilities on a single object only; he will seek after it, avoid it, or treat it with indifference. In the first case, he would undoubtedly have a motive for seeking after this object; he would judge it to be suitable for his enjoyment, he will find it *good*, and this relative goodness could generally speaking be called *value*, it would not be susceptible to measurement...

Then, Turgot brings in other goods:

> If the same man can choose between several objects suitable to his use, he will be able to prefer one to the other, find an orange more agreeable than chestnuts, a fur better for keeping out the cold than a cotton garment; he will regard one as *worth more* than another; he will consequently decide to undertake those things which he prefers, and leave the others.

This 'comparison of *value*', this evaluation of different objects, changes continually: 'These *appraisals* are not permanent, they change continually with the need of the person'. Turgot proceeds not only to diminishing utility, but to a strong anticipation of diminishing *marginal* utility, since he concentrates on the *unit* of the particular goods: 'When the savage is hungry, he values a piece of game more than the best bearskin; but let his appetite be satisfied and let him be cold, and it will be the bearskin that becomes valuable to him'.

After bringing the anticipation of future needs into his discussion, Turgot deals with diminishing utility as a function of abundance. Armed with this tool of analysis, he helps solve the value paradox:

> water, in spite of its necessity and the multitude of pleasures which it provides for man, is not regarded as a precious thing in a well-watered country; man does not seek to gain its possession since the abundance of this element allows him to find it all around him.

Turgot then proceeds to a truly noteworthy discussion, anticipating the modern concentration on economics as the allocation of scare resources to a large and far less limited number of alternative ends:

> To obtain the satisfaction of these wants, man has only an even more limited quantity of strength and resources. Each particular object of enjoyment costs him trouble, hardship, labour and at the very least, time. It is this use of his resources applied to the quest for each object which provides the offset to his enjoyment, and forms as it were the cost of the thing.

While there is an unfortunate 'real cost' flavour about Turgot's treatment of cost, and he called the cost of a product its 'fundamental value', he comes down generally to a rudimentary version of the later 'Austrian' view that all costs are really 'opportunity costs', sacrifices foregoing a certain amount of resources that would have been produced elsewhere. Thus Turgot's actor (in this case an isolated one) appraises and evaluates objects on the basis of their significance to himself. First Turgot says that this significance, or utility, is the importance of his 'time and toil' expended, but then he treats this concept as equivalent to productive opportunity foregone: as 'the portion of his resources, which he can use to acquire an evaluated object without thereby sacrificing the quest for other objects of equal or greater importance'.

Having analysed the actions of an isolated Crusoe, Turgot brings in Friday, that is, he now assumes two men and sees how an exchange will develop. Here, in a perceptive analysis, he works out the 'Austrian' theory of isolated two-person exchange, virtually as it would be arrived at by Carl Menger a century later. First, he has two savages on a desert island, each with valuable goods in his possession, but the goods being suited to different wants. One man has a surplus of fish, the other of hides, and the result will be that each will exchange part of his surplus for the other's, so that both parties to the exchange will benefit. Commerce, or exchange, has developed. Turgot then changes the conditions of his example, and supposes that the two goods are corn and wood, and that each commodity could therefore be stored for future needs, so that each would not be automatically eager to dispose of his surplus. Each man will then weigh the relative 'esteem' to him of the two products, and weight the possible exchange accordingly. Each will adjust his supplies and demands until the two parties agree on a price at which each man will value what he obtains in exchange more highly than what he gives up. Both sides will then benefit from the exchange. As Turgot lucidly puts it:

> This superiority of the esteem value attributed by the acquirer to the thing he acquires over the thing he gives up is essential to the exchange for it is the sole motive for it. Each would remain as he was, if he did not find an interest, a personal profit, in exchange; if, in his own mind, he did not consider what he receives worth more than what he gives.

Turgot then unfortunately goes off the subjective value track by adding, unnecessarily, that the terms of exchange arrived at through this bargaining process will have 'equal exchange value', since otherwise the person cooler to the exchange 'would force the other to come closer to his price by a better offer'. It is unclear here what Turgot means by saying that 'each gives equal value to receive equal value'; there is perhaps an inchoate notion here that the price arrived at through bargaining will be halfway between the value scales of each.

Turgot, however, is perfectly correct in pointing out that the act of exchange increases the wealth of both parties to the exchange. He then brings in the competition of two sellers for each of the products and shows how the competition affects the value scales of the participants.

As Turgot had pointed out a few years earlier in his most important work, 'The Reflections on the Formation and Distribution of Wealth',[4] the bargaining process, where each party wants to get as much as he can and give up as little as possible in exchange, results in a tendency towards one uniform price of each product in terms of the other. The price of any good will vary in accordance with the urgency of need among the participants. There is no 'true price' to which the market tends, or should tend, to conform.

Finally, in his repeated analysis of human action as the result of *expectations*, rather than in equilibrium or as possessing perfect knowledge, Turgot anticipates the Austrian emphasis on expectations as the key to actions on the market. Turgot's very emphasis on expectations of course implies that they can be and often are disappointed in the market.

14.4 The theory of production and distribution

In one sense Turgot's theory of production followed the physiocrats: the unfortunate view that only agriculture is productive, and that, in consequence, there should be a single tax on land. But the main thrust of his theory of production was quite different from that of physiocracy. Thus, before Adam Smith's famous example of the pin factory and stress on division of labour, Turgot, in his 'Reflections', had worked out a keen analysis of that division:

> If the same man who, on his own land, cultivates these different articles, and uses them to supply his own wants, was also forced to perform all the intermediate operations himself, it is certain that he would succeed very badly. The greater part of these operations require care, attention and a long experience, such as are only to be acquired by working continuously and on a great quantity of materials.

And further, even if a man

> did succeed in tanning a single hide, he only needs one pair of shoes; what will he do with the rest? Shall he kill an ox to make this pair of shoes?...The same thing may be said concerning all the other wants of man, who, if he were reduced to his own field and his own labour, would waste much time and trouble in order to be very badly equipped in every respect, and would also cultivate his land very badly.

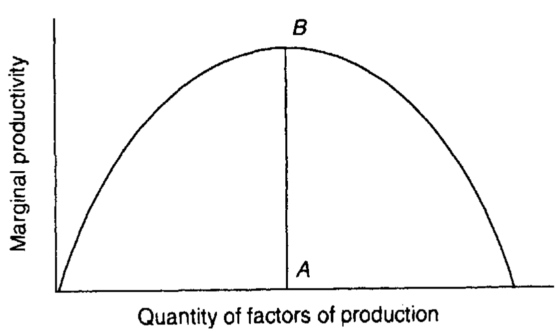
Even though only land was supposed to be productive, Turgot readily conceded that natural resources must be transformed by human labour, and that labour must enter into each stage of the production process. Here Turgot had worked out the rudiments of the crucial Austrian theory that production takes *time* and that it passes through various *stages*, each of which takes time, and that therefore the basic classes of factors of production are land, labour and time.

One of Turgot's most remarkable contributions to economics, the significance of which was lost until the twentieth century, was his brilliant and almost off-hand development of the law of diminishing returns, or, as it might be described, the law of variable proportions. This gem arose out of a contest which he had inspired to be held by the Royal Agricultural Society of Limoges, for prize-winning essays on indirect taxation. Unhappiness with the winning physiocratic essay by Guérineau de Saint-Péravy led him to develop his own views in 'Observations on a Paper by Saint-Péravy' (1767). Here Turgot went to the heart of the physiocratic error, in the *Tableau*, of assuming a fixed proportion of the various expenditures of different classes of people. But, Turgot pointed out, these proportions are variable, as are the proportions of physical factors in production. There are no constant proportions of factors in agriculture, for example, since the proportions vary according to the knowledge of the farmers, the value of the soil, the techniques used in production, and the nature of the soil and the climatic conditions.

Developing this theme further, Turgot declared that 'even if applied to the same field it [the product] is not proportional [to advances to the factors], and it can never be assumed that double the advances will yield double the product'. Not only are the proportions of factors to product variable, but also after a point, 'all further expenditures would be useless, and that such increases could even become detrimental. In this case, the advances would be increased without increasing the product. There is therefore a *maximum* point of production which it is impossible to pass...'. Furthermore, after the maximum point is passed, it is 'more than likely that as the advances are increased gradually past this point up to the point where they return nothing, each increase would be less and less productive'. On the other hand, if the farmer reduces the factors from the point of maximum production, the same changes in proportion would be found.

In short, Turgot had worked out, in fully developed form, an analysis of the law of diminishing returns which would not be surpassed, or possibly equalled, until the twentieth century.

(According to Schumpeter, not until a journal article by Edgeworth in 1911!) We have Turgot spelling out in words the familiar diagram in modern economics:



Increasing the quantity of factors, in short, raises the marginal productivity (the quantity produced by each increase of factors) until a maximum point, *AB*, is reached, after which the marginal productivity falls, eventually to zero, and then becomes negative.

14.5 The theory of capital, entrepreneurship, savings and interest

In the roster of A.R.J. Turgot's outstanding contributions to economic theory, the most remarkable was his theory of capital and interest which, in contrast with such fields as utility, sprang up virtually full-blown without reference to preceding contributions. Not only that: Turgot worked out almost completely the Austrian theory of capital and interest a century before it was set forth in definitive form by Eugen von Böhm-Bawerk.

Turgot's theory of capital proper was echoed in the British classical economists as well as the Austrians. Thus in his great 'Reflections', Turgot pointed out that wealth is accumulated by means of unconsumed and saved annual produce. Savings are accumulated in the form of money, and then invested in various kinds of capital goods. Furthermore, as Turgot pointed out, the 'capitalist–entrepreneur' must first accumulate saved capital in order to 'advance' his payment to labourers while the product is being worked on. In agriculture, the capitalist–entrepreneur must save funds to pay workers, buy cattle, pay for buildings and equipment, etc., until the harvest is reaped and sold and he can recoup his advances. And so it is in every field of production.

Some of this was picked up by Adam Smith and the later British classicists. But they failed to absorb two vital points. One was that Turgot's capitalist was also a capitalist–*entrepreneur*. He not only advanced savings to workers and other factors of production; he also, as Cantillon had first pointed out, bore the risks of uncertainty on the market. Cantillon's theory of the entrepreneur as a pervasive risk-bearer facing uncertainty, thereby equilibrating market conditions, had lacked one key element: an analysis of capital and the realization that the major driving force of the market economy is not just *any* entrepreneur but the *capitalist*–entrepreneur, the man who combines both functions.[5] Yet Turgot's memorable achievement in developing the theory of the capitalist–entrepreneur has, as Professor Hoselitz pointed out, 'been completely ignored' until the twentieth century.[6]

If the British classicists totally neglected the entrepreneur, they also failed to absorb Turgot's proto-Austrian emphasis on the crucial role of *time* in production, and the fact that industries may require many stages of production with lengthy periods of advance payment before production and sale. Turgot perceptively pointed out that it is the owner of capital

> who will wait for the sale of the leather to return him not only all his advances, but also a profit sufficient to compensate him for what his money would have been

> worth to him, had he turned it to the acquisition of an estate, and moreover, the wages due to his labour and care, to his risk, and even to his skill.

In this passage, Turgot anticipated the Austrian concept of opportunity cost, and pointed out that the capitalist will tend to earn his imputed wages and the opportunity that the capitalist sacrificed by not investing his money elsewhere. In short, the capitalist's accounting profits will tend to a long-run equilibrium plus the imputed wages of his own labour and skill. In agriculture, manufacturing, or any other field of production, there are two basic classes of producers in society: the entrepreneurs, owners of capital, 'which they invest profitably as advances for setting men at work'; and the workers or 'simple Artisans, who have no other property than their arms, who advance only their daily labour, and receive no profit but their wages'.

At this point, Turgot incorporated a germ of valuable insight from the physiocratic *Tableau* – that invested capital must continue to return a steady profit through continued circulation of expenditures, else dislocations in production and payments will occur. Integrating his analyses of money and capital, Turgot then pointed out that before the development of gold or silver as money, the scope for entrepreneurship, manufacturing or commerce had been very limited. For to develop the division of labour and stages of production, it is necessary to accumulate large sums of capital, and undertake extensive exchanges, none of which is possible without money.

Seeing that 'advances' of savings to factors of production are a key to investment, and that this process is only developed in a money economy, Turgot then proceeded to a crucial 'Austrian' point: since money and capital advances are indispensable to all enterprises, labourers are therefore willing to *pay* capitalists a discount out of production for the service of having money paid them in advance of future revenue. In short: the interest return on investment (what the Swedish 'Austrian' Knut Wicksell would over a century later call the 'natural rate of interest') is the payment by labourers to the capitalists for the function of advancing them present money so that they do not have to wait for years for their income. As Turgot put it in his 'Reflections':

> Since capitals are the indispensable foundation of all lucrative enterprises,...those who, with their industry and love of labour, have no capitals, or who do not have sufficient for the enterprise they wish to embark on, have no difficulty in deciding to give up to the owners of such capital or money who are willing to trust it to them, a portion of the profits they expect to receive over and above the return of their advances.

The following year, in his scintillating comments on the paper by Saint-Péravy, Turgot expanded his analysis of savings and capital to set forth an excellent anticipation of Say's law. Turgot rebutted pre-Keynesian fears of the physiocrats that money not spent on consumption would 'leak' out of the circular flow and thereby wreck the economy. As a result, the physiocrats tended to oppose savings *per se*. Turgot, however, pointed out that advances of capital are vital in all enterprises, and where might the advances come from, if not out of savings? He also noted that it made no difference if such savings were supplied by landed proprietors or by entrepreneurs. For entrepreneurial savings to be large enough to accumulate capital and expand production, profits have to be higher than the amount required to reproduce current entrepreneurial spending (i.e. replace inventory, capital goods, etc. as they are drawn down or wear out).

Turgot goes on to point out that the physiocrats assume without proof that savings simply leak out of circulation, and lower prices. Instead, money will return to circulation, savings will immediately be used either to buy land; to be invested as advances to workers and other factors; or to be loaned out at interest. All these uses of savings return money to the circular flow. Advances of capital, for example, return to circulation in paying for equipment, buildings, raw material or wages. The purchase of land transfers money to the seller of land, who in turn will either buy something with the money, pay his debts, or relend the amount; in any case, the money returns promptly to circulation.

Turgot then engaged in a similar analysis of spending flows if savings are loaned at interest. If consumers borrow the money, they borrow in order to spend, and so the money expended returns to circulation. If they borrow to pay debts or buy land, the same thing occurs. And if entrepreneurs borrow the money, it will be poured into advances and investment, and the money will once again return to circulation.

Money saved, therefore, is not lost; it returns to circulation. Furthermore, the value of savings invested in capital is far greater than piled up in hoards, so that money will tend to return to circulation quickly. Furthermore, Turgot pointed out, even if increased savings actually withdrew a small amount of money from circulation for a considerable time, the lower price of the produce will be more than offset for the entrepreneur by the increased advances and the consequent greater output and lowering of the cost of production. Here, Turgot had the germ of the much later von Mises–von Hayek analysis of how savings narrows but lengthens the structure of production.

The acme of Turgot's contribution to economic theory was his sophisticated analysis of interest. We have already seen Turgot's remarkable insight in seeing interest return on investment as a price paid by labourers to capitalist–entrepreneurs for advances of savings in the form of present money. Turgot also demonstrated – far ahead of his time – the relationship between this natural rate of interest and the interest on money loans. He showed, for example, that the two must tend to be equal on the market, since the owners of capital will continually balance their expected returns in different channels of use, whether they be money loans or direct investment in production. The lender sells the use of his money now, and the borrower buys that use, and the 'price' of those loans, i.e. the loan rate of interest, will be determined, as in the case of any commodity, by the variations in supply and demand on the market. Increased demand for loans ('many borrowers') will raise interest rates; increased supply of loans ('many lenders') will lower them. People borrow for many reasons, as we have seen: to try to make an entrepreneurial profit, to purchase land, pay debts or consume; while lenders are concerned with just two matters: interest return and the safety of their capital.

While there will be a market tendency to equate loan rates of interest and interest returns on investment, loans tend to be a less risky form of channelling savings. Thus investment in risky enterprises will only be made if entrepreneurs expect that their profit will be greater than the loan rate of interest. Turgot also pointed out that government bonds will tend to be the least risky investment, so that they will earn the lowest interest return. He went on to declare that the 'true evil' of government debt is that it presents advantages to the public creditors but channels their savings into 'sterile' and unproductive uses and maintains a high interest rate in competition with productive uses (or, as we would say nowadays, public debt 'crowds out' productive private uses of savings).

Pressing on to an analysis of the nature and use of lending at interest, Turgot engaged in an incisive and hard-hitting critique of usury laws, which the physiocrats were still trying to defend.

A loan, Turgot pointed out, 'is a reciprocal contract, free between the two parties, which they make only because it is advantageous to them'. But a contracted loan is then *ipso facto* advantageous to *both* the lender and the borrower. Turgot moved in for the clincher: 'Now on what principle can a crime be discovered in a contract advantageous to two parties, with which both parties are satisfied, and which certainly does no injury to anyone else?' There is no exploitation in charging interest just as there is none in the sale of any commodity. To attack a lender for 'taking advantage' of the borrower's need for money by demanding interest 'is as absurd an argument as saying that a baker who demands money for the bread he sells, takes advantage of the buyer's need for bread'.

And, if the money spent on bread might be considered its equivalent, then in the same way 'the money which the borrower receives today is equally an equivalent of the capital and interest he promises to return at the end of a certain time'. In short: a loan contract establishes the present value of a future payment of capital and interest. The borrower gets use of the money during the term of the loan; the lender is deprived of such use; the price of this advantage, or disadvantage, is 'interest'.

It is true, Turgot says to the anti-usury wing of the scholastics, that money as a 'mass of metal' is barren and produces nothing; but money employed successfully in enterprises yields a profit, or invested in land yields revenue. The lender gives up, during the term of the loan, not only possession of the metal, but also the profit he could have obtained by investment: the 'profit or revenue he would have been able to procure by it, and the interest which indemnified him for this loss cannot be looked on as unjust'. Thus Turgot integrates his analysis and justification for interest with a generalized view of opportunity cost, of income foregone from lending money. And then, above all, Turgot declares, there is the property right of the lender, a crucial point that must not be overlooked. A lender has

> the right to require an interest for his loan simply because the money is his property. Since it is property he is free to keep it...; if then he does lend, he may attach such conditions to the loan as he sees fit. In this, he does no injury to the borrower, since the latter agrees to the conditions, and has no right of any kind over the sum lent.

As for the Biblical passage in Luke that had for centuries been used to denounce interest, the passage that urged lending without gain, Turgot pointed out that this advice was simply a precept of charity, a 'laudable action inspired by generosity', and not a requirement of justice. The opponents of usury, Turgot explained, never press on to a consistent position of trying to *force* everyone to lend his savings at zero interest.

In one of his last contributions, the highly influential 'Paper on Lending at Interest' (1770), A.R.J. Turgot elaborated on his critique of usury laws, at the same time amplifying his noteworthy theory of interest.[7] He pointed out that usury laws are not rigorously enforced, leading to widespread black markets in loans. But the stigma of usury remains, along with pervasive dishonesty and disrespect for law. Yet, every once in a while, the usury laws are sporadically and unpredictably enforced, with severe penalties.

Most importantly, Turgot, in the 'Paper on Lending at Interest', focused on the crucial problem of interest: *why* are borrowers willing to pay the interest premium for the use of money? The opponents of usury, he noted, hold that the lender, in requiring more than the principal to be returned, is receiving a value in excess of the value of the loan, and that this excess is somehow deeply immoral. But then Turgot came to the critical point: 'It is true that in repaying the principal, the borrower returns exactly the same weight of the metal which the lender had given him'. But why, he adds, should the weight of the money metal be the crucial consideration, and not the 'value and usefulness it has for the lender and the borrower?' Specifically, arriving at the vital Böhm-Bawerkian–Austrian concept of time-preference, Turgot urges us to compare 'the difference in usefulness which exists at the date of borrowing between a sum currently owned and an equal sum which is to be received at a distant date'. The key is time-preference – the discounting of the future and the concomitant placing of a premium upon the present. Turgot points to the well known motto, 'a bird in the hand is worth two in the bush'. Since a sum of money actually owned now 'is preferable to the assurance of receiving a similar sum in one or several years' time', the same sum of money paid and returned is scarcely an equivalent value, for the lender 'gives the money and receives only an assurance'. But cannot this loss in value 'be compensated by the assurance of an increase in the sum proportioned to the delay?' Turgot concluded that 'this compensation is precisely the rate of interest'. He added that what has to be compared in a loan transaction is *not* the value of money loaned with the sum of money repaid, but the 'value of the *promise* of a sum of money compared to the value of money available now'. For a loan is precisely the transfer of a sum of money in exchange for the current *promise* of a sum of money in the future. Hence a maximum rate of interest imposed by law would deprive virtually all risky enterprises of credit.

In addition to developing the Austrian theory of time preference, Turgot was the first person, in his *Reflections*, to point to the corresponding concept of *capitalization*, that is, the present capital value of land or other capital good on the market tends to equal the sum of its expected annual future rents, or returns, discounted by the market rate of time-preference, or rate of interest.[8]

As if this were not enough to contribute to economics, Turgot also pioneered a sophisticated analysis of the interrelation between the interest rate and the 'quantity theory' of money. There is little connection, he pointed out, between the value of currency in terms of prices, and the interest rate. The supply of money may be plentiful, and hence the value of money low in terms of commodities, but interest may at the same time be very high. Perhaps following David Hume's similar model, Turgot asks what would happen if the quantity of silver money in a country suddenly doubled, *and* that increase were magically distributed in equal proportions to every person. Specifically, Turgot asks us to assume that there are one million ounces of silver money in existence in a country, and 'that there is brought into the State, in some manner or other, a second million ounces of silver, and that this increase is distributed to every purse in the same proportion as the first million, so that he who had two ounces before, now has four'. Turgot then explains that prices will rise, perhaps doubling, and that therefore the value of silver in terms of commodities will fall. But, he adds, it by no means follows that the interest rate will fall, if people's expenditure proportions remain the same, 'if all this money is carried to the market and employed in the current expenses of those who possess it...'[9]. The new money will not be loaned out, since only saved money is loaned and invested.

Indeed, Turgot points out that, depending on how the spending–savings proportions are affected, a rise in the quantity of money could *raise* interest rates. Suppose, he says, that all wealthy people decide to spend their incomes and annual profits on consumption and spend their capital on foolish expenditures. The greater consumption spending will raise the prices of consumer goods, and there being far less money to lend or to spend on investments, interest rates will rise along with prices. In short, spending will accelerate and prices rise, while, at the same time, time-preference rates rise, people spend more and save less, and interest rates will increase. Thus Turgot is over a century ahead of his time in working out the sophisticated Austrian relationship between what von Mises would call the 'money-relation' – the relation between the supply and demand for money, which determines prices or the price level – and the rates of time-preference, which determine the spending–saving proportion and the rate of interest. Here, too, was the beginning of the rudiments of the Austrian theory of the business cycle, of the relationship between expansion of the money supply and the rate of interest.

As for the movements in the rate of time-preference or interest, an increase in the spirit of thrift will lower interest rates and increase the amount of savings and the accumulation of capital; a rise in the spirit of luxury will do the opposite. The spirit of thrift, Turgot notes, has been steadily rising in Europe over several centuries, and hence interest rates have tended to fall. The various interest rates and rates of return on loans, investments, land, etc. will tend to equilibrate throughout the market and tend towards a single rate of return. Capital, Turgot notes, will move out of lower profit industries and regions and into higher profit industries.

14.6 Theory of money

While Turgot did not devote a great deal of attention to the theory of money proper, he had some important contributions to make. In addition to continuing the Hume model and integrating it with his analysis of interest, Turgot was emphatic in his opposition to the now dominant idea that money is purely a conventional token. In his critique of a prize-winning paper by J.J. Graslin (1767), Turgot declares Graslin totally mistaken in 'regarding money purely as a conventional token of wealth'. In contrast, Turgot declares, 'it is not at all by virtue of a convention that money is exchanged for all the other values: it is itself an object of commerce, a form of wealth, because it has a value, and because any value exchanges in trade for an equal value'.

In his unfinished dictionary article on 'Value and Money', Turgot develops his monetary theory further. Drawing on his knowledge of linguistics, he declares that money is a kind of language, bringing forms of various conventional things into a 'common term or standard'. The common term of all currencies is the actual value, or prices, of the objects they try to measure.

These 'measures', however, are hardly perfect, Turgot acknowledges, since the values of gold and silver always vary in relation to commodities as well as each other. All monies are made of the same materials, largely gold and silver, and differ only on the units of currency. And all these units are reducible to each other, as are other measures of length or volume, by expressions of weight in each standard currency. There are two kinds of money, Turgot notes, *real* money – coins, pieces of metal marked by inscriptions – and *fictitious* money, serving as units of account or *numéraires*. When real money units are defined in terms of the units of account, the various units are then linked to each other and to specific weights of gold or silver.

Problems arise, Turgot shows, because the real monies in the world are not just one metal but two – gold and silver. The relative values of gold and silver on the market will then vary in accordance with the abundance and the relative scarcity of gold and silver in the various nations.

14.7 Influence

One of the striking examples of injustice in the historiography of economic thought is the treatment accorded to Turgot's brilliant analysis of capital and interest by the great founder of Austrian capital and interest theory, Eugen von Böhm-Bawerk. In the 1880s, Böhm-Bawerk set out, in the first volume of his *Capital and Interest*, to clear the path for his own theory of interest by studying and demolishing previous, competing theories. Unfortunately, instead of acknowledging Turgot as his forerunner in pioneering Austrian theory, Böhm-Bawerk brusquely dismissed the Frenchman as a mere physiocratic naive land-productivity (or 'fructification') theorist. This unfairness to Turgot is all the more heightened by recent information that Böhm–Bawerk, in his first evaluation of Turgot's theory of interest in a still unpublished seminar paper in 1876, reveals the enormous influence of Turgot's views on his later developed thought. Perhaps we must conclude that, in this case, as in other cases, Böhm-Bawerk's need to claim originality and to demolish all his predecessors took precedence over the requirements of truth and justice.[10]

In the light of Böhm-Bawerk's mistreatment, it is heartwarming to see Schumpeter's appreciative summation of Turgot's great contributions to economics. Concentrating almost exclusively on Turgot's *Reflections*, Schumpeter declares that his theory of price formation is 'almost faultless, and, barring explicit formulation of the marginal principle, within measurable distance of that of Böhm-Bawerk'. The theory of saving, investment and capital is 'the first serious analysis of these matters' and 'proved almost unbelievably hardy. It is doubtful whether Alfred Marshall had advanced beyond it, certain that J.S. Mill had not. Böhm-Bawerk no doubt added a new branch to it, but substantially he subscribed to Turgot's propositions'. Turgot's interest theory is 'not only by far the greatest performance...the eighteenth century produced but it clearly foreshadowed much of the best thought of the last decades of the nineteenth'. All in all,

> It is not too much to say that analytic economics took a century to get where it could have got in twenty years after the publication of Turgot's treatise had its content been properly understood and absorbed by an alert profession.[11]

Turgot's influence on later economic thought was severely limited, probably largely because his writings were unfairly discredited among later generations by his association with physiocracy, and by the pervasive myth that Adam Smith had founded economics. And those nineteenth century economists who did read Turgot failed to grasp the significance of his capital, interest and production theories. Though Adam Smith knew Turgot personally, and read the *Reflections*, the influence on Smith, whose conclusions, apart from a broadly *laissez-faire* approach, were so different, was apparently minimal. Ricardo, typically, was heedless and uncomprehending, simply admiring Turgot for his thankless political role as liberal reformer. James Mill had a similar reaction. Malthus admired Turgot's views on value, but the only substantial Turgotian influence in England was on the great champion of the subjective utility theory of value, Samuel Bailey. Although the influence on Bailey is patent, he unfortunately did not refer to Turgot in his work, so that the utility tradition in Britain could not rediscover its champion.

It is on the French, self-avowed Smithian, J.B. Say, that Turgot had the most influence, especially in the subjective utility theory of value, and to some extent in capital and interest theory. Say was the genuine heir of the French *laissez-faire*, proto-Austrian, eighteenth century tradition. Unfortunately, his citations of Turgot underplayed the influence, and his obeisances to Smith were highly exaggerated, both probably reflecting Say's characteristic post-French Revolutionary reluctance to identify himself closely with the pro-absolute monarchy, pro-agriculture physiocrats, with whom Turgot was unfortunately lumped in the eyes of most knowledgeable Frenchman. Hence the ritualistic turn toward Smith.

14.8 Other French and Italian utility theorists of the eighteenth century

Two other distinguished French writers on economics, both contemporaries of Turgot, must be mentioned as contributing greatly to economic thought. The Abbé Ferdinando Galiani (1728–87) was a fascinating character who, though a Neapolitan, may be counted as largely French. Reared by his uncle, the chief almoner to the king, Galiani early came into contact with the leaders of Neapolitan thought and culture. At the age of 16, Galiani translated some of Locke's writings on money into Italian, and began an eight-year study of money. During the same period, Galiani took religious orders. At the age of 23, he published his remarkable major work, *Della Moneta* (*On Money*) (1751) which set forth a utility–scarcity theory of the value of goods and money. Unfortunately, *Della Moneta* has never been fully translated from the Italian.

In 1759, the Abbé Galiani became secretary and later head of the Neapolitan embassy in Paris, where he stayed for ten years, and where the erratic, witty, erudite, 4½ foot tall Galiani became the social lion of the Paris salons. After his return to Italy, though he wrote several minor works in linguistics and politics, and held several leading positions in the civil service, he considered himself an exile from his beloved France.

In the late scholastic–French–Italian tradition, Galiani expounded the value of goods as subjective valuation by consumers. Value is not intrinsic, he pointed out, but 'a sort of relationship between the possession of one good and that of another in the human mind'. Man always compares the valuation of one good with another, and exchanges one good for another in order to increase the level of his satisfactions. The quantity demanded of a good is inverse to its price, and the utility of each good is in inverse relation to its supply. Alert to the law of diminishing utility upon increasing supply, Galiani, like his predecessors, stops just short of the marginal concept, but is at any rate able to solve the 'value paradox': the view that use-value is severed from price- or exchange-value because bread or water, goods highly useful to man, are very cheap on the market whereas fripperies like diamonds are highly expensive.

Thus Galiani writes, with great subtlety and perception and with his usual flair:

> It is obvious that air and water, which are very useful for human life, have no value because they are not scarce. On the other hand, a bag of sand from the shores of Japan would be an extremely rare thing – yet, unless it has a certain utility, it is without value.

Galiani then states the alleged value paradox, quoting from the seventeenth century Italian writer, Bernardo Davanzati. Davanzati laments that 'A living calf is nobler than a golden calf, but how much less is its price!' while 'others say: "A pound of bread is more useful than a pound of gold".' Galiani then brilliantly demolishes this doctrine:

> This is a wrong and foolish conclusion. It is based on neglect of the fact that 'useful' and 'less useful' are relative concepts, which depend on the specific circumstances. If somebody is in want of bread and of gold, bread is surely more useful for him. This agrees with the facts of life, because nobody would forego bread, take gold, and die from hunger. People who mine gold never forget to eat

> and to sleep. But somebody who has eaten his fill will consider bread the least useful of goods. He will then want to satisfy other needs. This goes to show that the precious metals are companions of luxury, that is, of a status in which the elemental needs are taken care of. Davanzati maintains that a single egg, priced at 1/2 grain of gold, would have had the value of protecting the starving Count Ugolino from death at his tenth day in gaol – a value in excess of that of all the gold in the world. But this confuses awkwardly the price paid by a person unafraid to die from hunger without the egg, and the needs of Count Ugolino. How can Davanzati be sure that the Count would not have paid 1,000 grains of gold for the egg? Davanzati obviously had made a mistake here, and, although he is not aware of it, his further remarks indicate that the knows better. He says: What an awful thing is a rat. But when Casilino was under siege, prices went up so much that a rat fetched 200 guilders – and this price was not expensive because the seller died from hunger and the buyer could save himself.

Professor Einaudi informed us in 1945 that 'this is the classical section which is always read in Italian seminars when a telling illustration of the principle of diminishing utility is to be given'. In addition to illuminating this crucial principle, the above passage also shows how people, satiated with bread, turn to the consumption or use of other goods foregone.[12]

In addition to taking a subjectivist, 'pre-Austrian' approach to utility and value of goods, Galiani also introduced the same approach towards interest on loans, outlining at least the rudiments of the time-preference theory of interest in passages that influenced Turgot. Thus Galiani wrote:

> From this arises the rate of exchange and the rate of interest – brother and sister. The former equalizes the present and the spatially distant money. It operates with the help of an apparent agio, which...equate(s) the real value of the one to that of the other, one being reduced because of lesser convenience or greater risk. Interest equalizes present and future money. Here the effect of time is the same as that of spatial distance in the case of the rate of exchange. The basis of either contract is the equality of the real value.

Galiani defines a loan as 'the surrender of a good, with the proviso that an equivalent good is to be returned, not more'. But, in contrast to the centuries-long tradition of anti-'usury' writers who proceed from the same premise to denounce all interest on loans as illegitimate, Galiani points out what would later be a fundamental insight of the Austrian School: a good, in this case an 'equivalent', is not to be described by its physical properties or similarities, but rather by its subjective value in the minds of individual actors. Thus Galiani writes that those who conventionally define the equivalence of goods as 'weight, or similarity of form', focus on the physical objects in each exchange (such as units of money). But, he adds, those who adopt such definitions 'understand little of human activities'. He reiterates, instead, that value is not an objective characteristic inherent in goods, but rather it is 'the relationship of goods to our needs'. But then, 'Goods are equivalent when they provide equal convenience to the person with reference to whom they are considered as equivalent'.

Another prefigurement of the Austrian approach was Galiani's intimations towards a theory of distribution, which were not taken up until Böhm-Bawerk, probably independently, arrived at a similar but much fuller analysis a century and a half later. For Galiani hinted in his *Della Moneta* that it was not labour costs that determine value, but the opposite: it is value that determines labour costs. Or, more concretely, that the utility of products and the scarcity of various types of labour determine the prices of labour on the market. Though he begins his discussion by stating that labour in the sense of human energy 'is the sole source of value', he quickly goes on to point out that human talents vary greatly, so that the price of labour will vary. Thus:

> I believe that the value of human talents is determined in the very same way as that of inanimate things, and that it is regulated by the same principles of scarcity and utility combined. Men are born endowed by Providence with aptitudes for different trades, but in different degrees of scarcity.... It is not utility alone, therefore, which governs prices: for God causes the men who carry on the trades of greatest utility to be born in large numbers, and so their value cannot be great, these being, so to speak, the bread and wine of men; but scholars and philosophers, who may be called the gems among talents, deservedly bear a very high price.

Galiani was undoubtedly over-optimistic about the 'very high price' to be commanded by scholars and philosophers on the market, having overlooked his own scintillating example of scarce goods, such as 'bags of sand from the shores of Japan', which, though rare, may have little or no utility or value in the minds of consumers.

On the theory of money proper, the Abbé Galiani paved the way for the Austrian Menger–von Mises analysis of the origin of money by demonstrating that money – the medium of exchange – *must* originate on the market as a useful metal, and that it cannot be selected *de novo*, as a convention by some sort of social contract. In a lively assault on money-as-a-convention that could apply to any social contract explanation of the origin of the state, Galiani derided

> those who insist that all men had once come to an agreement, making a contract providing for the use, as money, of the *per se* useless metals, thus attaching value to them. Where did these conventions of all mankind take place, and where were the agreements concluded? In which century? At which place? Who were the deputies with whose help the Spaniards and Chinese, the Goths and the Africans made an agreement so lasting that during the many centuries which have passed the opinion never was changed?

Galiani pointed out that the sort of metal that would be chosen on the market would have to be universally acceptable, and hence would need to be highly valuable as a non-monetary commodity, easily portable, durable, uniform in quality, easily recognizable and calculable, and be difficult to counterfeit. Wiser than Smith and Ricardo after him, Galiani warned that money should not be regarded as ideally an invariable measure of value, for the value of a unit of account necessarily varies as the purchasing power of money changes, and therefore such an invariable standard cannot exist. As Galiani put it with typical pungency: 'Finally, this concept of stable money is a dream, a mania. Every new and richer mine that is discovered immediately changes all measures, without showing an effect on them but changing the price of the goods measured'.

Galiani made clear throughout *Della Moneta* that his entire analysis was embedded in the conceptual framework of the natural law. Natural laws, he explained, have a universal validity in economic affairs as much as in the laws of gravity or of fluids. Like physical laws, economic laws can only be violated at one's peril; any action defying the order of nature will be certain to fail.

The abbé proved his point by citing a hypothetical case: suppose that a Mohammedan country suddenly converts to Christianity. The drinking of wine, previously prohibited, now becomes legal, and its price will rise because of the small quantity available in the country. Merchants will bring wine into the country, and new wine producers will enter the field, until profits in dealing with wine fall back to their normal equilibrium level, 'as when waves are made in a vessel of water, after the confused and irregular movement the water returns to its original level'.

This equilibrating action of the market, which Galiani shows also applies to money, is furthermore propelled, marvellously enough, by self-interest, greed, and the quest for profit:

> And this equilibrium wonderfully suits the right abundance of commodities of life and earthly welfare, although it derives not from human prudence or virtue but from the very vile stimulus of sordid profit: Providence having contrived the order of everything for her infinite love of men, that our vile passions are often, in spite of us, ordered to the advantage of the whole.

The economic process, Galiani concluded, was guided by a 'Supreme Hand' (shades of Adam Smith's 'invisible hand' a generation later!).

The institution of money, indeed, enables all people to 'live together', to be interdependent on each other, while still benefiting greatly in pursuing their individual ends. As Galiani eloquently puts it:

> I saw, and everyone can now see, that trade, and money which drives it, from the miserable state of nature in which everyone thinks for himself, have brought us to

> the very happy one of living together, where everyone thinks and works for everybody else: and in this state not for the principle of virtue and piety alone (which are insufficient in dealing with entire nations), but we earn our living for the purpose of our personal interest and welfare.

Galiani's analysis is fuelled by an original and profound comparative analysis of seeing, mentally, what happens in different social systems. Thus he noted that, to avoid the inconveniences of barter, people might try 'living together' literally, in communities, as monasteries and convents do, but this is hardly feasible for entire nations. In a larger society, there might be a system where everyone produces whatever goods he wishes and then deposits them in a public warehouse where everyone could draw on the common store. (Galiani might have phrased it as, 'from each according to his ability, to each according to his needs'). But the system would collapse because lazy people would try to live at the expense of exploiting the hard-working ones, who in turn would work less. The public warehouse could, on the other hand, give producers 'receipts' which would then exchange for other goods at relative prices fixed by the prince; but one problem is that the prince might well inflate by printing an excessive number of such receipts. So that metals are the only viable money.

Galiani's youthful work *On Money* was his great contribution to economics. In his early days an ardent Catholic, abbé and monsignore, in Paris Galiani became a free thinker, roué, and Voltairean wit. In the course of rising in the bureaucracy, he completely changed his economic views, publishing the well-known *Dialogues on the Grain Trade* in 1770, which ridiculed *laissez-faire* and free trade, natural rights and the very idea of economic laws transcending time and place. Thus Galiani was not only an excellent utility theorist, but in his later years a forerunner of the nineteenth century historicists.

In his private letters, Galiani reveals quite frankly the underlying reason for his later conservatism, adherence to the *status quo*, cynical Machiavellianism, and critique of any liberal or *laissez-faire* disruption of the existing state of affairs. Attacking the idea of worrying about anyone's welfare but one's own, Galiani writes: 'The devil take one's neighbor!' and that 'All nonsense and disturbance arise from the fact that everybody is busy pleading somebody else's cause, and nobody his own'. He wrote that he was well satisfied with the existing French government because it was frankly expedient for him to do so; specifically, he did not wish to lose his luxurious income of 15 000 *livres*.

Of course Galiani found it expedient to confine his Machiavellianism to private letters while pretending to moralism in his public writings.[13] Thus in his *Della Moneta*, in both the original edition and in the second edition in

1780, Galiani bitterly denounced the institution of slavery: 'There is nothing that appears to me more monstrous than to see human beings like ourselves, vilified, enslaved and treated like animals'. But his approach was very different in a letter written in 1772:

> I believe that we should continue to buy negroes as long as they are sold, unless we succeed in letting them live in America...The only profitable trade is to exchange the blows one gives for the rupees one collects. It is the trade of the strongest.[14]

In short, anything is right if it succeeds.

Another Italian utility theorist, in his case an analyst of exchange, was the highly influential Neapolitan Abate Antonio Genovesi (1712–69). Genovesi was born near Salerno, and became a priest in 1739. At first a professor of ethics and moral philosophy at the University of Naples, Genovesi shifted his interests and became a professor of economics and commerce, in which he was a notable teacher. In his rather disjointed *Lezione de economia civile* (*Lessons on Civil Economy*) (1765), the learned Genovesi took a moderate free trade stance. More important, he pointed out the essential double inequality of value involved in any exchange. In any exchange, he said each party desires the object he acquires more than he does the object given up. The superfluous is given up for the necessary. Hence the mutual benefit necessarily present in any exchange.

The last gasp of subjective utility theory in the eighteenth century was set forth brilliantly by the French philosopher, Étienne Bonnot de Condillac, abbé de Mureaux (1715–80). Condillac, a leading empiricist–sensationalist philosopher, was the younger brother of the communist writer Gabriel Bonnot de Mably, and son of the Vicomte de Mably, who served as secretary to the parliament of Grenoble. After being educated at a theological seminary in Paris, Condillac left to pursue philosophy, publishing several philosophical works in the 1740s and 1750s.

In 1758, Condillac went to Italy as tutor to the son of Duke Ferdinand of Parma. There his interest was stimulated in economics by acquaintance with the pro-free trade economic policymaker, Tillot, state secretary to the duke. At the same time, Condillac learned of the work of Galiani and other Italian subjective value theorists. After a decade as tutor of the future duke, Condillac published a 16-volume *Course of Studies* he had prepared for his pupil.

When Condillac returned to Paris in the late 1760s, interest in trade, political economy and physiocracy was at its height, and Condillac, always favouring free trade on his own subjectivist grounds very different from the physiocrats, was stimulated to write his last work, *Le commerce et le gouvernement considérés relativement l'un à l'autre* (*Commerce and Government*), published in 1776, only a month before *The Wealth of Nations*.

In *Commerce and Government*, unfortunately destined to be swept away by Smith's all-commanding influence, Condillac set forth and defended a sophisticated subjective utility theory of value. The last of the utility–scarcity theorists before the advent of the British classicists, Condillac declared that the source of value of a good is its utility as evaluated by individuals in accordance with their needs and desires. Utility of goods increases with scarcity and decreases with abundance. Exchange arises because the utility and value of the two goods exchanged is different – indeed the reverse – for the two people engaging in the exchange.

As in the case of Genovesi, in exchange the superfluous is exchanged for the object in insufficient supply. But Condillac was careful to point out that exchange does not mean we give up things which are totally useless. An exchange only implies, as a later commentator summed it up, 'that what we acquire is worth more to us than what we part with'.[15]

As Condillac put it: 'It is true that I might sell a thing that I wanted; but as I would not do so except to procure one that I wanted still more, it is evident that I regard the first as useless to me in comparison with the one that I acquire'. The point is *relative*, rather than *absolute*, superabundance. And this set of superfluous-for-scarce exchanges greatly increases the all-round productivity of the market economy. Notes Condillac:

> The superabundance of the cultivators forms the basis of commerce...the cultivators procure the thing which has a value for them, while they give up one which has a value for others. If they could make no exchanges, their superabundance would remain in their hands, and would have no value for them. In fact, the superabundant corn which I keep in my granary, and which I cannot exchange, is no more wealth for me than the corn which I have not yet produced from the earth. Hence next year I shall sow less...

Furthermore, Condillac pressed on and generalized Galiani's utility theory of costs and distribution, declaring that 'a thing does not have value because it costs, as people suppose; it costs because it has a value'.[16] And the value is determined by the subjective opinions of individuals on the market.[17]

Condillac, moreover, refuted the typical classical and preclassical doctrine, dominant since Aristotle, that the fact that one good exchanges for another must mean that the two goods are of 'equal value'. Condillac rebutted this point neatly, a rebuttal which was promptly lost for 100 years: 'It is false that in exchanges one gives equal value for equal value. To the contrary, each of the contractors always surrenders a lesser for a greater value'.

Since consumer utility and demand determines value, people will tend to receive income from production to whatever extent they satisfy consumers in the production process. Hence, as Hutchison summarizes, 'people could expect to receive in income whatever they could expect to receive from the sale of such productive agents as they commanded.... Pay was regulated in markets by sellers and buyers, and depended on productivity and the expected utility of what was produced'.[18] Since greater intelligence and skill is in scarcer supply, it will tend to command a higher price, or wage, on the market.

Condillac's theory of entrepreneurship followed Cantillon, profits of the entrepreneur depending on the way in which he meets uncertainty and is able to forecast future markets. Like Cantillon, too, Condillac denied that money's value is arbitrary or determined by mere convention or government. The value of metallic money depends on the utility of monetary metals and their supply on the market, so that money's value is determined, as is that of other goods, by supply and demand. And Condillac also followed Cantillon in analysing the equilibrating, self-adjusting processes in international money flows and the balance of payments.

It was, then, not a great exaggeration when, nearly a century afterwards, the British economist Henry Dunning Macleod waxed rhapsodic over his rediscovery of the then forgotten Condillac. Macleod noted that Condillac drew from his insights an ardent devotion to complete free trade, and to an attack, far more consistent than that of his contemporary Adam Smith, on all forms of government intervention in the economy. Macleod noted Condillac's discussion of the 'mischievous consequences produced by all violations of, and attacks on' the principle of free markets:

> These are wars, custom-houses, taxes on industry, privileged and exclusive companies, taxes on consumption, tamperings with the currency, government loans, paper money, laws about the export and import of corn, laws about the internal circulation of grain, tricks of monopolists...

Condillac, Macleod went on,

> first proclaimed, as far as we are aware, the doctrine that in commerce *both* sides gain; the old doctrine sanctioned by Montaigne, Bacon, and many others, was that what one side gains, the other loses. This pernicious folly was the cause of many bloody wars. The Physiocrats then maintained that in exchange the values are equal. But Condillac laid down the true doctrine, that in commerce both sides gain. And he shows truly that the whole of commercial dynamics arise from these inequalities of value.

Himself joining in anticipation of the imputation, or marginal productivity theory of wages or other factor pricing, Macleod also underlined the significance of Condillac's insight that costs are determined by a good's value to the consumer rather than the other way round. In that way, Condillac helped inadvertently to refute the entire Smithian labour theory of value apparatus which was coming into being the same year that Condillac published his work. As Macleod puts it:

> Thus, too, he strikes at the root of many of the prevailing theories of value, which are based upon labour; he says that people pay for things because they value them, and they do not value them because they pay for them, as is commonly supposed. This is exactly the doctrine of Dr. [Archbishop Richard] Whately, when he says that people dive for pearls because they fetch a high price, and they do not fetch a high price because people dive for them...that it is not labour that is the cause of value, but value that attracts labour.

Macleod concludes his discussion with a rhetorical flourish. Noting that Condillac and Smith's classic works were published in the same year, he contrasted Smith's 'universal celebrity' with Condillac's neglect, but then notes that the world is rediscovering Condillac and learning of the superiority of his conception of economics to that of Smith. And, besides, Macleod wrote not without justification, 'the beautiful clearness, and simplicity' of Condillac contrasts notably with 'the incredible confusions and contradictions of Adam Smith'. However, 'at length he will receive justice...'.[19] If we contrast, however, the hypertrophy of Smith's bicentennial celebration with the non-existence of Condillac's, we might not be so quick to conclude that history has yet judged correctly.

14.9 Notes

1. The 'Elegy' was prepared by Turgot in a few days as material for Gournay's official eulogist, the writer Jean François Marmontel. Marmontel simply took extracts from Turgot's essay and published them as the official eulogy.
2. In the course of arguing for free trade in iron in this letter, Turgot anticipated the great 'Ricardian' doctrine of comparative advantage, in which each region concentrates on producing that commodity it can make efficiently relative to other regions.
3. Although the incomplete article remained unpublished for decades, it was written for an aborted dictionary of commerce to be edited by Turgot's lifelong friend and fellow Gournay disciple, the Abbé André Morellet (1727–1819). Morellet published a prospectus for the new dictionary in the same year, a prospectus that repeated Turgot's model of isolated exchange very closely. It is known, furthermore, that this prospectus was owned by Adam Smith.
4. The 'Reflections' (1766), remarkably, were 'scribbled' hastily in order to explain to two Chinese students in Paris questions Turgot was preparing to ask them about the Chinese economy. Rarely has a work so important arisen from so trivial a cause!
5. In an illuminating recent work on the history of the theory of the entrepreneur, Professors Hebert and Link examine the problem of whether an entrepreneur is only a capitalist or whether everyone, including workers without capital, is an entrepreneur. Turgot is considered as retreating from Cantillon's wider concept of entrepreneurship. But the important point here is that the capitalist–entrepreneur is the motor force of the market economy, and that by focusing for the first time on this vitally important figure, Turgot made an enormous stride forward. And we can hail this achievement even if it is also true that Turgot neglected the wider, less important areas of entrepreneurship. See Robert F. Hebert and Albert N. Link, *The Entrepreneur: Mainstream Views and Radical Critiques* (New York: Praeger, 1982), pp. 14–29 and passim.
6. Bert F. Hoselitz, 'The Early History of Entrepreneurial Theory', in J. Spengler and W. Allen (eds), *Essays in Economic Thought* (Chicago: Rand McNally and Co., 1960), p. 257.

7. Turgot's paper was applauded in Bentham's notable *Defence of Usury*, and was reprinted along with Bentham's essay in its French and Spanish translations in the late 1820s.
8. As Turgot puts it: 'a capital is the equivalent of a rent equal to a fixed portion of that capital and conversely, an annual rent represents a capital equal to the amount of that rent repeated a certain number of times, according as the interest is at a higher or lower rate'.
9. While the Hume–Turgot model is highly useful in isolating and clarifying distinctions between the price level and interest, and in highlighting the impact of a change in the quantity of money, it is still a retrogression from the sophisticated process analysis of Cantillon.
10. The paper, written for the seminar of Karl Knies in Heidelberg, was presented to the Austrian F.A. von Hayek by Böhm-Bawerk's widow in 1922–23. See P.D. Groenewegen (ed.) *The Economics of A.R.J. Turgot* (The Hague: Martinus Nijhoff, 1977), pp. xxix–xxx. For Böhm's dismissal of Turgot, see Eugen von Böhm-Bawerk, *Capital and Interest* (South Holland, Ill.: Libertarian Press, 1959), I, pp. 39–45. For the American Austrian Frank Fetter's defence of Turgot as against Böhm, see Frank A. Fetter, *Capital, Interest, and Rent: Essays in the Theory of Distribution*, ed. by M. Rothbard (Kansas City: Sheed Andrews and McMeel, 1977), pp. 24–6. For more on the treatment of Turgot's theory of interest by economists, see Groenewegen 'A Reinterpretation of Turgot's Theory of Capital and Interest', *Economic Journal*, 81 (June 1971), pp. 327–8, 333, 339–40. For Schumpeter on Böhm's mistreatment of Turgot, see J.A. Schumpeter, *History of Economic Analysis* (New York, Oxford University Press, 1954), p. 332n. On the Marshall–Wicksell–Cassel controversy over Böhm-Bawerk's treatment of Turgot's theory of interest, see Peter D. Groenewegen, 'Turgot's Place in the History of Economic Thought: A Bicentenary Estimate', *History of Political Economy*, 15 (Winter 1983), pp. 611–15.
11. Schumpeter, op. cit., note 10, pp. 249, 325.
12. 'Einaudi on Galiani', in H.W. Spiegel (ed.), *The Development of Economic Thought* (New York: John Wiley & Sons, 1952), pp. 77–8.
13. Indeed publicly self-professed Machiavellianism or amoralism is almost always self-contradictory, since it will hardly serve Machiavellian ends.
14. See Joseph Rossi, *The Abbé Galiani in France* (New York: Publications of the Institute of French Studies, 1930), pp. 47–8.
15. Oswald St Clair, *A Key to Ricardo* (New York: A.M. Kelley, 1965), p. 293.
16. My translation. See Emil Kauder, 'Genesis of the Marginal Utility theory', *Economic Journal* (Sept. 1953), p. 647.
17. T. Hutchison, *Before Adam Smith: The Emergence of Political Economy, 1662–1776* (Oxford: Basil Blackwell, 1988), p. 326.
18. Hutchison, op. cit., note 17, p. 327.
19. Henry Dunning Macleod, *A Dictionary of Political Economy* (London, 1863), I, pp. 534–5.

15 The Scottish Enlightenment

The temptation is to entitle this chapter: 'The forerunners of Adam Smith', himself a leading product of the Scottish Enlightenment. The problem, however, is that Smith, in most aspects of economics, was a retrogression and deterioration, rather than an advance, from his notable predecessors.

By the later seventeenth and during the eighteenth century, the once mighty Oxford and Cambridge Universities, previously in the forefront of thought and scholarship, had deteriorated to being merely the playground of wealthy young men. Instead, for over a century, the intellectual leadership of Great Britain devolved on the two great universities of Scotland: the University of Glasgow and particularly the University of Edinburgh.

15.1 The founder: Gershom Carmichael

The founder of the tradition of academic economics in Scotland was Gershom Carmichael (c.1672–1729). Carmichael's father was a Presbyterian minister, who was exiled for heresy by the Scottish, Presbyterian-run government. Born in England, Carmichael graduated from Edinburgh University. He then became 'regent' at St Andrews and Glasgow Universities, where courses were taught by 'regents' who were essentially young graduate students. After that, Carmichael was Presbyterian minister at Fife. When the regenting system was abolished in 1727, Carmichael was named the first professor of moral philosophy at Glasgow, where he died two years later.

Economics, or political economy, was taught as a subset of a course in moral philosophy, and thus the analysis of trade and the economy was embedded in a groundwork and treatment of natural law. In many ways, the eighteenth century Scottish professors followed the post-medieval and late Spanish scholastic method of including economic analysis as one segment of an integrated tome covering ethics, natural law, jurisprudence, ontology, and theology as well as economics proper.

The term, 'Protestant scholastic' has been coined for such writers as John Locke, and indeed the phrase is a coherent one, since one does not have to be Catholic to use the rational scholastic method or arrive at scholastic conclusions. A fascinating example of this was perhaps the first Protestant scholastic, the Dutch jurist Hugo Grotius (1583–1645). Grotius, who studied law at the University of Leyden and later became chief magistrate of Rotterdam, was an eminent natural law theorist who brought the concepts of natural law and natural rights to the Protestant countries of northern Europe. In his outstanding work, which made him the founder of international law, *De jure belli ac pacis* (*On the Law of War and Peace*) (1625), Grotius clearly pushed natural law to its logical and rationalist conclusion: even if God did not exist, natural law would still be eternal and absolute; such law is discoverable by unaided human reason; and even God could not negate – even if He wanted to – such natural law insights as 2 + 2 = 4. Natural law required the rights of property to be secure in order to enjoy social cooperation, and under Grotius's influence, the idea of the rights of property became expanded to the economic sphere. In a prefigurement of eighteenth century natural law–natural rights theory, Grotius believed in the harmony of human interaction based on free action and property rights. Grotius had been able to work in the rationalist and natural law tradition because his mentor Jacobus Arminius had previously broken off from orthodox Calvinism to stress the freedom of will of every individual. On these important matters of social philosophy, the Arminians had what might be called a 'neo-Catholic' position. In politics, Grotius was a leader in the classical liberal, free trade, republican party in Holland, then engaged in their century-long struggle with the monarchist orthodox Calvinists.

Particularly influential on northern European theorists was the late sixteenth century Spanish Jesuit scholastic Francisco Suarez. Suarez and his school heavily influenced two men who are generally considered founders of 'modern' philosophy: the early seventeenth century Frenchman, René Descartes: and the late seventeenth century German, Gottfried Leibniz. Suarez's *Disputationes Metaphysicae* (*Metaphysical Disputations*) was his most influential work, published in Salamanca in 1597. Particularly important was the second edition, published in Mainz, Germany in 1600, which became the leading philosophy textbook in most European universities, both Catholic and Protestant, for over a century. Leibniz, indeed, referred to the *Disputationes* as the *philosophia recepta* (the 'received philosophy').

Suarez's work was heavily influential in Protestant central Europe, Bohemia, Germany and Holland. The university of Leyden, a leading academic centre in Holland during the seventeenth century, was a particular focus of Suarezian dominance. And it was at Leyden that Hugo Grotius pursued his studies.

Though Gershom Carmichael, who inaugurated the teaching of economics in Scotland, launched the tradition of reading and studying Grotius – a tradition that was followed by Adam Smith in the eighteenth century line of Scottish intellectual descent – more directly important for Carmichael was Grotius's best-known follower, Samuel, Baron von Pufendorf (1632–94). Pufendorf was born in Saxony, son of a Lutheran pastor. He first studied theology, and then shifted to mathematics, jurisprudence and natural law. Graduating from the University of Jena, Pufendorf went to Leyden, where he published his first work on jurisprudence in 1661. On the basis of this achievement, Karl Ludwig, the elector palatine, created for the young Pufendorf a chair of natural and international law at the University of Heidelberg. In 1672, while teaching at the University of Lund, in Sweden, Pufendorf published his great work *De jure naturae et gentium*: the following year, he produced the *De officio hominis et civis*, a resumé or abstract of his great *De jure*. It turned out, not surprisingly, that the more concise *De officio* proved more useful as a teaching tool and therefore became the far more directly influential, if inferior product of Pufendorf's pen.

Not only did Professor Gershom Carmichael bring the study of the new natural and international law teachings of Grotius and Pufendorf to British shores, but also he was himself the English translator of *De Officio*. Carmichael published the English translation in 1718, along with extensive notes and a supplementary commentary. This work turned out to be Carmichael's most important achievement, certainly in economics or the social sciences.[1] Six years later, Carmichael published an improved second edition of *De Officio*, and this edition was reprinted in 1769. Carmichael saw to it that his students were steeped in Pufendorf and in his own commentaries.

Carmichael was the first teacher in Scotland to expound Locke, Leibniz and Descartes, as well as Grotius and Pufendorf. A knowledgeable observer has called Gershom Carmichael 'the true founder of the Scottish school of philosophy'. A contemporary noted that he was 'of very great reputation, and was exceedingly valued both at home and abroad'. So much so, in fact, that another observer noted that 'on Mr Carmichael's death, all the English students have left the University and, indeed, it's very thin this winter, and his name and reputation brought many to it'. Thus Carmichael led the way in the emerging custom of bright English students deserting Oxbridge and going up to a Scottish university for intellectual attainment.

On Carmichael's commentary on the *De Officio*, the testimony of Carmichael's most distinguished student, Francis Hutcheson, is telling: '...Pufendorf's smaller work, *De Officio Hominis et Civis*, which that worthy and ingenious man, the late Professor Gershom Carmichael of Glasgow, by far the best commentator on that book, has so supplied and corrected that the notes are of much more value than the text'.

Samuel von Pufendorf, like the eighteenth century French and Spanish scholastics, was a pre-Austrian subjective utility–scarcity theorist. That is, he believed that the value of goods on the market was determined by their common valuation placed on them by the consumers, and that the more abundant the supply the lower the value. Thus, Pufendorf:

> Of common value the foundation is that aptitude of the good or service by which it helps directly or indirectly to meet human needs...Yet there are some things most *useful* for human life upon which no definite value is set...The necessity of the good or its great usefulness are so far from always being the first determinant that we can observe men putting a very low value on what is indispensable to human life. This is because nature...gives us a plentiful supply of such goods. In fact a high value proceeds from *scarcity*....

In his notes to Pufendorf, Carmichael adds some valuable and not so valuable insights. He stresses the subjective nature of utility, pointing out that the usefulness of a good, which is essential to its value, may be either real or imagined. Unfortunately, he also muddied the waters by adding to scarcity as a determinant of value, 'the difficulty of acquiring' goods – an obvious 'real cost' attempt to measure the value of goods by the effort put into their production.

15.2 Francis Hutcheson: teacher of Adam Smith

Carmichael's most prominent student and follower was his successor at the chair of moral philosophy at Glasgow, Francis Hutcheson (1694–1746). Hutcheson, too, was the son of a Presbyterian minister of Ulster Scottish (or 'Scots-Irish') stock, who was born in Ireland. Educated in Glasgow and then Dublin, Hutcheson succeeded to the moral philosophy chair at Glasgow in 1730, upon the demise of Carmichael, where he taught until his death 16 years later. Hutcheson brought to Scottish philosophy a solid belief in natural rights and in the beneficence of nature. Hence Hutcheson brought to Scottish thought the basic classical liberal world-view.

Francis Hutcheson was a stimulating and dynamic lecturer, who introduced the style of pacing up and down in front of his class. The 'never-to-be-forgotten Dr. Hutcheson', as Adam Smith referred to him in a letter half a century later, was the first Glasgow professor to teach in English instead of Latin, and also the first to become friend, guardian, and even banker to his students. His lectures on philosophy, politics, law, ethics and political economy drew students from all over Britain, the most famous of whom was Adam Smith, who studied under him from 1737 to 1740. Hutcheson's major work, the *System of Moral Philosophy* (1755), was published by his son after his death.[2]

Hutcheson's treatment of value in his *System* is virtually identical to that of Pufendorf. Again, utility and scarcity are the determinants of value. Beginning with the statement, 'when there is no *demand*, there is no price', Hutcheson also points out that some highly useful things, such as air and water, have little or no value because of the bountiful supply furnished by nature. An increasingly scarce supply will raise the value or price of a good; a more abundant supply will lower them. Furthermore, Hutcheson perceptively defines 'use' highly subjectively, not simply as a good which naturally yields pleasure, but as '*any* tendency to give any satisfaction, by prevailing custom or fancy'.

Unfortunately, however, Hutcheson also took the Carmichael confusion about real costs and escalated it. For Hutcheson not only brought in the 'difficulty of labour' as a determinant, he also made it even *more* determining 'where the demand for two sorts of goods is equal'.

Foreshadowing Adam Smith's famous analysis, Francis Hutcheson stressed the importance of an advancing division of labour in economic growth.

Liberty on the market involves reciprocal aid through mutually beneficial exchange, a prime example of the beneficence of nature. The division of labour is a key to the preservation of human life, and Hutcheson shows the enormous advantages of specialization, skill, and exchange over the puny productivity of an isolated Crusoe. Extended division of labour also connotes a more extensive communication of knowledge, and permits greater use of machinery in production.

In his analysis of money, Hutcheson set forth an analysis of which commodities are likely to be chosen as money on the market that used to be standard in money and banking texts until governments destroyed the gold standard in the early 1930s. Money, Hutcheson pointed out, is a commodity generally accepted in a particular country, that becomes used as a general medium of exchange, and as a common standard of value and measure for economic calculation. Commodities which are chosen as money on the market are those with the most money-ish qualities: already generally desirable and acceptable in exchange; divisible into small quantities without losing their *pro rata* share of value; durable for long periods of time; and portable, for which quality they must have a high value per unit weight. Generally, he pointed out, silver and gold have been the two commodities that have been chosen as by far the most suitable as money, with coins becoming the most popular form precisely for being divisible and easily carrying a warrant of purity.

Debasement of coins increases their supply proportionately and raises prices of goods in terms of the money unit. As in the case of all other goods, an increase in the supply of gold or silver, Hutcheson pointed out, lowers their value in terms of other goods, i.e., increases their prices in terms of specie.

Hutcheson's most impressive achievement was his sharp rebuttal of the satiric Bernard de Mandeville (1670–1733), whose enormously popular *Fable of the Bees, or, Private Vices, Public Benefits* was published in 1714, and expanded and reprinted in several editions over the next 15 years.[3] In a pre-physiocratic, proto-Keynesian piece of mischief, the *Fable* maintained that the vice of luxury, no matter how deplorable, performs the important economic function of maintaining the prosperity of the economy. Many historians, especially F.A. von Hayek, have held Mandeville to be a forerunner of Smithian *laissez-faire*, since Smith held that individual self-interest is harmonized with the interests of all through the operation of competition and the free market. But the intent and the analysis are very different, for Mandeville stressed the alleged paradox of 'private vice, public benefits', and the 'benefit' was to come through the pre-Keynesian mechanism of consumption spending. Mandeville, furthermore, did not in any sense draw *laissez-faire* conclusions from this analysis; on the contrary, in a *Letter to Dion* (1732) published shortly before his death, Mandeville insisted that not the free market but the 'wisdom' and 'dexterous management of a skilful politician' are needed to transform private vices into public gain.

Mandeville's work, furthermore, was virtually the living embodiment of what the nineteenth century French *laissez-faire* economist Frédéric Bastiat would call the 'broken window fallacy'. Mandeville not only defended the importance of luxury but also of fraud, as providing work for lawyers, and theft, for having the virtue of employing locksmiths. And then there was Mandeville's classically imbecilic defence, in his *Fable of the Bees*, of the Great Fire of London:

> The Fire of London was a great Calamity, but if the Carpenters, Bricklayers, Smiths, and all, not only that are employed in Building but likewise those that made and dealt in the same Manufactures and other Merchandizes that were Burnt, and other Trades again that got by them when they were in full Employed, were to Vote against those who lost by the Fire; the Rejoicings would equal if not exceed the Complaints.[4]

'Keynesianism' gone mad; or rather, carried to its consistent conclusion.

Mandeville's defence of the 'vice' of luxury was enough to outrage both the rational economist and the Presbyterian in Francis Hutcheson. In rebuttal, in a prefigurement of Say's law, he pointed out that 'income not spent in one way will be spent in another and if not wasted in luxury will be devoted to useful prudent purposes'. Luxurious spending, then, is scarcely necessary for economic prosperity. In fact, he went on, it is the thrifty and the industrious who provide prosperity by supplying goods to the public. Declared Hutcheson: the 'good arising to the public is in no way owing to the luxurious, intemperate or proud but to the industrious, who must supply all customers'. Ridiculing Mandeville, the ordinarily sober Hutcheson riposted: 'Who needs to be surprised that luxury or pride are made necessary to public good, when even theft and robbery are supposed by the same author [Mandeville] to be subservient to it, by employing locksmiths?' The money saved by not spending on luxury (or locks) would be profitably employed elsewhere, unless all other wants had been totally saturated, that is, 'unless all men be already so well provided with all sorts of convenient utensils...that nothing can be added...'.

As a general proposition, Hutcheson called for liberty and the natural right of property. As he put it in his *System*:

> each one has a natural right to exert his powers, according to his own judgment and inclination, for those purposes, in all such industry, labour or amusements as are not harmful to others in their persons or goods, while no more public interest necessarily require his labours...This right we call *natural liberty*.

An unexceptionable statement, except for the ominous vagueness in the concept of public interest that 'requires' a man's labour.

Hutcheson's devotion to *laissez-faire*, however, was limited and guarded. Thus, in his *Introduction to Moral Philosophy*, he opines that 'the populace often needs also to be taught, and engaged by laws, into the best methods of managing their own affairs and exercising their mechanic arts...' In international trade, for example, Hutcheson was mired in old-fashioned mercantilism, advocating state regulation to insure a 'favourable balance of trade', and high protective tariffs as well as government subsidies of shipping, to develop industry.

Hutcheson's devotion to natural rights was weakened still further by his being the first to adumbrate the chimerical and disastrous formula of utilitarianism: 'the greatest happiness for the greatest number', possibly after having acquired it or its equivalent from Gershom Carmichael.

The specific influences of Hutcheson on Adam Smith will be detailed further below; suffice it to say here that the order of topics of Hutcheson's lectures, as published in the *System* and as heard by young Smith at the University of Glasgow, is almost the same as the order of chapters in the *Wealth of Nations.*

15.3 The Scottish Enlightenment and Presbyterianism

The Enlightenment was a general movement in European thought in the eighteenth century that stressed the power of human reason to discern truth. Generally, it was dedicated to natural law and natural rights, although in the later years of the century it began to shade off into utilitarianism. While scholasticism was compatible with an emphasis on natural law and natural rights, it was generally discarded and reviled as ignorant 'superstition', along with revealed religion. In religion, therefore, Enlightenment thinkers tended to discard Christianity, attack the Christian Church, and adopt scepticism, deism, or even atheism.

In this atmosphere corrosive of Christian faith and values, it is remarkable that the Scottish Enlightenment was linked very closely with the Presbyterian Church. How did this happen? How did a Scottish kirk which in the sixteenth century under the *aegis* of John Knox, had been fiery and militant, become softened into a church that welcomed the Enlightenment, i.e. natural law, reason, and latitudinarian if not sceptical Christianity?

The answer is that in the two centuries since John Knox the hard-nosed Calvinist faith had weakened in Scotland. In particular, after 1752, a powerful group of moderate Presbyterian clergy was able to take over and dominate the Church of Scotland, the established Church which, since the union of Scotland and England in 1707, had been established by the British Crown even though it was Presbyterian rather than Anglican, as was the Church of England.[5] Bitterly opposed to the moderates were the evangelical party, that is, clergy true to the basic Calvinist faith. The well-connected and highly educated moderates, strong in the lowland areas of Edinburgh and Glasgow, and on the east coast up to Aberdeen, were able to form the dominant power elite in the Church of Scotland after the 1750s, even though they represented a minority of the local kirks.

The moderates, embodying a soft and latitudinarian theological outlook, were intimately connected with the Edinburgh and Glasgow intellectuals who constituted the Scottish Enlightenment. Most of their tactics were planned in meetings in Edinburgh taverns. The dominant figure among the moderates was the Rev. William Robertson (1721–93), an incessant talker and indefatigable organizer who led the moderates since their formation in 1752, and who became the moderator, or head, of the general assembly of the Church of Scotland from 1766 to 1780. In 1762, furthermore, Robertson became the principal of the University of Edinburgh, and it was his leadership and administration that vaulted Edinburgh into the front ranks of European universities. Robertson was also the founder and leading light of various learned societies, which brought together weekly, for papers, discussion, and socializing, the leading figures of the Scottish Enlightenment, including university professors, lawyers, and the major figures of the moderate clergy.

Thus, Robertson founded the Select Society of Edinburgh in 1750. Prominent during the 1750s, the Select Society met weekly and included in its ranks such university figures as Robertson, David Hume, Adam Ferguson and Adam Smith, classical liberal lawyers such as Henry Home (Lord Kames) and Alexander Wedderburn (later Lord Chancellor of Great Britain), and such youthful but prominent moderate clergy as Robertson, Alexander ('Jupiter') Carlyle, Robert Wallace, Hugh Blair, John Home and John Jardine. Carlyle was a charismatic figure as well as a heavy drinker, as many moderate clergymen were in that era; Wallace was in charge of Church of Scotland patronage, as well as being royal chaplain. Wallace, in his private papers, favoured illicit sex almost to the point of promiscuity, quickly warning that the activity would have to be kept hidden. Blair, in addition to his duties in the clergy, was professor of rhetoric at the University of Edinburgh. Jardine was a shrewd politician, whose daughter married the son of Lord Kames who in turn was a cousin of David Hume. John Home was a moderate clergyman and secretary to Lord Bute, close friend of David Hume, and a playwright – an activity which in itself was a matter of deep suspicion to the dour, fundamentalist evangelical clergy. Thus, Home wrote a play, *Douglas*, in 1756, which was put on with many top leaders of the moderate Enlightenment acting in the play, including: the Rev. Robertson, Alexander Carlyle, David Hume, Hugh Blair, and the Rev. Adam Ferguson, professor of moral philosophy at the University of Edinburgh.

The lax views of the moderates were under constant attack from the evangelical forces. Particular targets were Lord Kames and especially the philosopher David Hume, who was almost excommunicated for heresy by the general assembly of the Church of Scotland, but was saved by his powerful moderate friends. Even his moderate university connections, however, could not gain for Hume any post in a Scottish university, so great was the enmity of the Presbyterian evangelicals.

It should be noted that one of the key leaders of the moderate party was none other than Francis Hutcheson. Thus, the Enlightenment intellectuals, philosophers, and economists of eighteenth century Scotland were intimately connected with the fortunes and the institutions of the establishment moderate wing of the Church of Scotland.

Hutcheson, Hume and Smith, then, while scarcely orthodox Calvinists, were dedicated Presbyterians according to their own lights, and hence their rationalism and theological laxity were nevertheless infused from time to time with hard-nosed Presbyterian values.

15.4 David Hume and the theory of money

David Hume (1711–76), the famous Scottish philosopher, was a close friend of Adam Smith, who was named Smith's executor, an acquaintance of Turgot and the French adherents of *laissez-faire*, and member of the moderate élite of the Scottish Enlightenment. Born in Edinburgh the son of a Scottish lord, Hume studied on the Continent, where he published his epochal philosophical work, *A Treatise of Human Nature* (1739–40), at the age of 28. Hume's *Treatise* was pivotal in its corrosive and destructive scepticism, managing unfairly to discredit the philosophy of natural law, to create an artificial split between fact and value, and therefore to cripple the concept of natural rights on behalf of utilitarianism and indeed to undermine the entire classical realist analysis of cause and effect. There is no figure more important in the unfortunate discrediting of the classical philosophical tradition of natural law realism, a tradition that had lasted from Plato and Aristotle at least through Aquinas and the late scholastics. In a sense, Hume completed the corrosive effect of the seventeenth century French philosopher René Descartes's influential view that only the precisely mathematical and analytic could provide certain knowledge. Hume's sceptical and shaky empiricism was the other side of the Cartesian coin.

While highly influential in later decades, Hume's *Treatise* was ignored in his own day, and after writing it he turned to brief essays on political and economic topics, and eventually to his then famous multi-volume *History of England*, which he presented from a Tory point of view.

Barred from academia for his scepticism and alleged irreligion, Hume joined the diplomatic corps, and served as secretary to Lord Hertford, the British ambassador to France. In 1765, Hume became the British chargé d'affaires in Paris, and two years later rose to the post of under-secretary of state. Finally, in 1769, Hume retired to Edinburgh.

Hume's contribution to economics is fragmentary, and consists of approximately 100 pages of essays in his *Political Discourses* (1752). The essays are distinguished for their lucid and even sparkling style, a style that shone in comparison to his learned but plodding contemporaries.

Hume's most important contribution is his elucidation of monetary theory, in particular his clear exposition of the price-specie-flow mechanism that equilibrates national balances of payments and international price levels. In monetary theory proper, Hume vivifies the Lockean quantity theory of money with a marvellous illustration, highlighting the fact that it doesn't matter what the quantity of money may be in any given country: any quantity, smaller or larger, will suffice to do money's work of facilitating exchange. Hume pointed up this important truth by postulating what would happen if every individual, overnight, should find the stock of money in his possession to have doubled miraculously:

> For suppose that, by miracle, every man in Great Britain should have five pounds slipped into his pocket in one night; this would much more than double the whole money that is at present in the kingdom; yet there would not next day, nor for some time, be any more lenders, nor any variation in the interest.

Prices then, following Locke's quantity theory of money, will increase proportionately.

The price-specie-flow mechanism is the quantity theory extrapolated into the case of many countries. The rise in the supply of money in country *A* will cause its prices to rise; but then the goods of country *A* are no longer as competitive compared to other countries. Exports will therefore decline, and imports from other countries with cheaper goods will rise. The balance of trade in country *A* will therefore become unfavourable, and specie will flow out of *A* in order to pay for the deficit. But this outflow of specie will eventually cause a sharp contraction of the supply of money in country *A*, a proportional fall in prices, and an end to, indeed a reversal of, the unfavourable balance. As prices in *A* fall back to previous levels, specie will flow back in until the balance of trade is in balance, and until the price levels in terms of specie are equal in each country. Thus, on the free market, there is a rapidly self-correcting force at work that equilibrates balances of payments and price levels, and prevents an inflation from going very far in any given country.

While Hume's discussion is lucid and engaging, it is a considerable deterioration from that of Richard Cantillon. First, Cantillon did not believe in aggregate proportionality of money and price level changes, instead engaging in a sophisticated micro-process analysis of money going from one person to the next. As a result, money and prices will not rise proportionately even in the eventual new equilibrium state. Second, Cantillon included the 'income effect' of more money in a country, whereas Hume confined himself to the aggregate price effect. In short, if the money supply in country *A* increases, it will equilibrate not only by prices rising in *A*, but also by the fact that monetary assets and incomes are higher in *A*, and therefore more money will be spent on imports. This income or more precisely, the cash balance, effect will generally work faster than the price effect.

There are more problems with Hume's analysis, problems other than the omission of previously discovered truths. For while Hume conceded that it does not matter for production or prosperity what the level of the money supply may be, he *did* lay great importance on *changes* in that supply. Now it is true that changes *do* have important consequences, some of which Cantillon had already analysed. But the crucial point is that all such changes are disruptive, and distort market activity and the allocation of resources. But David Hume, on the contrary, in a pre-Keynesian fashion, hailed the allegedly vivifying effects of increases in the quantity of money upon prosperity, and called upon the government to make sure that the supply of money is always at least moderately increasing. The two contradictory prescriptions of Hume for the supply of money are actually presented in two successive sentences:

> From the whole of this reasoning we may conclude, that it is of no manner of consequence, with regard to the domestic happiness of a state, whether money be in a greater or less quantity. The good policy of the magistrate consists only in keeping it, if possible, still increasing; because, by that means he keeps alive a spirit of industry in the nation...

Hume goes on, in proto-Keynesian fashion, to claim that the invigorating effect of increasing the supply of money occurs because employment of labour and other resources increases long before prices begin to rise. But Hume stops (as Keynes did) just as the problem becomes interesting: for then, it must be asked, why were resources underemployed before, and what *is* there about an increase in the money supply that might add to their employment? As W.H. Hutt was to point out in the 1930s, deeper reflection would show that the only possible reason for unwanted unemployment of resources is if the resource-owner demands too high a price (or wage) for its use. And more money could only reduce such unemployment when selling prices rise before wages or the price of resources, so that workers or other resource-owners are fooled into working for a lower *real* though not lower money wage.

Furthermore, why should idle resources, as Hume implicitly postulates, reappear after the effects of new money have been fully digested in the economy in the form of higher prices? The answer can only be that after the price increases are accomplished and a new equilibrium attained, wages and other resource prices have caught up and the 'money illusion' has evaporated. Real resource prices return to being excessively high for the full employment of resources.[6]

Hume's inner contradictions on the quantity of money and inflation permeate his meagre writings on economics. On the one hand, continuing inflation over the centuries is depicted as bringing about economic growth; on the other, Hume sternly favoured ultra-hard money in relation to the banking system. Thus Hume delivered a hard-hitting attack on the unproductive and inflationary nature of the very existence of fractional-reserve banking. He wrote of

> those institutions of banks, funds, and paper credit, with which we are in the kingdom so much infatuated. These render paper equivalent to money, circulate it throughout the whole state, make it supply the place of gold and silver, raise proportionately the price of labour and commodities, and by that means either banish a great part of those precious metals, or prevent their further increase. What can be more short-sighted than our reasoning on this head? We fancy, because an individual would be much richer, were his stock of money doubled, that the same good effect would follow were the money of every one increased; not considering, that this would raise as much the price of every commodity, and reduce every man, in time, to the same condition as before.

Elsewhere Hume noted that inconveniences result from the increase of genuine money (specie), but at least they are 'compensated by the advantages which we reap from the possession of these precious metals', including bargaining power in negotiations with other nations. But, he added, 'there appears no reason for increasing that inconvenience by a counterfeit money, which foreigners will not accept of in any payment, and which any great disorder in the state will reduce to nothing'. To 'endeavour to increase' paper credit 'artificially', then, merely increases money 'beyond its natural proportion to labour and commodities', thereby increasing their prices.

Hume concluded his penetrating analysis with an ultra-hard money policy proposal – 100 per cent specie-reserve banking: 'it must be allowed, that no bank could be more advantageous, than such alone as locked up all the money it received, and never augmented the circulating coin...' Hume added that this was the practice of the famous 100 per cent specie-reserve Bank of Amsterdam.

Another important flaw in Hume's analysis of money was his propensity, picked up and magnified by Smith, Ricardo and the classical school, for leaping from one long-run equilibrium state to another, without bothering about the dynamic process through time by which the real world actually moves from one state to another. It is this brusque neglect (or 'comparative statics') that leads Hume to omit the Cantillonian analysis of micro-changes in cash balances and income, and that causes him to neglect income effects in the price-specie-flow mechanism of international monetary adjustment.[7] Ironically, by doing so, and thereby neglecting the 'distribution effects' of changing assets and incomes during the process, Hume – as well as countless other economists following him – distorts what happens in equilibrium itself. For they then cannot see that the new equilibrium will be very different from the old. Thus, when the money supply changes, there will not be an equiproportionate increase in all prices across the board.

Professor Salerno puts the point very well:

> ...there is some truth to Keynes' statement that...'Hume began the practice amongst economists of stressing the importance of the equilibrium position as compared with the ever-shifting transition towards it'. For, in reading Hume, one gets an unmistakable whiff, if not the full flavor, of the notion that it is in the states of long-run equilibrium that the economy actually resides most of the time. The transition between these states, Hume conceives as proceeding rapidly and terminating before another change in the economic data can intervene and propel the economy toward a new equilibrium. This notion at times leads Hume to truncate a full step-by-step analysis of a given change in the data, thus slighting or skipping over altogether its short-run effects in order to focus upon a comparative-static analysis of its ultimate consequences.[8]

In reality, as the Austrians have emphasized, the situation is precisely the reverse of the Hume–British classical assumptions. Rather than the long-run equilibrium state being the fundamental reality, it never exists at all. Long-run equilibrium provides the tendency towards which the market is ever moving, but is never reached because the underlying data of supply and demand – and therefore the ultimate equilibrium point – are always changing. Hence a full step-by-step analysis of a given change in the data is precisely what is needed to explain the process of successive short-run states which tend towards but never reach equilibrium. In the real world, the 'long run' is not equilibrium at all, but a series of such short-run states, which will keep changing direction as underlying data are altered.

A final problem with Hume's monetary views is that, in contrast to the French *laissez-faire* school, he believed that money need not be a useful marketable commodity but was a mere convention. Writing to Abbé Andre Morellet (1727–1819), a disciple of Gournay and lifelong friend of Turgot, Hume opines that money functions as such because of the belief that others would accept it. Very true: but this does not mean that money originated as a mere convention. And Hume acknowledges that money should be made of materials 'which have intrinsic value', for 'otherwise it would be multiplied without end, and would sink to nothing'.

Hume's thoughts on interest are illuminating, if only in contrast to the profundity and brilliance of Turgot's exposition 20 years later. Since money's impact is ultimately on prices only, Hume shows that interest can only be a phenomenon of real capital rather than of money. He discusses the relation between interest rates and profit rates (i.e. the fundamental rates of return on investment). Here he points out correctly that 'no man will accept of low profits, where he can have high interest; and no man will accept of low interest where he can have high profits'. In short, interest and profit rates tend to be equal on the market. Very true, but which causes which, or what is the underlying cause of both? Hume characteristically abandons the search for cause, and says that 'both arise from an extensive commerce, and mutually forward each other'. Böhm-Bawerk is surely right when he says that this view is 'somewhat superficial'.[9] But more than that: it is incorrect and reverses cause and effect by stating that 'extensive commerce, by producing large stocks (capital), diminishes both interest and profits'. For there is no reason why larger stocks of capital should lower interest or profit rates; what they *do* lower is the prices of capital goods and consumer goods. The casual chain is the other way round: lower time-preference rates, which usually but not always attend higher standards of living and greater prosperity, will cause both capital to accumulate *and* profit and interest rates to fall. The two, as the Austrian School would later point out, are different sides of the same coin.[10]

Turning to the other areas of economics, it is possible that some of the deep flaws in Adam Smith's value theory were the result of David Hume's influence. For Hume had no systematic theory of value, and had no idea whatever of utility as a determinant of value. If anything, he kept stressing that labour was the source of all value.

On political economy, David Hume may be considered a free trader and opponent of mercantilism. A friend and mentor of Adam Smith from their first meeting in 1752, Hume came to know the French *laissez-fairists* during his years in that country, and Turgot himself translated Hume's *Political Discourses* into French.

15.5 Notes

1. In the same year, 1718, Carmichael published a *System of Natural Theology*, and two years later produced an introduction to logic. In the year of his death he wrote a *Synopsis of Natural Theology*.
2. A more concise but less effective version, an *Introduction to Moral Philosophy*, had been published immediately after his death in 1747.
3. Mandeville was a Dutch physician who spent much of his life in England. The *Fable of the Bees* was itself an expanded version of a satirical essay, *The Grumbling Hive, or Knaves Turned Honest* (1705).
4. *Fable of the Bees* (1924), p. 359. Cited in the excellent article by Salim Rashid, 'Mandeville's *Fable*: Laissez-faire or Libertinism?', *Eighteenth-Century Studies*, 18 (Spring 1985), p. 322.
5. So bitter were the Anglican priests in Scotland at the governmental establishment of Presbyterianism that they, as well as the Roman Catholics, formed the backbone of the Jacobite rebels dedicated to the restoration of the Stuart monarchy in Great Britain.
6. Professor Salerno attempts to justify Hume's curious assumption of a permanent tendency to unemployed resources by applying the Alchian–Allen information cost analysis. But this approach only explains the maintenance of any business inventory, inventory which, as Salerno shows, is not truly 'idle' but performs an important function to the businessman of

dealing with uncertainty. But such inventory hardly explains the unemployment of labour and other resources, which is presumably unwanted (since inflation supposedly eliminates this idleness) and hence involuntary. Of course if, as we would maintain, unemployment results from excessively high asking prices for resources, then this unemployment is brought upon the resource-owners by their own actions, although as an undesired consequence. In a deep sense, then, this unemployment is really 'voluntary'. See Joseph T. Salerno, 'The Doctrinal Antecedents of the Monetary Approach to the Balance of Payments' (doctoral dissertation, Rutgers University, 1980), pp. 160–2, and W.H. Hutt, *The Theory of Idle Resources*, (2nd ed., Indianapolis: Liberty Press, 1977).

7. Unfortunately for the development of the British classical school and of economics itself, Hume failed to heed the criticism of his friend, and Adam Smith's childhood friend, James Oswald of Dunnikier (1715–69). Oswald, an important MP who might have become Chancellor of the Exchequer, and whose advice on economics was sought by Hume and Smith, wrote to Hume that 'the increased quantity of money would not necessarily increase the price of all labour and commoditys; because the increased quantity, not being confined to the home labour and commoditys, might, and certainly would, be sent to purchase both from foreign countries...' Though Hume answered by conceding this cash balance effect in the balance of payments adjusting mechanism, he failed to incorporate it into his fuller presentation of the price-specie-flow process. See Salerno, op. cit., note 6, pp. 252–3.
8. Salerno, op. cit., note 6, pp. 165–6.
9. Eugen von Böhm-Bawerk, *Capital and Interest* (South Holland, Ill.: Libertarian Press, 1959), I, p. 30.
10. Spiegel hails Hume's analysis as presaging 'modern economic theory, with its functional approach' that replaces old-fashioned concern with cause and effect. Hume, he says, foreshadows 'the later concern of economic science with functional rather than casual relationships, which...did not become common before the twentieth century'. So much the worse for both Hume and twentieth century theory! For the functional, non-casual relations of mathematics are scarcely appropriate for an analysis of human action, where human preferences and choices are the *cause*, and have specifically traceable *effects*. Ironically, moreover, the great destroyer of cause and effect did *not* lack a causal theory of interest; instead, he picked the wrong end of the causal chain by claiming that low interest and profits were both caused by the accumulation of capital goods. Cf. Henry W. Spiegel, *The Growth of Economic Thought* (Englewood Cliffs, NJ: Prentice-Hall, 1971), pp. 211–2.

16 The celebrated Adam Smith

16.1 The mystery of Adam Smith

Adam Smith (1723–90) is a mystery in a puzzle wrapped in an enigma. The mystery is the enormous and unprecedented gap between Smith's exalted reputation and the reality of his dubious contribution to economic thought.

Smith's reputation almost blinds the sun. From shortly after his own day until very recently, he was thought to have created the science of economics virtually *de novo*. He was universally hailed as the Founding Father. Books on the history of economic thought, after a few well-deserved sneers at the mercantilists and a nod to the physiocrats, would invariably start with Smith as the creator of the discipline of economics. Any errors he made were understandably excused as the inevitable flaws of any great pioneer. Innumerable words have been written about him. At the bicentennial of his *magnum opus*, *An Inquiry into the Nature and the Causes of the Wealth of Nations* (1776), a veritable flood of books, essays, and memorabilia poured forth about the quiet Scottish professor. His profile sculpted on a medallion by Tassie is known throughout the world. A hagiographic movie was even made about Smith during the bicentennial by a free market foundation, and businessmen and free market advocates have long hailed Adam Smith as their patron saint. 'Adam Smith ties' were worn as a badge of honour in the upper echelons of the Reagan Administration. On the other hand, Marxists, with somewhat more justice, hail Smith as the ultimate inspiration of their own Founding Father, Karl Marx. Indeed, if the average person were asked to name two economists in history whom he has heard of, Smith and Marx would probably be the runaway winners of the poll.

As we have already seen, Smith was scarcely the founder of economic science, a science which existed since the medieval scholastics and, in its modern form, since Richard Cantillon. But what the German economists used to call, in a narrower connection, *Das AdamSmithProblem*,[1] is much more severe than that. For the problem is not simply that Smith was not the founder of economics. The problem is that he originated nothing that was true, and that whatever he originated was wrong; that, even in an age that had fewer citations or footnotes than our own, Adam Smith was a shameless plagiarist, acknowledging little or nothing and stealing large chunks, for example, from Cantillon. Far worse was Smith's complete failure to cite or acknowledge his beloved mentor Francis Hutcheson, from whom he derived most of his ideas as well as the organization of his economic and moral philosophy lectures. Smith indeed wrote in a private letter to the University of Glasgow of the 'never-to-be-forgotten Dr. Hutcheson', but apparently amnesia conveniently struck Adam Smith when it came time to writing the *Wealth of Nations* for the general public.[2]

Even though an inveterate plagiarist, Smith had a Columbus complex, accusing close friends incorrectly of plagiarizing *him*. And even though a plagiarist, he plagiarized badly, adding new fallacies to the truths he lifted. In castigating Adam Smith for errors, therefore, we are not being anachronistic, absurdly punishing past thinkers for not being as wise as we who come later. For Smith not only contributed nothing of value to economic thought; his economics was a grave deterioration from his predecessors: from Cantillon, from Turgot, from his teacher Hutcheson, from the Spanish scholastics, even – oddly enough – from his *own* previous works, such as the *Lectures on Jurisprudence* (unpublished, 1762–63, 1766) and the *Theory of Moral Sentiments* (1759).

The mystery of Adam Smith, then, is the immense gap between a monstrously overinflated reputation and the dismal reality. But the problem is worse than that; for it is not just that Smith's *Wealth of Nations* has had a terribly overblown reputation from his day to ours. The problem is that the *Wealth of Nations* was somehow able to blind all men, economists and laymen alike, to the very knowledge that other economists, let alone better ones, had existed and written before 1776. The *Wealth of Nations* exerted such a colossal impact on the world that all knowledge of previous economists was blotted out, hence Smith's reputation as Founding Father. The historical problem is this: how could this phenomenon have taken place with a book so derivative, so deeply flawed, so much less worthy than its predecessors?

The answer is surely not any lucidity or clarity of style or thought. For the much revered *Wealth of Nations* is a huge, sprawling, inchoate, confused tome, rife with vagueness, ambiguity and deep inner contradictions. There is of course an advantage, in the history of social thought, to a work being huge, sprawling, ambivalent and confused. There is sociological advantage to vagueness and obscurity. The bemused German Smithian, Christian J. Kraus, once referred to the *Wealth of Nations* as the 'Bible' of political economy. In a sense, Professor Kraus spoke wiser than he knew. For, in one way, the *Wealth of Nations* is like the Bible; it is possible to derive varying and contradictory interpretations from various – or even the same – parts of the book. Furthermore, the very vagueness and obscurity of a work can provide a happy hunting ground for intellectuals, students and followers. To make one's way through an obscure and difficult tract, to weave dimly perceived threads of a book into a coherent pattern – these are rewarding tasks in themselves for intellectuals. And such a book also provides a welcome built-in exclusion process, so that only a relatively small number of adepts can bask in their expertise about a work or a system of thought. In that way they increase their relative income and prestige, and leave other admirers behind to form a cheering section for the leading disciples of the Master.

Adam Smith did not found the science of economics, but he did indeed create the paradigm of the British classical school, and it is often useful for the creator of a paradigm to be inchoate and confused, thereby leaving room for disciples who will attempt to clarify and systematize the contributions of the Master. Until the 1950s, economists, at least those in the Anglo-American tradition, revered Smith as the founder, and saw the later development of economics as a movement linearly upward into the light, with Smith succeeded by Ricardo and Mill, and then, after a bit of diversion created by the Austrians in the 1870s, Alfred Marshall establishing neoclassical economics as a neo-Ricardian and hence neo-Smithian discipline. In a sense, John Maynard Keynes, Marshall's student at Cambridge, thought that he was only filling in the gaps in the Ricardian–Marshallian heritage.

Into this complacent miasma of Smith-worship, Joseph A. Schumpeter's *History of Economic Analysis* (1954) came as a veritable blockbuster. Coming from the continental Walrasian and Austrian traditions rather than from British classicism, Schumpeter was able, for virtually the first time, to cast a cold and realistic eye upon the celebrated Scot. Writing with thinly veiled contempt, Schumpeter generally denigrated Smith's contribution, and essentially held that Smith had shunted economics off on a wrong road, a road unfortunately different from that of his continental forbears.[3]

Since Schumpeter, historians of economic thought have largely retreated to a fallback position. Smith, it is conceded, created nothing, but he *was* the great synthesizer and systematizer, the first one to take up all the threads of his predecessors and weave them together into a coherent and systematic framework. But Smith's work was the reverse of coherent and systematic, and Ricardo and Say, his two major disciples, each set themselves the task of forging such a coherent system out of the Smithian muddle. And, furthermore, while it is true that pre-Smithian writings were incisive but sparse (Turgot) or embedded in moral philosophy (Hutcheson), it is also true that there were two general treatises on economics *per se* before the *Wealth of Nations*. One was Cantillon's great *Essai* which, after Smith, fell into grievous neglect, to be rescued a century later by Jevons; the other, and the first book to use political economy in its title, was Sir James Steuart's (1712–80) outdated two-volume work, *Principles of Political Oeconomy* (1767). Steuart, a Jacobite who had been involved in Bonnie Prince Charlie's rebellion, was for much of his life an exile in Germany, where he became imbued with the methodology and ideals of German 'cameralism'. Cameralism was a virulent form of absolutist mercantilism that flourished in Germany in the seventeenth and eighteenth centuries. Cameralists, even more than western European mercantilists, were not economists at all – that is, they did not analyse the processes of the market – but were technical advisers to rulers on how and in what way to build up state power over the economy. Steuart's *Principles* was in that tradition, scarcely economics but rather a call for massive government intervention and totalitarian planning, from detailed regulation of trade to a system of compulsory cartels to inflationary monetary policy. His only 'contribution' was to refine and expand previously fleeting and inchoate notions of a labour theory of value, and to elaborate a proto-Marxian theory of inherent class conflict in society. Furthermore, Steuart had written an ultra-mercantilist tome just at the time when classical liberal and *laissez-faire* thought was rising and becoming dominant at least in Britain and France.

Even though Steuart's *Principles* was out of step with the emerging classical liberal *Zeitgeist*, it was no foregone conclusion that the work would have little or no influence. The book was well received, highly respected, and sold very well, and five years after its publication, in 1772, Steuart won out over Adam Smith in acquiring a post as monetary consultant to the East India Company.

One reason that the Schumpeter view of Smith shocked the economics profession is that historians of economic thought, similar to historians of other disciplines, have habitually treated the development of science as a linear and upward march into the truth. Each scientist patiently formulates, tests and discards hypotheses, and thereby each succeeding one stands on the shoulders of the one who came before. What might be called this 'Whig theory of the history of science' has now been largely discarded for the far more realistic Kuhnian theory of paradigms. For our purposes the important point of the Kuhn theory is that a very few people patiently test anything, particularly the fundamental assumptions, or basic 'paradigm', of their theory: and shifts in paradigms can take place even when the new theory is worse than the old. In short, knowledge can be and is lost as well as gained, and science often proceeds in a zig-zag rather than linear manner. We might add that this would be particularly true in the social or humane sciences. As a result, paradigms and basic truths get lost, and economists (as well as people in other disciplines) can get worse, and not better, over time. The years may well bring retrogression as well as progress. Schumpeter had heaved a bombshell into the temple of the Whig historians of economic thought, specifically of the partisans of the Smith–Ricardo–Marshall tradition.[4]

We have thus posed our own version of the *Das AdamSmithProblem*: how did so badly flawed a work as the *Wealth of Nations* rapidly become so dominant as to blot out all other alternatives? But before considering this question, we must examine the various aspects of Smithian thought in more detail.

16.2 The life of Smith

Adam Smith was born in 1723 in the small town of Kirkcaldy, near Edinburgh. His father, also Adam Smith (1679–1723), who died shortly before he was born, was a distinguished judge advocate for Scotland and later comptroller of customs at Kirkcaldy, who had married into a well-to-do local landowning family. Young Smith was therefore raised by his mother. The town of Kirkcaldy was militantly Presbyterian, and in the Burgh School in the town he met many young Scottish Presbyterians, one of whom, John Drysdale, was to become twice moderator of the general assembly of the Church of Scotland.

Smith, indeed, came from a customs official family. In addition to his father, his cousin Hercules Scott Smith, served as collector of customs at Kirkcaldy, and his guardian, again named Adam Smith, was to become customs collector at Kirkcaldy as well as inspector of customs for the Scottish outports. Finally, still another cousin named Adam Smith later served as customs collector at Alloa.

From 1737 to 1740, Adam Smith studied at Glasgow College, where he fell under the spell of Francis Hutcheson, and imbibed the excitement of the ideas of classical liberalism, natural law and political economy. In 1740, Smith earned an MA with great distinction at the University of Glasgow. His mother had baptized Adam in the Episcopalian faith, and she was eager for her son to become an Episcopalian minister. Smith was sent to Balliol College, Oxford, on a scholarship designed to nurture future Episcopalian clerics, but he was unhappy at the wretched instruction in the Oxford of his day, and returned after six years, at the age of 23, without having taken holy orders. Despite his baptism and his mother's pressure, Smith remained an ardent Presbyterian, and returning to Edinburgh in 1746, he remained unemployed for two years.

Finally, in 1748, Henry Home, Lord Kames, a judge and a leader of the liberal Scottish Enlightenment and a cousin of David Hume, decided to promote a series of public lectures in Edinburgh to educate lawyers. Along with Smith's childhood friend, James Oswald of Dunnikier, Kames got the Philosophical Society of Edinburgh to sponsor Smith in several years of lectures on natural law, literature, liberty and commercial freedom. In 1750, Adam Smith obtained the chair in logic at his *alma mater*, the University of Glasgow, and he found no difficulty in the requisite signing of the Westminster Confession before the Presbytery of Glasgow. Finally, in 1752, Smith had the satisfaction of ascending to his beloved teacher Hutcheson's chair of moral philosophy at Glasgow, where he was to remain for 12 years.

Smith's Edinburgh and Glasgow lectures were very popular, and his major stress was on the 'system of natural liberty', on the system of natural law and *laissez-faire* which he was then advocating with far less qualification than later in his more cautious *Wealth of Nations*. He also managed to covert many of the leading merchants of Glasgow to this exciting new creed. Smith also plunged into the social and educational associations that were beginning to be formed by the moderate Presbyterian clergy, university professors, literati, and attorneys in both Glasgow and Edinburgh. It is likely that David Hume attended Smith's Edinburgh lectures in 1752, for the two became fast friends shortly thereafter.

Smith was a founding member of the Glasgow Literary Society the following year; the society engaged in high-level discussions and debates, and met diligently every Thursday evening from November to May. Hume and Smith were both members, and at one of the first sessions, Smith read an account of some of Hume's recently printed *Political Discourses*. Oddly enough, the two friends, clearly the brightest members of the Society, were extremely diffident, and never said a word in any of the discussions.

Despite his diffidence, Smith was a busy and inveterate clubman, becoming a leading member of the Philosophical Society of Edinburgh and of the Select Society (Edinburgh), which flourished in the 1750s, and met weekly, bringing together the moderate power élite from the clergy, university men, and the legal profession. Smith was also an active member of the Political Economy Club of Glasgow, the Oyster Club (Edinburgh); Simson's Club of Glasgow; and the Poker Club (Edinburgh), founded by his friend Adam Ferguson, professor of moral philosophy at the University of Edinburgh, specifically to promote the 'martial spirit'. As if this were not enough, Adam Smith was one of the leading contributors and editors of the abortive *Edinburgh Review* (1755–56), dedicated largely to the defence of their friends Hume and Kames against the hard-core evangelical Calvinist clergy of Scotland. The *Edinburgh Review* was founded by the brilliant young lawyer, Alexander Wedderburn (1733–1805), who was to become a judge, an MP in England, and finally Lord Chancellor (1793–1801). Wedderburn was so latitudinarian as to favour the licensing of brothels. Other luminaries on the *Edinburgh Review* were top moderate leaders: the politician John Jardine (1715–60), whose daughter married Lord Kames's son; the powerful Rev. William Robertson, and the Rev. Hugh Blair (1718–1800), professor of rhetoric at the University of Edinburgh.

The intensity of Adam Smith's Presbyterianism, even though not fundamentalist, may be seen in his relationship to Hugh Blair. Blair, the minister at the High Kirk, Greyfriars, was in constant hot water with the orthodox Calvinist clergy, who repeatedly denounced him to the Glasgow and Edinburgh Presbyteries. In the *Wealth of Nations*, Adam Smith delivered the following encomium to the Presbyterian clergy: 'There is scarce, perhaps, to be found anywhere in Europe, a more learned, decent, independent, and respectable set of men than the greater part of the Presbyterian clergy of Holland, Geneva, Switzerland, and Scotland'. To which his old friend Blair, though himself a leading if embattled Presbyterian clergyman, commented in a letter to Smith: 'You are, I think, by much too favourable to Presbytery'.

After Smith published his moral philosophy in his *Theory of Moral Sentiments* (1759), his increasing fame won him a highly lucrative position in

1764 as tutor to the young duke of Buccleuch. For three years of tutoring, which he spent with the young duke in France, Smith was awarded a lifetime annual salary of £300, twice his annual salary at Glasgow. In three pleasant years in France, he made the acquaintance of Turgot and the physiocrats. His tutorial task accomplished, Smith returned to his home town of Kirkcaldy, where, secure in his lifetime stipend, he worked for ten years to complete the *Wealth of Nations*, which he had started at the beginning of his stay in France. The fame of the *Wealth of Nations* led his proud erstwhile pupil, the Duke of Buccleuch, to help secure for Smith in 1778 the highly paid post of commissioner of Scottish customs at Edinburgh. With a pay of £600 per annum from his government post, which he kept until the day of his death in 1790, added to his handsome lifetime pension, Adam Smith was making close to a £1 000 a year, a 'princely revenue', as one of his biographers has described it. Even Smith himself wrote in this period that he was 'fully as affluent as I could wish'. He regretted only that he had to attend to his customs post, which took time away from his 'literary pursuits'.

And yet his regrets were scarcely profound. In contrast to most historians, who have treated Smith's customs post embarrassedly as virtually a no-show sinecure in reward for intellectual achievements, recent research has shown that Smith worked full-time at his post, often chairing the daily meetings of the board of customs commissioners. Moreover, Smith sought the appointment and apparently found the position enjoyable and relaxing. It is true that Smith spent little time or energy on scholarship and writing after his appointment; but there were leaves of absence available which Smith showed no interest in pursuing. Furthermore the groundwork for Smith's quest for the appointment was not so much his intellectual attainments as a reward for his advice as consultant on taxes and the budget to the British government since the mid-1760s.[5]

16.3 The division of labour

It is appropriate to begin a discussion of Smith's *Wealth of Nations* with the division of labour, since Smith himself begins there and since for Smith this division had crucial and decisive importance. His teacher Hutcheson had also analysed the importance of the division of labour in the developing economy, as had Hume, Turgot, Mandeville, James Harris and other economists. But for Smith the division of labour took on swollen and gigantic importance, putting into the shade such crucial matters as capital accumulation and the growth of technological knowledge. As Schumpeter has pointed out, never for any economist before or since did the division of labour assume such a position of commanding importance.

But there are more troubles in the Smithian division of labour than his exaggerating its importance. The older and truer perception of the motive power for specialization and exchange was simply that each party to an exchange (which is necessarily two-party and two-commodity) benefits (or at least expects to benefit) from the exchange; otherwise the trade would not take place. But Smith unfortunately shifts the main focus from mutual benefit to an alleged irrational and innate 'propensity to truck, barter and exchange', as if human beings were lemmings determined by forces external to their own chosen purposes. As Edwin Cannan pointed out, Smith took this tack because he rejected the idea of innate differences in natural talents and abilities, which would naturally seek out different specialized occupations. Smith instead took the egalitarian–environmentalist position, still dominant today in neoclassical economics, that all labourers are equal, and therefore that differences between them can only be the *result* rather than a cause of the system of the division of labour.

In addition, Smith failed to apply his analysis of the division of labour to international trade, where it would have provided powerful ammunition for his own free trade policies. It was to be left to James Mill to make such an application in his excellent theory of comparative advantage. Furthermore, domestically, Smith placed far too much importance on the division of labour *within* a factory or industry, while neglecting the more significant division of labour *among* industries.

But if Smith had an undue appreciation of the importance of the division of labour, he paradoxically sowed great problems for the future by introducing the chronic modern sociological complaint about specialization that was picked up quickly by Karl Marx and has been advanced to a high art by socialist gripers about 'alienation'. There is no gainsaying the fact that Smith totally contradicted himself between Book I and Book V of the *Wealth of Nations*. In the former, the division of labour *alone* accounts for the affluence of civilized society, and indeed the division of labour is repeatedly equated with 'civilization' throughout the book. And yet, while in Book I the division of labour is hailed as expanding the alertness and intelligence of the population, in Book V it is condemned as leading to their intellectual as well as moral degeneration, to the loss of their 'intellectual, social and martial virtues'. There is no way that this contradiction can be plausibly reconciled.[6]

Adam Smith, though himself a plagiarist of considerable dimensions, also had a Columbus complex, often accusing other people unfairly of plagiarizing him. In 1755 he actually laid claim to having invented the concept of *laissez-faire*, or the system of natural liberty, asserting that he had taught these principles since his Edinburgh lectures in 1749. That may be: but the claim ignores previous such expressions by his own teachers as well as by Grotius and Pufendorf, to say nothing of Boisguilbert and the other French *laissez-faire* thinkers of the late seventeenth century.

In 1769, the contentious Smith levied a plagiarism charge against Principal William Robertson, upon the occasion of the publication of the latter's *History of the Reign of Charles V*. It is not known what the topic of the literary theft was supposed to be, and it is difficult to guess, considering the remoteness from Smith's work of the theme of the Robertson book.

The most famous plagiarism charge hurled by Smith was against his friend Adam Ferguson on the question of the division of labour. Professor Hamowy has shown that Smith did *not* break with his old friend, as had previously been thought, because of Ferguson's use of the concept of the division of labour in his *Essay on the History of Civil Society* in 1767. In view of all the writers who had employed the concept earlier, this behaviour would have been ludicrous, even for Adam Smith. Hamowy conjectures that the break came in the early 1780s, because of Ferguson's discussion at their club of what would later be published as part of his *Principles of Moral and Political Science* in 1792. For in the *Principles*, Ferguson summed up the pin-factory example that constituted the single most famous passage in the *Wealth of Nations*. Smith had pointed to a small pin-factory where ten workers, each specializing in a different aspect of the work, could produce over 48 000 pins a day, whereas if each of these ten had made the entire pin on his own, they might not have made even one pin a day, and certainly not more than 20. In that way the division of labour enormously multiplied the productivity of each worker. In his *Principles*, Ferguson wrote: 'A fit assortment of persons, of whom each performs but a part in the manufacture of a *pin*, may produce much more in a given time, than perhaps double the number, of which each was to produce the whole, or to perform every part in the construction of that diminutive article'.

When Smith upbraided Ferguson for not acknowledging Smith's precedence in the pin-factory example, Ferguson replied that he had borrowed nothing from Smith, but indeed that *both* had taken the example from a French source 'where Smith had been before him'. There is strong evidence that the 'French source' for both writers was the article on *Epingles* (pins) in the *Encyclopédie* (1755), since that article mentions 18 distinct operations in making a pin, the same number repeated by Smith in the *Wealth of Nations*, although in English pin factories 25 was the more common number of operations.

Thus Adam Smith broke up a long-standing friendship by unjustly accusing Adam Ferguson of plagiarizing an example which, in truth, both men had taken without acknowledgement from the French *Encyclopédie*. The Rev. Carlyle's comment that Smith had 'some little jealousy in his temper' seems a vast understatement, and we are informed by his obituary notice in the 1790 *Monthly Review* that 'Smith lived in such constant apprehension of being robbed of his ideas that, if he saw any of his students take notes of his lectures, he would instantly stop him and say, 'I hate scribblers'.[7] While there is also evidence that Smith allowed students to take notes, the point about his crabbed temper and Columbus complex is well made.

Smith's use of an example of a small French pin-factory rather than a larger British one highlights a curious fact about his celebrated *Wealth of Nations*: the renowned economist seems to have had no inkling of the Industrial Revolution going on all about him. Although he was a friend of Dr John Roebuck, the owner of the Carron iron works, whose opening in 1760 marked the beginning of the Industrial Revolution in Scotland, Smith showed no indication that he knew of its existence. Although he was at least an acquaintance of the great inventor James Watt, Smith displayed no knowledge whatever of some of Watt's leading inventions. He made no mention in his famous book of the canal boom which had begun in the early 1760s, of the very existence of the burgeoning cotton textile industry, or of pottery or of the new methods of making beer. There is no reference to the enormous drop in travel costs that the new turnpikes were bringing about.

In contrast, then, to those historians who praise Smith for his empirical grasp of contemporary economic and industrial affairs, Adam Smith was oblivious to the important economic events around him. Much of his analysis was wrong, and many of the facts he did include in the *Wealth of Nations* were obsolete and gathered from books 30 years old.

16.4 Productive *vs* unproductive labour

One of the physiocrats' more dubious contributions to economic thought was their view that only agriculture was productive, that only agriculture contributed a surplus, a *produit net*, to the economy. Smith, heavily influenced by the physiocrats, retained the unfortunate concept of 'productive' labour, but expanded it from agriculture to material goods in general. For Smith, then, labour on material objects was 'productive'; but labour on, say, consumer services, on immaterial production, was 'unproductive'.

Smith's bias in favour of material objects amounted to a bias in favour of investment in capital goods, since a stock of capital goods by definition has to be embodied in material objects. Consumer goods, on the other hand, either consist of immaterial services, or they get used up – consumed – in the process of consumption. Smith's imprimatur on *material* production, therefore, was an indirect way of advocating investment in an accumulation of capital goods as against the very *goal* of producing capital goods: increased consumption. When discussing exports and imports, Smith realized full well that there was no point to amassing intermediate objects except that they eventually be consumed – that the only goal of production is consumption. But as Professor Roger Garrison has pointed out, and as we shall see further on the question of usury laws, Adam Smith's Presbyterian conscience led him to value the expenditure of labour *per se*, for its own sake, and led him to balk at free market time-preferences between consumption and saving. Clearly, Smith wanted far more investment towards future production and less present consumption than the market was willing to choose. One of the contradictions of this position, of course, is that accumulating more capital goods at the expense of present consumption will eventually result in a higher standard of living – unless Smith prepared to counsel a perpetual and accelerated shift toward more and more never-to-be-consumed means of production.

In Book II of the *Wealth of Nations*, Smith opines that labour on material objects is productive, while other labour is not because it does not 'fix or realize itself in any particular subject...which endures after that labour is past and for which an equal quantity of labour could afterward be purchased'. Included in immaterial and hence unproductive labour are servants, 'churchmen, lawyers, physicians, men of letters of all kinds; players, buffoons, musicians, opera-singers, opera-dancers, etc.' To Smith the important point was that the 'work of all' unproductive labourers 'perishes in the very instant of its production'. Or, as he put it, 'Like the declamation of the actor, the harangue of the orator, or the tune of the musician, the work of all of them perishes in the very instant of its production'. Smith also writes that 'productive' labour 'adds to the value of the subject on which it is bestowed', whereas 'unproductive labour does not' – another way of putting the fact that labour on services is not embodied in 'any particular subject'. 'Productive' labour, moreover, allegedly creates a 'surplus' for profit in manufacturing. Adam Smith's lingering physiocratic bias was also shown in his preposterous assertion that agriculture is a far more productive industry than manufacturing, because in agriculture nature works alongside man and provides extra rent for landlords as well as profit for capitalists. In addition to other fallacies, Smith here failed to realize that nature in the form of ground land collaborates in *all* activities of man, not just agriculture, and that all activities, including manufacturing, will therefore yield ground rent to landowners.

In his thorough and searching critique of Adam Smith, Edwin Cannan speculated that Smith, if pressed, 'would probably have admitted...that the declamation, harangues, and tunes, have a value'. Smith oddly identified the build-up of material capital goods with annual production. On the latter, as Cannan points out, 'the durability of the things produced by labour is in reality of no significance. The declamations, harangues, and tunes are just as much a part of the annual produce as champagne or boots...'. Yet Smith, in Book II, excludes all production of immaterial services from the annual product, which is allegedly produced entirely by the 'productive labourers', who in turn 'maintain' not only themselves but all the unproductive classes of labour as well.

In a witty and charming passage, Cannan then comments:

People have always been rather apt to imagine that the class which they happen to think the most important 'maintains' all the other classes with which it exchanges commodities. The landowner, for instance, considers, or used to consider, his tenants as his 'dependants'. All consumers easily fall into the idea that they are doing a charitable act in maintaining a multitude of shopkeepers. Employers of all kinds everywhere believe that the employed ought to be grateful for their wages, while the employed firmly hold that the employer is maintained entirely at their expense. So the physiocrats alleged that the husbandman maintained himself and all other classes; and Adam Smith alleged that the husbandman, the manufacturer, and the merchant maintained themselves and all other classes. The physiocrats did not see that the husbandman was maintained by the manufacturing industries of thrashing, milling, and baking, just as much as the millers or the tailors are maintained by the agricultural industries of ploughing and reaping. Adam Smith did not see that the manufacturer and merchant are maintained by the menial services of cooking and washing just as much as the cooks and laundresses are maintained by the manufacturer of bonnets and the import of tea.[8]

It is not just durable objects, however, that Adam Smith was interested in; it was durable *capital* goods. Durable consumer goods, like houses, were again, for Smith, 'unproductive', although he grudgingly conceded that a house 'is no doubt extremely useful' to the person who lives in it. But it is not 'productive', wrote Smith, because 'If it is to be let to a tenant for rent, as the house itself can produce nothing, the tenant must always pay the rent out of some other revenue which he derives either from labour, or stock [capital], or land'. Again, Cannan provides the proper riposte: 'It did not occur to Adam Smith to reflect that if a plough is let for rent, as a plough itself can produce nothing the tenant must always pay the rent out of some other revenue'.[9]

Adam Smith's bias against consumption and in favour of saving and investment is summed up in Professor Rima's analysis:

It is clear from his third chapter in Book II, 'On the Accumulation of Capital or of Productive and Unproductive Labour', that he is concerned with the effect of using savings to satisfy the desire for luxuries by those who are prodigal instead of channelling them into uses that will enhance the supply of fixed or circulating capital. He is, in effect, arguing that savings should be used in such a way that they will create a flow of income and new equipment, and that failure to use savings in this manner is an impediment to economic growth.[10]

Perhaps – but it *also* means that Smith was not content to abide by free market choices between growth on the one hand, and consumption on the other.

Professor Edwin West, a modern admirer of Smith who generally portrays the Scotsman as an advocate of *laissez-faire*, admits Smith's bias: 'Yet Smith, like a prudent steward of a Scottish aristocrat's estate, could hardly disguise a strong personal preference for much private frugality, and therefore for "productive labor", in the interests of the nation's future accumulation'. He then proceeds to concede implicitly Professor Garrison's insight that Smith exhorted us to negative or at least zero time-preference. Citing Smith's *Theory of Moral Sentiments*, West notes that the virtue of frugality 'commands the esteem' of Smith's alter ego, man's innate moral sense, the 'impartial spectator'. Quoting from Smith: 'The spectator does not feel the solicitations of our present appetites. To him the pleasure which we are to enjoy a week hence, or a year hence, is just as interesting as that which we are to enjoy this moment'.[11]

We might note that the lofty refusal to discount future satisfactions in favour of the present, i.e. the rejection of positive time-preference, is all too easy of any 'impartial spectator'. But is the impartial spectator truly human, or is he simply a floating wraith, who does not participate in the human condition and therefore whose insight can be brusquely dismissed?

Adam Smith's Calvinistic scorn of consumption can be seen in his attack on dancing as 'primitive and rude'. As we shall see, in his 'paradox of value' Smith dismissed diamonds in an excessive way as having 'scarce any value in use'. He also puritanically denounced luxury as being biologically harmful, reducing the birth rate of the upper classes: 'Luxury in the fair sex, while it inflames perhaps the passion for enjoyment, seems always to weaken, and frequently to destroy altogether the powers of generation'.

Smith, furthermore, favoured low and criticized high profits, because high profits induce capitalists to engage in excessive consumption. And since large capitalists set an influential example for others in society, it is all the more important for them to keep to the path of thrift and industry. Thus:

> besides all the bad effects to the country in general, which have already been mentioned as necessarily resulting from a high rate of profit; there is one more fatal, perhaps, than all these put together, but which, if we may judge from experience, is inseparably connected with it. The high rate of profit seems everywhere to destroy that parsimony which in other circumstances is natural to the character of the merchant. When profits are high, that sober virtue seems to be superfluous, and expensive luxury to suit better the affluence of his situation.

Because of the influence of the example of the higher orders, Smith adds,

> If his employer is attentive and parsimonious, the workman is very likely to be so too; but if the master is dissolute and disorderly, the servant who shapes his work according to the pattern which his master prescribes to him, will shape his life according to the example which he sets him. Accumulation is thus prevented in the hands of all those who are naturally the most disposed to accumulate.... The capital of the country, instead of increasing, gradually dwindles away....[12]

But if Adam Smith was excessively in favour of capital investment as against consumption, he at least was sound in realizing that capital investment was important in economic development and that saving was the necessary and sufficient condition of such investment. The only way to increase capital, then, is by private savings or thrift. Thus, Smith wrote, 'Whoever saves money, as the phrase is, adds proportionately to the general mass of capital.... The world can augment its capital only in one way, by parsimony'. Savings, and not labour, is the cause of accumulation of capital, and such savings promptly 'puts into motion an additional quantity of industry [labour]'. The saver, then, spends as readily as the spendthrift, except that he does so to increase capital and eventually benefit the consumption of all; hence 'every frugal man is a public benefactor'. All this was a pale shadow of the scintillating and creative work of Turgot, with his emphasis on time, the structure of production, and time-preference. And it was probably cribbed from Turgot to boot. But at least it was sound, and it stamped its imprint indelibly on classical economics. As Schumpeter put it, in discussing what he calls 'the Turgot–Smith theory of saving and investment': 'Turgot, then, must be held responsible for the first serious analysis of these matters, as A. Smith must (at the least) with having it inculcated into the minds of economists'.[13]

Finally, apart from the Marxists, even the abject Smithians of today reject or at least dismiss the Master's productive vs unproductive labour distinction. Characteristically, however, Smith was not even clear and consistent in his fallacies. His presentation in Book I of the *Wealth of Nations* contradicts Book II. In Book I, he properly states that 'Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life', a phrase almost directly lifted from Cantillon. But in that case, of course, there is no difference in productivity between material objects and immaterial services, all of which contribute to such 'necessaries, conveniences, and amusements', and indeed Smith's discussion of wages proceeds in Book I as if there were no distinction between productive and unproductive work.

16.5 The theory of value

Adam Smith's doctrine on value was an unmitigated disaster, and it deepens the mystery in explaining Smith. For in this case, not only was Smith's theory of value a degeneration from his teacher Hutcheson and indeed from centuries of developed economic thought, but it was also a similar degeneration from Smith's own previous unpublished lectures. In Hutcheson and for centuries, from the late scholastics onward, the value and price of a product were determined first by its subjective utility in the minds of the consumers, and second, by the relative scarcity or abundance of the good being evaluated. The more abundant any given good, the lower its value; the scarcer the good, the higher its value. All that this tradition needed to complete its explanation was the marginal principle of the 1870s, a focus on a given unit of the good, the unit actually chosen or not chosen on the market. But the rest of the explanation was in place.

In his lectures, furthermore, Smith had solved the value paradox neatly, in much the same way as had Hutcheson and other economists for centuries. Why is water so useful and yet so cheap, while a frippery like diamonds is so expensive? The difference, said Smith in his lectures, was their relative scarcity: 'It is only on account of the *plenty* of water that it is so cheap as to be got for the lifting, and on account of the scarcity of diamonds...that they are so dear'. Furthermore, with different supply conditions, the value and price of a product would differ drastically. Thus Smith points out in his lectures that a rich merchant lost in the Arabian desert would value water very highly, and so its price would be very high. Similarly, if the quantity of diamonds could 'by industry...be multiplied', the price of diamonds on the market would fall rapidly.

But in the *Wealth of Nations*, for some bizarre reason, all this drops out and falls away. Suddenly, only ten or a dozen years after the lectures, Smith finds himself unable to solve the value paradox. In a famous passage in Book I, Chapter IV of *Wealth*. Smith sharply and hermetically separates and sunders utility from value and price, and never the twain shall meet:

> The word value...has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called 'value in use': the other, 'value in exchange'. The things which have the greatest value in use have frequently little or no value in exchange; and on contrary, those which have the greatest value in exchange have frequently little or no value in use. Nothing is more useful than water; but it will purchase scarce any thing; scarce any thing can be had in exchange for it. A diamond, on the contrary, has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it.

And that is that. No mention of the solution of the value paradox by stressing relative scarcities. Indeed, 'scarcity'– that concept so fundamental and crucial to economic theory – plays virtually no role in the *Wealth of Nations*. And with scarcity gone as the solution to the value paradox, subjective utility virtually drops out of economics as well as does consumption and consumer demand. Utility can no longer explain value and price, and the two sundered concepts will reappear in later generations as left-wingers and socialists happily prate about the crucial difference between 'production for profit' and 'production for use', the heir of the Smithian emphasis on the alleged gulf between 'value in use' and 'value in exchange'.[14]

And since economic science was reborn after Adam Smith, since all previous economists were cast into limbo by prevailing fashions of thought, the entire tradition of subjective utility – scarcity as determinants of value and price, a tradition dominant since Aristotle and the medieval and Spanish scholastics, a tradition that had continued down through writers in eighteenth century France and Italy – that great tradition gets poured down the Orwellian memory hole by Adam Smith's fateful decision to discard even his own previous concepts. Although Samuel Bailey almost restored it, the great tradition was not to be fully resurrected until its independent rediscovery by the Austrians and other marginalists in the 1870s. Adam Smith has a lot to answer for at the bar of history.

Paul Douglas put it eloquently in a commemorative volume for the Adam Smith sesquicentennial: 'Smith helped to divert the writers of English Classical School into a cul-de-sac from which they did not emerge, in so far as their value theory was concerned, for nearly a century...'.[15] And we can understand the anguish of Professor Emil Kauder when, after lamenting the sinking into oblivion of the great French and Italian economists of the eighteenth century, he wrote:

> Yet it was the tragedy of these writers that they wrote in vain, they were soon forgotten. No scholar appeared to make out of these thoughts the new science of political economy. Instead, the father of our economic science wrote that water has a great utility and a small value. With these few words Adam Smith had made waste and rubbish out of the thinking of 2,000 years. The chance to start in 1776 instead of 1870 with a more correct knowledge of value principles had been missed.[16]

How could Smith have made such a colossal blunder? In effect, he turned away from his almost sole emphasis on explaining market price in the lectures to another concept which for him took on overriding importance: the 'natural price', or what might be called the 'long-run normal' price. This concept, similar to Cantillon's 'intrinsic value' or Hutcheson's 'fundamental value', had appeared in the lectures, but occupied a minor role as it did in the work of these other economists. But suddenly, the 'natural price' and its alleged determinants now became more important, more truly 'real' than the market price of the real world that had always been the prime focus of economists. Value and price theory shifts, because of Adam Smith's unfortunate and drastic change of focus in the *Wealth of Nations*, from prices in the real world to a mystical non-existent price in the never-never land of long-run 'equilibrium'.

But this alleged natural price is neither more real than nor equally real as the current market price. It is, in fact, not real at all. Only the market price is the real price. At best, the long-run price is useful in providing a vital clue to the direction of price and production changes in the real world. But the long-run price is never reached, and never can be reached, for it keeps shifting as underlying supply and demand forces continually change. The long-run normal price is important but only for explaining the directional tendencies and the underlying architectonic structure of this economy, and also for analysis of how uncertainty affects real-world income and economic activity. The virtually exclusive classical and neoclassical absorption in the unreal 'long-run', to the neglect and detriment of analysing real-world prices and economic activity, shunted economic thought on to a long, fallacious and even tragic detour, from which it has not yet fully recovered.

Another terrible loss inflicted on economic thought by Adam Smith was his dropping out of the concept of the entrepreneur, so important to the contributions of Cantillon and Turgot. The entrepreneur disappeared from British classical thought, never to be resurrected until some of the continental thinkers and especially the Austrians. But the point is that there is no room for the entrepreneur, if the focus is to be on the unchanging, certain world of long-run equilibrium.

Before the *Wealth of Nations*, economists had always concentrated on the market price, and had seen readily that it was determined by the forces of supply and demand, and hence of utility and scarcity. Indeed, while David Hume knew nothing of utility and spoke of labour as the source of value, he was far sounder on value theory than his close friend Adam Smith. On receiving a copy of the newly published *Wealth of Nations*, Hume, on his deathbed, was able to write to his friend on one important criticism: 'I cannot think that the rent of farms make any part of the price of produce, but that the price is determined altogether by the quantity and the demand'. In short, compared to Smith, Hume was in the continental tradition and almost proto-Austrian.

But if Smith stressed the long run, what is supposed to determine the non-real concept of a 'natural' or 'long-run normal' price? Following up unfortunate hints of his eighteenth century predecessors, Smith concluded that the natural price is equal to and determined by costs of production, a concept that had only occupied a fitful and subordinate place in economic thought since the medieval scholastics.

Not that the long-run normal price, or as we now call it the 'equilibrium' price, is nonsense. The equilibrium price is the long-run tendency of the market price. As Adam Smith indeed saw, if the market price is higher than the long-run equilibrium, then extra gains will be made and resources will flow into this particular industry, until the market price falls to reach equilibrium. Conversely, if the market price is lower than equilibrium, the resulting losses will drive resources out of the industry until the price rises to reach equilibrium. The equilibrium concept is highly useful in pointing to the direction in which the market will move. But equilibrium will only be *reached* in reality if the 'data' of the market are magically frozen: that is, if the values, resources, and technological knowledge on the market continue to remain precisely the same. In that case, equilibrium would be reached after a certain span of time. But since these data are always changing in the real world, equilibrium is never attained.

'Cost of production' is defined by Adam Smith as total expenses paid to factors of production, that is, wages, profits and rent. More specifically, in what was to become the famous classical triad, Smith reasoned that there were three types of factors of production: labour, land and capital. Labour receives wages, land earns rent, and capital earns 'profits' – actually long-run rather than short-run rates of return, or what might be called the 'natural' rate of interest. In equilibrium, which Smith seems to have believed was more real and hence far more important than the actual market price, the wage rate equals the 'average' or the 'natural' rate: and the other returns similarly equal the 'natural' rent and the long-run average rate of profit.

There is one striking fallacy in his analysis of cost that Adam Smith shared, though in an aggravated fashion, with earlier writers. Whereas market price is changeable and ephemeral, 'cost' is somehow determined objectively and exogenously, i.e. from outside the world of market economic activity. But cost is not intrinsic or given; on the contrary, it itself is determined, as the Austrians were later to point out, by the value foregone in using resources in production. This value, in turn, is determined by the subjective valuations that consumers place on those products. In brief, rather than cost in some 'fundamental' sense determining value, cost at any and all times is *itself* determined by the subjective value, or expected value, that consumers place on the various products. So that, even if we might say that prices will equal cost of production in long-run equilibrium, there is no reason to assume that such costs *determine* long-run price; on the contrary, expected consumer valuation determines what the value of costs will be on the market. Cost is strictly dependent on utility, in the short and long runs, and never the other way around.

Another grave problem with all cost-of-production theory is that it necessarily abandons any attempt to explain the pricing of goods and services that have no cost because they are not produced, goods that are simply *there*, or were produced in the past but are unique and not reproducible, such as art works, jewellery, archaeological discoveries, etc. Similarly, immaterial consumer services such as the prices of entertainment, concerts, physicians, domestic servants, etc., can scarcely be accounted for by costs embodied in a product. In all these cases, only subjective demand can explain the pricing or the fluctuations in those prices.

But this analysis scarcely exhausts Smith's sins in discussing the central concept in economics – the theory of value. For side by side with the standard cost-of-production analysis as equalling wages + rents + profits, another, new, and far more bizarre theory was set forth. In this alternative view, the relevant cost of production that determines equilibrium price is simply the quantity of labour embodied in its production. It was, indeed, Adam Smith who was almost solely responsible for the injection into economics of the labour theory of value.[17] And hence it was Smith who may plausibly be held responsible for the emergence and the momentous consequences of Marxism.

Side by side and unintegrated with Smith's cost-of-production theory of the natural price lay his new quantity-of-labour-pain theory. Thus:

> The real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What every thing is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people. What is bought with money or with goods is purchased by labour, as much as what we acquire by the toil of our own body... They contain the value of a certain quantity of labour which we exchange for what is supposed at the time to contain the value of an equal quantity.

Thus goods exchange on the market for equal quantities which they 'contain' of labour hours, at least in their 'real', long-run prices.

Immediately, Smith recognized that he faced a profound difficulty. If labour quantity is the source and measure of all value, how can the mere quantity of labour hours be equated to the quantity of labour pain or labour toil? Surely they are not automatically equal. As Smith himself admitted, in addition to labour time, 'the different degrees of hardship endured or ingenuity exercised must likewise be taken into account'. Yet such equating is 'not easy', for indeed 'there may be more labour in an hour's hard work than in two hours easy business: or in an hour's application to a trade which it cost ten years labour to learn, than in a month's industry at an ordinary and obvious employment'.

How does this crucial equating take place? According to Smith, 'by the higgling and bargaining of the market' bringing them into a 'rough sort of equality'. Yet here Smith fell into an iron trap of circular reasoning. For, like Ricardo and Marx after him, he attempted to explain prices and values by the quantity of labour, and then appealed to the settling of values on the market to determine what the 'quantity of labour' is, by weighting it by differences in the degree of labour hardship and toil.[18]

Smith tried to escape such circularity by his egalitarian assumption – still held in orthodox neoclassical economics – that all labourers are equal, and that hence wages, at least in the natural long run, will all be equal, or rather will be equal for equal quantities of labour toil among all the workers. According to Smith, competition on the market will tend to equate wages per unit of sacrifice or labour toil. As Douglas put it, 'Smith believed he had established the fact that equal units of labor in the sense of disutility were at any one time compensated for by equal amounts of money wages'.

Thus, Smith opined in an eighteenth century egalitarian way that 'The difference between the most dissimilar characters, between a philosopher and a common street porter, seems to arise, not so much from nature as from habit, custom and education'. There are no unique individuals and irreducible differences between people; in this reductionist view now active again in the twentieth century, the mind of a human being is merely a *tabula rasa* on which external environment fills in the content. Hence, according to Smith, skilled labour earns more than unskilled merely to compensate for years of apprenticeship and training when earnings were much lower: so that their labour hours and toil and hence wages would be equalized over a lifetime. Wages in occupations which are active in only part of the year should be higher to compensate for the fewer days of work – so that annualized incomes would be equal. Other things being equal, furthermore, workers in unpleasant or dangerous occupations would receive higher wages to compensate them for the higher labour sacrifice, while prestigious occupations would receive lower wages since their sacrifice or unpleasantness is lower.

While all these distinctions make some sense and have to be taken into account in any theory of wages, they founder on the *a priori* assumption that every person's mind is a uniform *tabula rasa*. Once enter the realistic assumption of innate differences in talent, and the egalitarian levelling of wage rates to equal units of sacrifice (assuming of course that the latter could be measured) falls to the ground.

As it is, Smith ran into considerable difficulty in explaining why prestigious occupations, far from earning low wages in the real world, actually earn higher wages than the average. When discussing the high-income physician or attorney, for example, he lamely fell back on the implication that they were positions of great trust, and therefore presumably faced onerous and painful responsibilities to their clients and were compensated thereby. His other attempt to rationalize the high incomes of attorneys was to make the dubious assumption that the *average* income in such occupations was *lower* than in others, since a flood of people are attracted by the glittering prizes of very high incomes accruing to the few top people in the profession.

Adam Smith, in addition, muddied the waters still further by putting forward, side by side with the labour-cost theory of value, the very different 'labour-command' theory. The labour-command theory states that the value of a good is determined not by the quantity of labour units contained in it (the labour theory of value), but by the amount of labour that can be purchased by the good. Thus: 'The value of any commodity to the person who possesses it...is equal to the quantity of labour which it enables him to purchase or command'.

If, in the real world, the price of every commodity precisely equalled the amount of labour units 'contained' in its production, then the two quantities – the labour cost and the labour command of a good – would indeed be identical. But if rents and profits (i.e. interest) are included in cost, then the price, or relative purchasing power, of each good would not be equal to the labour cost. Labour cost and labour command for each good would differ.

In his typically purblind way, Adam Smith did not perceive the contradiction between these two labour theories in a world where rent and profits exist (as indeed he did not seem to see the difference between the labour and the cost-of-production theories of value). Ricardo was to see the problem and struggle with it in vain, while Marx tried to resolve it by his theory of 'surplus value' going to the non-workers in the form of rent and profits, a theory that foundered on Marx's attempt to reconcile two contradictory propositions: the labour-cost (or quantity of labour) theory of value, and the acknowledged tendency toward an equalization of profit rates on the market. For, as we shall see further in the treatment of Marx (Chapters 9–13 in Volume II), the 'surplus value' of profits out of labour should be greater in labour-intensive than in capital-intensive industries, and yet profits tend to equalize everywhere. Paul Douglas properly and with rare insight noted that Marx was, in this matter, simply a Smithian–Ricardian trying to work out the theory of his masters:

> Marx has been berated by two generations of orthodox economists for his value theory. The most charitable of the critics have called him a fool and the most severe have called him a knave for what they deem to be transparent contradictions of his theory. Curiously enough these very critics generally commend Ricardo and Adam Smith very highly. Yet the sober facts are that Marx saw more clearly than any English economist the differences between the labor-cost and the labor-command theories and tried more earnestly than anyone else to solve the contradictions which the adoption of a labor-cost theory inevitably entailed. He failed, of course: but with him Ricardo and Smith failed as well... The failure was a failure not of one man but of a philosophy of value, and the roots of the ultimate contradiction made manifest, in the third volume of *Das Kapital*, lie imbedded in the first volume of the *Wealth of Nations*.[19]

Adam Smith also gave hostage to the later emergence of socialism by his repeatedly stated view that rent and profit are deductions from the produce of labour. In the primitive world, he opined, 'the whole produce of labour belongs to the labourer'. But as soon as 'stock' (capital) is accumulated, some will employ industrious people in order to make a profit by the sale of the materials. Smith indicates that the capitalist (the 'undertaker') reaps profits in return for the risk, and for interest on the investment for maintaining the workers until the product is sold – so that the capitalist earns profit for important functions. He adds, however, that 'In this state of things the whole produce of labour does not always belong to the labourer. He must in most cases share it with the owner of the stock who employs him'. By using such phrases, and by not making clear why labourers might be happy to pay capitalists for their services, Smith left the door open for later socialists who would call for restructuring institutions so as to enable workers to capture their 'whole product'. This hostage to socialism was aggravated by the fact that Smith, unlike the later Austrian School, did not demonstrate logically and step by step how industrious and thrifty people accumulate capital out of savings. He was content simply to begin with the alleged reality of a minority of wealthy capitalists in society, a reality which later socialists were of course not ready to endorse.

Smith was even less kindly to the role of landlords, where he recognized no economic function whatever that they might perform. In pungent passages, he writes that 'As soon as the land of any country has all become private property, the landlords like to reap where they never sowed and demand a rent even for its natural produce'. And again: 'as soon as the land becomes private property, the landlord demands a share of almost all the produce which the labourer can either raise or collect from it'. There is no hint of recognition here that the landlord performs the vital function of allocating the land to its most productive use. Instead, these passages were to become understandable red meat for socialists and for Henry Georgists in calls for the nationalizing of land.

As we shall see further below, Smith's labour theory of value did inspire a number of English socialists before Marx, generally named 'Ricardian' but actually 'Smithian' socialists, who decided that if labour produced the whole product, and rent and profit are deductions from labour's produce, then the entire value of the product should rightfully go to its creators, the labourers. Douglas justly concluded that

> It is then from the Whiggish pages of the *Wealth of Nations* that the doctrines of the English Socialists as well as the theoretical exposition of Karl Marx, spring. The history of social thought furnishes many instances where theories elaborated by one writer have been taken over by others to justify social doctrines antagonistic to those to which the promulgator of the theory gave adherence. But had the gift of prevision been granted to those men, few would have been more startled than Adam Smith in seeing himself as the theoretical founder of the doctrines of nineteenth-century socialism.[20]

Modern writers have tried to salvage the unsalvageable labour theory of value of Adam Smith by asserting that, in a sense he did not really mean what he was saying but was instead seeking to find an invariable standard by which he could measure value and wealth over time. But, to the extent that this search was true, Smith simply added another fallacy on top of all the others. For since value is subjective to each individual, there *is no* invariant measure or yardstick of value, and any attempts to discover them can at best distort the enterprise of economic theory and send it off chasing an impossible chimera. At worst, the entire structure of economic theory is permeated with fallacy and error. Professors Robertson and Taylor, indeed, go so far as to call the admitted failure of Adam Smith a grand and noble failure, and one which they assert to be far more inspiring in its essential bankruptcy than if Adam Smith had continued in the subjective value tradition of his forbears. In a bizarre passage, Robertson and Taylor acknowledge the correctness of Professor Kauder's anguished critique of Smith as leading economic theory into a century-long blind alley. But they still laud Smith for his very failure:

> If a true explanation is given here of the reasons for Adam Smith turning from 'scarcity and utility' to a labour theory of value, did he not, in fact, do more for the progress of economics by a grand failure in an impossible but fundamental task, than he would have done, had he been content to add a seventh rung or even to strengthen some of the existing steps in the rickety ladder of subjective-value theory such as, according to Dr. Kauder, it appeared in 1776?[21]

Is it hopelessly banal to counter that truth is always superior to fundamental error in advancing a scientific discipline?

There is a more fundamental and convincing reason for Adam Smith's throwing over centuries of sound economic analysis, his abandonment of utility and scarcity, and his turn to the erroneous and pernicious labour theory of value. This is the same reason that Smith dwelled on the fallacious doctrine of productive versus unproductive labour. It is the explanation stressed by Emil Kauder, and partially by Paul Douglas: Adam Smith's dour Calvinism. It is Calvinism that scorns man's consumption and pleasure, and stresses the importance of labour virtually for its own sake. It is the dour Calvinist who made the extravagant statement that diamonds had 'scarce any value in use'. And perhaps it is also the dour Calvinist who scorned, in the words of Robertson and Taylor, real-world 'market values which depended on monetary whims and fashions on the market', and turned his attention instead to the long-run price where such fripperies played no part, and the grim eternal verities of labour toil seemingly played the decisive economic role. Surely this is a far more realistic view of Adam Smith than the Quixotic romantic in quest of the impossible dream of an invariable measure of value. And while Smith's most famous follower, David Ricardo, was not a Calvinist, his leading immediate disciple, Dugald Stewart, was a Scottish Presbyterian, and the leading Ricardians – John R. McCulloch and James Mill – were both Scottish and educated in Dugald Stewart's University of Edinburgh. The Calvinist connection continued to dominate British – and hence classical – economics.

16.6 The theory of distribution

Adam Smith's theory of distribution was fully as disastrous as his theory of value. Though he was aware of the functions performed by the capitalist, his only venture in explaining the rate of long-run profit was to opine that the greater the 'amount of stock' the lower the rate of profit. He arrived at this highly dubious conclusion from his perfectly valid observation that capitalists tend to move out of low-profit and into high-profit industries, their competition tending to equalize the rates of profit throughout the economy. But more production, lowering selling price and raising costs in a particular industry, is scarcely the same causal claim as more capital throughout the economy lowering profit rates. Indeed, the rate of interest, or long-run rate of profit, is related, not to the quantity of accumulated capital, but to the amount of annual saving, and moreover falling profit rates are not *caused* by increasing saving. On the contrary, as the Austrians would point out, *both* are the results of lower rates of time-preference in the society. It is perfectly possible for a highly capitalized economy to experience rising rates of time-preference, which in turn would bring about higher rates of interest.

Smith saw correctly that increasing capital means an increase in the demand for labour and therefore higher wages, so that an advancing society necessarily means a secular increase in wage rates. Unfortunately, Smith's mechanistic view of the profit rate as being inversely proportional to the total amount of capital led him to believe that wages and profits are always moving inversely to the other – an adumbration of an allegedly inherent class struggle which Ricardo would do much to aggravate.

Moreover, if the supply of labour increases to absorb the increase in demand, wage rates will then fall. At this point, Adam Smith provided the Malthusian hook, for, as we shall see further, the Rev. Malthus was a devoted follower of Adam Smith. Smith, indeed, was picking up a theme common in the eighteenth century: that the population of a species tends to press on the means of its subsistence. As Smith put it: 'Every species of animals naturally multiplies in proportion to the means of its subsistence'. So that Smith saw the secular trend of the economy as capital increasing, wages rising, and the rise in wages calling forth an increase in population:

> The liberal reward of labour, by enabling them to provide better for their children, and consequently to bring up their number, naturally tends to widen and extend those limits [the means of subsistence]... If this demand [for labour] is continually increasing, the reward of labour must necessarily encourage in such a manner the marriage and multiplications of labourers as may enable them to supply that continually increasing demand by a continually increasing population.

In this way, wages tend to settle at the minimum subsistence level for the existing population. A fall in wages below subsistence will forcibly reduce the population and hence the supply of labour, raising wages to the subsistence rate; and if wages should rise above subsistence, the 'excessive multiplication' of workers 'would soon lower it to this necessary rate'.

One of the many problems of this 'Malthusian' approach is that it assumes that human beings will not be able to act on their own to limit population growth in order to preserve a newly achieved standard of living.[22]

In addition to Smith's erroneous Malthusian view that long-run wage rates are at the means of subsistence, he also introduced into economics the unfortunate fallacy that wages, at least in the shorter run, are determined by the relative 'bargaining power' of employers and workers. It was a simple leap from that position to the view that employers have greater bargaining power than workers, thus setting the stage for later pro-union propagandists claiming erroneously that unions can raise overall wage rates throughout the economy.

In his view of rent, Smith characteristically held several unintegrated views running side by side. On the one hand, as we have seen, rent is demanded by landlords who 'reap where they have never sowed'. Why are they able to collect such a rent? Because, now that land has become private property, the labourer 'must pay for the licence' to cultivate the land and 'must give to the landlord a portion of what his labour either collects or produces'. Smith concludes that 'the rent of land therefore...is naturally a monopoly price', since he regards private property in land in the same category as monopolization. Surely, socialist and Henry Georgite calls for land nationalization found here their fundamental inspiration. Smith also sensibly points out that rent will vary according to superior fertility and location of the land. Furthermore, as we have indicated, he attributes rent to the 'powers of nature', which supposedly earns an extra return in agriculture as compared to other occupations.

Smith is also inconsistent on whether land rent is included in cost. At various points he includes land rent in cost and therefore as an alleged determinant of long-run price. On the other hand, he also asserts that high or low rents are the effect of high or low product prices and that since the supply of land is fixed, the full incidence of taxes upon rent will fall on land rather than being shifted. All these inconsistencies can be cleared up if we regard all costs as determined by expected future selling prices, and individual costs to be the opportunity foregone to contribute to expected productive revenue elsewhere. More specifically, while costs do not determine price directly, they do limit supply, and in this sense every expenditure, whether on rent or elsewhere, is definitely a part of cost.

But as we have seen, the greatest of the many defects in Smith's theory was his totally discarding Cantillon's and Turgot's brilliant analysis of the entrepreneur. It was as if these great eighteenth century Frenchmen had never written. Smith's analysis rested solely on the capitalist investing 'stock' and on his labour of management and inspection; the very idea of the entrepreneur as a risk-bearer and forecaster was thrown away and, again, classical economics was launched into another lengthy blind alley. If, of course, one persists in fixing one's vision on the never-never land of long-run equilibrium, where all profits are low and equal and there are no losses, there is no point in talking about entrepreneurship at all.

The political implications of this omission were also not lost on nineteenth century socialists. For if there is no role for entrepreneurial profits in a market economy, then any existing profits must be 'exploitative', far more so than the low, uniform rate existing in long-run equilibrium.

The perceptive Scottish historian of economics, Alexander Gray, wrote of Smith's theory of wages that he presented several theories 'not wholly consistent with each other, [which] lie together in somewhat uneasy juxtaposition'. Gray then slyly added that it is a 'tribute to the greatness of Smith that all schools of thought may trace to him their origin and inspiration'. Other words for such inchoate confusion, for what Gray referred to aptly as a 'vast chaos', come more readily to mind.

16.7 The theory of money

We have seen that David Hume's famous elucidation of the price-specie-flow mechanism in international monetary relations, though attractively written, was itself a deterioration from the pioneering and highly sophisticated analysis of Richard Cantillon. It was, however, better than nothing. Yet, as Jacob Viner put it, 'One of the mysteries of the history of economic thought' is that Adam Smith, though a close friend of Hume for many years, included none of the Humean analysis in his *Wealth of Nations*.[23] Instead, Smith propounded the primitive and erroneous view that every country will have as much specie as it allegedly needs to circulate trade, the surplus overflowing 'channels of circulation...to seek that profitable employment which it cannot find at home'. Gone is any reference whatever to the causal nexus between the quantity of money, price levels, and balances of trade. The mystery deepens when we realize that *The Wealth of Nations* is a grave deterioration even from Smith's own Lectures of over a dozen years earlier. For in those Lectures, unpublished in Smith's own day, we find a clear presentation and summary of the Humean analysis.

Thus, in his Lectures Smith had written that Hume proves

> that when ever money is accumulated beyond the proportion of commodities in any country, the price of goods will necessarily rise; that this country will be undersold in the foreign market, and consequently the money must depart into other nations; but on the contrary whenever the quantity of money falls below the

> proportion of goods, the price of goods diminishes, the country undersells others in foreign markets, and consequently money returns in great plenty. Thus money and goods will keep near about a certain level in every country.[24]

Even Smith's modern admirers despair of his confused and scattered, as well as hopelessly inadequate, theory of money and theory of international monetary relations.[25] Professor Petrella tries to explain Smith's later rejection of Hume's specie-flow-price mechanism as a reaction to Hume's giving hostage to the alleged employment benefits of mercantilistic increases in the quantity of money, benefits which Smith was anxious to deny. Petrella cites in support a sentence critical of Hume following the passage from the Lectures just quoted: 'Mr Hume's reasoning is exceedingly ingenious. He seems, however, to have gone a little into the notion that public opulence consists in money...'. But here Petrella attempts to prove too much, for why couldn't Smith simply continue to adopt the specie-flow-price mechanism and then repeat or elaborate on his criticisms of Hume's position, demonstrating the latter's inconsistency?[26]

It seems clear, in contrast, that the mystery of Smith's abandonment of the price-specie-flow mechanism can be solved if we realize that this particular deterioration in his economic analysis was not unique. Indeed, we have noted a similar fatal deterioration in his value theory from the time of the Lectures to the *Wealth of Nations*. It seems plausible that the cause of the decay, in each case, was the same: Smith's shift of concentration from the real world of market prices to the exclusive vision of long-run 'natural' equilibrium. The shift from the real world of market process to focusing on equilibrium states made Smith impatient with the process analysis that was the hallmark and the merit of the specie-flow approach. Instead, Smith treats only a world of pure specie money, and assumes that all countries are always in equilibrium. Moreover, any departures from worldwide monetary equilibrium are eradicated swiftly, leaving the world in a virtually perpetual equilibrium state.[27]

Smith's focus on the long run, in fact, led him to apply his general labour cost-of-production theory of value to the value of money. The value of money, i.e. the value of the metal commodity gold or silver, then becomes the embodiment of the labour cost of producing it. In that way, Smith attempted to integrate the values of money and other goods by assimilating all of them into a labour-cost theory. Thus, Smith wrote, in *The Wealth of Nations*:

> Gold and silver, however, like every other commodity, vary in their value, are sometimes cheaper and sometimes dearer... The quantity of labour which any particular quantity of them can purchase or command, or the quantity of other goods which it will exchange for, depends always upon the fertility or barrenness of the mines... The discovery of the abundant mines of America reduced, in the sixteenth

> century, the value of gold and silver in Europe to about a third of what it had been before. As it cost less labour to bring those metals from the mine to the market, so when they were brought thither they could purchase or command less labour...

Even those few economists who laud Adam Smith as really adopting the Humean price-specie-flow mechanism concede that he dropped this approach when considering a mixed monetary system including bank notes or paper money.[28] Indeed, even though Smith occasionally adhered to the quantity theory of specie money in its effects on prices, he here throws it over altogether and asserts that convertible bank notes are always equal in value to gold and hence their quantity will always remain the same. Any increase of bank notes beyond the total of specie will 'overflow' the 'channel of circulation' and therefore return to the banks in what was later called a 'reflux', in exchange for specie which immediately flows out of the country. Smith therefore explicitly denies that an increase in bank notes can raise the prices of commodities. But why did Smith abandon the quantity theory completely here, in exchange for such nonsense? Plausibly, because of Smith's need to integrate all value theory on the basis of the labour cost of production. If he ever conceded that an increase in the quantity of paper money could affect values, even temporarily, then Smith would have had to admit an enormous hole in his labour-cost theory. For the 'labour cost' involved in printing paper money obviously bears no relation whatever to the exchange value of that money. Therefore, paper money, including bank paper, had to be assimilated tightly to the value of specie.

Adam Smith wrote in an eighteenth century Britain where virtually all his predecessors had denounced the new institution of fractional-reserve banking as inflationary and illegitimate. His friend David Hume (1752) had called for the radical repudiation of this institution on behalf of 100 per cent specie-reserve banking. Other important writers had taken the same position, including Jacob Vanderlint (d. 1740) in his *Money Answers All Things* (1734), and Joseph Harris (1702–64), master of the Royal Mint, in his *An Essay Upon Money and Coins* (1757–58). Harris had stated that banks were 'convenient' so long as they 'issued no bills without an equivalent in real treasure', but that their increases of credit beyond that limit are inflationary and will eventually endanger the banks' own credit.

If Smith had continued in his predecessors' footsteps, his commanding authority and prestige might have been able to bring about a fundamental reform of the fractional-reserve banking system. But, unfortunately, Smith, in his need to meld all monetary theory into a long-run labour cost of production approach, abandoned the quantity theory and the specie-flow-price mechanism in his discussion of paper money. He thus set economic theory once again on an erroneous and fateful road by embracing the institution of fractional-reserve credit. No longer holding such credit to be inflationary, Smith went on to adumbrate one of the major defences of paper money, still held to this day: that gold and silver are mere 'dead stock', accomplishing nothing. The banks, by substituting their paper notes for specie, 'enable the country to convert a great deal of this dead stock into active and productive stock...'.

Indeed, so far did Adam Smith rhapsodize about paper money that he likened its accomplishments to providing a sort of highway through the air:

> The gold and silver money which circulates in any country may very properly be compared to a highway, which, while it circulates and carries to market all the grass and corn of the country, produces itself not a single pile of either. The judicious operations of banking, by providing...a sort of waggon-way through the air, enable the country to convert, as it were, a great part of its highways into good pastures and cornfields, and thereby to increase considerably the annual produce of its land and labour.

Adam Smith failed to realize that the stock of gold and silver was far from 'dead'; on the contrary, it performed the vital function of being a money commodity, among other functions providing to every member of society an insurance against paper money inflation, whether launched by government or banks. The stock of gold, in short, performs a 'store of value' service which Smith totally overlooks. Smith's critique of specie as 'dead stock' also stems from his belief that money is not a commodity serving as a medium of exchange, but a claim, a sign, a 'voucher to purchase'. The French economist Charles Rist is justly highly critical of the dead stock approach and its influence on later generations:

> this idea was seized upon with extraordinary alacrity and found high favour...it dominated the thought of English writers in the nineteenth century. The belief that the use of metallic money is a retrograde and costly system, to be discouraged by all possible means, is firmly fixed in British thought on currency and banking. The use of the cheque and the bank-note was for a long time regarded only from this point of view. These two instruments were considered merely as means of economizing money; the idea was taken as the guide to the country's currency policy, and the most disastrous conclusions were drawn from it.[29]

16.8 The myth of *laissez-faire*

If, then, Adam Smith contributed nothing of value to economic thought; if, in fact, he introduced numerous fallacies, including the labour theory of value, and thereby caused a significant deterioration of economic thought from previous French and British economists of the eighteenth century; did he make any positive contribution to economics? A common answer is that the significance of the *Wealth of Nations* was political rather than analytic: that his great achievement was to initiate and take the lead in the advocacy of free trade, free markets, and *laissez-faire.* It is true that Smith articulated the political–economic sentiments of his day. As Joseph Schumpeter wrote: 'Those who extolled A. Smith's work as an epoch-making, original achievement were, of course, thinking primarily of the *policies* he advocated...' Smith's views, Schumpeter added, 'were not unpopular. They were in fashion.' In addition, Schumpeter shrewdly noted that Smith was very much a 'judiciously diluted' Rousseauan in his eighteenth century egalitarianism: 'Human beings seemed to him to be much alike by nature, all reacting in the same simple ways to very simple stimuli, differences being due mainly to different training and different environments.'[30]

But while Schumpeter's explanation of Smith's vast popularity[31] – that he was a plodder in tune with the *Zeitgeist* – holds part of the truth, it still scarcely accounts for the way in which Smith swept the board, blotting out general knowledge of all previous and contemporary economists. This puzzle will be examined further in the next chapter. For the mystery of Smith's total triumph deepens when we realize that he scarcely originated *laissez-faire* thought: as we have seen, he was merely in an eighteenth century tradition flourishing in Scotland and especially in France. Why then were these preceding economists, analytically far superior to Smith and also in the *laissez-faire* framework, so readily forgotten?[32]

Smith's greatest achievement has generally been supposed to be the enunciation of the way in which the free market guides its participants to pursue the good of the consumers by following their own self-interest. As Smith wrote in perhaps his most famous passage: A man

> will be more likely to prevail if he can interest their self-love in his favour, and show that it is for their own advantage to do for him what he requires of them... It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities but of their advantages.

And in an equally famous passage bringing out the general principles of this point:

> As every individual, therefore, endeavours as much as he can both to employ his capital in the support of...industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it... (B)y directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.

Smith goes on to caution wisely against alleged aims to promote the 'public good' directly:

> Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good.

Hostile critics of *laissez-faire* have latched on to Smith's terminology of the 'invisible hand' to indict him for ostensibly beginning his analysis with a mystical and therefore flagrantly unscientific *a priori* assumption that Providence manipulates people for everyone's good 'by an invisible hand'. Actually, Smith was simply engaging in an *a posteriori* conclusion from his scientific analysis, and from the free market analysis generally, that pursuit of self-interest on the market leads to advancing the interest of all. Similar pursuits in government by no means lead to the same harmonious and happy result, Smith being alive to the pernicious consequences of government's creation of monopolies and its conferring privileges on special interest groups. Smith, a religious man, was simply expressing his quite justified wonderment at the harmonizing influence of the free market, and his 'by an invisible hand' was a metaphor which contained an implicit 'as if' before his use of the phrase.

Despite the undoubted importance of these passages, however, Adam Smith's championing of *laissez-faire* was scarcely consistent. In the first place, Smith retreated from the absolutist, natural law position that he had set forth in his ethical work, *The Theory of Moral Sentiments* (1757). In this book, free interaction of individuals creates a harmonious natural order which government interference can only cripple and distort. In *Wealth of Nations*, on the other hand, *laissez-faire* becomes only a qualified presumption rather than a hard-and-fast rule, and the natural order becomes imperfect and to be followed only 'in most cases'. Indeed, it is this deterioration of the case for *laissez-faire* that German scholars were to label *Das AdamSmithProblem.*

Indeed, the list of exceptions Smith makes to *laissez-faire* is surprisingly long. His devotion to the militarism of the nation-state, for example, induced him to take the lead in the pernicious modern view of excusing any government intervention that might plausibly be labelled for 'the national defence'. On that basis, Smith supported the navigation acts, that bulwark of British mercantilism and systemic subsidy for British shipping. One of Smith's reservations about the division of labour, indeed, is that it leads to a decay of the 'martial spirit', and Smith goes on at length about the decay of the martial spirit in modern times, and about the great importance of restoring and sustaining it. '(T)he security of every society must always depend, more or less, upon the martial spirit of the great body of the people.' It was an anxiety to see government foster such a spirit that led Smith into another important deviation from *laissez-faire* principle: his call for government-run education. It is also important, opined Smith, to have governmental education in order to inculcate obedience to it among the populace – scarcely a libertarian or *laissez-faire* doctrine. Wrote Smith:

> An instructed and intelligent people besides are always more decent and orderly than an ignorant and stupid one. They feel themselves, each individually, more respectable, and more likely to obtain the respect of their lawful superiors, and they are therefore more disposed to respect those superiors. They are...less apt to be misled into any wanton or unnecessary opposition to the measures of government.

In addition to navigation acts and public education, Adam Smith advocated the following forms of government intervention in the economy:

- Regulation of bank paper, including the outlawing of small denomination notes – after allowing fractional-reserve banking.
- Public works – including highways, bridges and harbours, on the rationale that private enterprise would not 'have the incentive' to maintain them properly(!?)
- Government coinage.
- The Post Office, on the simple grounds – which will draw a bitter laugh from modern readers – that it is profitable!
- Compulsory building of fire walls.
- Compulsory registration of mortgages.
- Some restrictions on the export of 'corn' (wheat).
- The outlawing of the practice of paying employees in kind, forcing all payment to be in money.

There is also a particularly lengthy list of taxes advocated by Adam Smith, each of which interferes in the free market. For one thing, Smith paved the way for Henry Georgism and the 'single tax' by urging higher taxes on uncultivated land, displaying his animus against the landlord. He also favoured moderate taxes on the import of foreign manufactures, and taxes on the export of raw wool – thus gravely weakening his alleged devotion to freedom of international trade.

Adam Smith's Calvinist abhorrence of luxury is also seen in his proposals to levy heavy taxes on luxurious consumption. Thus he called for heavier highways tolls on luxury carriages than on freight wagons, specifically to tax the 'indolence and vanity of the rich'. His puritanical hostility to liquor also emerges in his call for a heavy tax on distilleries, in order to crack down on hard liquor and induce people to drink instead the 'wholesome and invigorating liquor of beer and ale'. His devotion to ale, however, was minimal, for Smith also advocated a tax on the retail sale of all liquor in order to discourage the multiplication of small alehouses.

And finally, Adam Smith advocated the soak-the-rich policy of progressive income taxation.

Perhaps Smith's most flagrant violation of *laissez-faire* was his strong advocacy of rigid usury laws, a sharp contrast to the opposition to such laws by Cantillon and Turgot. Smith did not indeed wish to adhere to the medieval prohibition of all credit. Instead, he urged an interest rate ceiling of 5 per cent, slightly above the rate charged to prime borrowers: a 'price which is commonly paid for the use of money by those who can give the most undoubted security'. His reasoning followed his predilection, as we have already noted, for hostility to free market time-preferences between consumption and saving. Driven by Calvinist hostility to luxurious consumption, Smith tried to skew the economy in favour of more 'productive labour' in capital investment and less in consumption. By forcing interest rates below the free market level, Smith hoped to channel credit into the sober hands of prime borrowers, and away from credit into the hands of speculators and of 'prodigal' consumers. As Professor West admits, Adam Smith condemned the demand for loans by 'prodigals and projectors', in which the prodigal 'dissipates in the maintenance of the idle, what was destined for the support of the industrious'. In that way, the ceiling on interest rates, as West notes, 'would reallocate credit into the most productive hands'.

Yet, West, a free market adherent who is generally an uncritical admirer of Smith, then maintains that Smith was curiously inconsistent in not realizing, in this one case, that price controls would create a greater shortage of credit. Here, West echoes the brilliant essay *The Defence of Usury* by the Smithian Jeremy Bentham in accusing the master of inconsistency in his usual advocacy of the free market. But, as Professor Garrison indicates in his comment on West, Smith knew only too well what he was doing. In urging a reallocation of credit by the government 'into the most productive hands', Adam Smith was precisely *trying* to create a shortage of credit for consumers and speculators, and thereby to channel credit into the hands of sober, low-risk businessmen. As Garrison points out,

> Smith was not interested in reducing the cost of borrowing with his credit controls. He was trying to reduce the amount of funds borrowed for certain categories of loans. And his anti-usury scheme was well suited for this. Smith notes that money is lent to the government at three percent, and to sound businessmen at four, and four and a half. Only 'prodigals and projectors', people who are most likely to 'waste and destroy' capital, would be willing to borrow at eight or ten percent. Smith therefore recommended an interest ceiling at five percent. This policy was not aimed at allowing the prodigals and projectors to obtain funds

> more cheaply, but at preventing them from obtaining any funds at all. These funds would be diverted, then, into the hands of those who are more future oriented.

In short, Smith knew full well that a low interest ceiling would not benefit marginal borrowers by providing them with cheap credit. He knew that usury laws would dry up credit altogether for marginal borrowers and he sought precisely that result. For Smith virtually embraced the idea of zero time-preference as the ideal – the non-time-preference of his mythical 'impartial spectator' – and, concludes Garrison, 'It is not difficult to see how Smith's standard of zero time preference coupled with his awareness of sharply positive time preferences could lead him to make the very policy recommendations that West found to be surprising. He sought to reallocate resources away from the present and toward the future...'[33]

Perhaps most important of all, how do we square Smith's alleged role as champion of free trade and *laissez-faire* with his spending the last 12 years of his life as a commissioner of Scottish customs, cracking down on smugglers violating Britain's extensive mercantilist laws and evading import taxes? Did he treat the job as a sinecure? No: recent studies show that his role as a top enforcer of mercantilist laws and tariffs was active and hard-working. Was he driven by penury? Hardly, since, with his great reputation, he probably could have commanded an equivalent sum in a top academic post.[34] Did he suffer from qualms of conscience? Apparently not, since he not only approached his job with enthusiasm, but was also particularly, vigilant and hard-nosed in trying to enforce the onerous restrictions and tariffs to the hilt.

Edwin West, an inveterate admirer of Smith as an alleged devotee of *laissez-faire*, speculates that he entered the high customs bureaucracy as a practical free trader trying to remove or lighten the customs burden on the Scottish economy. But as Anderson et al. reply, 'If Smith had been deeply concerned with reducing the cost to the economy resulting from customs, the most effective strategy at the level of his responsibilities would have been to reduce the efficiency of the enforcement apparatus. But Smith did not do this'.[35] On the contrary, Smith showed no appreciation whatever of the social and economic value of the underground economy or the great British tradition of smuggling. Instead, he tried his best to make enforcement of the mercantilist laws and burdens as efficient as possible. Neither did he use his high post to promote reforms in the direction of free trade. On the contrary, his major 'reform' proposal as commissioner was for compulsory automatic warehousing of all imports, which would have made inspection and enforcement far easier for the customs officials, at the expense of the smugglers, international trade and the nation's economy. As Anderson et al. note, 'Smith was proposing a reform that was likely to increase the costs to the economy from customs duties'. And finally Smith's correspondence as commissioner shows no particular desire to cut tariffs or restrictions. In contrast, his dominant emotion seems to have been pride at cracking down on smugglers and thereby increasing government revenue. In December 1785, he writes to a fellow customs official that

> it may, perhaps, give the Gentleman pleasure to be informed that the net revenue arising from the Customs in Scotland is at least four times greater than it was seven or eight years ago. It has been increasing rapidly these four or five years past; and the revenue of this year has overleaped by at least one half the revenue of the greatest former year. I flatter myself it is likely to increase still further.[36]

Well, happy day! *This* from an alleged champion of *laissez-faire*!?

16.9 On taxation

Over the centuries, economists have contributed little of interest or value on the subject of taxation. In addition to describing forms of taxation, they have generally approached the subject from the point of view of the state as a kindly or not so kindly despot, seeking to maximize its revenue while doing minimum harm to the economy. There are variations among the different schools, but the general thrust is the same. Thus, the cameralists (see Chapter 17) were frankly interested solely in maximizing state revenue, as were the French absolutists; the more liberal economists admonished the government to keep tax rates lower than had been customary.

The more liberal economists have tried to strictly demarcate functions which government should and should not perform. By ruling out various kinds of government intervention, the thrust, other things being equal, is to reduce total government taxation and spending. But they have offered us very few guidelines beyond that. If, for example, as in the case of Smith, the government is supposed to supply public works, *how many* should it provide and how much should be spent? There have been almost no preferred criteria, then, for total spending or for overall levels of taxation.

There has been more discussion of the *distribution* of taxation. That is, given, from some arbitrary external dictate, that the *total level* of taxation should be a certain amount, *T*, there has been considerable discussion of *how* *T* should be distributed. In short, the two main problems of taxation are: *how much* should be levied, and *who* should pay? and there has been considerably more thought devoted to the latter question.

But none of this has been very satisfactory. Again, the basic point of view seems to be that of a highwayman or slavemaster, interested in extracting the maximum from his charges while keeping their complaints as minimal as possible. In the discussion in eighteenth century France, there were two favourite tax proposals: proportional income or property taxation, or, as in the case of Marshall Vauban and later the physiocrats, a single tax on land, revenue to a fixed and visible source of income that seems fixed, unchanging, and therefore easy for the state to get at.

Adam Smith's discussion of taxation in the *Wealth of Nations* became, like the rest of his work, a classic setting the central focus for economic thought from that point on. And, like the rest of the work, it was a confused mixture of the banal and the fallacious.[37] Thus, Smith set forth four 'canons' of 'evident justice and utility' in taxation, which were to become famous from then on. Of the four, three are banal: that the tax payment be made as convenient as possible for the payer: that the cost of collection be kept to a minimum since the state does not even benefit from these levies on the taxpayer: and that the tax be certain rather than arbitrary.[38]

The substantive canon was Smith's first in the list: that tax be proportional to incomes. Thus:

> The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. The expense of government to the individuals of a great nation, is like the expense of a great estate, who are all obliged in proportion to respective interests to the estate.

In the first place, this passage is hopelessly confused in presenting as if they were identical two very different criteria for justice or propriety in taxation: the 'ability-to-pay' and the 'benefit' principles. Smith maintains that people's ability to pay taxes is proportionate to income: and that benefits derived from the state are proportional in the same way. Yet he offers no justification for either of these dubious propositions.

On ability it is by no means clear that people's ability to pay – however that be defined – is proportionate to income. What, for example, of the influence of a person's relative wealth (as contrasted to income), his medical or other expenses, etc.? And one thing is certain; Adam Smith presented no arguments for this bald assertion.

The idea that one's benefit derived from the state is proportional to one's income is even shakier. How precisely do the wealthy, by virtue of that wealth, benefit proportionately from the state as compared to the poor? That would only be true if the government were *responsible* for the wealth, by means of a subsidy, monopoly grant, or some form of special privilege. If not from special privilege, then how do the rich benefit proportionately to their income? Surely not from redistributive measures, by which the state takes money from the wealthy and gives it to bureaucrats or the poor; in that case, it is the latter group who benefit and the rich who suffer from this redistribution. So who then should pay for *such* benefits? The bureaucrats and the poor? And benefits from police protection or the public schools? But surely the wealthy could far more afford to pay for private provision of these services, and therefore the rich benefit *less* than the middle class or certainly than the poor from such expenditures.

Neither would it save the theory to say that since *A*, for example, makes five times as much money as *B*, that *A* therefore benefits five times as much from 'society' and therefore should pay five times the taxes. The fact that *A* makes five times as much as *B* shows that *A*'s services are *individually* worth five times as much as *B* to his fellows on the market. Therefore, since *A* and *B* in truth benefit similarly from the existence of society, the reverse argument would be far more plausible: that the *differential* between *A*'s and *B*'s incomes is due to *A*'s superior productivity, and that 'society', if indeed it can be held to be responsible for anything specific at all, can be held responsible for their equal core incomes, below that differential. The implication of that point would be that both persons, and therefore all persons, should pay an equal tax, that is, a tax equal in absolute numbers.

Finally, whatever society's claim to part of people's incomes may be, society – the division of labour, the body of knowledge and culture, etc. – is in no sense the state. The state contributes no division of labour to the production process, and does not transmit knowledge or carry civilization forward. Therefore, whatever each of us may owe to 'society', the state can hardly claim, any more than any other group in society, to be surrogate for all social relations in the country.

16.10 Notes

1. *Das AdamSmithProblem* referred to only one of the numerous contradictions and puzzles in the Adam Smith saga: the big gap between the natural rights–*laissez-faire* views of his *Theory of Moral Sentiments*, and the much more qualified views of his later and decisively influential *Wealth of Nations*.
2. In an illuminating article on 'Adam Smith's Acknowledgements', Professor Salim Rashid writes: 'It is stated by Schumpeter that this [not acknowledging one's sources] was the practice of the age. This is incorrect. If we turn to some of the works quoted in the *Wealth of Nations*, such as Charles Smith's *Tracts* on the Corn-Trade or John Smith's *Memoirs* on Wool, we shall find them scrupulous in acknowledging their intellectual debts. Among Smith's contemporaries, Gibbon is well-known for the care with which he provided references and the same is true of the best-known agricultural writer of Smith's day, Arthur Young'. Salim Rashid. 'Adam Smith's Acknowledgements: Neo-Plagiarism and the Wealth of Nations', *Journal of Libertarian Studies*, 9 (Autumn 1990), p. 11.
3. The first and most consistent piece of modern Smith revisionism came a year earlier in two excellent and illuminating articles by Emil Kauder: 'Genesis of the Marginal Utility Theory: From Aristotle to the End of the Eighteenth Century', in J. Spengler and W. Allen (eds), *Essays in Economic Thought* (Chicago: Rand McNally and Co., 1960), pp. 277–87; and 'The Retarded Acceptance of the Marginal Utility Theory', *Quarterly Journal of Economics* (Nov. 1953), pp. 564–75. But Schumpeter's revision was far more influential.
4. Unfortunately, since the mid-1970s celebration of Smith's bicentennial, a counter-revisionist trend has set in to try to restore the hagiographical attitude dominant before the 1950s. See our bibliographical essay below.
5. For a new view of Smith's tenure at the customs house based on original investigation into the handwritten minutes of the board of customs commissioners, 1778–90, as well as

on Smith's numerous letters to customs collectors at the outports, see the important article of Gary M. Anderson, William F. Shughart II and Robert D. Tollison, 'Adam Smith in the Customhouse', *Journal of Political Economy*, 93 (August 1985), pp. 740–59.

6. Griping about alienation had begun with the influential *Essay on the History of Civil Society* (1767), written by Smith's friend Adam Ferguson. A similar theme, however, had appeared in Smith's unpublished Glasgow lectures of 1763. On Ferguson's influence, see M.H. Abrams, *Natural Supernaturalism* (New York: W.W. Norton, 1971), pp. 220–21, 508.
7. Quoted in Ronald Hamowy, 'Adam Smith, Adam Ferguson, and the Division of Labour', *Economica* (August 1968), p. 253.
8. Edwin Cannan, *A History of the Theories of Production and Distribution in English Political Economy From 1776 to 1848* (2nd ed., London: P.S. King & Son, 1903), pp. 23–4.
9. Cannan, op. cit., note 8, p. 24.
10. Ingrid Hahne Rima, *Development of Economic Analysis* (3rd ed., Homewood, Ill.: Richard D. Irwin, 1978), p. 79.
11. Edwin G. West, *Adam Smith* (New Rochelle, NY: Arlington House, 1969), p. 173.
12. Also see Nathan Rosenberg, 'Adam Smith on Profits – Paradox Lost and Regained', *Journal of Political Economy*, 82 (Nov./Dec. 1974), pp. 1187–9.
13. J.A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), pp. 324–5.
14. We cannot use the excuse that Smith had developed the utility–scarcity analysis in his lectures and therefore saw no need to repeat it in the *Wealth of Nations*. For the lectures were unpublished and remained so until almost the twentieth century.
15. Paul H. Douglas, 'Smith's Theory of Value and Distribution', in J.M. Clark et al., *Adam Smith, 1776–1926* (Chicago: University of Chicago Press, 1928), p. 80.
16. Emil Kauder, 'Genesis of the Marginal Utility Theory from Aristotle to the End of the Eighteenth Century', in Spengler and Allen, op. cit., note 3, p. 282. Also see H.M. Robertson and W.L. Taylor, 'Adam Smith's Approach to the Theory of Value', in ibid., pp. 293–4.
17. John Locke (1632–1704), the great late seventeenth century English libertarian political theorist, is often erroneously held to have originated the labour theory of value. Actually, Locke was discussing a far different problem from the determination of price. In the first place, he championed the idea of private property in land to the original homesteaders, who took unused land out of the common by 'mixing their labour' with the soil. This is a labour theory of the proper origin of private property rather than a labour theory of value. Second, Locke is trying to demonstrate the unimportance of land – supposedly originally communal – as compared to the importance of human energy and production in determining the value of products or resources. Locke asks us to compare an unused piece of communal land with the difference made by labour in tilling the soil and transforming it into consumer goods. Here Locke is certainly correct in highly valuing the input of human energy, which here includes the creation and the collaboration of capital goods as well as the narrow modern meaning of 'labour'. Human energy, or 'labour' in the broadest sense, has certainly made the crucial difference in the march upwards from penury and barbarism to modern civilization. But this is no 'labour theory of value' in the sense of determining price.
18. Thus Ricardo, following and clarifying Smith, asserted that 'The estimation in which different qualities of labor are held comes soon to be adjusted in the market with sufficient precision for all practical purposes'. And Marx declared that 'the different proportions in which different sorts of labour are reduced to unskilled labour as their standard are established by a social process which goes on behind the backs of the producers'. Cited in Douglas, op. cit., note 15, p. 82n.
19. Douglas, op. cit., note 15, p. 95. Similarly, the astute Alexander Gray wrote that 'through Ricardo, his [Smith's] cost-of-production theory and his emphasis on labour as the source of all value, became one of the cornerstones of the Marxian structure. Indeed, it is a commonplace that Scientific Socialism was arrived at by carrying classical English politi-

cal economy to its logical conclusions'. Alexander Gray, *Adam Smith* (London: The Historical Association, 1948), p. 24.

20. Douglas, op. cit., note 15, pp. 102–3.
21. H.M. Robertson and W.L. Taylor, 'Adam Smith's Approach to the Theory of Value', in Spengler and Allen, op. cit., note 3, p. 301.
22. For a more elaborate critique, see our discussion of Malthus and Malthusianism below (Chapter 17).
23. Jacob Viner, *Studies in the Theory of International Trade* (New York: Harper & Bros, 1937), p. 87.
24. Adam Smith, *Lectures on Justice, Police, Revenue and Arms* (1896, New York: Kelley & Millman, 1956), p. 197.
25. Thus, Douglas Vickers writes, in a volume generally devoted to Smithian apologetics: '...in the matter of the theory of money *The Wealth of Nations* does not deserve very high praise. In the *Wealth of Nations* the theory of money resides at a relative nadir in the swings of its long historical development. Deeper analysis and more extended argument occurred on both sides of the 1776 divide'. Douglas Vickers, 'Adam Smith and the Status of the Theory of Money', in A. Skinner and T. Wilson (eds), *Essays on Adam Smith* (Oxford: The Clarendon Press, 1975), p. 484. Also see W.L. Taylor, *Francis Hutcheson and David Hume as Predecessors of Adam Smith* (Durham, NC: Duke University Press, 1965), p. 132.
26. See Frank Petrella, 'Adam Smith's Rejection of Hume's Price-Specie-Flow Mechanism: A Minor Mystery Revealed', *Southern Economic Journal*, 34 (Jan. 1968), pp. 365–74.
27. Oddly enough, Professor Eagly, in his article allegedly rehabilitating Smith as an adherent of the Humean price-specie-flow theory, demonstrates just the opposite: 'To begin with, Smith assumed the existence of an international purchasing-power-parity for the monetary metals... Whenever and wherever the local price of specie in terms of commodities diverges from the international purchasing-power-parity, specie movements take place immediately. The world demand for specie thus appears to an individual nation as infinitely elastic with respect to its price in terms of commodities. Any small deviation in the domestic commodity price of specie from the international parity results in immediate specie export (or import)'. In short, Smith focuses completely on long-run equilibrium, with process dropping out altogether. Robert V. Eagly, 'Adam Smith and the Specie-Flow Doctrine'. *The Scottish Journal of Political Economy*, 17 (February 1970), p. 64. Bloomfield's apologia for Smith follows Eagly, adding encomiums to Smith's alleged modernity in anticipating Mundellian, neo-monetarist equilibrium economics. Arthur I. Bloomfield, 'Adam Smith and the Theory of International Trade', in Skinner and Wilson, op. cit., note 25, pp. 478–80. J.T. Salerno, 'The Doctrinal Antecedents of the Monetary Approach to the Balance of Payments (doctoral dissertation, Rutgers University 1980), pp. 196–208, also follows Eagly, but admits in the course of his discussion Smith's inconsistencies as well as his stress on long-run equilibrium. Wu, in his generally excellent work, admits that 'Smith said nothing about the intermediate mechanism', but then oddly proclaims that since Smith had approved Hume's analysis in the lectures, 'he could hardly have omitted entirely Hume's doctrine from his celebrated essay'. An unfortunate example of excessive reverence for one's subject leading an author to '*a priori* history', Chi-Yuen Wu, *An Outline of International Price Theories* (London: George Routledge & Sons, 1939), pp. 82–3.
28. See Eagly, op. cit., note 27, pp. 62, 66–8; Salerno, op. cit., note 27, pp. 208–211.
29. Charles Rist, *History of Monetary and Credit Theory: From John Law to the Present Day* (1940, New York: A.M. Kelly, 1966), p. 85.
30. Schumpeter, op. cit., note 13, pp. 184–6.
31. Ibid., p. 181.
32. As Schumpeter notes: the free market principle and the natural law view that the 'free interaction of individuals produces not chaos but an orderly pattern that is logically determined...had been quite clearly enunciated before, for example, by Grotius and Pufendorf'. Ibid., p. 185.
33. In his critique of Smith, Garrison notes that 'Smith's own blueprint for increasing wealth

was...self-defeating, although there is no evidence that this was ever recognized by Smith... In reality credit controls serve only to reduce the gains from intertemporal exchange. Individuals may prefer, say, one unit of a consumption good now to two or even five units of the good next year. If this preference is not allowed to be expressed in the market, then the wealth of the nation, reckoned in terms of present value, i.e. discounted at a rate corresponding to the individuals' true time preference, will actually decrease'. Roger W. Garrison, 'West's "Cantillon and Adam Smith": A Comment', *The Journal of Libertarian Studies*, 7 (Autumn 1985), pp. 291–2. Also see Edwin G. West, 'Richard Cantillon and Adam Smith: A Reappraisal' (unpublished MS), pp. 22–3.

34. See G.M. Anderson et al., 'Adam Smith in the Custom house', *Journal of Political Economy*, 93 (August 1985), p. 751n.
35. Anderson et al., op. cit., note 34, pp. 752–3.
36. Smith to George Chalmers, 22 December 1785, in Ernest C. Mossner and Ian S. Ross (eds), *The Correspondence of Adam Smith* (Oxford: The Clarendon Press, 1977), letter 251, pp. 289–90; quoted in Anderson et al., op. cit., note 34, p. 754.
37. In his canons of taxation, Smith was influenced by his teacher Hutcheson, and by his friend Henry Home, Lord Kames. Smith also may well have been influenced by Carlo Antonio Broggia's (1683–1763) *Tratto de' tributi*...(1743) and Count Pietro Verri's (1728–97) *Meditazione sull' economia politica* (1771). Broggia was a Neapolitan, possibly a retired businessman; Verri was a Milanese who served as an official in the Austrian and also the French administration in Milan.
38. Though these canons may be banal, they are by no means self-evident. Thus, see the critique in Murray N. Rothbard, *Power and Market: Government and the Economy* (Menlo Park, Calif.: Institute for Humane Studies, 1970), pp. 102–3.

17 The spread of the Smithian movement

17.1 The *Wealth of Nations* and Jeremy Bentham

Contrary to received opinion, the *Wealth of Nations* was not an instant success. Of the leading British journals of the day, the *Annual Register* gave it a brief, tepid review, while the *Gentleman's Magazine* ignored it altogether. The most influential journal, the *Monthly Review*, was ambivalent about the book. Indeed, there were no citations to the *Wealth of Nations* in articles on economics for ten years after its publication, and no one mentioned the book in Parliament until 1783. It was only in the 1780s that the book began to roll.

By 1789, the *Wealth of Nations* had already gone into five editions. Between 1783 and 1800, MPs in Britain appealed to the authority of Adam Smith 37 times. The noted English philosopher Jeremy Bentham (1748–1832), son of a wealthy lawyer, proclaimed himself a fervent disciple of Smith. His first economic work, however, was bold enough to take his master to task for inconsistency in his own free market views by upholding usury laws. In *The Defence of Usury* (1787), Bentham pointed out that usury laws create a scarcity of credit. He also stressed that usury is what would now be called a victimless crime and therefore not really a crime at all. He had noted elsewhere, in a work on morals and legislation, that 'Usury which, if it must be an offence, is an offence committed with consent, that is, with the consent of the party supposed to be injured, cannot merit a place in the catalogue of offences, unless the consent were either unfairly obtained or unfreely; in the first case, it coincides with defraudment; in the other, with extortion'. In short, in the latter cases, no special laws against usury would be needed beyond the common legal prohibitions of force and fraud.

There are hints in Bentham's *Defence of Usury*, for the first time in Britain, that the fundamental cause of interest is time-preference. Thus Bentham refers to lending as 'exchanging present money for future', and also defines a saver as someone who has 'the resolution to sacrifice the present to [the] future'. He also understands that added to pure interest is a risk premium proportionate to the risks a creditor expects to incur in a particular loan.

Some Smith biographers have accepted the legend that Bentham's *Defence of Usury* converted Smith to the free market in lending position, but there is no real evidence to that effect. Moreover, it goes against what we know of Smith's general intractability. A Scottish friend wrote to Bentham that Smith is supposed to have told a third party that he admired the *Defence*, and that he could not complain about the treatment Bentham had accorded to Smith. The friend concluded that Smith had 'seemed to admit that you were right'. On reading this, the eager Bentham wrote to Smith asking him whether he had actually converted him to opposition to usury laws. Smith, however, received the letter virtually on his deathbed, and he could only send Bentham a copy of the *Wealth of Nations*. All this is far too flimsy an evidence of any recantation by Smith.

17.2 The influence of Dugald Stewart

Adam Smith's lectures converted the merchants of Glasgow to a free trade position, but most of his influence was spread through the *Wealth of Nations.* A triumphant *movement* of Smithian disciples really begins only with Dugald Stewart (1753–1828). Stewart was the son of Matthew Stewart, a professor of mathematics at Edinburgh University. Stewart succeeded his teacher Adam Ferguson as professor of moral philosophy at Edinburgh in 1785. Stewart made himself the leading disciple of Smith and, after the death of his master, Stewart became his first biographer, reading his *Account of the Life and Writings of Adam Smith* in 1793 to the Royal Society of Edinburgh. But by this time, Britain was in the throes of a hysterical counter-revolution – a veritable White Terror – against the French Revolution and all its ancillary liberal views. Consequently, Stewart was very circumspect in his memoir, and stayed off any controversial topics, such as the necessity for free markets.

Stewart was a highly prolific writer, and an outstanding and notable orator, but he kept his lectures as well as writings bland and acceptable to the powers-that-be. Thus, in 1794, Stewart recanted his earlier praise of the great French *laissez-faire* liberal and close friend and biographer of Turgot, Marie Jean Antoine Nicolas de Caritat, the marquis de Condorcet (1743–94). This Girondist revolutionary was too hot a topic, and Stewart also made sure to praise the British Constitution in his lectures.

By the turn of the century, however, the worst of the counter-revolutionary hysteria had blown over, and Stewart felt safe enough to propound his true classical liberal views, in books and in lectures. Hence, in 1799–1800, Stewart began to lecture on political economy in addition to his general lectures on moral philosophy. He kept giving these lectures until his retirement from Edinburgh in 1810. His 1800 lectures remained unpublished until printed, as Stewart's *Lectures on Political Economy*, in 1855.

Since the retirement of the great Thomas Reid, founder of the 'common sense' school of philosophy, from his post as professor of moral philosophy at Glasgow in the 1780s and his death a decade later, Dugald Stewart had become the only distinguished philosopher in all of Great Britain. Oxford and Cambridge were still in deep decline. With the European war blocking trips to or from the Continent, it became the fashion for bright young students all over Britain to come to Edinburgh and study under Dugald Stewart.

In this way, and clinging passionately to the Smithian line, Dugald Stewart, in the first decade of the nineteenth century, profoundly influenced and converted a host of future economists, writers and statesmen. These included James Mill, John Ramsay McCulloch, the earl of Lauderdale, Canon Sydney Smith, Henry Brougham, Francis Horner, Francis Jeffrey and the Viscount Palmerston. Economics was thereby developed as a discipline, Stewart giving rise to text writers, publicists, editors, reviewers and journalists. Typical of this illustrious group was the case of Francis Horner (1778–1817), who was born in Edinburgh, the son of a merchant, and studied under Stewart at the university. Returning from England, Horner enrolled in Stewart's new 'special course' in political economy in 1799, where he studied the *Wealth of Nations* and eagerly read Condorcet and Turgot. Horner indeed was so impressed by Turgot that he wanted to translate Turgot's writings into English. Becoming a lawyer shortly thereafter, Horner went to London and became an MP in 1806.

Inspired by Stewart's teachings, his students, Sydney Smith, Henry Brougham, Francis Jeffrey and Francis Horner founded the *Edinburgh Review* in 1802, as a new, scholarly Whig periodical devoted to educating the intelligent public in liberty and *laissez-faire*. This Whig magazine was the only economic journal in Great Britain and as such enjoyed great influence.[1]

The last decade of teaching by Dugald Stewart proved, however, to be the last great burst of the Scottish intellectual ascendancy in Great Britain. For the shades of night were rapidly closing in on the Scottish Enlightenment. In the first place, Tory repression of liberal and Whig ideas during the generation of war with France continued to be far greater in Scotland than in England. More important in the long run was the great revival of militant, evangelical Protestantism that swept western Europe and then the United States in the early years of the nineteenth century. The liberal, moderate and even deistic views that had spread throughout the western world in the last half of the eighteenth century were swept aside by resurgent Christianity. In Scotland, the result was an intellectual counter-revolution against moderate control of the Presbyterian church, and a purging of the Scottish faculties of moral philosophy and theology of moderate, sceptical, and secularist teachings. Smith and Hutcheson were now denounced in retrospect as guilty of a 'refined paganism', and with a resumption of strict theological control of the moral philosophy faculty, Scottish universities lost their pre-eminence in Britain and slid rapidly downhill, intellectually if not theologically. Neither classical liberal social philosophy nor political economy could survive in that kind of academic climate.

As a result, intellectual leadership shifted from Scotland to England, and out of academia altogether for a considerable period. Since English universities were still not hospitable to the new discipline of political economy, the locus of economic thought now shifted from Scottish academics to English businessmen, publicists and government officials. The shift was symbolized by the fact that while the *Edinburgh Review* continued to be published for decades and its nominal home was still Edinburgh, three of its four editors had moved to England within a few months of the start of the publication. One of them, who died at a very young age, was Francis Horner. Moving to

London as an attorney, Horner quickly became a Whig MP, and his expertise on monetary matters made him chairman of the famous bullion committee in 1810 which was to strike a crucial blow for hard money. There he worked closely with David Ricardo. In the first issue of the *Edinburgh Review*, Horner reviewed the famous monetary work of Henry Thornton, as well as a highly important essay by Lord King in a later issue. Horner was a member of prominent Whig clubs in London, the King of Clubs and Brooks', in both of whom he had David Ricardo as a fellow member. Horner also shared scientific interests with Ricardo, and both men were members of the board of the Geological Society of London.

Another illustration of the intellectual shift from Scotland to England is what happened to two bright young Scotsmen who studied under Stewart and were later to become major leaders in British economics. James Mill (1773–1836) was the son of a Scottish shoemaker, who studied under Stewart and was then licensed to preach in the Presbyterian ministry. Failing to find a ministerial post in the increasingly militant Calvinist climate in Scotland, Mill was obliged to move to London, where he became editor of the *Literary Journal*. Eventually, Mill found employment in the London office of the East India Company, which gave him a base to pursue his very active economic and philosophical work in his off hours. The younger John Ramsay McCulloch (1789–1864), who studied with Stewart in his last years, wrote economic articles in *The Scotsman* and the *Edinburgh Review*, and organized an economics lecture series. But despite his obvious merits, McCulloch was unable to find an academic post in Scotland, and finally moved to London to teach political economy at the newly established University of London. But after four years, he spent the rest of his life working as a financial controller in England, again writing and being active in economics in additional to his regular work.

One beneficial result of the Stewart-led sweep of Smithianism in Great Britain is that it swamped the competing strain to 'political economy', the 'political arithmeticians'. These 'political arithmeticians, or statistical collectors', as Stewart contemptuously called them, had formed a competing school in economics since the writings of Sir William Petty (1623–87) and his followers in the late seventeenth century. The arithmeticians generally scorned the classical method of arriving at economic laws deduced from broad insights into human action and the economy. Instead, in a Baconian fashion, they tried in vain to arrive at theoretical generalizations from hodge-podge collections of statistical facts. With little insight into the laws of the free market or the counterproductive nature of government intervention, the political arithmeticians tended to be mercantilists and British chauvinists, proclaiming the economic superiority of their homeland. But this school was demolished by the Smithians, first by Smith himself who declared, in the *Wealth of Nations*, that 'I have no great faith in political arithmetic', and then by Stewart, who engaged in a searching methodological critique of this allegedly 'scientific' school of thought. Stewart wrote: 'The facts accumulated by the statistical collector are merely *particular results*, which other men have seldom an opportunity of verifying or of disproving; and which...can never afford any important information'. In short, in contrast to the replicable quantitative findings of natural science, statistics of human action are mere listings of particular, non-replicable events, rather than the embodiment of enduring natural law. Stewart concluded that 'instead of appealing to political arithmetic as a check on the conclusions of political economy, it would often be more reasonable to have recourse to political economy as a check on the extravagance of political arithmetic'.

After the 1790s, then, Adam Smith held total sway over economic thought in Britain. Amidst a flourishing swarm of views, all the major protagonists in England, as we shall see below, from Bentham to Malthus to Ricardo, considered themselves devoted Smithians, often trying to systematize and clarify the admitted confusions and inconsistencies of their master.

17.3 Malthus and the assault on population

One of the first Smithian economists, and, indeed, a man who was for two decades the only professor of political economy in England, was the Rev. Thomas Robert Malthus (1766–1834). Malthus was born in Surrey, the son of a respected and wealthy lawyer and country gentleman. Malthus graduated from Jesus College, Cambridge, in 1788 with honours in mathematics and five years later became a fellow of that college. During that same year, Robert Malthus became an Anglican curate in Surrey, in the parish where he had been born.

Malthus seemed destined to lead the quiet life of a bachelor curate, when, in 1804, at nearly 40, he married and promptly had three children. The year after his marriage, Malthus became the first professor of history and political economy in England, at the new East India College at Haileybury, a post he retained until his death. All his life, Malthus remained a Smithian, and was to become a close friend, though not disciple, of David Ricardo. His only marked deviation from Smithian doctrine, as we shall see, was his proto-Keynesian worry about alleged underconsumption during the economic crisis after the end of the Napoleonic Wars.

But Malthus was, of course, far more than a Smithian academic, and he gained both widespread fame and notoriety while still a bachelor. For 'Population' Malthus became known worldwide for his famous assault on human population.

In previous centuries, in so far as writers or economists dealt with the problem at all, they were almost uniformly pro-populationists. A large and growing population was considered a sign of prosperity, and a spur to progress. The only exception, as we have seen, was the late sixteenth century Italian absolutist theorist Giovanni Botero, the first to warn that population growth is an ever-present danger, tending as it does to increase without limit, while the means of subsistence grows only slowly. But Botero lived at the threshold of great economic growth, of advances in total population as well as standards of living, and so his gloomy views got very short shrift by contemporaries or later thinkers. Indeed, absolutists and mercantilists tended to admire growing population as providing more hands for production on behalf of the state apparatus as well as more fodder for its armies.

Even those eighteenth century writers who believed that population tended to increase without limit, curiously enough *favoured* that development. This was true of the American Benjamin Franklin (1706–90), in his *Observations Concerning the Increase of Mankind and the Peopling of Countries* (1751). Similarly, the physiocrat leader, Mirabeau, in his famous *L'Ami des Hommes ou traité de la population* (*The Friend of Man or a Treatise on Population* (1756), while comparing human reproduction to that of rats – they would multiply up to the very limit of subsistence like 'rats in a barn' – yet advocated such virtually unlimited reproduction. A large population, said Mirabeau, was a boon and a source of wealth, and it was precisely *because* people will multiply like rats in a barn up to the limit of subsistence that agriculture – and hence the production of food – should be encouraged. Mirabeau had picked up the 'rats in a barn' metaphor from Cantillon, but unfortunately did not inherit Cantillon's highly sensible and sophisticated 'optimum population' realization that human beings will flexibly adjust population to standards of living, and that their non-economic values will help them decide on whatever trade-offs they may choose between a slightly larger population or a smaller population and higher standards of living.

Mirabeau's co-leader of physiocracy, François Quesnay, however, converted him to a gloomy view of the influence of the alleged tendency to unlimited population growth on standards of living. Adam Smith, Malthus's standard-bearer in economics, managed, in typically confused and contradictory fashion, at one and the same time to provide Malthus with all his ammunition for gloom-and-doom while remaining a cheerful proponent of large and growing numbers of people. For on the one hand, Smith opined that people would indeed insist on breeding up to the minimum of subsistence – the essential Malthusian doctrine. But, on the other, Smith asserted cheerfully that 'the most decisive mark of the prosperity of any country is the increase of the number of its inhabitants'.

At about the time that Adam Smith was sinking into confusion and paving the way for the unfortunate anti-population hysteria of Robert Malthus, the unheralded Abate Antonio Genovesi, the first professor of economics on the

Continent (at the University of Naples), was pointing the way to a very different solution to the population question. In his *Lezione di economia civile* (1765), this excellent utility-value theorist was reminiscent of Cantillon's insight about an 'optimum' population. Under any given conditions, he pointed out, population can either be too large or too small for optimum 'happiness' or living standards.

Robert Malthus was moved to consider the population question by wrestling in friendly and repeated argument with his beloved father, Daniel, a fellow country squire in Surrey. Daniel was a bit of a radical, and was influenced by the utopian and even communistic opinions of the day. He was a friend and great admirer of the French radical, Jean Jacques Rousseau.

The 1790s was the era of the outburst of the French Revolution, and it was a decade when ideas of liberty, equality, utopia, and revolution were very much in the air. One of the most popular and influential radical works in England was William Godwin (1756–1836)'s *Enquiry Concerning Political Justice* (1793), which was for a time the talk of England. Godwin, son and grandson of dissenting ministers, had himself been a dissenting minister when he lapsed into secularism and became a radical theorist and writer. In his utopian belief in the perfectibility of man, Godwin has been generally bracketed with the distinguished French philosopher and mathematician, Condorcet, whose great paean to optimism and progress, *Esquisse d'un tableau historique des progrès de l'esprit humain* (*Sketch for an Historical Picture of the Progress of the Human Mind*) (1794) was, remarkably, written while in hiding from the Jacobin Terror and in the shadow of his arrest and death. But the two optimists were very different. For Condorcet, close friend of Turgot and admirer of Adam Smith, was an individualist and a libertarian, a firm believer in free markets and in the rights of private property. William Godwin, on the other hand, was the world's first anarcho-communist, or rather, voluntary anarcho-communist. For Godwin, while a bitter critic of the coercive state, was an equally hostile critic of private property. But in contrast to late nineteenth century anarcho-communists such as Bakunin and Kropotkin, Godwin did not believe in the imposition of rule by a coercive commune or collective in the name of anarchistic 'no-rule'. Godwin believed, not that private property should be expropriated by force, but that individuals, fully using their reason, should voluntarily and altruistically divest themselves of all private property to any passer-by. This system of voluntary abasement, brought about by the perfectibility of human reason, would result in total equality without private property. In his voluntarism, Godwin was thus the ancestor of both the coercive communist and the individualist strains of nineteenth century anarchist thought.

In his way, however, Godwin was every bit as, and even more, appreciative of the benefits of individual freedom and a free society as was Condorcet.

He was sure that population would never grow beyond the limits of the food supply, for he was convinced that 'There is a principle in the nature of human society, by means of which everything seems to tend to its level, and to proceed in the most auspicious way, when least interfered with by the mode of regulation'.

The marquis de Condorcet, sensibly enough, was also not worried about excessive population growth wrecking he future libertarian and free market 'utopia' that he envisaged for the future of man. He was not worried because he believed that on the one hand science, technology and free markets would greatly expand the subsistence available, while reason would persuade people to limit population to numbers that could be readily sustained. William Godwin, however, was not content with this intelligent treatment of the problem. On the contrary, in the first place, Godwin worried, in proto-Malthusian fashion, that population did always tend to press on resources so as to keep living standards down to subsistence level. He believed, however, in some sort of leap in being, a New Godwinian Man, and institutions where 'reason' would instead prevail. It would prevail, in fact, by reason making man master of his passions, to such an extent that sexual passion would gradually become extinct, and advancing health would make man immortal. We would, then, have a future human race of immortal and ever-ageing adults, a utopia that seems impossibly dotty:

> The men therefore...will probably cease to propagate. The whole will be a people of men, and not of children. Generation will not succeed generation, nor truth have, in a certain degree, to recommence her career every thirty years... There will be no war, no crimes, no administration of justice, as it is called, and no government. Every man will seek, with ineffable ardour, the good of all.

William Godwin had learned of the alleged eternal pressure of population down to subsistence from Dr Robert Wallace (1697–1771), a Scottish Presbyterian minister, who had set forth his allegedly utopian government in his *Various Prospects of Mankind* (1761). Wallace's ideal utopia was a world government which imposed totalitarian communism compelling equality and eradicating private property. The state would bring up all children, and all would be taken care of. The fly in the ointment, however, the serpent in Eden, would be population growth. The marvellous conditions provided by world communism would lead to population growing so rapidly that mass misery and starvation would prevail. As Wallace lamented:

> Under a perfect government, the inconveniences of having a family would be so entirely removed, children would be so well taken care of, and every thing become so favourable to populousness, that...mankind would increase so prodigiously, that the earth would at last be overstocked, and become unable to support

> its numerous inhabitants...There would not even be sufficient room for containing their bodies upon the surface of the earth.

Hence, utopian communism would have to be abandoned.

William Godwin was too ready to accept Wallace's mechanistic worry about population growth, but thought rather bizarrely that the withering away of sex would provide the cure for Wallace's problem and ensure that egalitarian anarcho-communism would prevail.

Daniel Malthus was just the sort of man to be deeply impressed by the Godwinian utopia, and he and his son Robert spent many happy hours arguing over Godwin's *Political Justice*, its second edition (1796), and his follow-up collection of essays, *The Enquirer* (1797). Robert decided to write a book clobbering these utopian fantasies once and for all, and dredged up the spectre of population growth as the inevitable rock upon which such fantasies would inevitably founder and collapse. Hence the publication in 1798 of the first edition of Malthus's immensely popular and controversial *Essay on the Principle of Population as It Affects the Future Improvement of Society*. The *Essay* went through five more editions in Malthus's lifetime, gained him the nickname of 'Population Malthus', and gave rise to literally millions of words of heated controversy.

There was virtually nothing in Malthus's *Essay* that had not been in Giovanni Botero two centuries earlier – or, for that matter, in Robert Wallace. As in Botero, all improvements in living standards are in vain, giving rise to an immediate and deadly pressure of population growth upon the means of subsistence. Once again, such mechanistic burgeoning of population can only be limited by the 'positive check' of war, famine and pestilence; supplemented by the rather weak 'preventive' check of fewer births spurred by continuing starvation ('preventive or negative' check). There is only one thing that Malthus added to the Botero model: the spurious mathematical precision of his famous statement that population tends to 'go on doubling itself every twenty-five years, or increases in a geometrical ratio', while 'the means of subsistence increase in an arithmetical ratio'.

It is not easy to see why Botero's anti-population hysteria was properly and understandably ignored in an age of joint growth in population *and* living standards, while Malthus, writing in a similar period of growth, should sweep the western world. One reason was undoubtedly the fact that Malthus set himself, with verve and self-assurance, against the highly popular and influential writings of Godwin as well as against the ideals of the French Revolution. Another was the fact that, by the time his *Essay* appeared, British intellectuals and public were turning rapidly away from the French Revolution in a burst of reaction, oppression, and continuing war against France. Malthus had the good fortune of being in tune with the latest twist of the

Zeitgeist. But a third element explained his instant renown: the spurious air of the 'scientific' that his alleged ratios gave to a doctrine in an age that was increasingly looking for models of human behaviour and its study in mathematics and the 'hard' physical sciences.

For spurious Malthus's ratios undoubtedly were. There was no proof whatever for either of these alleged ratios. The absurdly mechanistic view that people, unchecked, would breed like fruit flies, cannot be demonstrated by simply spelling out the implications of the alleged 'doubling itself every twenty-five years', e.g.:

> Taking the population of the world at any number, a thousand millions, for instance, the human species would increase in the ratio of 1, 2, 4, 8, 16, 32, 64, 128, 256, 512, &c, and subsistence as 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, &c. In two centuries and a quarter, the population would be to the means of subsistence as 512 to 10.

In a few more centuries, at the same rate, the 'ratio' of population to subsistence would begin to approach infinity. This is scarcely demonstrable in any sense, certainly not by referring to the actual history of human population which, in most of Europe, remained more or less constant for centuries before the Industrial Revolution.

Still less is there proof of Malthus's proclaimed 'arithmetical ratio', where he simply assumes that the supply of food will increase by the same amount for decade after decade.

Malthus's one attempt at proof of his ratios was extraordinarily feeble. Priding himself on relying on 'experience', Malthus noted that the population of the North American colonies had increased for a long while in the 'geometric ratio' of doubling every 25 years. But this example hardly demonstrates the fearful outstripping by population of the 'arithmetically increasing' food supply. For, as Edwin Cannan astutely notes, 'This population must have been fed, and consequently the annual produce of food must also have increased in a geometrical ratio'. His example proved nothing. Cannan adds that by the sixth chapter of his *Essay*, Malthus 'seems to have had some inkling of this objection to his argument', and he tries to reply in a footnote, that 'In instances of this kind, the powers of the earth appear to be fully equal to answer all the demands for food that can be made up on it by man. But we should be led into an error, if we were thence to suppose that population and food ever really increase in the same ratio'. But since this is precisely what had happened, Malthus is clearly totally unwitting that the second sentence in this note is in flat contradiction to the first.[2]

Malthus's pessimistic conclusion about man thus contrasted with the optimism of his beloved Adam Smith as well as with Godwin. For if the inexorable pressure of population growth is always and everywhere destroying any hope of living standards being above subsistence, then the result is not only gloomy for any communist or egalitarian utopia. It provides an equally gloomy prognosis for the free market society envisioned by Smith, or, far more consistently, by Condorcet. Yet, unfortunately, in his understandable eagerness to demolish the case for egalitarian communism, Malthus threw out the baby with the bath water, and also cast an unnecessary pall on the far more rational 'utopian' prognoses of the free society and private property by Smith and especially Condorcet.

It was easy for Malthus to dismiss brusquely Godwin's absurd reliance on the demise of sex to solve the problem of over population. But his treatment of Condorcet's position was far less cogent. For the sophisticated French aristocrat had strongly implied that birth control played a major role in his optimism about the libertarian future. While modern neo-Malthusians are enthusiastic not only about birth control but also sterilization and abortion as means of family planning, the conservative Malthus drew back in horror from any hint of such measures, which he saw simply as 'vice'. Malthus denounced Condorcet's solution as

> either a promiscuous concubinage, which would prevent breeding, or...something else as unnatural. To remove the difficulty in this way, will, surely, in the opinion of most men,...destroy that virtue, and purity of manners, which the advocates of equality, and of the perfectibility of man, profess to be the end and object of their views.

A sally that might apply neatly to Godwin, but scarcely to Condorcet, for whom 'purity' was scarcely an overriding concern.

In fact, Malthus held out little hope for mankind. His one practical proposal was the gradual abolition of the Poor Law, and especially of the idea of the *right* of the poor to be supported by the state. That would discourage excessive breeding among the poor.

All in all, Schumpeter's scathing assessment of the *Essay* of 1798 was well-deserved. Malthus, he wrote, held

> that population was actually and inevitably increasing faster than subsistence and that this was the reason for the misery observed. The geometrical and arithmetical ratios of these increases, to which Malthus...seems to have attached considerable importance, as well as his other attempts at mathematical precision, are nothing but faulty expressions of this view which can be passed by here with the remark that there is of course no point whatever in trying to formulate independent 'laws' for the behavior of two interdependent quantities. The performance as a whole is deplorable in technique and little short of foolish in substance.[3]

Poor Godwin, however, unfortunately did not come to a similar assessment – at least not immediately. He was, after all, not a scholar of population theory, and he had no immediately effective reply. It took Godwin all of two decades to study the problem thoroughly and come to an effective refutation of his nemesis. In *On Population* (1820), Godwin came to the cogent and sensible conclusion that population growth is not a bogey, because over the decades the food supply would increase and the birth rate would fall. Science and technology, along with rational limitation of birth, would solve the problem.

Unfortunately, Godwin's timing could not have been worse. By 1820, the aging Godwin – along with utopianism and even the French Revolution – had been forgotten in Great Britain. His excellent rebuttal went unread and unsung, while Malthus continued to tower over all as the much admired final word on the population question.

His *Essay* being world-famous, and Godwin and Condorcet as he believed effectively disposed of, Malthus now decided to spend some years actually studying the population problem. Remarkably, Malthus's second edition of the *Essay* in 1803 (on which all five future editions were based) was a very different work. In fact, Malthus's *Essay* is one of the rare works in the history of economic thought whose second edition in effect totally contradicted the first.

The second edition incorporated the fruits of Malthus's study on population through his travels in Europe. Filled with copious statistics, the new edition was fully three times the size of the first. But that was the least of the changes. For whereas in the first edition the 'preventive check' was minor and hopeless, as well as a generally 'vicious' possibility for solution, Malthus now acknowledged that *another* negative, or preventive check, one that entailed neither vice nor misery, was a real possibility for ameliorating or even suspending the eternal pressure of population upon the food supply. This was 'moral restraint', i.e. chastity and restraint from early marriage, which was moral and not 'vicious' because it involved neither birth control nor other forms of 'irregular gratification' or 'improper acts'. Indeed, for Malthus, 'moral restraint' now became the 'most powerful' check on population of them all, more powerful even than vice or the misery and starvation of the previously dominant 'positive check'.

As a result, human beings were no longer viewed as the puppets of inexorable and gloomy forces, which could now be overcome by moral restraint and moral education. In the first edition, indeed, Malthus stood opposed to any growth of leisure or luxury in society, for such increasing ease would eliminate the extreme pressure needed to awaken naturally slothful man into working hard and maintaining maximum production. But now, his view had changed. Now, Malthus realized that if the poor were to acquire the qualities of the middle class, and hence a 'taste for the conveniences and comforts of life', they would be more likely to exercise the moral restraint necessary to maintain that way of life. As Malthus now wrote: 'It is the diffusion of luxury therefore among the mass of the people...that seems to be most advantageous'.

Malthus now emphasized another proposed moral reform in keeping with his new position: that people try to reduce the number of children by marrying at a later date. Such moral restraint, he was now convinced, entailed neither of the two dread checks of vice or misery. Alexander Gray's discussion of this theme is marked by his characteristic insight and wit:

> Contrary to the usual view as to what is involved in Malthusianism, he restricts himself to telling us not to be in too great a hurry to get married, with a special appeal to his women readers, who, 'if they could look forward with just confidence to marriage at twenty-seven or twenty-eight', should (and would) prefer to wait until then, 'however impatiently the privation might be borne by the men'. This is the voice of a dear and kindly old uncle, rather than the monster for whom Malthus has so frequently been mistaken; and it as ineffective as the advice of an uncle in such matters usually is. For even with marriage at twenty-eight there is time for a disconcerting and devastating torrent of children.[4]

Oddly enough, however, Malthus's new view was not very far removed from his enemy Godwin's invocation of 'virtue, prudence, or pride' in limiting the growth of population. Shorn of the nonsense of the withering away of sex, Godwin was now vindicated, and Malthus seemed implicitly to agree by taking the refutation of Godwin and Condorcet – who had now faded from public view – out of the title page of the second edition.

Unfortunately, however, Malthus never acknowledged any change whatever. Godwin rightly complained that Malthus had co-opted his own major criticism without credit or even acknowledging the abandonment of his own views. Malthus maintained from 1803 onwards that his thesis had not at all been changed, but only elaborated and improved. His changes were stuck into the text in passing, while he continued to place great importance upon his arbitrary ratios. His changes were evasive rather than frank; for example, in his second edition, Malthus quietly removed the self-contradictory note in which he denied that food could ever increase 'geometrically', or as much as population. In fact, he virtually admits that food has sometimes increased geometrically in 'new colonies', i.e. in North America. Instead, he now confined his self-confident assertions to prophecy – a prophecy which the growth of living standards in England proved to be wrong within his own lifetime. And yet Malthus continued to write that his ratios were self-evident, even though he conceded that it was impossible to find out what the rate of increase of 'unchecked' population would actually be. In the end, as Cannan justly declares, 'the *Essay on the Principle of Population* falls to the ground as an argument, and remains only a chaos of facts collected to illustrate the effect of laws which do not exist'.[5]

Malthus, in fact, had executed a cunning and successful tactical manoeuvre: he had introduced enough qualifications and concessions to fuzz over his argument. He and his followers could maintain the full arrogance and error of the first edition and then, if challenged, beat a clever retreat by bringing up the qualifications and asserting that Malthus had anticipated and met all the charges against him. He was able to maintain the hard-nosed position of his first edition, while being able to fall back on the cloudy concessions of his second. As Schumpeter writes: 'the new formulation made it indeed possible for adherents to this day to take the ground that Malthus had foreseen, and accounted for, practically everything opponents might say'. He adds that 'this does not alter the fact that all the theory gains thereby is orderly retreat with the artillery lost'. Unfortunately, however, neither Malthus's followers nor even many of his astute critics realized this point. And so, Malthus and his followers had ensconced themselves in the security of a theory that, regardless of the facts, could never be refuted. Or, they could fall back on what Schumpeter calls the 'horrible triviality' that *if* indeed population increased geometrically forever and food barely increased at all, then enormous crowding and misery would result.[6]

Unfortunately, Malthus's own self-serving interpretation of the changes of his second edition was adopted by nearly all his contemporaries – friends and critics alike – as well as by historians until recent years. Most of Malthus's readers, for one thing, had been swept away by the verve and panache of his first edition, and simply didn't bother reading the much longer and stodgier second. Instead, they simply and conveniently interpreted the new material as merely empirical documentation of Malthus's original thesis. Even his more thoughtful readers interpreted moral restraint as just another negative check on population, a mere refinement of the basic theory.

And so, thus protected and interpreted, Malthus's fallacious and inchoate principle of population carried the day and, adopted enthusiastically by Ricardo and his followers, was to become enshrined into British classical economics. As we shall see further in Volume II, even though Nassau W. Senior in effect devastatingly refuted Malthus, his own piety toward Malthus and his image allowed Malthusianism to remain at least officially enshrined in economic thought. It is an unfortunate story. Thus, as Schumpeter writes:

> the teaching of Malthus' *Essay* became firmly entrenched in the system of economic orthodoxy of the time in spite of the fact that it should have been, and in a sense was, recognized as fundamentally untenable or worthless by 1803... It became the 'right' view on population... which only ignorance or obliquity could possibly fail to accept – part and parcel of the set of eternal truth that had been observed once for all. Objectors might be lectured, if they were worthy of the effort, but they could not be taken seriously. No wonder that some people, utterly disgusted at this intolerable presumption, which had so little to back it, began to

> loathe this 'science of economics', quite independently of class or party considerations – a feeling that has been an important factor in that science's fate ever after.[7]

Certainly, the triumph of the Malthusian fallacy played an important role in the common view that the science of economics itself was and is cold, hard-hearted, excessively rational, and opposed to the lives and welfare of people. The idea of economics being anti-human reached a bold and unforgettable expression in Dickens's Scrooge, the caricature of a Malthusian who cackled that poverty and starvation would be helpful in 'reducing the surplus population'.

In the last half of the nineteenth century, as Schumpeter writes, 'the interest of economists in the population question declined, but they rarely failed to pay their respects to the shibboleth'. Then, in the early decades of the twentieth century, at the very same time as the birth rate in the western world began to decline sharply, economists revived their interest in Malthusian doctrine. Schumpeter's irony was properly bitter: 'An ordinary mortal might have thought that the fall in the birth rate...and the rapidly approaching goal of a stationary population, should have set worrying economists at rest. But that mortal would thereby have proved that he knew nothing about economists'. Instead, at the same time that more economists stressed Malthusianism, others stressed precisely the reverse:

> While some of them were still fondling the Malthusian toy, others zestfully embraced a new one. Deprived of the pleasure of worrying themselves and of sending cold shivers down the spines of other people on account of the prospective (or present) horrors of overpopulation, they started worrying themselves and others on account of a prospectively empty world.[8]

By the 1930s, in fact, economists and politicians were howling about the imminence of 'race suicide', and an excessively falling birth rate. The Great Depression, as we shall see, was blamed by some economists on a birth rate which had started falling decades before. Governments such as France, mindful also of their need for cannon fodder, gave bounties to large families. Then, by the 1960s and 1970s, anti-population hysteria arose again, with ever more strident calls for voluntary or even compulsory zero population growth, and countries such as India and China experimented with compulsory sterilization or compulsory abortion. Characteristically, the height of the hysteria, in the early 1970s, came *after* the 1970 census in the United States noted a significant decrease in the birth rate and the beginnings of an approach toward a stationary state of population. It was also observed that various Third World countries were beginning to see a marked slowing of the birth rate, a few decades after the fall in death rate due to the infusion of Western advances in medicine and sanitation. It looked again as if people's habituation to higher living standards will lead them to lower the birth rate after a generation of enjoying the fruits of lower death rates. Population levels will, indeed, tend to adapt to maintain cherished standards of living. It looks as if Godwin was right that given freedom, individuals in society and the marketplace will tend to make the correct birth decisions.

17.4 Resistance and triumph in Germany

In contrast to Great Britain, the German-speaking countries were predictably highly resistant to the spread of Smithian views. They had been ruled, ever since the late sixteenth century, by cameralism. Cameralists, named after the German royal treasure chamber, the *Kammer*, propounded an extreme form of mercantilism, concentrating even more than their confrères in the West on building up state power, and subordinating all parts of the economy and polity to the state and its bureaucracy. Whereas mercantilist writers were generally pamphleteers scrambling for some particular form of state advantage, the cameralists were either bureaucrats in one of the 360 tyrannical German states, or else university professors advising the princes and their bureaucracy how best to maximize their revenue and power. As Albion Small put it: to the cameralists 'the object of all social theory was to show how the welfare of the state might be secured. They saw in the welfare of the state the source of all other welfare. Their key to the welfare of the state was revenue to supply the needs of the state. The whole social theory radiated from the central task of furnishing the state with ready means.'[9]

As professors, the cameralists wrote lengthy tomes cataloguing various parts of the economy and the plans the government should make for each of these parts. The cameralists lauded virtually all forms of government intervention, sometimes to the point of a collectivist welfare–warfare state. They could scarcely be called 'economists', since they had no notion of regular economic law that could reach beyond or nullify the plans of state power.

The first major cameralist was Georg von Obrecht (1547–1612), son of the mayor of Strasbourg, who went on to be a famous professor of law at the university in that town. His lectures were published posthumously (1617) by his son. In the next generation, one important cameralist was Christoph Besold (1577–1638), born in Tübingen, and later a highly influential law professor at the University of Tübingen. Besold wrote over 90 books, all in Latin, of which the *Synopsis politicae doctrinae* (1623) was the most relevant to economics. Another influential cameralist of the early seventeenth century was Jakob Bornitz (1570–1630), a Saxon who was the first systematizer of fiscal policy, and who urged close supervision of industry by the state. Another contemporary who, however, wrote later, in the middle of the seventeenth century, was Kasper Klock (1584–1655), who studied law at Marburg and Cologne and later became a bureaucrat in Bremen, Minden, and finally in Stolberg. In 1651, Klock published the most famous cameralist work to that date, the *Tractus juridico-politico-polemico-historicus de aerario*.

The most towering figure of German cameralism came shortly thereafter. Veit Ludwig von Seckendorf (1626–92), who has been called the father of cameralism, was born in Erlangen, and educated in the University of Strasbourg. He went on to become a top bureaucrat for several German states beginning with Gotha, during which he wrote *Der Teutscher Furstenstaat* (1656). This book, a sophisticated apologia for the German absolutism of the day, went through eight editions, and continued to be read in German universities for over a century. Seckendorf ended his days as chancellor at the University of Halle.

During the late seventeenth century, cameralism took firm hold in Austria. Johann Joachim Becher (1635–82), born in Speyer and alchemist and court physician at Mainz, soon became economic adviser to Emperor Leopold I of Austria, and manager of various state-owned enterprises. Becher, who strongly influenced Austrian economic policy, called for state-regulated trading companies for foreign trade, and a state board of commerce to supervise all domestic economic affairs. A pre-Keynesian, he was deeply impressed by the 'income-flow' insight that one man's expenditure is by definition another man's income, and he called for inflationary measures to stimulate consumer demand. His well-known work was *Politischer Discurs* (1668). Schumpeter described Becher as 'brimming over with plans and projects', but some of these plans did not pan out, as Becher ended up fleeing from the wrath of his creditors. Apparently, his own 'consumer demand' had been stimulated to excess.[10] Becher's brother-in-law, Philipp Wilhelm von Hornigk (1638–1712), was another Mainzer who became influential in Austria. He studied at Ingolstadt, practised law in Vienna, and then entered the government, his Austrian chauvinist tract, *Österreich über Alles, wann es nur will* (*Austria Over All, If She Only Will*) (1684) proving highly popular. Von Hornigk's central theme was the importance of making Austria self-sufficient, cut off from all trade. A third contemporary German cameralist in Austria was Wilhelm Freiherr von Schröder (1640–88). Born in Königsberg and a student of law at the University of Jena, Schröder also became influential as an adviser to Emperor Leopold I of Austria. Schröder managed a state factory, was court financial councillor in Hungary, and set forth his views in his *Fürstliche Schatz und Rentkammer* (1686). Schröder was an extreme advocate of the divine right of princes. His cameralism emphasized the importance of speeding the circulation of money, and of having a banking system that could expand the supply of notes and deposits.

The system of cameralism was set in concrete in Germany by the mid-eighteenth century work of Johann Heinrich Gottlieb von Justi (1717–71).

Justi was a Thuringian who studied law at several universities, and then taught at Vienna and at the University of Göttingen. He then went to Prussia to become director of mines, superintendent of factories, and finally administrator of mines in Berlin.

Justi's work was the culmination of cameralism, including and incorporating all its past tendencies, and emphasizing the importance of comprehensive planning for a welfare state. Characteristically, Justi emphasized the vital importance of 'freedom', but freedom turned out to be merely the opportunity to obey the edicts of the bureaucracy. Justi also stressed the alleged 'alienation' of the worker in a system of factories and an advanced division of labour. Among his numerous works, the most important were *Staatswirthschaft* (1755), the *System des Finanzwesens* (1766), and his two-volume *Die Grundfeste zu der Macht und Glückseeligkeit der Staaten* (*The Groundwork of the Power and Welfare of States*) (1760–61). Justi, however, came a cropper on his own welfare in the welfare state and over his own unwillingness to obey the laws of the realm. Because of irregularities in his accounts as administrator of the Prussian mines, Justi was thrown into jail, where he died.

The other towering figure of eighteenth century German cameralism was a follower of Justi, Baron Joseph von Sonnenfels (1732–1817). Born in Moravia, the son of a rabbi, Sonnenfels emigrated to Vienna where he became the first professor of finance and cameralistics, and became a leading adviser to three successive Austro-Hungarian emperors. An absolutist, mercantilist, and welfare-state proponent, Sonnenfels's views were set forth in his *Grundsätze der Polizei, Handlung, und Finanzwissenschaft* (1765–67). His book, remarkably enough, remained the official textbook of the Austro-Hungarian monarchy until 1848.

In this atmosphere deeply permeated with cameralism it is no wonder that Smith's *Wealth of Nations* made little headway at first in Germany. However, Britain had an important foothold in Germany, for the electorate of Hanover was a continental possession of the British dynasty in the heart of Prussia, and therefore this land was under strong British cultural influence. Hence the first German review of the *Wealth of Nations* appeared in the official journal of the University of Göttingen, in Hanover. The University of Göttingen had developed the most respected department of philosophy, history, and social science in Germany, and by the 1790s it had become a flourishing nucleus of Smithianism in the otherwise hostile German climate.[11]

Taking the lead in introducing Adam Smith into German thought was Friedrich Georg Sartorius, Freiherr von Waltershausen (1765–1828). Sartorius was born in Kassel and studied theology and history at the University of Göttingen. Soon Sartorius taught history at Göttingen, by the 1790s expanding his repertoire to courses in political science and economics. Sartorius published selections of Adam Smith's works, and his *Handbuch der Staatswirthschaft* (Berlin, 1796), was explicitly an economic textbook summarizing the views of Adam Smith. An expanded summary of Smith's work appeared a decade later as the *Von den Elementen des National-Reichthums, und von der Staatswirthschaft, nach Adam Smith* (*Concerning the Elements of National Wealth and State Economy according to Adam Smith*) (1806).

In the same year, however, there appeared another volume which set forth Sartorius' own views, as well as where they differed from the master: *Abhandlungen, die Elemente des Nationalreichthums und die Staatswirthschaft* (*Essays on National Wealth and State Economy*) (1806). Sartorius differs from Smith's odd value theory, and affirms that the main source of value is its use in consumption. The value of labour, too, is determined by its usefulness, and therefore it cannot serve as an invariable measure of value, and neither can money, since money prices are also subject to the changing interplay of supply and demand. Sartorius therefore finds Smith's labour theory of value 'a strange and deceptive conclusion'. Unfortunately, Sartorius' other main deviation from Smith is a great weakening of Smith's already shaky devotion to *laissez-faire*. Sartorius advised frequent interventions by the state.

Sartorius was one of a great quartet of professors who propagated Smithian doctrine in Germany. Another was Christian Jakob Kraus (1753–1807), a distinguished philosopher who was born in East Prussia and studied under Immanuel Kant at the University of Königsberg, later becoming a close friend of Kant. Kraus took his doctorate at the University of Halle, but spent a formative year at Göttingen, where he imbibed a lasting interest in economics. After gaining his doctorate in 1780, Kraus became professor of practical philosophy and cameralia at the University of Königsberg, where he taught not only philosophy, but also the Greek classics, history, English literature and mathematics. By the early 1790s, however, Kraus's interests became entirely devoted to economics. Indeed, Kraus was one of the first persons in Germany to acclaim the *Wealth of Nations*, which he hailed as 'the only true, great, beautiful, just, and beneficial system'. Kraus greeted Adam Smith with none of the deviations or hesitations that had beset Sartorius; in fact, he trumpeted the *Wealth of Nations* as 'certainly one of the most important and beneficial books that have ever been written'. Kraus even dared to liken Smith's book to the New Testament: 'certainly since the times of the New Testament no writing has had more beneficial results than this will have...'.

Curiously enough, for a German academic Kraus published very little during his lifetime. He was, however, a highly influential teacher; his lectures at Königsberg were always crowded and he was considered the most important professor there with the exception of Kant. After his death, Kraus's friends published all his manuscript writings, the most important of which was *Die Staatswirthschaft* (5 vols, Königsberg, 1808–11). The first four volumes of this work were essentially a paraphrase of Smith's *Wealth of Nations*, substituting Prussian for British examples.

The fifth volume of *Die Staatswirthschaft* was by far the most important, for there Kraus presented his own contribution to Smithian economics. Kraus addressed himself to Prussian economic policy, in lecture form. The volume was an incisive call for individualism, free markets, free trade, and a drastic reduction of government intervention. Kraus began with the fundamental insight that every individual wants to improve his lot. ('The desire and effort of each individual to improve his lot is the basis of all state economy, like the force of gravity in the universe.') But if men wish to improve their own lot, then government coercion, requiring certain actions or forbidding others, must necessarily cripple and distort such effort at improvement. For otherwise, why don't individuals do what government wants of their own accord, and without coercion? And since they don't wish to do so, they will seek means of evading the government mandates and prohibitions. In all these cases, and in stark contrast to the cameralists, Kraus puts himself in the point of view of the individuals in society subject to government edicts, and not in the point of view of the officials issuing the decrees.[12]

A charming memorial to Christian Kraus was set forth to a friend by the great statesman of reform, Baron Karl vom Stein (1757–1831). Stein said of his friend and adviser:

> The whole province [Prussia] has gained in light and culture through him, his views forced their way into all parts of life, into the government and legislation. If he has set up no brilliant new ideas, he has at least been no glory-seeking sophist; to have presented the plain truth clearly and purely and correctly expressed, and to have communicated to thousands of auditors successfully, is a greater service than to arouse attention through chatter and paradoxes... Kraus had an unassuming but genial personality, which laid strong hold on its environment, he had flashes of new insight, and great applications, and often astonished us by his unexpected conclusions...Reading his writings, everything there is clear and simple, and at present you need nothing more.[13]

A third member of the Smithian professorial quadrumvirate in Germany was August Ferdinand Lueder (1760–1819). Lueder was also a product of the University of Göttingen, studying there, and becoming professor of philosophy. He was also a history professor and court councillor in Brunswick. Lueder had done a great deal of work in historical and geographical statistics, publishing the statistical compendia, *Historische Portefeuille* (*Historical Portfolio*) (1787–88), and *Repositorium für Geschichte, Staatskunde und Politik* (*Repository for History, Statistics and Policy*) (1802–5). But in the meantime, Lueder read Adam Smith and became an enthusiast, publishing a Smithian work in 1800–2 (*Über Nationalindustrie und Staatswirthschaft*) (*On

National Industry and State Economy). In addition to a compendium of Smith's views, Lueder provides an impassioned defence of freedom in all its social and political aspects, as well as in the strictly economic sphere. As Lueder wrote in another work, 'I hazarded everything for freedom, truth and justice; for freedom of industry as well as of opinions, of hand as of spirit, of person as well as of property'.

A fascinating aspect of August Lueder is that he was driven both by Smithian methodology and by his devotion to freedom to repudiate his beloved life work, the investigation into national statistics. For not only would statistics mislead government policy makers, but government planners could scarcely hope to plan at all without a raft of statistics at their command. Statistics is not only misleading, therefore; it becomes a necessary condition for the very government intervention which must be repudiated. Lueder levelled his criticisms in two volumes on statistics, *Kritik der Statistik und Politik* (*Criticism of Statistics and State Policy*) (1812) and *Kritische Geschichte der Statistik* (*Critical History of Statistics*). In the preface to his *Kritik*, Lueder wrote movingly:

> On the strongest pillars and the firmest foundation the structure of statistics and policy seemed to me to rest. I had devoted the happiest hours of my life and the greatest part of my time to statistics and policy;...everything in me could not but revolt at the convictions which pressed upon me. But the current of the times flowed too swiftly. Ideas, which had entered my very marrow, had to be reviewed and exchanged for others; one prejudice after another had to be recognized as prejudice; more and more indefensible appeared one rotten prop after another, one rent and tear after the other; finally, to my no small terror, the whole structure of statistics collapsed and with it policy, which can accomplish nothing without statistics. As my insight grew and my viewpoint cleared, the fruits of statistics and policy appeared more and more frightful; all those hindrances which both threw in the path of industry, whereby not only welfare but culture and humanity were hindered; all those hindrances to the natural course of things; all those sacrifices brought to an unknown idol, called the welfare of the state or the commonweal, and bought with ridicule of all principles of philosophy, religion and sound common sense, at the cost of morality and virtue.[14]

With such perceptive insight into the evils of statistics and 'policy', one shudders to think of Lueder's reaction to the current world, where statistics and policy, both then in their infancy, have spread and virtually conquered the earth.

The fourth influential German Smithian academic was Ludwig Heinrich von Jakob (1759–1827). Jakob studied at Halle, and then taught at the University of Kharkov in the Ukraine. As a result, Jakob became a consultant to several commissions at St Petersburg, and helped spread Smithian economics to Russia. But for most of his life Jakob taught political economy and philosophy at the University of Halle, where like Christian Kraus, he combined

Kant and Smith's individualism into an economic and philosophical whole. Like Kraus also, Jakob played an important advisory role in the liberal Stein–Hardenberg reforms in Prussia. His most important work was his *Grundsätze der Nationalökonomie* (*Principles of Economics*) (1805).

At any rate, under the influence of the quadrumvirate of Sartorius, Kraus, Lueder and Jakob, the Smithians rather rapidly took over one economics department after another from the older cameralists, who were pushed back where they more properly belonged, into the departments of law and administration. Smithian views also penetrated the civil service, and were responsible for the important failed liberal reforms, in the early nineteenth century, of Stein and Hardenberg in Prussia. Stein and Hardenberg, it should be added, had both studied at the University of Göttingen. In a little over a decade, Smithianism had triumphed over cameralism in Germany.

17.5 Smithianism in Russia

Smithianism also began to penetrate Russian political culture. Cultural and intellectual life had only begun to flower in that backward and despotic empire in the mid-eighteenth century. The University of Moscow, the first university in Russia, started at the late date of 1755. Enlightenment ideas spread in Russia, and we have seen that Catherine the Great at least flirted briefly with physiocracy. French was the language of the Russian court, and so any ideas prevailing in France, the home of the Enlightenment, had to be taken seriously in Moscow and St Petersburg. In addition, the Scottish version of the eighteenth century Enlightenment was in a sense carried to Russia by the fact that a large number of Scottish professionals – doctors, soldiers, engineers – resided and worked in that country. Scottish Enlightenment books were translated, generally into French, and published in Russia.

In the 1760s, it was the custom of Empress Elizabeth of Russia, the daughter of Peter the Great, to select outstanding students to finish their studies abroad. As a result, the empress made the fateful choice of sending to Scotland in 1761 two men who would be particularly instrumental in spreading Smithian ideas to Russia. The more important of the two was Semyon Efimovich Desnitsky, son of a Ukrainian petty bourgeois, and his lifelong friend and classmate at university, Ivan Andreyevich Tretyakov (1735–76), son of an army officer. The two studied at Glasgow University for six years, studying eagerly under Adam Smith until the latter left his chair at Glasgow in 1764. At Glasgow, Desnitsky and Tretyakov heard Smith's *Wealth of Nations* lectures, and also studied under Smith's colleague and former student John Millar. When the two Russian students were in financial difficulty, Adam Smith lent them money to tide them over. The two Russians returned to Moscow in 1768, imbued with Smithian doctrine, and promptly became the first Russian professors of law at Moscow University. In Moscow, the young Smithians ran into strong faculty hostility. The majority of professors at Moscow University had been German, and the Germans strongly opposed the successful drive by the younger Russians to teach in Russian rather than Latin, and even more were the Germans hostile to the two Smithians' liberal, reformist and anti-clerical views.

Desnitsky and Tretyakov each published a Smithian book in their first year back in Russia. Both books were largely verbatim transcriptions of Smith's lectures, with Desnitsky ghost-writing Tretyakov's volume. Of the two from that point on, Tretyakov was more the faithful Smithian, Desnitsky more the independent thinker. Both men were dominant in the political and law faculty at Moscow University, with Desnitsky becoming known as the outstanding Russian social and political theorist of the second half of the eighteenth century, as well as 'the father of Russian jurisprudence'. Desnitsky also translated the great Blackstone into Russian.

Empress Catherine the Great became interested in the latest intellectual craze, the Scottish Enlightenment and, on Desnitsky's return from Russia, commissioned him to write a Smithian reform plan for Russia, a massive volume – the *Predstavlenie* – which he finished and sent to Catherine in 1768. Its basic thrust was that of moderate political reform; Desnitsky proposed a system of two-house representation, along with independent, life-appointed judges, serving as checks and balances on the executive and legislature. Catherine the Great read the *Predstavlenie*, and incorporated politically trivial suggestions into her famous 1768 reform decree, the *Nakaz*, which was translated into English, French and German.

The *Predstavlenie* itself, however, was far too radical to see the light of day, and it remained unpublished until the revolutionary year of 1905, when it inspired liberal reformers and was reprinted twice in rapid succession.

The influence of Smithianism in Russia was redoubled by the fact that Princess Ekaterina Dashkova resided in Scotland in the late 1770s, while her son studied at Edinburgh University. Dashkova wrote proudly of her close friendship with such 'immortals' as Adam Smith, the Rev. William Robertson, Adam Ferguson, and Hugh Blair.

But despite their eminence, the hostility of the Russian state and Church, seconded by most of the Moscow faculty, to the two jurists' liberal views got them ousted from their university posts. Each was forcibly retired from the university, Tretyakov in 1773, and Desnitsky in 1787, and each died early a few years after their ouster.

Picking up the Smithian torch for the next Russian generation was a German Smithian usually considered a Russian by historians. He was the Baltic German nobleman Heinrich Friedrich Freiherr von Storch (1766–1835). Born in Riga and educated at Jena and Heidelberg, Storch spent his life high up in the Russian civil service, becoming a professor at the Imperial

Cadet Corps at St Petersburg, and educating the future Czar Nicholas I and his younger brother in Smithian political economy. Helping to bring Smithianism to Russia, von Storch wrote, in German, a nine-volume historical and statistical work on Russia at the end of the eighteenth century (1797–1803), and later wrote a treatise on economics in French, *Cours d'économie politique* (1815). The book was published in St Petersburg for the education of the future czar. A moderate Smithian, von Storch sensibly rejected the idea that some labour was 'unproductive', and dabbled in a form of pre-Keynesian income analysis in his last work in 1824.

17.6 The Smithian conquest of economic thought

By the turn of the nineteenth century, the views and doctrines of Adam Smith had swept the board of European opinion, though they had scarcely been embodied in political institutions. Even in France, as will be seen in the second volume of this series, the pre-Smithian subjective utility–scarcity approach to value, as well as the stress on entrepreneurship in the market, continued to be prominent, but only under the cloak of a proclaimed devotion to Adam Smith as the founder of economic theory and free market policy. In the hands of James Mill and Ricardo in England, of J.B. Say in France, and throughout the rest of the Continent, Adam Smith would be treated as the embodiment of the new discipline of 'political economy'.

There were advantages but probably greater disadvantages to this Smithian dominance over economic thought after the 1790s. On the one hand, it meant at least a moderate appreciation of and devotion to freedom of trade at home and abroad. Even more solidly, it meant a keen understanding and a steadfast adherence to the virtues of saving and investment and a refusal to indulge in proto-Keynesian worry about 'hoarding' or underconsumption. Moreover, this adherence to what Schumpeter calls the Turgot–Smith view of saving and investment also meant a determined opposition to wildly inflationary schemes of expansion of money and credit.

On the other hand, there were dire costs to economic thought in this Smithian takeover. Even on the monetary front, Smith had gone against his eighteenth century colleagues in adopting crucial aspects of John Law's inflationary doctrine, in particular praising expansion of bank credit and money within a specie standard framework. In this way, Smith paved the way for later apologetics on behalf of the Bank of England and its generation of credit expansion.

More fatefully, Smith totally set back price and value theory, and led it into a fateful cul de sac, from which it took a century to recover; in some respects, it has never fully recovered. At the root of Smith's drastic changes in theory was undoubtedly his Calvinist contempt for luxury consumer spending. Hence, only work on *material* goods (i.e. material *capital* goods) was productive.

Hence, too, Smith's interventionist call for usury laws to lower the rate of interest so as to ration savings and channel them away from luxurious consumers and speculative 'projectors' to sober prime borrowers. Smith's contempt for consumers also led him to discard the time-honoured subjective utility–scarcity theory of value, and to seek the cause of value not in frivolous consumers but in real cost, or labour pain, embodied into the product. Hence Smith's crucial shift of emphasis in economic theory away from consumer demand and actual market prices, and towards unrealistic, long-run equilibrium. For only in long-run equilibrium does a labour pain, or cost, theory of pricing take on even superficial plausibility. But the exclusive attention to long-run equilibrium led Smith to toss out the entire entrepreneurship-and-uncertainty approach that had been elaborated by Cantillon and Turgot; for in a timeless final equilibrium there is obviously no problem of change or uncertainty.

Smith's labour theory of value led to Marxism and all the horrors to which that creed has given rise; and his exclusive emphasis on long-run equilibrium has led to formalistic neoclassicism, which dominates today's economic theory, and to *its* exclusion from consideration of entrepreneurship and uncertainty.

Smith's stress on the economy-in-perpetual-equilibrium also led him to discard his old friend David Hume's important insight (even if inferior to Cantillon's) into the international specie-flow-price mechanism, and to the important business cycle analysis that lies clearly implicit in that doctrine. For if the world economy is always in equilibrium, then there is no need to consider or worry about increases in money supply causing price rises and outflows of gold or silver abroad, or to consider the subsequent contraction of money and prices.

In essence, then, the common picture of economic thought after Smith needs to be reversed. In the conventional view, Adam Smith, the towering founder, by his theoretical genius and by the sheer weight of his knowledge of institutional facts, single-handedly created the discipline of political economy as well as the public policy of the free market, and did so out of a jumble of mercantilist fallacies and earlier absurd scholastic notions of a 'just price'. The real story is almost the opposite. Before Smith, centuries of scholastic analysis had developed an excellent value theory and monetary theory, along with corresponding free market and hard-money conclusions. Originally embedded among the scholastics in a systematic framework of property rights and contract law based on natural law theory, economic theory and policy had been elaborated still further into a veritable science by Cantillon and Turgot in the eighteenth century. Far from founding the discipline of economics singlehanded, Adam Smith turned his back not only the scholastic and French traditions, but even on his own mentors in the considerably more diluted natural law of the Scottish Enlightenment: Gershom Carmichael and his own teacher Francis Hutcheson.

The most unfortunate aspect of the total Smithian takeover in economics was not so much his own considerable tissue of error, but even more the blotting out of knowledge of the rich tradition of economic thought that had developed before Smith. As a result, the Austrians and their nineteenth century predecessors, largely deprived of knowledge of the pre-Smith tradition, were in many ways forced to reinvent the wheel, to painfully claw their way back to the knowledge that many pre-Smithians had enjoyed long before. Adam Smith and the consequences of Smith is an outstanding example of the Kuhnian case in the history of a science: in all too many cases, the development of knowledge in a discipline is *not* a steady continuous march upward into the light, patiently discarding refuted hypotheses and adding continually to the stock of cumulative knowledge. But rather, the history of the discipline is a zig-zag of great gain and loss, of advances in knowledge followed by decay and false leads, and then by periods of attempts to recapture lost knowledge, trying often dimly and against fierce opposition, to regain paradigms lost.

17.7 Notes

1. A previous embodiment of the *Edinburgh Review* had been founded in 1755 by a group of prominent moderate Presbyterian leaders, including Adam Smith. Only two issues appeared, however. It might be noted that Dugald Stewart was the first biographer of the main Moderate leader and founder of the first *Edinburgh Review*, Principal William Robertson (1721–93).
2. Edwin Cannan, *A History of the Theories of Production and Distribution in English Political Economy from 1776 to 1848* (3rd ed., London: Staples Press, 1917), pp. 110–11.
3. J.A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), p. 579.
4. Alexander Gray, *The Development of Economic Doctrine* (London: Longmans, Green and Co., 1931), pp. 163–4.
5. Cannan, op. cit., note 2, p. 113.
6. Schumpeter, op. cit., note 3, p. 580.
7. Schumpeter, op. cit., note 3, pp. 581–2.
8. Schumpeter, op. cit., note 3, p. 584.
9. Albion W. Small, *The Cameralists* (1909; New York: Burt Franklin, n.d.), p. viii.
10. Oddly enough, while calling for more money, Becher also wrote unknown works, the *Moral Discurs* (1669) and the *Psychosophia* (1678), in which he became one of the earliest communists, calling for the abolition of money. Money, Becher opined, was the primary evil; without it, we would all be forced to work, would enjoy equal incomes, and would therefore be happy.
11. The three most influential German universities of the day were those of Göttingen, Halle in nearby Prussia, and Leipzig.
12. Thus, Christian Kraus writes: 'Whenever it is a question of a law or an arrangement, by which men are to be brought either to do something which they previously did not do, or not to do something which they previously did, then, in the second case, the first question is why people did not cease of their own accord?... Then follows the second question: What will men attempt to do in order to evade the law which conflicts with their interests? Then the third question: How far will that which they undertake in order to evade the law succeed? In the case of the second and third questions many striking views will be gained, which would otherwise have quite escaped us, as soon as we put ourselves entirely in the position of these men and make their situation our own. What has here been said of

ceasing to do is of even greater validity when it is a question of doing; that is, when men are to be brought (enticed or forced) by laws or arrangements to do something which they previously did not want to do'. Quoted in Carl William Hasek, *The Introduction of Adam Smith's Doctrines Into Germany* (New York: Columbia University, 1925), p. 89n.

13. Quoted in ibid., p. 93.
14. Cited in ibid., p. 83.

Bibliographical essay

In a comprehensive history of economic thought, it is clearly impossible for a bibliographical essay to attempt to list, much less annotate, every source for that history, much less for the ancillary fields of history of social, political and religious thought, as well as economic history proper, all of which in my view must be brought into the picture of the development and the clashes in the field of economic thought. The best I can do, then, is to describe and annotate those sources, largely secondary ones, which I found most helpful in working on this study. In that way, the bibliographical appendix may serve as a guide to readers who wish to delve into various topics and areas in this vast and complex field, which in many ways touches on the entire history of western civilization.

Overall bibliographies

By far the most comprehensive bibliographical essay in the history of economic thought is the remarkably full treatment in Henry W. Spiegel, *The Growth of Economic Thought* (3rd ed., Durham, NC: Duke University Press, 1991), which now stretches to no less than 161 pages, and is the most valuable aspect of the book. The four-volume *New Palgrave: A Dictionary of Economics* (London: Macmillan and New York: Stockton Press, 1987), contains a number of excellent essays on particular economists. At the other end of the spectrum, the brief sketches in the unpretentious paperback by Ludwig H. Mai, *Men and Ideas in Economics: A Dictionary of World Economists, Past and Present* (Lanham, MD: Rowman and Littlefield, 1977) are surprisingly useful.

Ancient thought

The only book covering all ancient economic thought in countries including Mesopotamia, India and China is Joseph J. Spengler, *Origins of Economic Thought and Justice* (Carbondale, Ill., Southern Illinois University Press, 1980). Although Professor Spengler probably would not have agreed with this assessment, his book demonstrates that virtually nothing of interest emerged out of the economic thought of these ancient civilizations. The exception is Chinese political philosophy (particularly Taoism), on which the definitive work is the illuminating Kung-chuan Hsiao, *A History of Chinese Political Thought, Vol. One: From the Beginnings to the Sixth Century A.D.* (Princeton, NJ: Princeton University Press, 1979). On a Chinese advocate of *laissez-faire*, see Joseph J. Spengler, 'Ssu-ma Ch'ien, Unsuccessful Exponent of Laissez Faire', *Southern Economic Journal* (Jan. 1964), pp. 223–43.

The only histories of economic thought that do justice to the Greek contribution are Spiegel, *The Growth of Economic Thought* and Barry Gordon, *Economic Analysis Before Adam Smith* (New York: Barnes & Noble, 1975). Spiegel is particularly good on Democritus and Gordon is good on Hesiod and deals extensively with Greek economic thought. Gordon is also unique in dealing fully with Jewish economic thought. His title is misleading, however, since the book stops with the late scholastics, considerably before the time of Adam Smith.

S. Todd Lowry, 'Recent Literature on Ancient Greek Economic Thought', *Journal of Economic Literature*, 17 (March 1979), pp. 65–86, provides a comprehensive annotated bibliographical review of Greek economic thought. Also see Lowry, *The Archaeology of Economic Ideas: The Classical Greek Tradition* (Durham, NC: Duke University Press, 1987). The Oxford W.D. Ross edition of the works of Aristotle is the standard one. On the fascinating controversy on the meaning of Aristotle's equation of exchange, Josef Soudek's lengthy, scholarly, but totally wrongheaded reading of Jevons into Aristotle is in Josef Soudek, 'Aristotle's Theory of Exchange: An Inquiry into the Origin of Economic Analysis', *Proceedings of the American Philosophical Society* 96 (Feb. 1952), pp. 45–75, while Barry Gordon plumps for Aristotle as a proto-Marshallian: 'Aristotle and the Development of Value Theory', *Quarterly Journal of Economics*, 78 (Feb. 1964), pp. 115–28. Far better are two scholars who had the courage to see the equation of exchange as nonsense: the great interpreter of Aristotle, H.H. Joachim, in his *Aristotle: The Nichomachean Ethics* (Oxford: The Clarendon Press, 1951), esp. 148–51, and the ancient historian Moses I. Finley, in his 'Aristotle and Economic Analysis', *Past and Present* (May 1970), pp. 3–25, reprinted in Finley (ed), *Studies in Ancient Society* (London: Routledge & Kegan Paul, 1974), pp. 26–52.

A detailed critique of the various Latin translations of Aristotle's discussion of economic value is in Odd Langholm, *Price and Value in the Aristotelian Tradition* (Bergen: Universitetsforlaget, 1979).

Joseph J. Spengler, in his excellent 'Aristotle on Economic Imputation and Related Matters', *Southern Economic Journal*, 21 (April 1955), pp. 371–89, shows that Aristotle's imputation theory was a forerunner of praxeological and Austrian imputation theory of the nineteenth and twentieth centuries. Spengler himself, however, undervalued the results of his own inquiry, since he didn't realize that Aristotle's imputation theory was an important contribution to action analysis and praxeology even if it did not deal with strictly economic matters.

Also on Aristotle as a pre-Austrian, see Emil Kauder, 'Genesis of the Marginal Utility Theory: From Aristotle to the end of the Eighteenth Century', *Economic Journal*, 43 (Sept. 1953), pp. 638–50.

On Plato as totalitarian, see the hard-hitting and highly influential work by a leading modern philosopher, Karl R. Popper, *The Open Society and Its Enemies* (3rd rev. ed., 2 vols, Princeton, NJ: Princeton University Press, 1957). Unfortunately, Popper confuses the *political* totalitarianism of Plato with the spurious tyranny allegedly implied by the fact that Plato believed in absolute truth and in rational ethics. To a modern, wishy-washy *ad hoc* metaphysician like Popper, *any* firm belief in truth, in black and white, smacks of 'dogmatism' and 'despotism'. Setting the philosophic record straight in defence of Plato, in reply were John Wild, *Plato's Modern Enemies and the Theory of Natural Law* (Chicago: University of Chicago Press, 1953), and Ronald B. Levinson, *In Defense of Plato* (Cambridge: Harvard University Press, 1953). For an attack on Plato's totalitarianism and an exposition of the sophists, the opponents of Socratic philosophy, as classical liberals in politics, see Eric A. Havelock, *The Liberal Temper in Greek Politics* (New Haven: Yale University Press, 1957). On the other hand, for a more recent article confirming the view that the Greek *polis* was inherently statist, had no conception of classical liberalism or individual freedom, and was grounded on the labour of slaves, see Paul A. Rahe, 'The Primacy of Politics in Classical Greece', *American Historical Review* (April 1984), pp. 265–93.

On Plato and the division of labour, see Williamson M. Evers, 'Specialization and the Division of Labor in the Social Thought of Plato and Rousseau', *The Journal of Libertarian Studies*, 4 (Winter, 1980), pp. 45–64; Vernard Foley, 'The Division of Labor in Plato and Smith', *History of Political Economy*, 6 (Summer 1974), pp. 220–42: Paul J. McNulty, 'A Note on the Division of Labor in Plato and Smith', *History of Political Economy*, 7 (Autumn 1975), pp. 372–8; and Foley, 'Smith and the Greeks: A Reply to Professor McNulty's Comments', ibid., pp. 379–89.

On the influence of Plotinus and man's alleged inherent alienation to overcome through history, see the illuminating discussion in Leszek Kolakowksi, *Main Currents of Marxism, I: The Founders* (New York: Oxford University Press, 1981), pp. 11–23.

Cicero's eloquent quotation on the definition of the natural law may be found, among other places, in Michael Bertram Crowe, *The Changing Profile of the Natural Law* (The Hague: Martinus Nijhoff, 1977), pp. 37–8, Crowe including natural law theorists among the Greeks and Romans; and his parable of Alexander and the pirate in Cicero's *On the Commonwealth* (Columbus: Ohio State University Press, 1929), Book III, SIV, p. 210.

Medieval thought

A valuable overall study of medieval economic thought, including that of the early Church Fathers, is in Gordon, *Economic Analysis Before Adam Smith.* Two indispensable articles on the theory of the just price are: Kenneth S. Cahn, 'The Roman and Frankish Roots of the Just Price of Medieval Canon Law', *Studies in Medieval and Renaissance History*, 6 (1969), pp. 3–52, on the early Roman and canon law; and the book-length monograph by John W. Baldwin, 'The Medieval Theories of the Just Price: Romanists, Canonists, and Theologians in the Twelfth and Thirteenth Centuries', *Transactions of the American Philosophical Society*, 49 (1959). The definitive study of medieval and later theories of usury is John T. Noonan, Jr, *The Scholastic Analysis of Usury* (Cambridge, Mass.: Harvard University Press, 1957).

The conventional neglect and systematic misinterpretation of medieval and late scholastic economic thought began to be rectified in Joseph A. Schumpeter's great *History of Economic Analysis* (New York: Oxford University Press, 1954), especially the first half of Part II, Chapter II. The fullest research for this revision, however, has been provided for us in the extensive writings of Professor Raymond de Roover. De Roover's most important and most anthologized article was his 'The Concept of the Just Price: Theory and Economic Policy', *Journal of Economic History*, 18 (Dec. 1958), pp. 418–34; here de Roover demolishes the historiographic misinterpretation of Heinrich von Langenstein. Also see de Roover, 'Joseph A. Schumpeter and Scholastic Economics', *Kyklos*, 10 (1957–2), pp. 115–46; idem., 'The Scholastics, Usury and Foreign Exchange', *Business History Review*, 41 (Autumn 1967), pp. 257–71: and the collection of essays in Raymond de Roover, *Business, Banking, and Economic Thought; In Late Medieval and Early Modern Europe* (ed. J. Kirshner, Chicago: University of Chicago Press, 1974).

The vital contribution to economic thought of Pierre de Jean Olivi has been finally brought to light by de Roover, in his *San Bernardino of Siena and Sant' Antonino of Florence: The Two Great Economic Thinkers of the Middle Ages* (Boston: Baker Library, 1967), pp. 19–20, 41–2. Also see Julius Kirshner, 'Raymond de Roover on Scholastic Economic Thought', in de Roover, *Business, Banking and Economic Thought*, pp. 28–30. On Olivi as Joachimite and leader of the Spiritual Franciscans, see Malcolm D. Lambert, *Medieval Heresy* (New York: Holmes & Meier, 1977), pp. 182–206. On the Joachimite heresy, also see the vivid work by Norman Cohn, *The Pursuit of the Millennium* (3rd ed., New York: Harper & Bros, 1970), pp. 99ff.

Michael Crowe's *Changing Profile of the Natural Law* is a thorough study of the medieval theorists of natural law. Richard Tuck, *Natural Rights: Their Origin and Development* (Cambridge: Cambridge University Press, 1979), illuminates a crucial distinction between active, or dominion, rights theories, and passive or claim theories.

A scholarly but accessible overall study of European economic history is the paperback, Carlo M. Cipolla (ed.), *The Fontana Economic History of Europe, I: The Middle Ages* (London: Collins/Fontana, 1972), which covers the medieval period. On population changes in that period, see J.G. Russell, 'Population in Europe, 500–1500', in the *Fontana History*, ibid. On the Great Depression of the fourteenth and first half of the fifteenth century, see Robert S. Lopez and Harry A. Miskimin, 'The Economic Depression of the Renaissance', *Economic History Review*, 14 (1962), and Edouard Perroy, 'At the

Origin of a Contracted Economy: the Crises of the 14th Century', in Rondo E. Cameron, (ed.) *Essays in French Economic History* (Homewood, Ill.: Richard D. Irwin, 1970), pp. 91–105. A subtle study of the economy of late medieval/early renaissance Europe is Harry A. Miskimin, *The Economy of Early Renaissance Europe, 1300–1460* (Englewood Cliffs, NJ: Prentice-Hall, 1969). On the fateful introduction of regular taxation into France, see Martin Wolfe, 'French Views on Wealth and Taxes from the Middle Ages to the Old Régime', in D.C. Coleman (ed.), *Revisions in Mercantilism* (London: Methuen & Co., 1969), p. 190ff.

The late scholastics

For the late scholastics – i.e. in the fourteenth to the sixteenth centuries – the works of Crowe (natural law), Tuck (natural rights), Gordon and de Roover (economic thought), and Noonan (usury) continue to be indispensable (see above). For the *locus classicus* of Crowe's revisionist insights on the Ockhamite Gregory of Rimini as being actually in favour of an objective natural law, see Damasus Trapp, 'Augustinian Theology of the 14th Century: Notes on Editions, Marginalia, Opinions and Book-Lore', in *Augustiniana*, 6 (1956), pp. 146–274; idem, 'Gregory of Rimini, Manuscripts Editions and Additions', in *Augustiniana*, 8 (1958), pp. 425–43. The key revisionist work on Gabriel Biel is Heiko A. Oberman, *The Harvest of Medieval Theology: Gabriel Biel and Late Medieval Nominalism* (Cambridge, Mass.: Harvard University Press, 1963). More recent confirmation on this revisionism is in D.E. Luscombe, 'Natural Morality and Natural Law', in N. Kretzmann, et al. (eds), *The Cambridge History of Later Medieval Philosophy* (Cambridge: Cambridge University Press, 1982), pp. 705–20. Also see A.S. McGrade, 'Rights, Natural Rights, and the Philosophy of Law', in ibid., pp. 738–56.

The School of Salamanca was first brought to the attention of economists in a splendid little book by Marjorie Grice-Hutchinson, *The School of Salamanca: Readings in Spanish Monetary Theory, 1544–1605* (Oxford: The Clarendon Press, 1952). The scope of the book is far wider than the subtitle implies, and, in addition to a lucid text, it contains English translations of economic writings from many of the great Salamancans. More on the Salamancans and other Spanish economists of the period can be found in Grice-Hutchinson, *Early Economic Thought in Spain, 1177–1740* (London: George Allen & Unwin, 1978). Also see de Roover, 'Scholastic Economics', in *Business, Banking, and Economic Thought*, pp. 306–35. Frank Bartholomew Costello, S.J., *The Political Philosophy of Luis de Molina, S.J.* (Spokane: Gonzaga University Press, 1974), is a lucid and well-organized work, and Bernice Hamilton, *Political Thought in Sixteenth-Century Spain* (Oxford: The Clarendon Press, 1963), studies the legal and political thought of four Salamancan scholastics: Vitoria, DeSoto, Molina, and Suarez. Insights into the political philosophy of Suarez and the others can be found in the relevant volume of the mighty work by Frederick Copleston, S.J., *A History of Philosophy, Volume III Ockham to Suarez* (Westminster, Md: The Newman Press, 1959). On the political theory of the Salamancans, see the outstanding work by Quentin Skinner, *The Foundations of Modern Political Thought, Vol. II: The Age of Reformation* (Cambridge: Cambridge University Press, 1978).

On the growth since World War II of the 'revisionist' view of the Spanish and other scholastics presented here, see Murray N. Rothbard, 'New Light on the Pre-history of the Austrian School', in E. Dolan (ed.), *The Foundations of Modern Austrian Economics* (Kansas City: Sheed & Ward, 1976), pp. 52–74.

The most up-to-date and developed work on the Spanish scholastics in Alejandro Chafuen, *Christians for Freedom: Late-Scholastic Economics* (San Francisco: Ignatius Press, 1986). For a contrast between the Salamancan scholastics and the later seventeenth century Spanish mercantilists, see Louis Baeck, 'Spanish Economic Thought: the School of Salamanca and the *Arbitristas*', *History of Political Economy*, 20 (Autumn 1988), pp. 381–408.

Indispensable for the fascinating figure of Juan de Mariana is John Laures, S.J., *The Political Economy of Juan de Mariana* (New York: Fordham University Press, 1928). See also Guenter Lewy, *Constitutionalism and Statecraft During the Golden Age of Spain: A Study of the Political Philosophy of Juan de Mariana, S.J.* (Geneva: Librairie E. Droz, 1960). For Mariana on tyrannicide, along with a discussion of other such sixteenth century and later theorists, see Oscar Jászi and John D. Lewis, *Against the Tyrant: The Tradition and Theory of Tyrannicide* (Glencoe, Ill.: The Free Press, 1957).

A fascinating account of the Jansenist struggle with the Jesuits on casuistry and usury is in J. Brodrick, S.J., *The Economic Morals of the Jesuits* (London: Oxford University Press, 1934). Also useful on both the Jesuits and their Protestant enemies is the informative but sometimes sloppily researched Hector M. Robertson, *Aspects of the Rise of Economic Individualism* (Cambridge: Cambridge University Press, 1933). It is amusing that Brodrick's book was written specifically to refute the thesis of Robertson that Catholic and especially Jesuit thinkers tended to favour the free market, and yet much of the two works confirm each other. Brodrick seems to believe that Robertson is attacking the Jesuits for immorality, whereas in our reading he is simply demonstrating their economic insight and good sense.

For an overall study of the Catholic Counter-Reformation, see Marvin R. O'Connell, *The Counter Reformation: 1559–1610* (New York: Harper & Row, 1974).

On the commercial expansion of the late fifteenth and the sixteenth centuries, see in particular Harry A. Miskimin, *The Economy of Later Renaissance Europe, 1460–1600* (Cambridge: Cambridge University Press, 1977); and also C. Cipolla (ed.), *The Fontana Economic History of Europe, Vol. II, The Sixteenth and Seventeenth Centuries* (London: Collins/Fontana 1974).

Luther and Calvin

An excellent and brief analysis is contained in Gary North, 'The Economic Thought of Luther and Calvin', *The Journal of Christian Reconstruction*, II (Summer 1975), pp. 76–108. Skinner's *Foundations Vol. II*, is excellent on Luther and Calvin's, especially the former's, social and political philosophy, and that of their followers, on which also see the older work by John N. Figgis, *Political Thought from Gerson to Grotius* (1916, New York: Harper & Bros, 1960), especially Ch. III on 'Luther and Machiavelli'. The Weber thesis is argued back and forth in Max Weber, *The Protestant Ethic and the Spirit of Capitalism* (New York: Charles Scribner's, 1930); the Weberian Ernst Troeltsch, *The Social Teaching of the Christian Church*, Vol. II (New York: Macmillan, 1931); Richard H. Tawney, *Religion and the Rise of Capitalism* (1937, New York: New American Library, 1954); and the Robertson and Brodrick books mentioned above. See also the critical study of Kurt Samuelsson, *Religion and Economic Action* (New York: Basic Books, 1961). A fruitful application of the Weber thesis to China and Japan is in Norman Jacobs, *The Origin of Modern Capitalism and Eastern Asia* (Hong Kong: Hong Kong University Press, 1958). De Roover's discovery of the thirteenth century Florentine motto, 'In the name of God and of profit', is in his 'The Scholastic Attitude Toward Trade and Entrepreneurship', in *Business, Banking, and Economic Thought*, p. 345. For Calvin and his followers on usury, see Noonan's great work discussed above.

The brilliant Kauder thesis holds that Calvinism led to the labour theory of value in Britain while Aristotelian Thomism kept France and Italy to a subjective, consumer-oriented theory of value. This thesis may be found in Emil Kauder, *A History of Marginal Utility Theory* (Princeton, NJ: Princeton University Press, 1965), and in Kauder, 'The Retarded Acceptance of the Marginal Utility Theory', *Quarterly Journal of Economics* (Nov. 1953), pp. 564–9. On such tough-minded Calvinists as the English Marian exiles and on the puritan devotion to work, see Michael Walzer, *The Revolution of the Saints: A Study in the Origins of Radical Politics* (Cambridge: Harvard University Press, 1965).

Perhaps the greatest work ever written in the history of economic thought was Eugen von Böhm-Bawerk's *Capital and Interest: Vol. I, History and Critique of Interest Theories* (1921, South Holland, Ill.: Libertarian Press, 1959). Böhm-Bawerk, the first great systematizer of the Austrian School of economics in the 1880s, wrote his survey and critique of preceding theories of interest before proceeding to develop his own theory in later volumes of his masterwork, *Capital and Interest.* While Böhm-Bawerk's treatment of

Salmasius is excellent and appreciative, his discussion of previous writers is greatly marred by his lack of knowledge of the scholastic thinkers, whom he dismisses all too briefly as 'canonists'. The later scholastics have only been resurrected for economists since World War II.

Anabaptist communism

The outstanding work on the totalitarian messianic communism of the coercive wing of the Anabaptists is the brilliant, mordant, and hard-hitting work of Norman Cohn, *The Pursuit of the Millennium* (3rd ed., New York: Harper & Row, 1970). This should be supplemented by the more recent work of Igor Shafarevich, *The Socialist Phenomenon* (New York: Harper & Row, 1980) which, though episodic, also explores socialism in other ages and other climes. All this should be considered in the general framework set forth in the deservedly classic work of Msgr Ronald A. Knox, *Enthusiasm* (1950, New York: Oxford University Press, 1961). A full if schematic account of Anabaptist theologies is in James M. Stayer, *Anabaptists and the Sword* (2nd ed., Lawrence, Kan.: Coronado Press, 1976). Willem Balke's *Calvin and the Anabaptist Radicals* (Grand Rapids, Mich.: William B. Eerdmans, 1981) is an excellent study. George Huntston Williams, *The Radical Reformation* (Philadelphia: The Westminster Press, 1962) is a thorough classic, now a bit outdated by more recent scholarship.

Non-scholastic Catholics

An excellent article on Copernicus' monetary theory is Timothy J. Reiss and Roger H. Hinderliter, 'Money and Value in the Sixteenth Century; the *Monetae Cudendae Ratio* of Nicholas Copernicus', *Journal of the History of Ideas*, 40 (April–June 1979), pp. 293–303. On Copernicus, Oresme, and Aristophanes on Gresham's law, see J. Laurence Laughlin, *The Principles of Money* (New York: Charles Scribner's Sons, 1903), pp. 420ff. The best discussion of Lottini is in Emil Kauder, *A History of Marginal Utility Theory* (Princeton, NJ: Princeton University Press, 1965). Also see Kauder, 'Genesis of the Marginal Utility Theory: From Aristotle to the End of the Eighteenth Century', *The Economic Journal* (Sept. 1953), pp. 638–50. On Lottini's unsavoury activities, see Cecily Booth, *Cosimo I: Duke of Florence* (Cambridge: Cambridge University Press, 1921), pp. 131–2. On Davanzati, see the discussions in Kauder, *History*; Grice-Hutchinson, *Early Economic Thought*; Arthur Eli Monroe, *Monetary Theory Before Adam Smith* (1923, Gloucester, Mass.: Peter Smith, 1965); and Joseph A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954).

Monarchomachs: Huguenots and Catholics

Jászi and Lewis, *Against The Tyrant*; and J.W. Allen, *A History of Political Thought in the Sixteenth Century* (1928, 2nd ed., London: Methuen & Co., 1957), serve as useful introductions to the extensive literature on this subject. Skinner, *Foundations*, Vol. II, is excellent on the Huguenots and Buchanan. No one should neglect the only book in English on the Catholic League: Frederic J. Baumgartner, *Radical Reactionaries: The Political Thought of the French Catholic League* (Geneva: Librairie Droz, 1976).

Absolutism and Italian humanism

The best discussion of the political theory of the Italian humanists and its relation to absolutism is in Quentin Skinner, *The Foundations of Modern Political Thought, Volume One: The Renaissance* (Cambridge: Cambridge University Press, 1968). On Diomede Carafa, see Schumpeter, *History of Economic Analysis*, pp. 162–4. On Leon Battista degli Alberti and the Alberti family, see Raymond de Roover, 'The Story of the Alberti Company of Florence, 1302–1348, As Revealed in Its Account Books', in *Business, Banking and Economic Thought* (Chicago: University of Chicago Press, 1974), pp. 39–84.

The clearest and most illuminating discussion of Machiavelli is in Skinner, *Foundations, Volume One*. Also see Isaiah Berlin, 'The Originality of Machiavelli', in M.P. Gilmore (ed), *Studies on Machiavelli* (Florence: G.C. Sansoni, 1972), pp. 147–206.

Absolutism in France

A highly lucid study of absolutist thought in France in the sixteenth century is William Farr Church, *Constitutional Thought in Sixteenth-Century France: A Study in the Evolution of Ideas* (1941, New York: Octagon Books, 1969). Church is particularly good on the absolutists after Bodin. On the influence of humanism in France and on French absolutist thought in general also see the excellent Skinner, *Foundations*, Vols I and II. These should be supplemented by the broader study of French political thought in Nannerl O. Keohane, *Philosophy and the State in France: The Renaissance to the Enlightenment* (Princeton, NJ: Princeton University Press, 1980). Keohane is particularly perceptive on Bodin.

On Montaigne, also see Donald Frame, *Montaigne: A Biography* (New York: Harcourt Brace & World, 1965). On Occitan, see Meic Stephens, *Linguistic Minorities in Western Europe* (Llandysul, Dyfed, Wales: Gomer Press, 1976), pp. 297–308. The literature on the Montaigne fallacy and mercantilism is, surprisingly, virtually non-existent. The classical, though brief, statement is in Heckscher, *Mercantilism*, I, 26. The implications are developed in Ludwig von Mises, *Human Action: A Treatise on Economics* (3rd rev.

ed., Chicago: Henry Regnery, 1966), pp. 664, 687. See also Odd Langholm, *Price and Value in the Aristotelian Tradition: A Study in Scholastic Economic Sources* (Bergen: Universitetsforlaget, 1979), pp. 30, 38n.

Mercantilism

The best introduction to the subject is an excellent work and a marvel of compression: Harry A. Miskimin's *The Economy of Later Renaissance Europe: 1460–1600* (Cambridge: Cambridge University Press, 1977). The great classic work, and deservedly so, is Eli F. Heckscher, *Mercantilism* (2 vols, 1935, 2nd rev. ed., New York: Macmillan, 1955). Heckscher's emphasis on mercantilism as building the nation-state has suffered from unfair criticism in recent years. State-building, and Heckscher's stress on mercantilist ideology, simply need to be supplemented by insight into mercantilism as a system of lobbying for and achieving monopoly and cartel privileges and subsidies from the state in return for political support and/or money to the Crown. I try to begin such a synthesis in my "Mercantilism: A Lesson for Our Time?', *The Freeman*, 13 (Nov. 1963), pp. 16–27, reprinted in *Ideas on Liberty*, Vol. XI (Irvington-on-Hudson: Foundation for Economic Education, 1964). Robert B. Ekelund, Jr and Robert D. Tollison, *Mercantilism as a Rent-Seeking Society: Economic Regulation in Historical Perspective* (College Station, Texas: Texas A&M University Press, 1981) tries to fill the gap left by Heckscher. But while its gloss on Heckscher is sometimes useful, Ekelund and Tollison is excessively schematic, in the public choice tradition, undervaluing the role of ideas in history, especially the role of free market and classical liberal ideology.

John Ulric Nef, *Industry and Government in France and England, 1540–1640* (1940, New York: Russell and Russell, 1968), is an excellent comparative study of the effect of mercantilist policies on industrial development in England and France. For England, S.T. Bindoff, *Tudor England* (Baltimore: Penguin Books, 1950), is trenchant and surprisingly hard-hitting. For France, Charles Woolsey Cole, *Colbert and a Century of French Mercantilism* (2 vols, 1939, Hamden, Conn: Archon Books, 1964), is the classic work on Colbert and on French mercantilism, despite his admiration for both. The post-Colbert French story in the seventeenth century is told in Cole's *French Mercantilism, 1683–1700* (1943, New York: Octagon Press, 1965). Warren C. Scoville, *The Persecution of Huguenots and French Economic Development, 1680–1720* (Berkeley: University of California Press, 1960), presents an interesting revisionist critique of the extent of economic havoc actually wreaked by Louis XIV's revocation of the Edict of Nantes.

On the English monopoly foreign trade companies in the Elizabethan era, see Murray N. Rothbard, *Conceived in Liberty, Vol. I: The American Colonies in the 17th Century* (New Rochelle, NY: Arlington House, 1975).

On absolutism and re-enserfdom in Poland and eastern Europe in the sixteenth century, see Miskimin, *Later Renaissance Europe*, pp. 56–64; and Robert Millward, 'An Economic Analysis of the Origin of Serfdom in Eastern Europe', *Journal of Economic History*, 42 (Sept. 1982), pp. 513–48. For a somewhat similar process in Russia in the third quarter of the sixteenth century, see Alexander Yanov, *The Origins of Autocracy: Ivan the Terrible in Russian History* (Berkeley: University of California Press, 1981); and Aileen Kelly, 'Russia's Old New Right: Review of Yanov, *Origins of Autocracy*', *New York Review of Books*, 30 (17 Feb. 1983), p. 34ff.

On the development of a system of taxation in France, see Martin Wolfe, 'French Views on Wealth and Taxes from the Middle Ages to the Old Regime', in D.C. Coleman (ed.), *Revisions in Mercantilism* (London: Methuen & Co., 1969), pp. 190–209. The classic treatment of the development of taxation under Philip the Fair is Joseph R. Strayer, 'Consent to Taxation Under Philip the Fair', in J.R. Strayer and C.H. Taylor, *Studies in Early French Taxation* (Cambridge, Mass.: Harvard University Press, 1939), pp. 3–108. A discussion of taxation in fifteenth and sixteenth century France, which takes the unconvincing revisionist position that early royal fiscalism differed sharply from the later mercantilism, is in Martin Wolfe, *The Fiscal System of Renaissance France* (New Haven: Yale University Press, 1972). For more on French taxation in the second quarter of the fourteenth century, see John Bell Henneman, *Royal Taxation in Fourteenth Century France: The Development of War Financing 1322–1356* (Princeton, NJ: Princeton University Press, 1971).

For an overview of the history of European banking in this period, see Murray N. Rothbard, *The Mystery of Banking* (New York: Richardson & Snyder/Dutton, 1983). On the Stop of the Exchequer, see the illuminating article by J. Keith Horsefield, 'The Stop of the Exchequer' Revisited', *Economic History Review*, 2nd ser., 35 (Nov. 1982), pp. 511–28.

On the development of the public-debt state in England, see P.G.M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit, 1688–1756* (New York: St Martin's Press, 1967). Also see the remarkable revisionist work of John Brewer, *The Sinews of Power: War, Money, and the English State, 1688–1783* (New York: Knopf, 1989). Brewer points out that necessary to the development of the public-debt state was the concomitant growth of the high-tax state, with specific taxes used to back specific long-run public debt in England. In particular, taxation was indirect, especially excise taxes on consumer goods. See also the important article on British taxation by Patrick K. O'Brien, 'The Political Economy of British Taxation, 1660–1815', *Economic History Review*, 2nd ser., 41 (Feb. 1988), pp. 1–32. Also see the revisionist comparison of taxation in Britain and France in this period, demonstrating that the much denounced level of French taxation was considerably lower than in Britain. Peter Mathias and Patrick K. O'Brien, 'Taxation in Britain and France, 1715–1810. A Comparison of the Social and Economic Incidence of Taxes Collected for the Central Governments', *Journal of European Economic History*, 5 (1976), pp. 601–50.

On Parliament's fateful assertion of its authority over the king's revenue in 1690, see Clayton Roberts, 'The Constitutional Significance of the Financial Settlement of 1690', *The Historical Journal*, 20 (1977), pp. 59–76. For an interesting article from a Marxist perspective which includes discussion of the Bank of England, see Marvin Rosen, 'The Dictatorship of the Bourgeoisie: England 1688–1721', *Science and Society*, 45 (Spring 1981), pp. 24–51.

Seventeenth century French mercantilist thought

On the views of the early French mercantilists, particularly Laffemas and Montchrétien, see Charles Woolsey Cole, *French Mercantilist Doctrines Before Colbert* (New York: Richard R. Smith, 1931). Also, on Montchrétien, see the typically incisive and sparkling discussion in Alexander Gray, *The Development of Economic Doctrine* (London: Longmans, Green and Co., 1933), pp. 80–85. On Sully, see David Buisseret, *Sully: and the Growth of Centralized Government in France, 1598–1610* (London: Eyre & Spottiswoode, 1968). On mercantilist thought in the Richelieu, Mazarin, and Colbert eras, see Cole, *Colbert and a Century of French Mercantilism*. On the political thought of Louis XIV, see François Dumont, 'French Kingship and Absolute Monarchy in the Seventeenth Century', and Andrew Lossky, 'The Intellectual Development of Louis XIV from 1661 to 1715', in Raghnild Hatton (ed), *Louis XIV and Absolutism* (London: Macmillan, 1976).

French liberal opposition to mercantilism

On the *Croquants* and other peasant rebellions in seventeenth century France, see Roland Mousnier, *Peasant Uprisings in Seventeenth Century France, Russia, and China* (New York: Harper & Row, 1970). Lionel Rothkrug, *Opposition to Louis XIV: The Political and Social Origins of the French Enlightenment* (Princeton, NJ: Princeton University Press, 1965) is indispensable on the growing liberal and *laissez-faire* opposition to mercantilism. Also highly useful is Nannerl O. Keohane's *Philosophy and the State in France*, particularly on Joly, Vauban, Fénélon, the Burgundy circle, and Boisguilbert. On the latter, see in particular Hazel Van Dyke Roberts, *Boisguilbert: Economist of the Reign of Louis XIV* (New York: Columbia University Press, 1935), and Joseph J. Spengler, 'Boisguilbert's Economic Views Vis-à-Vis those of Contemporary *Réformateurs*', *History of Political Economy*, 16 (Spring 1984), pp. 69–88. Charles Woolsey Cole, *French Mercantilism, 1683–1700* (1943, New York: Octagon Books, 1965), is useful on the merchants and the council of commerce.

English mercantilists: sixteenth and early seventeenth centuries
The indispensable starting-point on the English mercantilists is the classic work of Jacob Viner, *Studies In The Theory of International Trade* (New York: Harper & Bros, 1937), pp. 1–118. Unfortunately, Viner is only the starting-point because of the extreme compression of his study, and because he does not deal with separate individuals or groups or engage in narrative analysis of different time-periods or interactions among the various individuals and groups.

On absolutists in the Tudor and Stuart eras, see W.H. Greenleaf, *Order, Empiricism, and Politics: Two Traditions of English Political Thought* (London: Oxford University Press, 1964). On Sir Robert Filmer, see Peter Laslett (ed.), *Patriarcha and Other Political Works of Sir Robert Filmer* (Oxford: Basil Blackwell, 1949); and Carl Watner, '"Oh, Ye are for Anarchy!": Consent Theory in the Radical Libertarian Tradition', *Journal of Libertarian Studies*, 8 (Winter 1986), pp. 111–37.

For the definitive demonstration that Sir Thomas Smith, not John Hales, was the author of the *Discourse of the Commonweal of this Realm of England*, see Mary Dewar, 'The Authorship of the "Discourse of the Commonweal",' *Economic History Review*, 2nd ser., 19 (August 1966), pp. 388–400. The biography of Smith is Mary Dewar, *Sir Thomas Smith: A Tudor Intellectual in Office* (London: Athlone Press, 1964). The revisionist view that Smith, not Gresham, wrote the famous *Memorandum for the Understanding of the Exchange* is in Mary Dewar, 'The Memorandum "For the Understanding of the Exchange": Its Authorship and Dating', *Economic History Review*, 2nd ser., 17 (April 1965), pp. 476–87. Raymond de Roover, while formally maintaining his original view that Gresham was the author, implicitly throws in the towel in Raymond de Roover, 'On the Authorship and Dating of "For the Understanding of the Exchange"', *Economic History Review*, 2nd ser., 20 (April 1967), pp. 150–52. Daniel R. Fusfeld offers the flimsy thesis that Sir Richard Martin was the author in his, 'On the Authorship and Dating for "For the Understanding of the Exchange"', *Economic History Review*, 2nd ser., 20 (April 1967), pp. 145–52.

For a comprehensive portrayal of Sir Edward Coke as mercantilist and parliamentary statist, see Barbara Malament, 'The "Economic Liberalism" of Sir Edward Coke', *Yale Law Journal* 76 (June 1967), pp. 1321–58. On the early common law not being opposed to monopoly, see William L. Letwin, 'The English Common Law Concerning Monopolies', *University of Chicago Law Review*, 21 (Spring 1954), pp. 355–85.

On Milles, Malynes, Misselden, Mun, and the East India controversy in the first half of the seventeenth century, see Barry E. Supple, *Commercial Crisis and Change In England, 1600–1642* (Cambridge: Cambridge University Press, 1964), pp. 197–224. Also see the insights in Joyce Oldham Appleby, *Economic Thought and Ideology in Seventeenth-Century England* (Princeton, NJ: Princeton University Press, 1978). A refreshingly different approach, and closer to the Austrian perspective, may be found in some of the writers in Chi-Yuen Wu, *An Outline of International Price Theories* (London: George Routledge & Sons, 1939), pp. 13–74. Wu's work was a doctoral dissertation under Lionel Robbins during the latter's Austrian period.

Sir Francis Bacon's commitment to English imperialism is examined in Horace B. White, 'Bacon's Imperialism', *American Political Science Review*, 52 (June 1958), pp. 470–89. On Francis Bacon as a Rosicrucian-oriented mystic and purveyor of the pseudo-science of the occult Ancient Wisdom, see Stephen A. McKnight, *Sacralizing the Secular: The Renaissance Origins of Modernity* (Baton Rouge, LA: L.S.U. Press, 1989), pp. 92–7; Frances Yates, 'Francis Bacon "Under the Shadow of Jehova's Wings"', in *The Rosicrucian Enlightenment* (London: Routledge & Kegan Paul, 1972); Frances Yates, 'The Hermetic Tradition in Renaissance Science', in C. Singleton (ed.), *Art, Science and History in the Renaissance* (Baltimore: Johns Hopkins University Press, 1967); and Paolo Rossi, *Francis Bacon: From Magic to Science* (Chicago: University of Chicago Press, 1968).

On the importation of several leading European Baconians to England, by invitation of the puritan country gentry at the start of the English Civil War, see the fascinating article by H.R. Trevor-Roper, 'Three Foreigners and the Philosophy of the English Revolution', *Encounter*, 14 (Feb. 1960), pp. 3–20.

The Baconians, as well as late sixteenth century English mercantilist thought generally, receive an excellent and lively treatment in William Letwin, *The Origins of Scientific Economics* (Garden City, NY: Doubleday, 1965). The most recent major volume dealing with late seventeenth and eighteenth century economic thought overall, though stressing English and Scottish thought, is Terence Hutchison, *Before Adam Smith: The Emergence of Political Economy, 1662–1776* (Oxford: Basil Blackwell, 1988). An early work, but still vitally important for illuminating the anti-working-class views of the English mercantilists and their adherence to 'full employment', is Edgar S. Furniss, *The Position of the Laborer in a System of Nationalism: A Study of the Labor Theories of the Later English Mercantilists* (1920, NY: Kelley & Millman, 1957).

The fullest account of the 'King–Davenant law of demand' is in John Creedy, *Demand and Exchange in Economic Analysis* (Aldershot, Hants: Edward Elgar, 1992), pp. 7–23, as well as in Creedy, 'On the King–Davenant Law of Demand', *Scottish Journal of Political Economy*, 33 (August 1986), pp. 193–212. D.A.G. Waddell, 'Charles Davenant (1656–1714) – A Biographical Sketch', *Economic History Review*, ser. 2, 11 (1958) pp. 279–88, is a convincingly revisionist view of Davenant.

Locke and the Levellers

A pioneering and indispensable work on the libertarian Commonwealthmen of the late seventeenth and eighteenth centuries in Britain is Caroline Robbins, *The Eighteenth-Century Commonwealthman* (Cambridge, Mass.: Harvard University Press, 1959). Directly inspired by Robbins was the outstanding work on the predominant influence of English libertarian thought on the American Revolution, Bernard Bailyn, *The Ideological Origins of the American Revolution* (1967, Cambridge, Mass.: Belknap Press of Harvard University Press, 1992).

Unfortunately, emphasis on the libertarian nature of Lockean influence on the American Revolution quickly became deflected by the 'Pocock thesis', which created an artificial distinction between allegedly 'modern' radical individualists, believers in private property and the free market, as against admirers of 'classical republican virtue' who were basically statists and communitarians who harked back to ancient models. Actually, there is no reason why radical libertarians and free marketers cannot also be opponents of government expenditure and 'corruption'; indeed, the two views usually go together. The major Pocockian work is J.G.A. Pocock, *The Machiavellian Moment* (Princeton, NJ: Princeton University Press, 1975). For critiques of Pocock, in addition to the works of Isaac Kramnick and Joyce Appleby, see in particular the refutation of Pocock's main case: the alleged 'classical virtue' *rather than* libertarianism of the largest single influence on the American revolutionaries: John Trenchard and Thomas Gordon's impressive series of London newspaper articles in the early 1720s: *Cato's Letters*. On *Cato's Letters* as libertarian rather than Pocockian, see Ronald Hamowy, '*Cato's Letters*: John Locke and the Republican Paradigm', *History of Political Thought*, II (1990), pp. 273–94.

The Levellers are presented in collections of their tracts, such as in Don M. Wolfe (ed.), *Leveller Manifestoes of the Puritan Revolution* (1944, New York: Humanities Press, 1967). Also see the editor's lengthy introduction to those tracts. A full treatment of the Levellers is H.N. Brailsford, *The Levellers and the English Revolution* (Stanford, Calif.: Stanford University Press, 1961). One of the best summaries of Leveller doctrine is in C.B. Macpherson, *The Political Theory of Possessive Individualism: Hobbes to Locke* (Oxford: The Clarendon Press, 1962), pp. 137–59.

Richard Ashcraft, *Revolutionary Politics and Locke's Two Treatises of Government* (Princeton, NJ: Princeton University Press, 1986) is excellent on Locke's radicalism and his connection with Leveller ideas. Ashcraft also provides the Shaftesbury explanation for the two Lockes: the early Baconian empiricist and absolutist of the *Essay on Human Understanding*, and the later systematic libertarian theorist. On Locke's early Baconianism, see Neal Wood, *The Politics of Locke's Philosophy: A Social Study of 'An Essay Concerning*

Human Understanding' (Berkeley: University of California Press, 1983); and on Locke's free market views, see Karen I. Vaughn, *John Locke: Economist and Social Scientist* (Chicago: University of Chicago Press, 1980). The definitive edition of Locke's notable *Two Treatises of Government* is the Peter Laslett edition (1960, Cambridge: Cambridge University Press, 2nd ed., 1968); also see Laslett's Introduction.

On Locke's theory of homesteading as the origin of private property and its relation to the Protestant scholastics, see Karl Olivecrona, 'Appropriation in the State of Nature: Locke on the Origin of Property', *Journal of the History of Ideas* (April–June 1974), pp. 211–30. Also see Lawrence C. Becker, *Property Rights: Philosophic Foundations* (London: Routledge & Kegan Paul, 1977), pp. 33–48. For a more recent contribution on Locke's property theory being consistent with free market capitalism, see Neil J. Mitchell, 'John Locke and the Rise of Capitalism', *History of Political Economy*, 18 (Summer 1986), pp. 291–305.

English mercantilists: late seventeenth and eighteenth centuries

For a lengthy discussion of Sir Isaac Newton's role at the Mint, see G. Findlay Shirras and J.H. Craig, 'Sir Isaac Newton and the Currency', *Economic Journal*, 55 (June–Sept. 1945), pp. 217–41.

For the libertarian impact of the satires of Jonathan Swift, see James A. Preu, *The Dean and the Anarchist* (Tallahassee, Fl.: Florida State University Press, 1959). On Swift's *Modest Proposal* as a satire on Pettyism, see Louis A. Landa, 'A *Modest Proposal* and Populousness', in *Essays in Eighteenth-Century English Literature* (1942, Princeton, NJ: Princeton University Press, 1980), pp. 39–48.

On the labour and employment theories in late seventeenth century England, see Theodore E. Gregory, 'The Economics of Employment in England, 1680–1713', in *Gold, Unemployment, and Capitalism* (1921, London: P.S. King & Sons, 1933), pp. 225–44. On the North brothers, see Letwin, *Origins*, pp. 196–220, 271–94.

For contemporary debate on the growth of the public-debt state in England in the first half of the eighteenth century, see P.G.M. Dickson, *The Financial Revolution in England*, pp. 15–33; on Child, Barbon, and the North brothers, see Letwin, *Origins of Scientific Economics*, pp. 3–81, 196–220, 271–94.

On John Law, an older but excellent critique is to be found in Charles Rist, *History of Monetary and Credit Theory from John Law to the Present Day* (1940, New York: M. Kelley, 1966), pp. 43–67. An illuminating study on Law and his influence, as against the hard-money tradition stemming from Turgot, is Joseph T. Salerno, 'Two Traditions in Modern Monetary Theory: John Law and A.R.J. Turgot', *Journal des Économistes et des Études Humaines*, 2, nos 2–3 (June–Sept. 1991), pp. 337–79. A provocative view that Law changed his mind from his *magnum opus* to his Mississippi scheme is in Antoin E. Murphy, 'The Evolution of John Law's Theories and Policies 1707–1715', *European Economic Review*, 35, no. 5 (July 1991), pp. 1109–25.

Bishop Berkeley's inflationist views are celebrated in Hutchison, *Before Adam Smith*, pp. 141–8; and in Salim Rashid, 'Berkeley's *Querist* and Its Influence', *Journal of the History of Economic Thought*, 12 (Spring 1990), pp. 38–60.

The hard-money writers of eighteenth century England are discussed in Hutchison, *Before Adam Smith*, and in the important article of Thomas T. Sekine, 'The Discovery of International Monetary Equilibrium by Vanderlint, Cantillon, Gervaise, and Hume', *Economia Internazionale*, 26 No. 2 (May 1973), pp. 262–82. On Vanderlint and on Joseph Harris, also see Wu, *Outline*, pp. 64–5, 70–71.

Hutchison, *Before Adam Smith*, pp. 229–38, devotes considerable space to Dean Josiah Tucker, but at the cost of greatly overvaluing him; a more sober though slighter account is in Viner, *Studies, passim.* The only book-length study of Tucker is unfortunately padded and diffuse: George Shelton, *Dean Tucker and Eighteenth-Century Economic and Political Thought* (New York: St Martin's Press, 1981).

Professor Salim Rashid has performed the signal service of resurrecting and stressing the importance to mid-eighteenth century English *laissez-faire* thought of Charles the Third Viscount Townshend, not to be confused with his more famous son and namesake, the author of the Townshend taxes on American imports. Salim Rashid, 'Lord Townshend and the Influence of Moral Philosophy on *Laissez Faire*', *The Journal of Libertarian Studies*, 8, no. 1 (Winter 1986), pp. 69–74.

Modern economics: Richard Cantillon: founding father

The year 1931 was a landmark in Cantillon studies, for it saw the first English translation of Richard Cantillon's great *Essai sur la nature du commerce en général*, ed. and trans. by Henry Higgs (1931, New York: A.M. Kelley, 1964). The Higgs Cantillon contains the French text along with the English translation, as well as the 1881 article by W. Stanley Jevons rediscovering Cantillon. Also, in 1931, F.A. von Hayek wrote a comprehensive introduction to the German edition of Cantillon, an introduction that also covers the substantial continental literature.

Until very recently, the only modern comprehensive overview of Cantillon's *Essai* in English has been Joseph J. Spengler, 'Richard Cantillon: First of the Moderns', *Journal of Political Economy*, 62 (August–Oct. 1954), pp. 281–95, 406–24, reprinted in Joseph J. Spengler and William R. Allen (eds), *Essays in Economic Thought: Aristotle to Marshall* (Chicago: Rand, McNally

Co., 1960), pp. 105–40. Also see the classic article by Jevons, 'Richard Cantillon and the Nationality of Political Economy', *Contemporary Review* (January 1881), partially reprinted in Henry W. Spiegel. (ed.), *The Development of Economic Thought: Great Economists in Perspective* (New York: Wiley, 1952), pp. 43–60.

The first biography of Cantillon has finally appeared: Antoin E. Murphy, *Richard Cantillon: Entrepreneur and Economist* (Oxford: The Clarendon Press, 1986). This will long remain the definitive biography of this fascinating figure. Murphy sets us straight on Cantillon's confused and tangled genealogy, family, and date of birth, and for the first time presents vivid details of Cantillon's colourful life, his relationship to John Law, and the overlooked connections between the Mississippi and South Sea bubbles, and he ends with an intriguing mystery story about Cantillon's violent death.

On Cantillon's economics, also see Anthony Brewer, *Richard Cantillon: Pioneer of Economic Theory* (London: Routledge, 1992). Robert Hébert provides a new look at a wholly neglected Cantillon contribution in Robert F. Hébert, 'Richard Cantillon's Early Contributions to Spatial Economics', *Economica*, 48 (February 1981), pp. 71–7.

For the rest, analyses in English concentrate on Cantillon's monetary theory, in particular his pioneering contribution to the theory of international monetary payments and the price-specie-flow mechanism. See in particular, Thomas T. Sekine, 'The Discovery of International Monetary Equilibrium by Vanderlint, Cantillon, Gervaise, and Hume', *Economia Internazionale*, 26, no. 2 (May 1973), pp. 262–82; and Chi-Yuen Wu, *An Outline of International Price Theories* (London: George Routledge & Sons, 1939). Also see Arthur Eli Monroe, *Monetary Theory Before Adam Smith* (1923, Gloucester, Mass.: Peter Smith, 1965); Charles Rist, *A History of Monetary and Credit Theory: From John Law to the Present Day* (1940, New York: A.M. Kelley, 1966); and particularly Douglas Vickers, *Studies in the Theory of Money, 1690–1776* (1959, New York: A.M. Kelley, 1968). Especially outstanding is the unpublished work of Joseph Thomas Salerno, 'The Doctrinal Antecendents of the Monetary Approach to the Balance of Payments' (doctoral dissertation, Rutgers University, 1980).

In August 1980, a Cantillon symposium was held in Pacific Grove, California, which generated a rich supply of Cantillon scholarship. Most of these valuable articles are published in the *Journal of Libertarian Studies*, 7 (Autumn 1985) issue. They include the following: an English translation of F.A. von Hayek's 'Richard Cantillon', introduction of the 1931 edition by Micháel Ó'Súilleábháin; Vincent Tarascio's 'Cantillon's *Essay*: A Current Perspective', which emphasized Cantillon's insight on the self-regulatory nature of the market economy, his monetary theory, population theory, and stress on uncertainty; David O'Mahony's 'Richard Cantillon – A Man of His Time: A

Comment on Tarascio', who points out Cantillon's pre-Austrian rather than pre-neoclassical theories of price, value and money; Robert F. Hébert, 'Was Cantillon an Austrian Economist?' which points to Cantillon's Austrian approach to uncertainty, entrepreneurship, money and the market; and Roger W. Garrison, 'A Comment on West', who brilliantly demonstrates that Cantillon's hesitancy about the free market economy in matters of *space* was more than matched by Smith's criticism of market choices in matters of *time*. And finally, Antoin E. Murphy, 'Richard Cantillon – Banker and Economist', provides up-to-date information on this fascinating economist's life.

Hébert's subtle analysis of Cantillon as having a pre-Austrian theory of the entrepreneur is elaborated in Robert F. Hébert and Albert N. Link, *The Entrepreneur: Mainstream Views and Radical Critiques* (New York: Praeger Books, 1982), pp. 14–22. Also see Bert F. Hoselitz, 'The Early History of Entrepreneurial Theory', in Spengler and Allen, *Economic Thought*, pp. 234–57.

Early mathematical economists

Daniel Bernoulli's pioneering foray into mathematical economics has been translated into English by Louise Sommer as 'Exposition of a New Theory on the Measurement of Risk', *Econometrica*, 22 (Jan. 1954), pp. 23–36. Good summaries of the theory appear in Schumpeter, *History*, pp. 303–5, and Spiegel, *Growth*, pp. 143–4, but there are no satisfactory critiques; even the normally highly astute Emil Kauder is severely limited by his undue admiration for mathematical economics. See Emil Kauder, *A History of Marginal Utility Theory* (Princeton, NJ: Princeton University Press, 1965), pp. 31–5. For a further critique of mathematical marginal utility theory, see Murray N. Rothbard, *Toward a Reconstruction of Utility and Welfare Economics* (1956, New York: Center for Libertarian Studies, Sept. 1977), pp. 9–12. Also see Harro F. Bernardelli, 'The End of the Marginal Utility Theory?' *Economica* (May 1938), pp. 192–212; Bernardelli, 'A Reply to Mr. Samuelson's Note', *Economica* (Feb. 1939), pp. 88–9; and idem, 'A Rehabilitation of The Classical Theory of Marginal Utility', *Economica* (August 1952), pp. 254–68.

The physiocrats and *laissez-faire*

The best overall survey of the physiocrats and their movement is still Henry Higgs, *The Physiocrats* (1897, New York: The Langland Press, 1952), Valuable also are Joseph J. Spengler, 'The Physiocrats and Say's Law of Markets', and Arthur I. Bloomfield, 'The Foreign-Trade Doctrines of the Physiocrats', reprinted in Spengler and Allen (eds), *Essays*, pp. 161–214, 215–33. Though written from a Marxist perspective, there are some useful insights in Elizabeth Fox-Genovese, *The Origins of Physiocracy: Economic Revolution and Social Order in Eighteenth-Century France* (Ithaca, NY:

Cornell University Press, 1976). Translations from Quesnay as well as his own essays can be found in Ronald L. Meek, *The Economics of Physiocracy: Essays and Translations* (Cambridge, Mass.: Harvard University Press, 1963). A helpful study of the last of the physiocrats in James J. McLain, *The Economic Writings of Du Pont de Nemours* (Newark, Del.: University of Delaware Press, 1977).

A.R.J. Turgot

A collection of all of Turgot's economic writings, newly translated and with an excellent introduction and annotations, is P.D. Groenewegen (ed.), *The Economics of A.R.J. Turgot* (The Hague: Martinus Nijhoff, 1977). Groenewegen, the foremost modern authority on Turgot, offers an illuminating appraisal of his influence in economic thought in 'Turgot's Place in the History of Economic Thought: A Bicentenary Estimate', *History of Political Economy*, 15 (Winter 1983), pp. 585–616. Turgot's lack of influence on Adam Smith is established in Groenewegen, 'Turgot and Adam Smith', *Scottish Journal of Political Economy*, 16 (Nov. 1969), pp. 271–87.

For a detailed analysis and appreciation of Turgot's theory of value and price, see Groenewegen, 'A Reappraisal of Turgot's Theory of Value, Exchange, and Price Determination', *History of Political Economy*, 2 (Spring 1970), pp. 177–96. And on Turgot's theory of capital and interest, see Groenewegen, 'A Re-interpretation of Turgot's Theory of Capital and Interest', *Economic Journal*, 81 (June 1971), pp. 327–40. For Böhm-Bawerk's appraisal of Turgot and a critique of it, see Eugen von Böhm-Bawerk, *Capital and Interest* (South Holland, Ill.: Libertarian Press, 1959), I, pp. 39–45; Frank A. Fetter, *Capital, Interest, and Rent: Essays in the Theory of Distribution* (ed. M. Rothbard, Kansas City: Sheed Andrews and McMeel, 1977), pp. 264–6; Groenewegen, 'Re-interpretation', pp. 327, 337–8. On Turgot's theory of the entrepreneur, see Hébert and Link, *The Entrepreneur*, pp. 27–9. On Turgot's life, see Douglas Dakin, *Turgot and the Ancient Regime in France* (London: Methuen & Co., 1939).

Ferdinando Galiani

On Galiani and Condillac, see the notable article by Emil Kauder, 'Genesis of the Marginal Utility Theory', *Economic Journal* (Sept. 1953), in Spengler and Allen (eds), *Essays*, pp. 277–87. There is no full English translation of either of Galiani's works. There is a partial translation of sections on the theories of value and interest in *Della Moneta* in Arthur Eli Monroe (ed.), *Early Economic Thought* (Cambridge, Mass.: Harvard University Press, 1924), pp. 280–307. An illuminating discussion of Galiani's value theory which unfortunately omits his admittedly less important monetary analysis, is that of Luigi Einaudi: 'Einaudi on Galiani', in Henry W. Spiegel (ed.), *The Devel-*

opment of Economic Thought (New York: Wiley, 1952), pp. 61–82. That gap is made up by Filippo Cesarano, 'Monetary Theory in Ferdinando Galiani's *Della moneta', History of Political Economy*, 81 (Autumn 1976), pp. 380–99.

For the life of Galiani in Paris, see Joseph Rossi, *The Abbé Galiani In France* (New York: Publications of the Institute of French Studies, 1950). Also on Galiani and Genovesi, see Franco Venturi, *Italy and the Enlightenment* (New York: New York University Press, 1972). On Genovesi, Condillac and the utility of exchange, see Oswald St Clair, *A Key to Ricardo* (1957, New York: A.M. Kelley, 1965). On Condillac, see Hutchison, *Before Adam Smith*, pp. 324–31, and Isabel F. Knight, *The Geometric Spirit: The Abbé de Condillac and the French Enlightenment* (New Haven: Yale University Press, 1968).

The Scottish Enlightenment

An illuminating social history of the Scottish Enlightenment and its relation to the moderate Presbyterian clergy is Anand C. Chitnis, *The Scottish Enlightenment: A Social History* (London: Croom Helm, 1976). A trenchant discussion of the moderates as apologists for the Presbyterian state Church Establishment is in Richard B. Sher, *Church and University in the Scottish Enlightenment: The Moderate Literati of Edinburgh* (Princeton, NJ: Princeton University Press, 1985).

On the doctrines and personal interrelationships of the Scottish Enlightenment political economists, see William Leslie Taylor, *Francis Hutcheson and David Hume as Predecessors of Adam Smith* (Durham, NC: Duke University Press, 1965). See also the summary in H.M. Robertson and W.L. Taylor, 'Adam Smith's Approach to the Theory of Value', *Economic Journal* (1957), in Joseph J. Spengler and William R. Allen (eds), *Essays in Economic Thought* (Chicago: Rand McNally, 1960), p. 288ff. The founding father of this group is explored in W.L. Taylor, 'Gershom Carmichael: A Neglected Figure in British Political Economy', *South African Journal of Economics*, 23 (Sept. 1955), pp. 251–5.

For a refutation of the Hayekian view of Bernard Mandeville as exponent of *laissez-faire*, see Jacob Viner, *The Long View and The Short* (1953, Glencoe, Ill.: The Free Press, 1958), pp. 332–42. Von Hayek's attempted rebuttal of Viner rests on von Hayek's failure to comprehend the vital distinction between the 'natural' (the processes and results of voluntary actions), and the 'artificial' (government interventions in such processes), as well as on von Hayek's enchantment with all actions whatsoever that have supposedly yielded 'unintended' results. F.A. von Hayek, 'Dr. Bernard Mandeville', *New Studies in Philosophy, Politics, Economics and the History of Ideas* (1967, Chicago: University of Chicago Press, 1978), pp. 249–66. For an excellent article demonstrating the profound mercantilism and proto-Keynesianism of Mandeville, see Harry Landreth, 'The Economic Thought of Bernard Mandeville', *History of Political Economy*, 7 (1975), pp. 193–208; also see the illuminating article by Salim Rashid, 'Mandeville's *Fable:* Laissez-Faire or Libertinism?' *Eighteenth-Century Studies*, 18 (Spring 1985), pp. 313–30. Landreth shows that, as in the case of other mercantilists, Mandeville was committed to full employment of a large population because he was devoted to maximizing production at low wages. The employment was to be 'full' because forced by the state.

On the influence of Suarez and the Spanish scholastics on Grotius, see José Ferrater Mora, 'Suarez and Modern Philosophy', *Journal of the History of Ideas* (Oct. 1953), pp. 528–47.

David Hume's *Writings on Economics*, ed. E. Rotwein (Madison, Wisc.: University of Wisconsin Press, 1970), provides all Hume's essays on economics and a brief selection of his letters. An illuminating discussion of Hume's neglect of cash balance effects in the balance of payment mechanism is in Sekine, 'Discovery of International Monetary Equilibrium', pp. 274–82. Also see Salerno, 'Doctrinal Antecedents', pp. 150–76. For Hume as inflationist, especially in his later *History of England*, see Constant Noble Stockton, 'Economics and the Mechanism of Historical Progress in Hume's *History*', in D.W. Livingston and J.T. King (eds), *Hume: A Re-Evaluation* (New York: Fordham University Press, 1976), pp. 309–13.

Hume is generally considered the great debunker of natural law, but see A. Kenneth Hesselberg, 'Hume, Natural Law and Justice', *Duquesne Review* (Spring 1961), pp. 45–63, who maintains that Hume eventually slips in a natural law analysis through the back door.

In recent years, it has become fashionable to hold that Sir James Steuart was a sound Keynesian classical liberal, unjustly buried by the success of the *Wealth of Nations*. An excellent article demolishing this position is Gary M. Anderson and Robert D. Tollison, 'Sir James Steuart as the Apotheosis of Mercantilism and His Relation to Adam Smith', *Southern Economic Journal*, 51 (Oct. 1984), pp. 456–68. Anderson and Tollison point out that Steuart was an ardent believer in a totalitarian planned economy, with government regulating and cartellizing all economic activity. Steuart also helped originate the Marxian doctrine of inherent class conflict in society, as well as lauding and wishing to emulate the Spartan economy of totalitarian rule by an élite grounded in a system of slavery. Steuart's *An Inquiry into the Principles of Political Economy* has been republished and edited with an introduction by Andrew S. Skinner (Chicago: University of Chicago Press, 1966).

The celebrated Adam Smith

The writings on Adam Smith stretch almost to infinity, and so we can only try to make a brief and judicious selection here. The definitive collection of all of Smith's writings is now available in the handsome six-volume bicentennial Glasgow edition. The 1976 Glasgow edition of the *Wealth of Nations*, ed. by R.H. Campbell, A.S. Skinner and W.B. Todd, published by the Oxford University Press, has been reprinted in a two-volume soft-cover set by the Liberty Press (Indianapolis: Liberty Classics, 1981). The Campbell–Skinner General Introduction presents the latest scholarship in the field. But the previous state-of-the-art Cannan edition should also be consulted, if only for the healthily critical approach that the great Cannan dares to take toward Adam Smith. (Smith, *Wealth of Nations*, ed. E. Cannan, New York: Modern Library, 1937.)

Still the most lucid and penetrating critique of Adam Smith's confused theories of value and distribution can be found in Paul Douglas, 'Smith's Theory of Value and Distribution', in J.M. Clark et al., *Adam Smith, 1776–1926* (Chicago: University of Chicago Press, 1928), pp. 78–115; reprinted in H.W. Spiegel (ed.), *The Development of Economic Thought* (New York: John Wiley, 1964), pp. 73–102. On the search for an invariable measure of value by Smith and Ricardo, see Richard H. Timberlake, Jr, 'The Classical Search for an Invariable Measure of Value', *Quarterly Review of Economics and Business*, 6 (Spring 1966), pp. 37–44. Edwin Cannan's critique of the classical economics of Smith and Ricardo is subtle and important: Edwin Cannan, *A History of the Theories of Production & Distribution in English Political Economy* (3rd ed. 1917, London: Staples Press, 1953). Cannan's adroit and implicit put-down can be seen in his sesquicentennial summation of Smith's accomplishments: 'Adam Smith as an Economist', *Economica*, 6 (June 1926), pp. 123–34. See also the similar and equally subtle as well as witty put-down by the Scottish historian of economic thought, Alexander Gray, *Adam Smith* (London: The Historical Association, 1948).

Despite these dissenting voices, the hagiographic attitude towards Adam Smith remained generally unbroken until the demolition in the monumental work of Joseph Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), especially pages 181–94, 323–5, and 557–9. Also see the splendid article by Emil Kauder, 'Genesis of the Marginal Utility Theory', *Economic Journal* (Sept. 1953), pp. 638–50, reprinted in Spengler and Allen, *Essays*, pp. 277–87. Robertson and Taylor, in their comment on Kauder, are more favourable to Smith but fundamentally concede his criticisms: H.M. Robertson and W.L. Taylor, 'Adam Smith's Approach to the Theory of Value', in Spengler and Allen, *Essays*, pp. 288–304.

Unfortunately, the clear-eyed attitude towards Smith engendered by Schumpeterian revisionism has been largely rolled back since the mid-1970s.

Partly this was the consequence of the bicentennial volumes pouring out in admiration of Smith; partly it was due to the influential work of Samuel Hollander, *The Economics of Adam Smith* (Toronto: University of Toronto Press, 1973). In the face of the evidence, Hollander absurdly attempts to torture Smith into the mould of a thoroughly consistent, formalistic proto-Walrasian modern general equilibrium theorist. The large Glasgow edition volume of essays, A. Skinner and T. Wilson (eds), *Essays on Adam Smith* (Oxford: The Clarendon Press, 1975), presents a number of articles in the new Hollanderian mould of hagiography.

However, it is gratifying to find T.W. Hutchison, in his more recent work, acknowledging the grave damage done by Smith in rejecting the entire subjective utility/scarcity tradition he had inherited, as well as Smith's implanting into economics objective-value and labour-value theories. Unfortunately, Hutchison attributes this fateful change to 'unhappy, tiresome, and awkward' confusion on the part of Smith rather than to deeper differences and problems. Hutchison also trenchantly points to Smith's unfortunate abandonment of the insight of previous economists that the division of labour is caused by human diversity, a proposition denied by what Hutchison realizes is the view 'that might be expected...from a social engineer or egalitarian', rather than from Smith as supposed individualist and libertarian. Terence Hutchison, *Before Adam Smith*, pp. 362–6, 370–81.

The standard life of Adam Smith is still John Rae's *Life of Adam Smith*, especially the 1965 edition containing Jacob Viner's searching introductory essay, 'Guide to John Rae's Life of Adam Smith', (New York: A.M. Kelley, 1965). Also see C.R. Fay, *Adam Smith and the Scotland of His Day* (Cambridge: Cambridge University Press, 1956); and William Robert Scott, *Adam Smith as Student and Professor* (Glasgow: Jackson, Son & Co., 1937). The latest concise life of Smith is R.H. Campbell and A.S. Skinner, *Adam Smith* (London: Croom Helm, 1982). For Smith's intellectual milieu, see William Leslie Taylor, *Francis Hutcheson and David Hume as Predecessors of Adam Smith* (Durham, NC: Duke University Press, 1965); and Anand Chitnis, *The Scottish Enlightenment: A Social History* (London: Croom Helm, 1976).

For Adam Smith as someone who failed abysmally to acknowledge the sources for his ideas, see Salim Rashid, 'Adam Smith's Acknowledgements: Neo-Plagiarism and the Wealth of Nations', *The Journal of Libertarian Studies*, 9 (1990), pp. 1–24. On Smith's unjust accusations of plagiarism against his friend, Adam Ferguson, see Ronald Hamowy, 'Adam Smith, Adam Ferguson, and the Division of Labour', *Economica*, 35 (August 1968), pp. 249–59. For an illuminating critique of scholars applying special standards favourable to Adam Smith, see Salim Rashid, 'Does a Famous Economist Deserve Special Standards? A Critical Note on Adam Smith Scholarship', *Bulletin of the History of Economics Society*, 11 (Autumn 1989), pp. 190–

209. On the slowness of the *Wealth of Nations* in achieving renown, see Salim Rashid, 'Adam Smith's Rise to Fame: A Reexamination', *The Eighteenth Century* (Winter 1982), pp. 64–85.

For an illuminating article on Smith as an enthusiastic top customs collector, see Gary M. Anderson, William F. Shughart II, and Robert D. Tollison, 'Adam Smith in the Customhouse', *Journal of Political Economy*, 93 (August 1985), pp. 740–59.

On Adam Smith and his ignorance of the Industrial Revolution going on about him, see R. Koebner, 'Adam Smith and the Industrial Revolution', *Economic History Review*, 2nd ser. 11 (August 1959); and Charles P. Kindleberger, 'The Historical Background: Adam Smith and the Industrial Revolution', in T. Wilson and A.S. Skinner (eds), *The Market and the State: Essays in Honor of Adam Smith* (Oxford: The Clarendon Press, 1976), pp. 1–25. For an up-to-date critique of Smith on this issue, see Salim Rashid, '*The Wealth of Nations* and Historical Facts', *Journal of the History of Economic Thought*, 14 (Autumn 1992), pp. 225–43. For an unconvincing defence of Smith see Ronald Max Hartwell, 'Adam Smith and the Industrial Revolution', in F. Glahe (ed.), *Adam Smith and the Wealth of Nations* (Boulder, Col.: Colorado Associated University Press, 1978), pp. 123–47.

The grave inner contradiction between Smith's favourable and unfavourable views on the division of labour, the latter anticipating Marxian complaints about 'alienation', is admitted by one of Smith's staunchest modern admirers, in Edwin G. West, 'Adam Smith's Two Views on the Division of Labour', *Economica*, n.s. 31 (Feb. 1964), and idem, 'Political Economy of Alienation', *Oxford Economic Papers*, 21 (March 1969), pp. 1–23. Also see idem, 'Adam Smith and Alienation', in Skinner and Wilson (eds), *Essays on Adam Smith*, pp. 540–52. Among other writers pointing to Smith's anticipation of Marxian wailing about 'alienation', see Nathan Rosenberg, 'Adam Smith on the Division of Labour: Two Views or One?', *Economica*, n.s. 32 (May 1965); and Jacob Viner's Introduction to John Rae's *Life of Adam Smith* (1965), p. 35.

On Smith's bias against consumption, see Roger W. Garrison, 'West's Cantillon and Adam Smith: A Comment', *Journal of Libertarian Studies*, 7 (Autumn 1985), pp. 291–2; Cannan, *History of Theories*, pp. 23–4; Ingrid Hahne Rima, *Development of Economic Analysis* (3rd ed., Homewood, Ill.: Richard D. Irwin, 1978), p. 79; Edwin G. West, *Adam Smith* (New Rochelle, NY: Arlington House, 1969), p. 173; Kauder, 'Genesis'; and Gerhard W. Ditz, 'The Calvinism in Adam Smith' (unpublished MS, 1983). The major point of Nathan Rosenberg's 'Adam Smith on Profits – Paradox Lost and Regained', *Journal of Political Economy*, 82 (Nov–Dec. 1977), pp. 1187–8, is that Smith holds high profits to be bad because they induce capitalists to indulge in luxurious consumption.

On Smith's inexplicable failure to carry over Hume's specie-flow-price analysis from his lectures into his *Wealth of Nations*, see the classic critique by Jacob Viner, *Studies in the Theory of International Trade* (New York: Harper & Bros, 1937), p. 87. A realistic assessment of Smith's unsatisfactory theory of money is in Douglas Vickers, 'Adam Smith and the Status of the Theory of Money', surprisingly published in the hagiographical Skinner and Wilson, *Essays*, p. 484. For an unconvincing attempt to explain the deterioration in Smith's monetary theory, see Frank Petrella, 'Adam Smith's Rejection of Hume's Price-Specie-Flow Mechanism: A Minor Mystery Resolved', *Southern Economic Journal*, 34 (Jan 1968), pp. 365–74. Robert V. Eagly tries, in Samuel Hollanderian fashion, to claim Smith's consistency in *really* adopting the Humean view as a proto-Walrasian general equilibrium theorist. Robert V. Eagly, 'Adam Smith and the Specie-Flow Doctrine', *The Scottish Journal of Political Economy*, 17 (Feb. 1970), pp. 61–8. Also, for a critique of Smith's argument on specie as a 'dead stock', see Charles Rist, *History of Monetary and Credit Theory: From John Law to the Present Day* (1940, New York: A.M. Kelley, 1966), p. 85. For a refutation of modern versions of this argument common to Keynesians and monetarists alike, see Roger W. Garrison, 'The "Costs" of a Gold Standard', in Llewellyn H. Rockwell, Jr (ed.), *The Gold Standard: Perspectives in the Austrian School* (1985, Auburn, Ala.: Ludwig von Mises Institute, 1992), pp. 61–79.

On the 'invisible hand' as a metaphor, see William B. Grampp, 'Adam Smith and the Economic Man', *Journal of Political Economy* (August 1948), pp. 319–21. On the first use of the 'invisible hand' concept by the seventeenth century writer Joseph Glanville, and on Smith's similar use of the concept in his philosophic essays, see Spengler, 'Boisguilbert's Economic Views', p. 73.

On Adam Smith as a dubious partisan of *laissez-faire*, see the classic article by Jacob Viner, 'Adam Smith and Laissez-faire', in Clark et al., *Adam Smith, 1776–1926*, pp. 116–79. Also see Joseph M. Jadlow, 'Adam Smith on Usury Laws', *Journal of Finance*, 32 (Sept. 1977), pp. 1195–1200. Oddly, however, Jadlow sees a wise coping with 'externalities' instead of a Calvinist horror of consumption and speculative risk. See also the sensitive discussion in Ellen Frankel Paul, 'Adam Smith: The Great Founder', in *Moral Revolution and Economic Science: The Demise of Laissez-Faire in Nineteenth Century British Political Economy* (Westport, Conn.: Greenwood Press, 1979), pp. 9–44. For a critique of Smith's alleged canons of taxation, see Murray N. Rothbard, *Power and Market: Government and the Economy* (1970, Kansas City, Mo.: Sheed Andrews and McMeel, 1977), pp. 137–8, 144–5.

The spread of the Smithian movement

On the spread of the Smithian movement in Scotland and the influence of Dugald Stewart, see Jacob H. Hollander, 'The Dawn of a Science', and especially, 'The Founder of a School', in J.M. Clark et al., *Adam Smith, 1776–1926* (Chicago: University of Chicago Press, 1928). On the founding of the *Edinburgh Review*, see Anand C. Chitnis, *The Scottish Enlightenment*; and on Francis Horner, see Frank W. Fetter, 'Introduction', F.W. Fetter (ed.), *The Economic Writings of Francis Horner* (London: London School of Economics, 1957). On the spread of Smithianism on the continent of Europe, see the still indispensable article by Melchior Palyi, 'The Introduction of Adam Smith on the Continent', in Clark, *Adam Smith*, pp. 180–233. On the spread of Smithian views into Germany, see Carl William Hasek, *The Introduction of Adam Smith's Doctrines Into Germany* (New York: Columbia University Press, 1925). On Ludwig Heinrich von Jakob, see Donald G. Rohr, *The Origins of Social Liberalism in Germany* (Chicago: University of Chicago Press, 1963). On the story of, and the problems with, the Stein-Hardenberg reforms in Prussia, see Walter M. Simon, *The Failure of The Prussian Reform Movement, 1807–19* (Ithaca, NY: Cornell University Press, 1955). On the German cameralists, who resisted Smithian doctrine, see Lewis H. Haney, *History of Economic Thought* (4th ed., New York: Macmillan, 1949), pp. 148–65. For a detailed portrayal of the cameralists' political views, see Albion W. Small, *The Cameralists* (1909; New York: Burt Franklin, n.d.). On Johann Heinrich Gottlieb von Justi's views of alienation of labour in the factories and under division of labour, and their influence through Sir James Denham Steuart upon G.W.F. Hegel, see Raymond Plant, *Hegel* (Bloomington, Ind.: University of Indiana Press, 1973). On the communism of Johann Joachim Becher, see Eli F. Heckscher, *Mercantilism* (2nd ed., New York: Macmillan, 1955). On Heinrich Friedrich Freiherr von Storch, see Schumpeter, *History*, pp. 502–3; and Peter Bernholz, 'Inflation and Monetary Constitutions in Historical Perspective', *Kyklos*, 36, no. 3 (1983), pp. 408–9.

On Semyon Desnitsky and his Smithian influence at the court of Catherine the Great, see A.H. Brown, 'S.E. Desnitsky, Adam Smith, and the *Nakaz* of Catherine II', *Oxford Slavonic Papers*, n.s. 7 (1974), pp. 42–59; and idem, 'Adam Smith's First Russian Followers', in Skinner and Wilson (eds), *Essays on Adam Smith*, pp. 247–73.

Malthus and population

The writings on Malthus and on population are almost infinite; here we can only suggest any of the numerous reprints of Malthus's first and sixth editions of his *Essay on Population* (see references in Spiegel, *Growth*, pp. 735–9, 828–9). In addition, there are excellent critiques of Malthus in Schumpeter, *History*, pp. 250–58, 578–84, and 889–91; and in Edwin Cannan, *A History* *of the Theories of Production and Distribution in English Political Economy from 1776 to 1848* (3rd ed., London: Staples Press, 1953), pp. 103–114, 132–5. Also see the pungent article by Gertrude Himmelfarb, 'The Specter of Malthus', in her *Victorian Minds* (1968, Gloucester, Mass.: Peter Smith, 1975), pp. 82–110; and the always witty and perceptive Alexander Gray, *The Development of Economic Doctrine* (London: Longmans, Green and Co., 1931), pp. 155–68. It is remarkable that the only extant biography is the useful and extensive but far from deeply analytic Patricia James, *Population Malthus: His Life and Times* (London: Routledge and Kegan Paul, 1979).

Index

Here is the last masterpiece by Murray N. Rothbard (1926–1995), the result of a lifetime of research and his crowning achievement.

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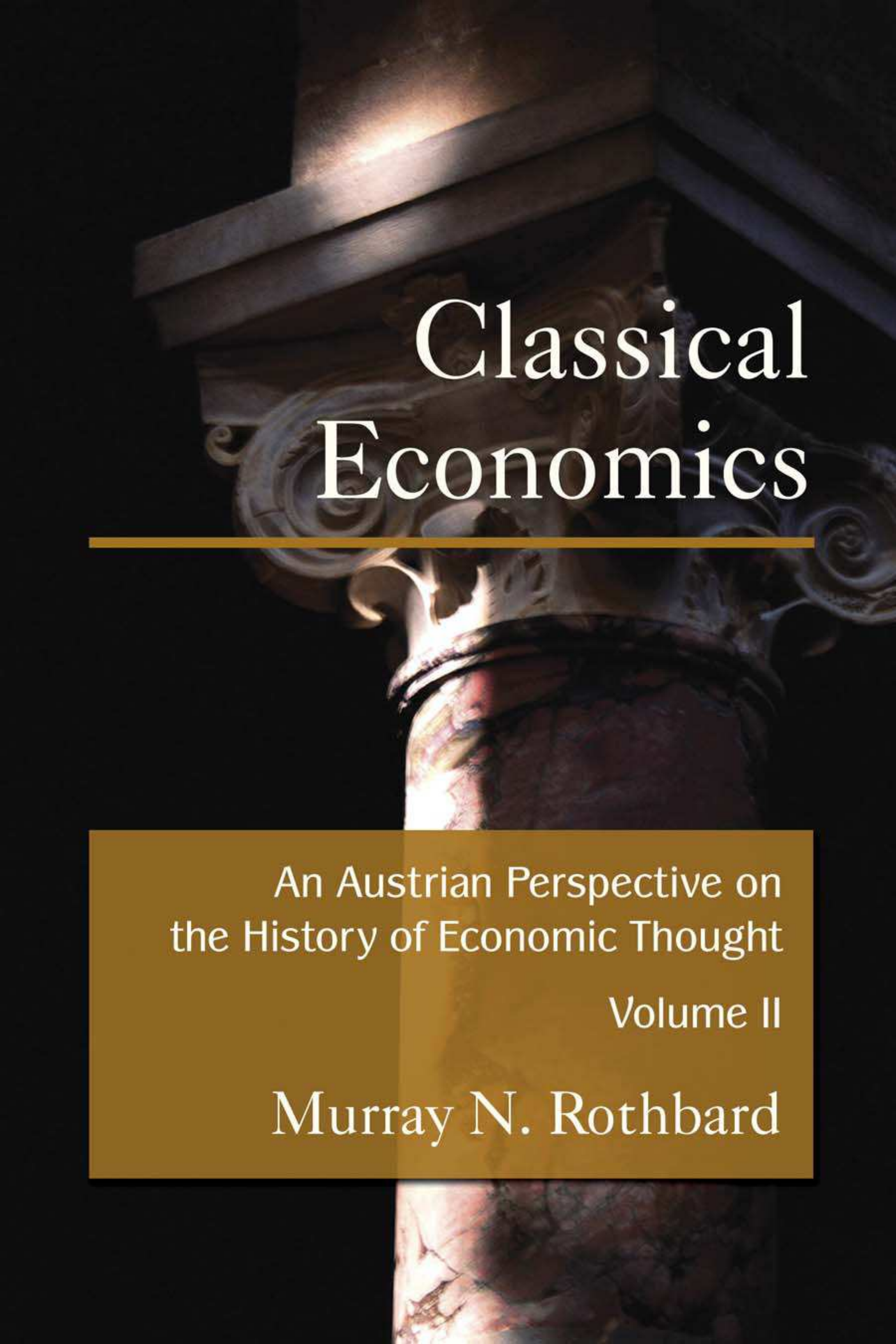

Classical Economics

An Austrian Perspective on the History of Economic Thought

Volume II

Murray N. Rothbard

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To my mentors,
Ludwig von Mises and Joseph Dorfman

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Ludwig von Mises Institute
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Introduction

As the subtitle declares, this work is an overall history of economic thought from a frankly 'Austrian' standpoint: that is, from the point of view of an adherent of the 'Austrian School' of economics. This is the only such work by a modern Austrian; indeed, only a few monographs in specialized areas of the history of thought have been published by Austrians in recent decades.[1] Not only that: this perspective is grounded in what is currently the least fashionable though not the least numerous variant of the Austrian School: the 'Misesian' or 'praxeologic'.[2]

But the Austrian nature of this work is scarcely its only singularity. When the present author first began studying economics in the 1940s, there was an overwhelmingly dominant paradigm in the approach to the history of economic thought – one that is still paramount, though not as baldly as in that era. Essentially, this paradigm features a few Great Men as the essence of the history of economic thought, with Adam Smith as the almost superhuman founder. But if Smith was the creator of both economic analysis and of the free trade, free market tradition in political economy, it would be petty and niggling to question seriously any aspect of his alleged achievement. Any sharp criticism of Smith as either economist or free market advocate would seem only anachronistic: looking down upon the pioneering founder from the point of view of the superior knowledge of today, puny descendants unfairly bashing the giants on whose shoulders we stand.

If Adam Smith created economics, much as Athena sprang full-grown and fully armed from the brow of Zeus, then his predecessors must be foils, little men of no account. And so short shrift was given, in these classic portrayals of economic thought, to anyone unlucky enough to precede Smith. Generally they were grouped into two categories and brusquely dismissed. Immediately preceding Smith were the mercantilists, whom he strongly criticized. Mercantilists were apparently boobs who kept urging people to accumulate money but not to spend it, or insisting that the balance of trade must 'balance' with each country. Scholastics were dismissed even more rudely, as moralistic medieval ignoramuses who kept warning that the 'just' price must cover a merchant's cost of production plus a reasonable profit.

The classic works in the history of thought of the 1930s and 1940s then proceeded to expound and largely to celebrate a few peak figures after Smith. Ricardo systematized Smith, and dominated economics until the 1870s; then the 'marginalists', Jevons, Menger and Walras, marginally corrected Smith–

Ricardo 'classical economics' by stressing the importance of the marginal unit as compared to whole classes of goods. Then it was on to Alfred Marshall, who sagely integrated Ricardian cost theory with the supposedly one-sided Austrian–Jevonian emphasis on demand and utility, to create modern neoclassical economics. Karl Marx could scarcely be ignored, and so he was treated in a chapter as an aberrant Ricardian. And so the historian could polish off his story by dealing with four or five Great Figures, each of whom, with the exception of Marx, contributed more building blocks toward the unbroken progress of economic science, essentially a story of ever onward and upward into the light.[3]

In the post-World War II years, Keynes of course was added to the Pantheon, providing a new culminating chapter in the progress and development of the science. Keynes, beloved student of the great Marshall, realized that the old man had left out what would later be called 'macroeconomics' in his exclusive emphasis on the micro. And so Keynes added macro, concentrating on the study and explanation of unemployment, a phenomenon which everyone before Keynes had unaccountably left out of the economic picture, or had conveniently swept under the rug by blithely 'assuming full employment'.

Since then, the dominant paradigm has been largely sustained, although matters have recently become rather cloudy. For one thing, this kind of Great Man ever-upward history requires occasional new final chapters. Keynes's *General Theory*, published in 1936, is now almost sixty years old; surely there must be a Great Man for a final chapter? But who? For a while, Schumpeter, with his modern and seemingly realistic stress on 'innovation', had a run, but this trend came a cropper, perhaps on the realization that Schumpeter's fundamental work (or 'vision', as he himself perceptively put it) was written more than two decades before the *General Theory*. The years since the 1950s have been murky; and it is difficult to force a return to the once-forgotten Walras into the Procrustean bed of continual progress.

My own view of the grave deficiency of the Few Great Men approach has been greatly influenced by the work of two splendid historians of thought. One is my own dissertation mentor Joseph Dorfman, whose unparalleled multi-volume work on the history of American economic thought demonstrated conclusively how important allegedly 'lesser' figures are in any movement of ideas. In the first place, the stuff of history is left out by omitting these figures, and history is therefore falsified by selecting and worrying over a few scattered texts to constitute The History of Thought. Second, a large number of the supposedly secondary figures contributed a great deal to the development of thought, in some ways more than the few peak thinkers. Hence, important features of economic thought get omitted, and the developed theory is made paltry and barren as well as lifeless.

Furthermore, the cut-and-thrust of history itself, the context of the ideas and movements, how people influenced each other, and how they reacted to and against one another, is necessarily left out of the Few Great Men approach. This aspect of the historian's work was particularly brought home to me by Quentin Skinner's notable two-volume *Foundations of Modern Political Thought*, the significance of which could be appreciated without adopting Skinner's own behaviourist methodology.[4]

The continual progress, onward-and-upward approach was demolished for me, and should have been for everyone, by Thomas Kuhn's famed *Structure of Scientific Revolutions*.[5] Kuhn paid no attention to economics, but instead, in the standard manner of philosophers and historians of science, focused on such ineluctably 'hard' sciences as physics, chemistry, and astronomy. Bringing the word 'paradigm' into intellectual discourse, Kuhn demolished what I like to call the 'Whig theory of the history of science'. The Whig theory, subscribed to by almost all historians of science, including economics, is that scientific thought progresses patiently, one year after another developing, sifting, and testing theories, so that science marches onward and upward, each year, decade or generation learning more and possessing ever more correct scientific theories. On analogy with the Whig theory of history, coined in mid-nineteenth century England, which maintained that things are always getting (and therefore must get) better and better, the Whig historian of science, seemingly on firmer grounds than the regular Whig historian, implicitly or explicitly asserts that 'later is always better' in any particular scientific discipline. The Whig historian (whether of science or of history proper) really maintains that, for any point of historical time, 'whatever was, was right', or at least better than 'whatever was earlier'. The inevitable result is a complacent and infuriating Panglossian optimism. In the historiography of economic thought, the consequence is the firm if implicit position that every individual economist, or at least every school of economists, contributed their important mite to the inexorable upward march. There can, then, be no such thing as gross systemic error that deeply flawed, or even invalidated, an entire school of economic thought, much less sent the world of economics permanently astray.

Kuhn, however, shocked the philosophic world by demonstrating that this is simply not the way that science has developed. Once a central paradigm is selected, there is no testing or sifting, and tests of basic assumptions only take place after a series of failures and anomalies in the ruling paradigm has plunged the science into a 'crisis situation'. One need not adopt Kuhn's nihilistic philosophic outlook, his implication that no one paradigm is or can be better than any other, to realize that his less than starry-eyed view of science rings true both as history and as sociology.

But if the standard romantic or Panglossian view does not work even in the hard sciences, *a fortiori* it must be totally off the mark in such a 'soft science' as economics, in a discipline where there can be no laboratory testing, and where numerous even softer disciplines such as politics, religion, and ethics necessarily impinge on one's economic outlook.

There can therefore be no presumption whatever in economics that later thought is better than earlier, or even that all well-known economists have contributed their sturdy mite to the developing discipline. For it becomes very likely that, rather than everyone contributing to an ever-progressing edifice, economics can and has proceeded in contentious, even zig-zag fashion, with later systemic fallacy sometimes elbowing aside earlier but sounder paradigms, thereby redirecting economic thought down a total erroneous or even tragic path. The overall path of economics may be up, or it may be down, over any give time period.

In recent years, economics, under the dominant influence of formalism, positivism and econometrics, and preening itself on being a hard science, has displayed little interest in its own past. It has been intent, as in any 'real' science, on the latest textbook or journal article rather than on exploring its own history. After all, do contemporary physicists spend much time poring over eighteenth century optics?

In the last decade or two, however, the reigning Walrasian–Keynesian neoclassical formalist paradigm has been called ever more into question, and a veritable Kuhnian 'crisis situation' has developed in various areas of economics, including worry over its methodology. Amidst this situation, the study of the history of thought has made a significant comeback, one which we hope and expect will expand in coming years.[6] For if knowledge buried in paradigms lost can disappear and be forgotten over time, then studying older economists and schools of thought need not be done merely for antiquarian purposes or to examine how intellectual life proceeded in the past. Earlier economists can be studied for their important contributions to forgotten and therefore new knowledge today. Valuable truths can be learned about the content of economics, not only from the latest journals, but from the texts of long-deceased economic thinkers.

But these are merely methodological generalizations. The concrete realization that important economic knowledge had been lost over time came to me from absorbing the great revision of the scholastics that developed in the 1950s and 1960s. The pioneering revision came dramatically in Schumpeter's great *History of Economic Analysis*, and was developed in the works of Raymond de Roover, Marjorie Grice-Hutchinson and John T. Noonan. It turns out that the scholastics were not simply 'medieval', but began in the thirteenth century and expanded and flourished through the sixteenth and into the seventeenth century. Far from being cost-of-production moralists, the scholastics believed that the just price was whatever price was established on the 'common estimate' of the free market. Not only that: far from being naive labour or cost-of-production value theorists, the scholastics may be considered 'proto-Austrians', with a sophisticated subjective utility theory of value and price. Furthermore, some of the scholastics were far superior to current formalist microeconomics in developing a 'proto-Austrian' dynamic theory of entrepreneurship. Moreover, in 'macro', the scholastics, beginning with Buridan and culminating in the sixteenth century Spanish scholastics, worked out an 'Austrian' rather than monetarist supply and demand theory of money and prices, including interregional money flows, and even a purchasing-power parity theory of exchange rates.

It seems to be no accident that this dramatic revision of our knowledge of the scholastics was brought to American economists, not generally esteemed for their depth of knowledge of Latin, by European-trained economists steeped in Latin, the language in which the scholastics wrote. This simple point emphasizes another reason for loss of knowledge in the modern world: the insularity in one's own language (particularly severe in the English-speaking countries) that has, since the Reformation, ruptured the once Europe-wide community of scholars. One reason why continental economic thought has often exerted minimal, or at least delayed, influence in England and the United States is simply because these works had not been translated into English.[7]

For me, the impact of scholastic revisionism was complemented and strengthened by the work, during the same decades, of the German-born 'Austrian' historian, Emil Kauder. Kauder revealed that the dominant economic thought in France and Italy during the seventeenth and especially the eighteenth centuries was also 'proto-Austrian', emphasizing subjective utility and relative scarcity as the determinants of value. From this groundwork, Kauder proceeded to a startling insight into the role of Adam Smith that, however, follows directly from his own work and that of the scholastic revisionists: that Smith, far from being the founder of economics, was virtually the reverse. On the contrary, Smith actually took the sound, and almost fully developed, proto-Austrian subjective value tradition, and tragically shunted economics on to a false path, a dead end from which the Austrians had to rescue economics a century later. Instead of subjective value, entrepreneurship, and emphasis on real market pricing and market activity, Smith dropped all this and replaced it with a labour theory of value and a dominant focus on the unchanging long-run 'natural price' equilibrium, a world where entrepreneurship was assumed out of existence. Under Ricardo, this unfortunate shift in focus was intensified and systematized.

If Smith was not the creator of economic theory, neither was he the founder of *laissez-faire* in political economy. Not only were the scholastics analysts of, and believers in, the free market and critics of government intervention; but the French and Italian economists of the eighteenth century were even more *laissez-faire*-oriented than Smith, who introduced numerous waffles and qualifications into what had been, in the hands of Turgot and others, an almost pure championing of *laissez-faire*. It turns out that, rather than someone who should be venerated as creator of modern economics or of *laissez-faire*, Smith was closer to the picture portrayed by Paul Douglas in the 1926 Chicago commemoration of the *Wealth of Nations*: a necessary precursor of Karl Marx.

Emil Kauder's contribution was not limited to his portrayal of Adam Smith as the destroyer of a previously sound tradition of economic theory, as the founder of an enormous 'zag' in a Kuhnian picture of a zig-zag history of economic thought. Also fascinating if more speculative was Kauder's estimate of the essential *cause* of a curious asymmetry in the course of economic thought in different countries. Why is it, for example, that the subjective utility tradition flourished on the Continent, especially in France and Italy, and then revived particularly in Austria, whereas the labour and cost of production theories developed especially in Great Britain? Kauder attributed the difference to the profound influence of religion: the scholastics, and then France, Italy and Austria were Catholic countries, and Catholicism emphasized consumption as the goal of production and consumer utility and enjoyment as, at least in moderation, valuable activities and goals. The British tradition, on the contrary, beginning with Smith himself, was Calvinist, and reflected the Calvinist emphasis on hard work and labour toil as not only good but a great good in itself, whereas consumer enjoyment is at best a necessary evil, a mere requisite to continuing labour and production.

On reading Kauder, I considered this view a challenging insight, but essentially an unproven speculation. However, as I continued studying economic thought and embarked on writing these volumes, I concluded that Kauder was being confirmed many times over. Even though Smith was a 'moderate' Calvinist, he was a staunch one nevertheless, and I came to the conclusion that the Calvinist emphasis could account, for example, for Smith's otherwise puzzling championing of usury laws, as well as his shift in emphasis from the capricious, luxury-loving consumer as the determinant of value, to the virtuous labourer embedding his hours of toil into the value of his material product.

But if Smith could be accounted for by Calvinism, what of the Spanish–Portuguese Jew-turned-Quaker, David Ricardo, surely no Calvinist? Here it seems to me that recent research into the dominant role of James Mill as mentor of Ricardo and major founder of the 'Ricardian system' comes strongly into play. For Mill was a Scotsman ordained as a Presbyterian minister and steeped in Calvinism; the fact that, later in life, Mill moved to London and became an agnostic had no effect on the Calvinist nature of Mill's basic attitudes toward life and the world. Mill's enormous evangelical energy, his crusading for social betterment, and his devotion to labour toil (as well as the cognate Calvinist virtue of thrift) reflected his lifelong Calvinist world-outlook. John Stuart Mill's resurrection of Ricardianism may be interpreted as his fileopietist devotion to the memory of his dominant father, and Alfred Marshall's trivialization of Austrian insights into his own neo-Ricardian schema also came from a highly moralistic and evangelical neo-Calvinist.

Conversely, it is no accident that the Austrian School, the major challenge to the Smith–Ricardo vision, arose in a country that was not only solidly Catholic, but whose values and attitudes were still heavily influenced by Aristotelian and Thomist thought. The German precursors of the Austrian School flourished, not in Protestant and anti-Catholic Prussia, but in those German states that were either Catholic or were politically allied to Austria rather than Prussia.

The result of these researches was my growing conviction that leaving out religious outlook, as well as social and political philosophy, would disastrously skew any picture of the history of economic thought. This is fairly obvious for the centuries before the nineteenth, but it is true for that century as well, even as the technical apparatus takes on more of a life of its own.

In consequence of these insights, these volumes are very different from the norm, and not just in presenting an Austrian rather than a neoclassical or institutionalist perspective. The entire work is much longer than most since it insists on bringing in all the 'lesser' figures and their interactions as well as emphasizing the importance of their religious and social philosophies as well as their narrower strictly 'economic' views. But I would hope that the length and inclusion of other elements does not make this work less readable. On the contrary, history necessarily means narrative, discussion of real persons as well as their abstract theories, and includes triumphs, tragedies, and conflicts, conflicts which are often moral as well as purely theoretical. Hence, I hope that, for the reader, the unwonted length will be offset by the inclusion of far more human drama than is usually offered in histories of economic thought.

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Notes

1. Joseph Schumpeter's valuable and monumental *History of Economic Analysis* (New York: Oxford University Press, 1954), has sometimes been referred to as 'Austrian'. But while Schumpeter was raised in Austria and studied under the great Austrian Böhm-Bawerk, he himself was a dedicated Walrasian, and his *History* was, in addition, eclectic and idiosyncratic.
2. For an explanation of the three leading Austrian paradigms at the present time, see Murray N. Rothbard, *The Present State of Austrian Economics* (Auburn, Ala.: Ludwig von Mises Institute, 1992).
3. When the present author was preparing for his doctoral orals at Columbia University, he

had the venerable John Maurice Clark as examiner in the history of economic thought. When he asked Clark whether he should read Jevons, Clark replied, in some surprise: 'What's the point? The good in Jevons is all in Marshall'.

4. Joseph Dorfman, *The Economic Mind in American Civilization* (5 vols, New York: Viking Press, 1946–59); Quentin Skinner, *The Foundations of Modern Political Thought* (2 vols, Cambridge: Cambridge University Press, 1978).
5. Thomas S. Kuhn, *The Structure of Scientific Revolutions* (1962, 2nd ed., Chicago: University of Chicago Press, 1970).
6. The attention devoted in recent years to a brilliant critique of neoclassical formalism as totally dependent on obsolete mid-nineteenth century mechanics is a welcome sign of this recent change of attitude. See Philip Mirowski, *More Heat than Light* (Cambridge: Cambridge University Press, 1989).
7. At the present time, when English has become the European *lingua franca*, and most European journals publish articles in English, this barrier has been minimized.

Acknowledgements

These volumes were directly inspired by Mark Skousen, of Rollins College, Florida, who urged me to write a history of economic thought from an Austrian perspective. In addition to providing the spark, Skousen persuaded the Institute for Political Economy to support my research during its first academic year. Mark first envisioned the work as a standard Smith-to-the-present moderately sized book, a sort of contra-Heilbroner. After pondering the problem, however, I told him that I would have to begin with Aristotle, since Smith was a sharp decline from many of his predecessors. Neither of us realized then the scope or length of the ensuing research.

It is impossible to list all the persons from whom I have learned in a lifetime of instruction and discussion in the history of economics and all its cognate disciplines. Here I shall have to slight most of them and single out a few. The dedication acknowledges my immense debt to Ludwig von Mises for providing a mighty edifice of economic theory, as well as for his teaching, his friendship, and for the inspiring example of his life. And to Joseph Dorfman for his path-breaking work in the history of economic thought, his stress on the importance of the stuff of history as well as of the theories themselves, and his painstaking instruction in historical method.

I owe a great debt to Llewellyn H. Rockwell Jr for creating and organizing the Ludwig von Mises Institute, establishing it at Auburn University, and building it, in merely a decade, into a flourishing and productive centre for advancing and instructing people in Austrian economics. Not the least service to me of the Mises Institute was attracting a network of scholars from whom I could learn. Here again I must single out Joseph T. Salerno, of Pace University, who has done remarkably creative work in the history of economic thought; and that extraordinary polymath and scholar's scholar, David Gordon of the Mises Institute, whose substantial output in philosophy, economics and intellectual history embodies only a small fraction of his erudition in these and many other fields. Also thanks to Gary North, head of the Institute for Christian Economics in Tyler, Texas, for leads into the extensive bibliography on Marx and on socialism generally, and for instructing me in the mysteries of varieties of millennialism, a-, pre- and post. None of these people, of course, should be implicated in any of the errors herein.

Most of my research was conducted with the aid of the superb resources of Columbia and Stanford University libraries, as well as the library at the University of Nevada, Las Vegas, supplemented by my own book collection accumulated over the years. Since I am one of the few scholars remaining who stubbornly cleave to low-tech typewriters rather than adopt word processors/computers, I have been dependent on the services of a number of typists/word processors, among whom I would particularly mention Janet Banker and Donna Evans of the University of Nevada, Las Vegas.

1 J.B. Say: the French tradition in Smithian clothing

1.1 The Smithian conquest of France

One of the great puzzles in the history of economic thought, as we have indicated, in Volume 1, is why Adam Smith was able to sweep the field and enjoy the reputation of 'founder of economic science' when Cantillon and Turgot had been far superior, both as technical economic analysts and as champions of *laissez-faire*. The mystery is particularly acute for France, since in Britain the only schools competing with the Smithians were the mercantilists and the political arithmeticians. The mystery deepens when we realize that the great leader of French economics after Smith, Jean-Baptiste Say (1767–1832), was *really* in the Cantillon–Turgot tradition rather than that of Smith even though he greatly neglected the former and proclaimed that economics began with Adam Smith. He, Say, was supposedly only systematizing the wonderful but inchoate truths found in the *Wealth of Nations*. We shall see below the precise nature of Say's thought and his contributions, as well as his decidedly 'French' non-Smithian, and 'pre-Austrian' logical clarity and emphasis on the praxeologic axiomatic–deductive method, on utility as the sole source of economic value, on the entrepreneur, on the productivity of the factors of production, and on individualism.

Specifically, in his brief treatment of the history of thought in his great *Treatise on Political Economy*, Say makes no mention whatever of Cantillon. Despite the considerable influence of Turgot on his doctrine, he brusquely dismisses Turgot as sound on politics but of no account in economics, and asserts that political economy in effect began with Adam Smith's *Wealth of Nations*. This curious and wilful neglect of his own forbears is made obscure by the scandalous fact that there is not a single biography of Say in the English language, and precious little even in French.

Perhaps we can understand this development given the following. In France, economics had long been associated with the physiocrats, *les économistes*. The ouster from the controller-generaliship of the great Turgot in 1776 and the consequent demise of his liberal reforms served to discredit the entire physiocratic movement. For Turgot was unfortunately considered in the public eye as merely a fellow-traveller of physiocracy and its most influential follower in government. After this loss of political influence, the French *philosophes* and the leading intelligentsia felt free to heap mockery and ridicule upon the physiocrats. Some of the fanatical cult aspects of physiocracy left it vulnerable to scorn, and the *encyclopédistes*, though themselves generally pro-*laissez-faire*, led the attack.

The advent of the French Revolution accelerated the demise of physiocracy. In the first place, the Revolution was itself too intensely political to allow much sustained interest in economic theory. Second, the physiocrats' strategic devotion to absolute monarchy tended to discredit them in an era when the monarch had been toppled and destroyed. Moreover, the physiocrats, with their emphasis on the exclusive productivity of land, were associated with devotion to the landed, aristocratic interest. The French Revolution against aristocratic rule and against feudal landholding had no patience for physiocracy. The impatience was aggravated by the emergence of industrialism and the Industrial Revolution, which increasingly rendered obsolete the physiocratic devotion to the land. All these factors served to discredit physiocracy totally, and since Turgot was unfortunately identified as a physiocrat, his reputation was dragged down at the same time. This situation was aggravated by the fact that Turgot's former aide and close friend, editor and biographer was the last of the physiocrats, the statesman Pierre Samuel DuPont de Nemours (1739–1817), who added to the problem by deliberately distorting Turgot's views to make them appear as close to physiocracy as possible.

Originally, Smith's *Wealth of Nations* was poorly received in France. The then dominant physiocrats scorned it as a vague and poor imitation of Turgot. However, the great libertarian Condorcet, who had been a close friend and biographer of Turgot, wrote admiring notes appended to several French translations of the *Wealth of Nations*. And Condorcet's widow, Madame de Grouchy, continued the family interest in Smithian studies by preparing a French translation of the *Theory of Moral Sentiments*. Later, in the 1790s, the physiocratic remnants latched gratefully on to the Smithian coat-tails. Smith, after all, favoured *laissez-faire*, and he was almost outlandishly pro-agriculture, holding that agricultural labour was the chief source of wealth. As a result, most of the later physiocrats became early Smithians in France, led by the Marquis Germain Garnier (1754–1821), the first French translator of the *Wealth of Nations*, who presented Smithian doctrine to France in his *Abrège elementaire des principes de l'économie politique* (1796).

1.2 Say, de Tracy and Jefferson

The leadership of the French Smithians was quickly gained by Jean-Baptiste Say, when the first edition of his great *Traité d'Économie Politique* was published in 1803. Say was born in Lyons to a Huguenot family of textile merchants, and he spent most of his early life in Geneva, and then in London, where he became a commercial apprentice. Finally, he returned to Paris as an employee of a life insurance company, and the young Say quickly became a leader of the *laissez-faire* group of *philosophes* in France. In 1794, Say became the first editor of the major journal of this group, *La Décade Philosophique*. A champion not only of *laissez-faire* but also of the burgeoning *industrielisme* of the Industrial Revolution, Say was hostile to the absurdly pro-agricultural physiocracy.

The *Décade* group called themselves the 'ideologists', later sneeringly dubbed by Napoleon the 'ideologues'. Their concept of 'ideology' simply meant the discipline studying all forms of human action, a study meant to be a respecter of individuals and their interaction rather than a positivistic or scientistic manipulating of people as mere fodder for social engineering. The ideologues were inspired by the views and the analysis of the late Condillac. Their leader in physiological psychology was Dr Pierre Jean George Cabanis (1757–1808), who worked closely with other biologists and psychologists at the *École de Médecine*. Their leader in the social sciences was the wealthy aristocrat Antonie Louis Claude Destutt, Comte de Tracy (1754–1836).[1] Destutt de Tracy originated the concept of 'ideology', which he presented in the first volume (1801) of his five-volume *Éléments d'idéologie* (1801–15).

De Tracy first set forth his economic views in his *Commentary* on Montesquieu, in 1807, which remained in manuscript due to its boldly liberal views. In the *Commentary*, de Tracy attacks hereditary monarchy and one-man rule, and defends reason and the concept of universal natural rights. He begins by refuting Montesquieu's definition of freedom as 'willing what one ought' to the far more libertarian definition of liberty as the ability to will and do what one pleased. In the *Commentary*, de Tracy gives primacy to economics in political life, since the main purpose of society is to satisfy, in the course of exchange, man's material needs and enjoyments. Commerce, de Tracy hails as 'the source of all human good', and he also lauds the advance of the division of labour as a source of increasing production, with none of the complaints about 'alienation' raised by Adam Smith. He also stressed the fact that 'in every act of commerce, every exchange of merchandise, both parties benefit or possess something of greater value than what they sell'. Freedom of domestic trade is, therefore, just as important as free trade among nations.

But, de Tracy lamented, in this idyll of free exchange and commerce, and of increasing productivity, comes a blight: government. Taxes, he pointed out, 'are always attacks on private property, and are used for positively wasteful, unproductive expenditure'. At best, all government expenditures are a necessary evil, and most, 'such as public works, could be better performed by private individuals'. De Tracy bitterly opposed government creation of and tampering with currency. Debasements are, simply, 'robbery', and paper money is the creation of a commodity worth only the paper on which it is printed. De Tracy also attacked public debts, and called for a specie, preferably a silver, standard.

The fourth volume of de Tracy's *Elements*, the *Traité de la volonté (Treatise on the Will)*, was, despite its title, de Tracy's treatise on economics. He had now arrived at economics as part of his grand system. Completed by the end of 1811, the *Traité* was finally published at the overthrow of Napoleon in 1815, and it incorporated and built upon the insights of the *Commentary* on Montesquieu. Following his friend and colleague J.B. Say, de Tracy now heavily emphasized the entrepreneur as the crucial figure in the production of wealth. De Tracy has been sometimes called a labour theory of value theorist, but 'labour' was instead upheld as highly productive as compared to land. Furthermore, 'labour' for de Tracy was largely the work of the entrepreneur in saving and investing the fruits of previous labour. The entrepreneur, he pointed out, saves capital, employs other individuals, and produces a utility beyond the original value of his capital. Only the capitalist saves part of what he earns to reinvest it and produce new wealth. Dramatically, de Tracy concluded: 'Industrial entrepreneurs are really the heart of the body politic, and their capital is its blood.'

Furthermore, all classes have a joint interest in the operations of the free market. There is no such thing, de Tracy keenly pointed out, as 'unpropertied classes', for, as Emmet Kennedy paraphrases him, 'all men have at least their most precious of all properties, their faculties, and the poor have as much interest in preserving their property as do the rich'.[2] At the heart of de Tracy's central emphasis on property rights was thus the fundamental right of every man in his own person and faculties. Abolition of private property, he warned, would only result in an 'equality of misery' by abolishing personal effort. Moreover, while there are no fixed classes in the free market, and every man is both a consumer and a proprietor and can be a capitalist if he saves, there is no reason to expect equality of income, since men differ widely in abilities and talents.

De Tracy's analysis of government intervention was the same as in his *Commentary*. All government expenditures are unproductive, even when necessary, and all embody living off the income of the producers and are therefore parasitic in nature. The best encouragement government can give to industry is to 'let it alone', and the best government is the most parsimonious.

On money, de Tracy took a firm hard-money position. He lamented that the names of coins are no longer simple units of weight of gold or silver. Debasement of coins he saw clearly as theft, and paper money as theft on a grand scale. Paper money, indeed, is simply a gradual and hidden series of successive debasements of the money standard. The destructive effects of inflation were analysed, and privileged monopoly banks were attacked as 'radically vicious' institutions.

While following J.B. Say in his emphasis on the entrepreneur, de Tracy anticipated his friend in rejecting the use of mathematics or statistics in social science. As early as 1791, de Tracy was writing that much of reality and human action is simply not quantifiable, and warned against the 'charlatan' application of statistics to the social sciences. He attached the use of mathematics in his *Mémoire sur la faculté de penser* (*Memoir on the faculty of thought*) (1798), and in 1805 broke with his late friend Condorcet's stress on the importance of 'social mathematics'. Perhaps influenced by Say's *Traité* two years earlier, de Tracy stated that the proper method in the social sciences is not mathematical equations but the drawing forth, or deduction, of the implicit properties contained in basic 'original' or axiomatic truths – in short, the method of praxeology. To de Tracy, the fundamental true axiom is that 'man is a sensitive being', from which truths can be obtained through observation and deduction, not through mathematics. For de Tracy, this 'science of human understanding' is the basic foundation for all the human sciences.

Thomas Jefferson (1743–1826) had been a friend and admirer of the *philosophes* and ideologues since the 1780s when he served as minister to France. When the ideologues achieved some political power in the consular years of Napoleon, Jefferson was made a member of the 'brain trust' Institut National in 1801. The ideologues – Cabanis, DuPont, Volney, Say, and de Tracy – all sent Jefferson their manuscripts and received encouragement in return. After he finished the *Commentary* on Montesquieu, de Tracy sent the manuscript to Jefferson and asked him to have it translated into English. Jefferson enthusiastically translated some of it himself, and then had the translation finished and published by the Philadelphia newspaper publisher William Duane. In this way, the *Commentary* appeared in English (1811), eight years before it could be published in France. When Jefferson sent the published translation to de Tracy, the delighted philosopher was inspired to finish his *Traité de la volonté* and sent it quickly to Jefferson, urging him to translate that volume.

Jefferson was highly enthusiastic about the *Traité*. Even though he himself had done much to prepare the way for war with Great Britain in 1812, Jefferson was disillusioned by the public debt, high taxation, government spending, flood of paper money, and burgeoning of privileged bank monopolies that accompanied the war. He had concluded that his beloved democrat–republican party had actually adopted the economic policies of the despised Hamiltonian federalists, and de Tracy's bitter attack on these policies prodded Jefferson to try to get the *Traité* translated into English. Jefferson gave the new manuscript to Duane again, but the latter went bankrupt, and Jefferson then revised the faulty English translation Duane had commissioned. Finally, the translation was published as the *Treatise on Political Economy*, in 1818.[3]

Former President John Adams, whose ultra-hard money and 100 per cent specie banking views were close to Jefferson's, hailed the de Tracy *Treatise* as the best book on economics yet published. He particularly lauded de Tracy's chapter on money as advocating 'the sentiments that I have entertained all my lifetime'. Adams added that

> banks have done more injury to the religion, morality, tranquility, prosperity, and even wealth of the nation, than they ... ever will do good.

> Our whole banking system, I ever abhorred, I continue to abhor, and shall die abhorring ... every bank of discount, every bank by which interest is to be paid or profit of any kind made by the deponent, is downright corruption.

As early as 1790, Thomas Jefferson had hailed *The Wealth of Nations* as the best book in political economy, along with the work of Turgot. His friend Bishop James Madison (1749–1812), who was president of William & Mary College for 35 years, was the first professor of political economy in the United States. A libertarian who had emphasized early that 'we were born free', Bishop Madison had used the *Wealth of Nations* as his textbook. Now, in his preface to de Tracy's *Treatise*, Thomas Jefferson expressed the 'hearty prayer' that the book would become the basic American text in political economy. For a while William & Mary College adopted de Tracy's *Treatise* under Jefferson's prodding, but this status did not last long. Soon Say's *Treatise* surpassed de Tracy in the race for popularity in the United States.

The calamitous 'panic' of 1819 confirmed Jefferson in his stern hard-money views on banking. In November of that year, he elaborated a remedial proposal for the depression which he characteristically asked his friend William C. Rives to introduce to the Virginia legislature without disclosing his authorship. The goal of the plan was stated bluntly: 'The eternal suppression of bank paper'. The proposal was to reduce the circulating medium gradually to the pure specie level; the state government was to compel the complete withdrawal of bank notes in five years, one-fifth of the notes to be called and redeemed in specie each year. Furthermore, Virginia would make it a high offence for any bank to pass or accept the bank notes of any other states. Those banks who balked at the plan would have their charters forfeited or else be forced to redeem all their notes in specie immediately. In conclusion, Jefferson declared that no government, state or federal, should have the power of establishing a bank; instead, the circulation of money should consist solely of specie.

1.3 The influence of Say's *Traité*

J.B. Say was made a member of the governing tribunate during the Napoleonic consulate regime in 1799. Four years later, his *Traité* was published, soon establishing him as the outstanding interpreter of Smithian thought on the continent of Europe. The *Traité* went through six editions in Say's lifetime, the last in 1829, then double in size from the original edition. In addition, Say's *Cours complet d'économie politique* (1828–30) was reprinted several times, and the extract from the *Traité* printed as the *Catéchisme d'Économie politique* (1817), was reprinted for the fourth time shortly after Say's death. Every great European nation translated Say's *Traité* into its own language.

In 1802, Napoleon cracked down on the ideologues, a group he had once courted, but had always detested for its liberal economic and political views. He recognized the ideologues as the staunchest opponents, in theory and practice, of his intensifying dictatorship.[4] Napoleon forced the senate to purge itself and the tribunate of the ideologues, thus ousting J.B. Say from his tribunal post. The ideologues were philosophers, and the Bonapartists saw philosophy itself as a threat to dictatorial rule. As Joseph Fievée, editor of the Bonapartist *Journal de l'Empire*, put it, 'philosophy is a means of complaining about the government, of threatening it when it departs from the principles and the men of the Revolution'.[5]

Two years later, shortly after becoming emperor, Napoleon again went after Say, refusing to allow a second edition of the *Traité* to be published unless Say changed an offending chapter. When Say refused to do so, the new edition was suppressed. Ousted from the French government, Say became a successful cotton manufacturer for ten years. In fact, Say became one of the leading new-style manufacturers in France. As his biographer writes, Say was 'intimately involved in the emergence of large scale industry. He was, in effect, one of the most remarkable types of these manufacturers of the Consulate and of the Empire, of these first great entrepreneurs who sought to place the new technological processes in operation'.[6]

After Napoleon's fall in 1814, the second edition of the *Traité* was finally published, and in 1819 Say embarked on a new professorial career, first at the Conservatoire National and finally at the College de France. The admiring Jefferson, himself steeped in *laissez-faire* economic thought, assured Say that he would find a hospitable climate in the United States. Jefferson was joined in those wishes by President Madison. Indeed, Jefferson wanted to offer Say the professorship of political economy at his newly founded University of Virginia.

Say's *Traité* exerted great influence in Italy. At first, Smith's *Wealth of Nations* had little impact on Italian economics. Italy had already had a flourishing free trade tradition, notably in the systematic *Meditations on Political Economy* (1771) (*Meditazioni sull'economia politica*) of the Milanese Count Pietro Verri (1728–97). There was no mention of Smith in the 1780 work of the Neapolitan Gaetano Filangieri (1752–88), in the writings of Count Giovanni Battista Gherardo D'Arco (1785), or even as late as Francesco Mengotti's free trade work *Il Colbertismo* (1792) – and even though the *Wealth of Nations* had been translated into Italian in 1779.

The spread of the French revolutionary regime into Italy brought Adam Smith's influence along with the soldiers. Smith became the leading economic authority during the early Napoleonic years. After 1810, Say and de Tracy swept Italian economics into their camp. The views of Say were propounded in the lucid treatise, the *Elementi di economie politica* (1813) by

Luca De Samuele Cagnazzi of Altamura (1764–1852), and in the treatise by Carlo Bosellini of Modena, *Nuovo esame delle sorgenti della privata e della pubblica richezza* (1816). The courageous Abbate Paolo Balsamo (1764–1816) spread Smithian and later Say's views throughout Sicily, calling for free trade in agriculture, and for the freeing of Sicilian agriculture from the restrictions of feudalism (particularly in his *Memorie economiche ed agrarie*, Palermo, 1803, and his *Memorie inedite di pubblica economia*, Palermo, 1845).

Say's friend and colleague Destutt de Tracy also wielded enormous influence in Italy. His *Elements* was translated into a ten-volume edition (Milan, 1817–19) by the former priest Giuseppe Compagnoni (1754–1833). Furthermore, high up in the revolutionary government of Naples in the 1820s were the elderly statesman and philosopher Melchiorre Delfico, head of the provisional revolutionary junta and correspondent and admirer of de Tracy, and the follower of de Tracy, Pasquale Borelli, head of the Neapolitan revolutionary parliament.

Spain and the new Latin American countries were also influenced by de Tracy. One of the leaders of the liberal Spanish revolution of 1820 against absolute monarchy was Dom Manuel Maria Gutierrez, the translator of the *Traité* into Spanish (1817), and professor of political economy at Malaga. Furthermore, a member of the revolutionary Spanish Cortes of 1820 was Ramon de Salas, the translator of de Tracy's *Commentary*, who returned from exile in France to take part in the struggle. And still another member of the Cortes, J. Justo Garcia, had translated de Tracy's book on *Logic*., In Latin America, de Tracy's admirer and follower, Berardino Rivadavia, became president of the newly independent Republic of Argentina.[7] Tracy also became highly popular in Brazil as well as Argentina, and in Bolivia his 'ideology' became the official doctrine of the state schools in the 1820s and 1830s.

It is hardly surprising that the second wave of Smithian writers in Germany were strongly influenced by J.B. Say's *Traité*. Ludwig Heinrich von Jakob (1759–1827) was, like Kraus, a Kantian philosopher as well as economist. Studying at the University of Halle, he became professor of philosophy there. Von Jakob published a Smithian treatise on general economic principles, the *Grundsätze der Nationalökonomie* (Principles of Economics) (Halle, 1805). Later editions, up to the third, published in 1825, incorporated Sayite emendations. Furthermore, von Jakob was so impressed with Say's work that he translated the *Traité* into German (1807) and into Russian. Von Jakob, indeed, helped spread enlightened views in Russia in more ways than by publishing a translation of Say. He taught for a while at the University of Kharkov, and was a consultant to several official commissions at St Petersburg.

The most interesting and thoroughing Sayite in Germany was Gottlieb Hufeland (1760–1817). Hufeland was born in Danzig, where he became mayor, and studied at Göttingen and Jena, where he became professor of political economy. In his *Neue Grundlegung der Staatswirtschaftskunst* (Giessen, 1807–13), Hufeland adopted all the important innovations of J.B. Say – or rather his return to the French–continental, pre-Smithian tradition. Thus, Hufeland brought back the entrepreneur, and carefully separated his pure profits from confronting risk, from his interest return and from the rent or wage for his managerial abilities. Furthermore, Hufeland adopted a utility–scarcity theory of value, stressing the cause of value as the valuations of a stock of goods by individual consumers.

The influence of Say and de Tracy in Russia strikes an ironic note. In 1825, one of the leading liberal Decembrists, Pavel Ivanovich Pestel, who considered de Tracy's *Commentary* as his Bible, tried to assassinate the absolute ruler Csar Nicholas I. Nicholas, in turn, proceeded to have Pestel hanged, even though he himself was educated in the Smithian and Sayite *Cours d'Economie Politique* of Heinrich Freiherr von Storch.[8]

The English translation of the fourth edition of Say's *Traité* appeared in London in 1821, as *The Treatise on Political Economy*. The free trade Boston journal, the *North American Review*, reissued the *Treatise* in the United States the same year, with American annotations by the free trade champion Clement C. Biddle. Say's *Treatise* quickly became and remained the most popular textbook on economics in the United States down through the Civil War.[9] Indeed, it was still being reprinted as a college text in 1880. During that period, the *Treatise* had gone through 26 American printings, in contrast to only eight in France.

The untranslated writings of the ideologues had an unexpected influence in Great Britain. Thomas Brown, friend and successor to Dugald Stewart in the chair of moral philosophy at Edinburgh, was fluent in French, and was heavily influenced by the philosophy of de Tracy. Furthermore, James Mill was a philosophic disciple of Dr Brown, and was himself an admirer of Helvetius, Condillac and Cabanis. It is not surprising, therefore, that Mill should have been the first in Great Britain to appreciate the importance of Say's law of markets.

It is no wonder that the Say version of Smithianism became the most popular economics work on the European continent and in the United States. Not being able to call himself a physiocrat, Say called himself a Smith follower, but he was one largely in name only. As we shall see, his views were really post-Cantillon and pre-Austrian rather than Smithian classical.

One crucial difference between Say and Smith was in the limpid clarity and lucidity of Say's *Treatise*. Say quite justly called the *Wealth of Nations* a 'vast chaos', and 'a chaotic collection of just ideas thrown indiscriminately among a number of positive truths'. At another point, he calls Smith's work 'a promiscuous assemblage of the soundest principles ..., an ill-digested mass of enlightened views and accurate information'. And again, with great perceptiveness, Say charges that 'almost every portion of it [the *Wealth of Nations*] is destitute of method'.

Indeed, it was precisely Say's great clarity which, while winning him world wide popularity, lowered his stock among the British writers who unfortunately ruled the roost of economic thought. (The fact that he was not British himself doubtless added to this deprecation.) In contrast to the inchoate Smith, or to the tortured and virtually unreadable Ricardo, Say's clarity and felicity, the very ease of reading him, made him suspect. Schumpeter puts it very well:

> His argument flows along with such easy limpidity that the reader hardly ever stops to think and hardly ever experiences a suspicion that there might be deeper things below this smooth surface. This brought him [Say] sweeping success with the many; it cost him the good will of the few. He sometimes did see important and deep-seated truths; but when he had seen them, he pointed them out in sentences that read like trivialities.

Because he was a splendid writer, because he avoided the rough and tortured prose of a Ricardo, because, in Jefferson's phrase, his book was 'shorter, clearer, and sounder' than the *Wealth of Nations*, economists then and later tended to confuse smoothness of surface with superficiality, just as they so often confound vagueness and obscurity with profundity. Schumpeter adds:

> Thus he never got his due. The huge textbook success of the *Traité* – nowhere greater than in the United States – only confirmed contemporaneous and later critics in their diagnosis that he was just a popularizer of a Smith. In fact, the book got so popular precisely because it seemed to save hasty or ill-prepared readers the trouble of wading through the *Wealth of Nations*. This was substantially the opinion of the Ricardians, who ... put him down as a writer – see McCulloch's comments upon him in the *Literature of Political Economy* – who had been just able to rise to Smithian, but had failed to rise to Ricardian, wisdom. For Marx he is simply the "insipid" Say.[10]

1.4 The method of praxeology

A particularly outstanding feature of J.B. Say's treatise is that he was the first economist to think deeply about the proper methodology of his discipline, and to base his work, as far as he could, upon that methodology. From previous economists and from his own study, he arrived at the unique method of economic theory, what Ludwig von Mises was, over a century later, to call 'praxeology'. Economics, Say realized, was not based on a mass of inchoate particular statistical facts. It was based, instead, on very general facts (*fait généraux*), facts so general and universal and so deeply rooted in the nature of man and his world that everyone, upon learning or reading of them, would give his assent. These facts were based, then, on the nature of things (*la nature des choses*), and on the deductive implications of these facts so broadly rooted in human nature and in natural law. Since these broad facts were true, their logical implications must be true as well.

In his introduction to the *Treatise*, which sets forth the methodological nature and implications of his work, Say begins by being critical of the physiocrats and of Dugald Stewart for confounding the sciences of politics and of political economy. Say saw that if economics, or political economy, was to progress, it must stand on its own feet as a discipline without being intimately mixed from the start with political science – or the science which sets forth the correct principles of the political order. Political economy, wrote Say, is the science of wealth, its production, distribution and consumption.

Say goes on to mention the popularity of the Baconian method of induction from a mass of facts in the formation of a science, but then adds that there are two kinds of facts, 'objects that exist' and 'events that take place'. Clearly, objects that exist are primary, since events that take place are only movements or interactions of existing objects. Both classes of facts, noted Say, constitute the 'nature of things', and 'a careful observation of the nature of things is the sole foundation of all truth'.

Facts may also be grouped into two kinds: *general* or *constant*, and *particular* or *variable*. About the same time as Stewart, but far more comprehensively, Say then launched into a brilliant critique of the statistical method, and of the difference between it and political economy. Political economy deals with general facts or laws:

> Political economy, from facts always carefully observed, makes known to us the nature of wealth; from the knowledge of its nature deduces the means of its creation, unfolds the order of its distribution, and the phenomena attending its destruction. It is, in other words, an exposition of the *general facts* observed in relation to this subject. With respect to wealth, it is a knowledge of effects and of their causes. It shows what facts are constantly conjoined with; so that one is always the sequence of the other.

Say then added an important point, that economics 'does not resort for any further explanation to hypothesis'. In short, unlike the physical sciences, the assumptions of economics are not tentative hypotheses which, or the deductions from which, must be tested by fact; on the contrary, each step of the logical chain rests on definitely true, not 'hypothetical', general facts. (It might be added that it is precisely this crucial difference between the method of economics and of physical sciences that has brought so much contumely on the head of praxeology during the twentieth century.) Instead of framing hypotheses, economic science must perceive connections and regularities 'from the nature of particular events', and 'must conduct us from one line to another, so that every intelligent understanding may clearly comprehend in what manner the chain is united'. 'It is this', Say concludes, 'which constitutes the excellence of the modern method of philosophizing'.

In contrast, statistics exhibit particular facts, 'of a particular country, at a designated period'. They are 'a description in detail'. Statistics, Say added, 'may gratify curiosity', but they can 'never be productive of advantage' if they do not indicate the 'origin and consequences' of the collected facts and this can only be accomplished by the separate discipline of political economy. It is precisely the confounding of these two disciplines that made Smith's *Wealth of Nations*, in Say's perceptive words, an 'immethodical' and 'irregular mass of curious and original speculations, and of known demonstrated truths'.

A crucial difference between statistics and political economy, Say goes on, is that the latter's general principles or 'general facts' may be discovered, and therefore may be known with certainty. The principles of political economy, wherever they rest on 'the rigorous deductions of undeniable general facts', 'rest upon an immovable foundation'. They are what von Mises would later call 'apodictic'. Political economy, indeed, 'is composed of a few fundamental principles, and of a great number of corollaries or conclusions, drawn from these principles'. The particular facts of statistics, on the other hand, are necessarily uncertain, incomplete, inaccurate and imperfect. And even when true, Say correctly notes, they 'are only true for an instant'. Again, on statistics, 'how small a number of particular facts are completely examined, and how few among them are observed under all their aspects? And in supposing them well examined, well observed, and well described, how many of them either prove nothing, or directly the reverse of what is intended to be established by them[?]' And yet the gullible public is often dazzled by 'a display of figures and calculations ... as if numerical calculations alone could prove anything, and as if any rule could be laid down, from which an inference could be drawn without the aid of sound reasoning'.

Say goes on to a blistering critique of the use of statistics without theory:

> Hence, there is not an absurd theory, or an extravagant opinion that has not been supported by an appeal to facts; and it is by facts also that public authorities have been so often misled. But a knowledge of facts, without a knowledge of their mutual relations, without being able to show why the one is a cause and the other a consequence, is really no better than the crude information of an office-clerk ...

Say then denounces the idea that a good theory is not 'practical', and that the 'practical' is somehow superior to the theoretical:

> Nothing can be more idle than the opposition of *theory* to *practice*! What is theory, if it be not a knowledge of the laws which connect effects with their causes, facts with facts? And who can be better acquainted with facts than the theorist who surveys them under all their aspects, and comprehends their relation to each other? And what is practice without theory, but the employment of means without knowing how or why they act?

Say then brilliantly points out why it is impossible for peoples or nations to 'learn from experience' and to adopt or discard theories correctly on that basis. Since the early modern era, he notes, wealth and prosperity have increased in western Europe, while at the same time nation-states have compounded restrictions of trade and multiplied the interference of taxation. Most people then superficially conclude that the latter *caused* the former, that trade and production increased as a result of the interference of government. On the other hand, Say and the political economists argue the reverse, that 'the prosperity of the same countries would have been much greater, had they been governed by a more liberal and enlightened policy'. How can facts or experience decide between these two clashing interpretations? The answer is that they cannot; that only correct theory, theory deducible from a few universal general facts or principles, can do so. And that is why, notes Say, 'nations seldom derive any benefit from the lessons of experience'. To do so, 'the community at large must be enabled to seize the connexion between causes and their consequences; which at once supposes a very high degree of intelligence and a rare capacity for reflection'. Thus, to arrive at the truth, only the complete knowledge of a few essential general facts is important; 'every other knowledge of facts, like the erudition of an almanac, is a mere compilation, from which nothing results'.

Furthermore, in arguments about public policies, when 'facts' are allegedly set against the 'system' of economic theory, it is actually one theoretical 'system' poised against another, and, again, only theoretical refutation can prevail. Thus, said Say, if you talk about how free trade between nations is advantageous to all the participants, this is accused of being a 'system', to which is opposed worry about deficits in the balance of trade – itself a system, but a fallacious one. Those who assert (as had the physiocrats) that luxury fuels trade whereas thrift is ruinous, are setting forth a 'system', and then, in an exact prefiguring of the Keynesian multiplier, 'some will assert that circulation enriches a state, and that a sum of money, by passing through twenty different hands, is equivalent to twenty times its own value' – also a system.

In a surprising and perceptive prefigurement of modern controversies, Say goes on to explain why the logical deductions of economic theory should be verbal rather than mathematical. The intangible values of individuals, with which political economy is concerned, are subject to continuing and unpredictable change: 'subject to the influence of the faculties, the wants and the desires of mankind, they are not susceptible of any rigorous appreciation, and cannot, therefore, furnish any *data* for absolute calculations'. The phenomena of the moral world, noted Say, are not 'subject to strict arithmetical computation'.

Thus we may know absolutely that, in any given year, the price of wine will depend on the interaction of its supply, or stock to be sold, with the demand. But to calculate the two mathematically, these two elements would have to be decomposed precisely into the separate influence of each of their elements, and this would be so complex as to be impossible. Thus:

> it is not only necessary to determine what will be the product of the succeeding vintage, while yet exposed to the vicissitudes of the weather, but the quality it will possess, the quantity remaining on hand of the preceding vintage, the amount of capital that will be at the disposal of the dealers, and require them, more or less expeditiously, to get back their advances. We must also ascertain the opinion that may be entertained as to the possibility of exporting the article, which will altogether depend upon our impressions as to the stability of the laws and government, that vary from day to day, and respecting which no two individuals exactly agree. All these data, and probably many others besides, must be accurately appreciated, solely to determine the *quantity* to be put in *circulation*; itself but one of the elements of *price*. To determine the *quantity* to be *demanded*, the price at which the commodity can be sold must already be known, as the demand for it will increase in proportion to its cheapness; we must also know the former stock on hand, and the tastes and means of the consumers, as various as their persons. Their ability to purchase will vary according to the more or less prosperous condition of industry in general, and of their own in particular; their wants will vary also in the ratio of the additional means at their command of substituting one liquor for another, such as beer, cider, etc. I suppress an infinite number of less important considerations, more or less affecting the solution of the problem ...

In short, the enormous number of imprecise, changing and quantitatively unknown determinants make the application of the mathematical method in economics impossible. And therefore those who

> have pretended to do it, have not been able to enunciate these questions into analytical language, without divesting them of their natural complication, by means of simplifications, and arbitrary suppressions, of which the consequences, not properly estimated, always essentially change the condition of the problem and pervert all its results; so that no other inference can be deduced from such calculations than from formula arbitrarily assumed.

Mathematics, seemingly so precise, inevitably ends in reducing economics from the complete knowledge of general principles to arbitrary formulas which alter and distort the principles and hence corrupt the conclusions.

But how then is the political economist, knowing the general principles with certainty, to apply these principles to specific problems such as the condition of the wine market? Here, too, Say anticipated the brilliant conclusions of Ludwig von Mises on the proper relationship between theory and history, theory and specific application. Such applied theory in economics, Say indicated, is an art rather than a strict science:

> What course is then to be pursued by a judicious inquirer in the elucidation of a subject so much involved? The same which would be pursued by him, under circumstances equally difficult, which decide the greater part of the actions of his life. He will examine the immediate elements of the proposed problem, and after having ascertained them with certainty (which in political economy can be effected), will approximately value their mutual influences with the intuitive quickness of an enlightened understanding, itself only an instrument by means of which the mean result of a crowd of probabilities can be estimated, but never calculated with exactness.[11]

J.B. Say then relates the fallacies of the mathematical method in economics to the teachings of his great mentor, the physiologist Cabanis. He quotes Cabanis on how writers on mechanics grievously distort matters when they deal with the problems of biology and medicine. Citing Cabanis:

> The terms they employed were correct, the process of reasoning strictly logical, and, nevertheless, all the results were erroneous ... it is by the application of this method of investigation to subjects to which it is altogether inapplicable, that systems the most whimsical, fallacious, and contradictory, have been maintained.

Say then adds that whatever has thus been pointed out about the fallacies of the mechanistic method in biology is *a fortiori* applicable to the moral sciences, which is why we are 'always being misled in political economy, whenever we have subjected its phenomena to mathematical calculation. In such case it becomes the most dangerous of all abstractions'.

Finally, Say perceptively points to another problem that, then as now, leads learned people to dismiss the principles and conclusions of economics. For they

> are too apt to suppose that absolute truth is confined to the mathematical and to the results of careful observation and experiment in the physical sciences; imagining that the moral and political sciences contain no invariable facts or indisputable truths, and therefore cannot be considered as genuine sciences, but merely hypothetical systems, more or less ingenious, but purely arbitrary.

To bolster this view, the critics of economics point to a great many differences of opinion in that discipline. But so what? Say asks. After all, the physical sciences have always been rent by controversy, sometimes clashing 'with as much violence and asperity as in political economy'.

The mathematical method was not the only system of abstraction to suffer a trenchant demolition by J.B. Say. For Say was also sharply critical of verbal methods of logic that took off into the empyrean without continuing groundwork in, and repeated checking by, reference to general and universal facts. This was Say's main methodological stricture against the physiocrats. 'Instead of first observing the nature of things, or the manner in which they take place, of classifying these observations, and deducing from them general propositions' – that is, instead of being praxeologists, the physiocrats

> commenced by laying down certain abstract general propositions, which they styled axioms, from supposing them to contain inherent evidence of their own truth. They then endeavoured to accommodate the particular facts to them and to infer from them their laws; thus involving themselves in the defence of maxims evidently at variance with common sense and universal experience...

In short, a system of economic theory must not only be axiomatic–deductive; it must always make sure to ground those axioms in 'common sense and universal experience'.

In his Introduction to the fourth edition, Say levelled similar strictures against David Ricardo and the Ricardian system. Ricardo, too, 'sometimes reasons upon abstract principles to which he gives too great a generalization'. Ricardo, he charged, begins with observations founded on facts, but then 'pushes his reasonings to their remotest consequences, without comparing their results with those of actual experience'. After a certain point in the reasoning, 'the facts differ very far from our calculation' and 'from that instant nothing in the author's work is represented as it really occurs in nature'. 'It is not sufficient', Say concludes, 'to set out from facts; they must be brought together, steadily pursued, the consequences drawn from them constantly compared with the effects observed', so that

> the science of political economy ... must show, in what manner that which in reality does take place, is the consequence of other facts equally certain. It must discover the chain which binds them together, and always, from observation, establish the existence of the two links at their point of connexion.

1.5 Utility, productivity and distribution

In contrast to the Smith–Ricardo mainstream of Smithians who set forth the labour theory (or at very best, the cost-of-production theory) of value, J.B. Say firmly re-established the scholastic–continental–French utility analysis. It is utility and utility alone that gives rise to exchange value, and Say settled the value paradox to his own satisfaction by disposing of 'use-value' altogether as not being relevant to the world of exchange. Not only that: Say adopted a subjective value theory, since he believed that value rests on acts of valuation by the consumers. In addition to being subjective, these degrees of valuation are relative, since the value of one good or service is always being compared against another. These values, or utilities, depend on all manner of wants, desires and knowledge on the part of individuals: 'upon the moral and physical nature of man, the climate he lives in, and on the manner and legislation of his country. He has wants of the body, wants of the mind, and of the soul; wants for himself, others for his family, others still as a member of society'. Political economy, Say sagely pointed out, must take these values and preferences of people as givens, 'as one of the *data* of its reasonings; leaving to the moralist and the practical man, the several duties of enlightening and of guiding their fellow-creatures, as well in this, as in other particulars of human conduct'.

At some points, Say went up to the edge of discovering the marginal utility concept, without ever quite doing so. Thus he saw that relative valuations of goods depends on 'degrees of estimation in the mind of the valuer'. But since he did not discover the marginal concept, he could not fully solve the value paradox. In fact, he did far less well at solving it than his continental predecessors. And so Say simply dismissed use-value and the value paradox altogether, and decided to concentrate on exchange-value. As a result, however, he could no more than Smith and his British successors, devote much energy to analysing consumption or consumer behaviour.

But whereas Say simply discarded use-value, Ricardo made the value paradox and the unfortunate split between use- and exchange-value the key to his value theory. For Ricardo, iron was worth less than gold because the labour cost of digging and producing gold was greater than the labour cost of producing iron. Ricardo admitted that utility 'is certainly the foundation of value', but this was apparently of only remote interest, since the 'degree of utility' can never be the measure by which to estimate its value. All too true, but Ricardo failed to see the absurdity of looking for such a measure in the first place. His second absurdity, as we shall see further below, was in thinking that labour cost provided such a 'true' and invariable measure of value. As Say wrote in his annotations on the French translation of Ricardo's *Principles*, 'an invariable measure of value is a pure chimera'.

Smith, and still more Ricardo, were pushed into their labour cost theory by concentrating on the long-run 'natural' price of products. Say's analysis was aided greatly by his realistic concentration on the explanation of real market price.

Costs, of course, are intimately related to the pricing of factors of production. One question that cost-value theorists have difficulty answering is if, indeed, costs are determining, where do *they* come from? Are they mandated by divine revelation?

One of the anomalies of Say's discussion is that, even though a subjective value and utility theorist, he uncomprehendingly rejected the insight of

Genovesi and of his own ideologue forbear Condillac, that people exchange one thing for another because they value the thing they acquire more than what they give up – so that exchange always benefits both parties. And in denying this mutual gain, Say is inconsistent with much of his own position on utility.

In spurning Condillac, Say is being not only ungenerous but almost wilfully obtuse. First he notes that Condillac 'maintains that commodities, which are worth less to the seller than to the buyer, increase in value from the mere act of transfer from one hand to another'. But Condillac insists, for example, that 'equal value is really given for equal value', so that when Spanish wine is bought in Paris, 'the money paid by the buyer and the wine he receives are worth one another' – to which we might ask, to *whom*? He then admits that the selfsame wine is worth more in Paris than it had been when grown in Spain, but he insists that the increase in the value of the wine took place not 'at the moment of handing over the wine to the consumer, but comes from the transport'.

But St Clair trenchantly takes Say to task: 'In reality, the transfer to the consumer is the essence of the transaction; the long transport is subsidiary to this purpose; the change of locality is merely a means to this end, and would not have been necessary if consumers willing to buy the same quantity and pay the same price could have been found on the spot'.

Say continues obstinately to assault Condillac's insight: 'The seller is not a professional cheat, nor the buyer a dupe, and Condillac is not justified in saying that if the values exchanged were always equal neither party would gain anything by exchange'. But in reality, of course, Condillac was perfectly right; why *should* anyone bother exchanging *X* for *Y* of equal value?

St Clair reacts brilliantly in exasperation:

> Lord, how these economists do misunderstand one another! Condillac does not suggest that the wine merchant is a rogue and the customer a fool; he does not suggest that the merchant robs either the consumer or the producer; his doctrine is that products increase in utility and value by being transferred from the producer to the consumer, and that both parties benefit by the intervention of the merchant who brings about the exchange. To the producer the merchant is a consumer-finder; to the consumer he is a commodity-finder; with the merchant as medium of exchange, the producer gets a better price for his produce and the buyer better value for his money.[12]

One of Say's great contributions was to apply utility theory to the theory of distribution, in brief by discovering the productivity theory of the pricing, and hence the income, accruing to factors of production. In the first place, Say pointed out that, in contrast to Smith, *all* labour, not just labour embodied in material objects, is 'productive'. Indeed, Say brilliantly pointed out that *all* the services of factors of production, whether they be land, labour, or capital, are *immaterial*, even though they might result in a material product. Factors, in short, provide immaterial services in the process of production. That process, as Say pointed out clearly for the first time, was not the 'creation' of material products. Man cannot create matter; he can only *transform* it into different shapes and moulds, in order to satisfy his wants more fully. Production is this very transformation process. In the sense of such transformation, all labour is productive 'because it concurs in the creation of a product', or, metaphorically, in the creation of 'utilities'. If, as can happen, labour has been expended to no ultimate benefit, then the result is error: 'folly or waste in the person bestowing' the labour. One example of unproductive labour is crime, not only a non- but an anti-market activity: there 'trouble [effort] is directed to the stripping another person of the goods in his possession by means of fraud or violence...[it] degenerates to absolute criminality and there results no production, but only a forcible transfer of wealth from one individual to another'.

J.B. Say also put clearly for the first time the insight that wants are unlimited. Wrote Say: 'there is no object of pleasure or utility, whereof the mere desire may not be unlimited, since every body is always ready to receive whatever can contribute to his benefit or gratification'. Say denounced the proto-Galbraithian position of the British mercantilist Sir James Steuart, in extolling an ascetic reduction of wants as a solution to desires outpacing production. Say heaps proper scorn on this doctrine: 'Upon this principle, it would be the very acme of perfection to produce nothing and to have no wants, that is to say, to annihilate human existence.'

Unfortunately, Say proceeds to fall prey to this very Galbraithian trap by attacking luxury and ostentation, and by maintaining that 'real wants' are more important to the community than 'artificial wants'. Say hastens to add, however, that government intervention is not the proper road to achieving proper affluence.

On the valuing or pricing of the services of the factors (or as Say would put it, 'agents') of production, Say adopted the proto-Austrian in direct contrast to the Smith–Ricardo tradition. For since subjective human desire for any object creates its value, and reflects its utility, productive factors receive value because of their 'ability to create the utility wherein originates that desire'. Ricardo, writes Say, believes 'that the value of products is founded upon that of productive agency', i.e. that the value of products is determined by the value of their productive factors, or their cost of production. In contrast, Say declares, 'the current value of productive exertion is founded upon the value of an infinity of products compared one with another ... which value is proportionate to the importance of its cooperation in the business of production ...'. In contrast to consumer goods, Say points out, the demand for productive factors does not originate in immediate enjoyment, but rather in the 'value of the product they are capable of raising, which itself originates in the utility of that product, or the satisfaction it may be capable of affording'. In short, the value of factors is determined by the value of their products, which in turn is conferred by consumer valuations and demands. The causal chain, for Say as for the later Austrians, is *from* consumer valuations *to* consumer goods prices *to* the pricing of productive factors (i.e. to costs of production). In contrast, the Smithian, and especially the Ricardian, causal chain is *from* cost of production, and especially labour cost, *to* consumer goods prices. By speaking of the 'proportionate' value of each factor, Say once again comes to the edge of a marginal productivity theory of imputation of consumer to factor valuations, and to the edge of a variable proportions analysis. But he does not reach it.

Say did not rest content with a general, even if pioneering, analysis of the pricing of productive factors. He goes on to virtually create the famous 'triad' of classical economics: land (or 'natural agents'), labour (or 'industry' for Say), and capital. Labour works on, or employs 'natural agents' to create capital, which is then used to multiply productivity in collaboration with land and labour. Although capital is the previous creation of labour, once in existence it is used by labour to increase production. If there are classes of factors of production, what easier trap to fall into than to maintain that each class receives the kind of income attributed to it in common parlance: i.e. labour receives wages; land receives rent; and capital receives interest? Surely a common-sense approach! And so Say adopted it. While useful as a first attempt (excepting the forgotten Turgot) to clarify production theory out of Adam Smith's muddle, this superficial clarity comes at the expense of deep fallacy, that would not be uncovered until the Austrians. In the first place, these three rigidly separated categories already begin to break down in Say's interesting insight that labourers 'lend' their services to owners of capital and land and earn wages thereby; that landowners 'lend' their land to capital and labour and earn rent; and that capitalists 'lend' their capital to earn interest. For how exactly do these payments differ? How does rent as a 'loan' price compare with interest as a loan? And how do wages differ from interest or rent? In fact, the muddle is even worse, for workers and landowners don't 'lend' their services; they are not creditors. On the contrary, in a deep sense, capitalists lend *them* money by giving them money in advance of selling the product to the consumers; and so workers and landowners are 'debtors' to the capitalists, and pay *them* a natural rate of interest. And finally, this classical triad rests on a basic equivocation, as Böhm-Bawerk would eventually point out, between 'capital' and 'capital goods'. Capital as a fund of savings or lending may earn interest; but capital *goods* – which are the real physical factors of production rather than money funds – do *not* earn interest. Like all other factors, capital goods earn a price, a price per unit of time for their services. If you will, capital goods, land, and labourers *all* earn such prices, in the sense of 'rents', defining a rental price as a price of any good per unit of time. This price is determined by the productivity of each factor. But then where does interest on capital funds come from?

Thus, in grappling with the problem of interest, Say criticizes Smith and the Smithians for focusing on labour as the sole factor of production, and neglecting the cooperating role of capital. Tackling the Smith–Ricardian (and what would later be the Marxian) riposte: that capital is simply accumulated labour, Say replies yes, but the services of capital, once built, are there and continue anew and must be paid for. While satisfactory enough on one level, the answer does not solve the problem of where the net return on capital funds comes from, a return which Turgot and then the Austrians explained as the price of time-preference, of the fact, in short, that capital is not only accumulated labour but also 'accumulated time'.

Despite the lack of resolution of the problem of interest, Say set forth an excellent analysis of capital, in the sense of capital goods, and its crucial role in production and in increasing economic wealth. Man, he pointed out, transforms natural agents into capital, to work further with nature to arrive at consumer goods. The more he has built capital goods – the more tools and machinery – the more can man harness nature to make labour increasingly productive. More machinery means an increase in productivity of labour and a fall in the cost of production. Such increase in capital is particularly beneficial to the mass of consumers, for competition lowers the price of product as well as the cost of production. Furthermore, increased machinery permits a superior quality of product, and allows the creation of new products which would not have been available under handicraft production. The enormous increase in production and rise in the standard of living releases human energies from the scramble for subsistence to permit cultivation of the arts, even of frivolity, and most importantly for 'the cultivation of the intellectual faculties'.

Say follows Smith in his discussion of the division of labour, and in pointing out that the degree of that division is limited by the extent of the market. But Say's discussion is far sounder. He shows, first, that expanding the division of labour needs a great deal of capital, so that investment of capital becomes the crucial point rather than its division *per se*. He also points out that, in contrast to Smith, the crucial specialization of labour is not simply *within* a factory (as in Smith's famous pin factory) but ranges over the entire economy, and forms the basis for all exchange between producers.

Say also saw that the essence of investing capital is *advancing* money payments to factors of production, an advance that is repaid later by the consumer. Thus 'the capital employed on a productive operation is always a mere advance made for payment of a productive service, and reimbursed by the value of their resulting product'. Here he captured the essence of the Austrian insight into capital as a process over time and one that involves payment in advance for production. Say also anticipated the Austrian concept of 'stages of production'. He pointed out that, instead of waiting a long time for reimbursement by the consumer, the capitalist at each stage of production purchases the product of the previous stage and thereby reimburses the previous set of capitalists. As Say lucidly puts it:

> The miner extracts the ore from the bowels of the earth; the iron-founder pays him for it. Here ends the miner's production, which is paid for by an advance out of the capital of the iron-founder. This latter next smelts the ore, refines and makes it into steel, which he sells to the cutler; thus is the production of the founder paid, and his advance reimbursed by a second advance on the part of the cutler, made in the price of the steel. This again the cutler works up into razor-blades, the price for which replaces his advance of capital, and at the same time pays for his productive agency.

Generalizing:

> Each successive producer makes the advance to his precursor of the then value of the product, including the labour already expended upon it. His successor in the order of production, reimburses him in turn, with the addition of such value as the product may have received in passing through his hands. Finally, the last producer, who is generally the retail dealer, is compensated by the consumer for the aggregate of all these advances, *plus* the concluding operation performed by himself upon the product.

In the end, the money paid by the consumers for the final product, say razor blades, repays capitalists for their previous advances for the various services of the factors of production.

Turning to wages and the labour market, Say pointed out that wages will be highest relative to the price of capital and land, where labour is scarcest relative to the other two factors. This will be either whenever land is virtually unlimited in supply; and/or when an abundance of capital creates a great demand for labour. Furthermore, wage rates will be proportionate to the danger, trouble, or obnoxiousness of the work, to the irregularity of the employment, to the length of training, and to the degree of skill or talent. As Say puts it: 'Every one of these causes tends to diminish the quantity of labour in circulation in each department, and consequently to vary its' wage rate. In recognizing the differences of natural talent, Say advanced far beyond the egalitarianism of Adam Smith and of neoclassical economics since Smith's day.

In the long run, capital will earn the same return in all firms and industries; but this is only true in the long run, since for one thing there are inevitable immobilities of land, labour and capital. To Say, the 'profits' or interest, on capital stems from its productive services – again, a fundamental confusion between capital as a fund, which earns interest, and capital goods, which are productive factors and earn prices and incomes for their productivity. But despite this basic error, Say had many shrewd things to say about interest. He was possibly the first economist, for example, to show that risk premiums are added to the basic interest rate, so that riskier debtors will pay higher interest. Risk, he pointed out, depends on expected safety of the investment, the personal credit and character of the borrower, the past record of the borrower, and the ability or willingness of the government of the debtor's country to enforce the payment of debt. Furthermore, Say introduced an innovation theory of profit by stating that since new methods of employing capital are more uncertain they are especially risky, and hence they will tend to be more profitable. Thus, innovation profits are subsumed under risk.

Say was also insistent that interest on the loan market is determined by the demand for capital (to which it is directly proportional) and the supply of capital (inversely proportional). A champion of freedom of the loan market – 'usury' is no worse morally than rent or wages – he also demonstrated that it was a fallacy that the quantity of money either lowers or raises the rate of interest. Say perceptively pointed out that it is 'an abuse of words to talk of the interest of money'; it is really interest on savings, not money, and loans can and do occur in kind as well as in money. Wrote Say: the 'abundance or scarcity of money or of its substitutes ... no more affects the rate of interest, than the abundance or scarcity of cinnamon, or wheat, or of silk'.

1.6 The entrepreneur

If Adam Smith purged economic thought of the very existence of the entrepreneur, J.B. Say, to his everlasting credit, brought him back. Not quite as far back to be sure as in the days of Cantillon and Turgot, but enough to continue fitfully and 'underground' in continental economic thought even though absent from the dominant mainstream of British classicism.

Emphasis on the real world rather than on long-run equilibrium almost forced a return to the study of the entrepreneur. For Say, the entrepreneur, the linchpin of the economy, takes on himself the responsibility, the conduct, and the risk of running his firm. He almost always owns some of the firm's capital, Say being familiar with the fact that the dominant entrepreneur and risk-taker in the economy is the one who is also a capitalist, an owner of capital. The owner of capital or land or personal service hires these services out to the 'renter' or entrepreneur. In return for fixed payments to these factors, the entrepreneur takes upon himself the speculative risk of gaining profit or suffering loss. 'It is a sort of speculative bargain, wherein the renter takes the risk of profit and loss, according to the revenue he may realize, or the product obtained by the agency transferred, shall exceed or fall short of the rent or hire he is to pay'.

The entrepreneur, Say adds, acts as a broker between sellers and buyers, applying productive factors proportionate to the demand for the products. The demand for the products, in turn, is proportionate to their utilities and to the quantity of other products exchanging for them. The entrepreneur constantly compares the selling prices of products with their costs of production; if he decides to produce more, his demand for productive factors will rise.

Part of the profits accruing to the capitalist–entrepreneur will be the standard return on capital. But apart from that, Say declared, there will be a return to the 'peculiar character' of the entrepreneur. The entrepreneur is a manager of the business, but his role is also broader in Say's view: the entrepreneur must have judgement, perseverance, and 'a knowledge of the world as well as of business', as he applies knowledge to the process of creating consumer goods. He must employ labourers, purchase raw material, attempt to keep costs low, and find consumers for his product. Above all, he must *estimate* the importance of the product, the probable demand for it, and the availability of the means of production. And, finally, he 'must have a ready knack of calculation to compare the charges of production with the probable value of the product when completed and brought to market'. Those who lack these qualities will be unsuccessful as entrepreneurs and suffer losses and bankruptcies; those who remain will be the skilful and successful ones earning profits.

Say was critical of Smith and the Smithians for failing to distinguish the category of entrepreneurial profit from the profit of capital, both of which are mixed together in the profits of real world enterprises.

Say also appreciated entrepreneurship as the driving force of the allocations and adjustments of the market economy. He summed up those workings of the market by stating that the wants of consumers determine what will be produced: 'The product most wanted is most in demand; and that which is most in demand yields the largest profit to industry, capital, and land, which are therefore employed in raising this particular product in preference; and, *vice versa*, when a product becomes less in demand, there is a less profit to be got by its production; it is, therefore, no longer produced'.

Such astute analysts as Schumpeter and Hébert are critical of Say as having a view of the entrepreneur as a static manager and organizer rather than as a dynamic bearer of risk and uncertainty. We cannot share that view. It seems to us that Say is instead foursquare in the Cantillon–Turgot tradition of the entrepreneur as forecaster and risk-bearer.

From his analysis of capital, entrepreneurship, and the market, J.B. Say concluded for *laissez-faire*: 'The producers themselves are the only competent judges of the transformation, export, and import of these various matters and commodities; and every government which interferes, every system calculated to influence production, can only do mischief.'

1.7 Say's law of markets

While J.B. Say has been almost totally ignored by mainstream economists and historians of economic thought, this is not true for one relatively minor facet of his thought that became known as 'Say's law of markets'. The one point of his doctrine that the active and aggressive British Ricardians got out of Say was this law. James Mill, the 'Lenin' of the Ricardian movement (see below), appropriated the law in his *Commerce Defended* (1808), and Ricardo adopted it from his discoverer and mentor.[13]

Say's law is simple and almost truistic and self-evident, and it is hard to escape the conviction that it has stirred up a series of storms only because of its obvious political implications and consequences. Essentially Say's law is a stern and proper response to the various economic ignoramuses as well as self-seekers who, in every economic recession or crisis, begin to complain loudly about the terrible problem of general 'overproduction' or, in the common language of Say's day, a 'general glut' of goods on the market. 'Overproduction' means production in excess of consumption: that is, production is too great in general compared to consumption, and hence products cannot be sold in the market. If production is too large in relation to consumption, then obviously this is a problem of what is now called 'market failure', a failure which must be compensated by the intervention of government. Intervention would have to take one or both of the following forms: reduce production, or artificially stimulate consumption. The American New Deal in the 1930s did both, with no success in relieving the alleged problem. Production can be reduced, as in the case of the New Deal, by the government's organizing compulsory cartels of business to force a cut in their output.

Stimulating consumer demand has long been the particularly favoured programme of interventionists. Generally, this is done by the government and its central bank inflating the money supply and/or by the government incurring heavy deficits, its spending passing for a surrogate consumption. Indeed, government deficits would seem to be ideal for the overproduction/underconsumptionists. For if the problem is too much production and/or too little consumer spending, then the solution is to stimulate a lot of unproductive consumption, and who is better at that than government, which by its very nature is unproductive and even counter productive?

Say understandably reacted in horror to this analysis and to the prescription.[14] In the first place, he pointed out, the wants of man are unlimited, and will continue to be until we achieve genuine general superabundance – a world marked by the prices of all goods and services falling to zero. But at that point there would be no problem of finding consumer demand, or, indeed, any economic problem at all. There would be no need to produce, to work, or to worry about accumulating capital, and we would all be in the Garden of Eden.

Thus Say postulates a situation where all costs of production are at last reduced to zero: 'in which case, it is evident there can no longer be rent for land, interest upon capital, or wages on labour, and consequently, no longer any revenue to the productive classes'. What will happen then?

> What then, I say, these classes would no longer exist. Every object of human want would stand in the same predicament as the air or the water, which are consumed without the necessity of being either produced or purchased. In like manner as every one is rich enough to provide himself with air, so would he be to provide himself with every other imaginable product. This would be the very acme of wealth. Political economy would no longer be a science; we should have no occasion to learn the mode of acquiring wealth; for we should find it ready made to our hands.

Since, apart from the Garden of Eden, production always falls short of man's wants, this means that there is no need to worry about any lack of consumption. The problem that limits wealth and living standards is a deficiency of production. On the market, Say points out, producers exchange their products for money and they use the money to buy the products of others. That is the essence of the exchange, or market, economy. Therefore the supply of one good constitutes, at bottom, the demand for other goods. Consumption demand is simply the embodiment of the supply of other products, whose owners are seeking to purchase the products in question. Far better to have demand emerging from the supply of other products, as on the free market, than for the government to stimulate consumer demand without any corresponding production.

For the government to stimulate consumption by itself 'is no benefit to commerce; for the difficulty lies in supplying the means, not in stimulating the desire for consumption; and we have seen that production alone, furnishes the means'. Since genuine demand only comes from the supply of products, and since the government is not productive, it follows that government spending cannot truly increase demand:

> a value once created is not augmented ... by being seized and expended by the government, instead of by an individual. The man, that lives upon the productions of other people, originates no demand for those productions; he merely puts himself in the place of the producer, to the great injury of production ...

But if there can be no general overproduction short of the Garden of Eden, then why do businessmen and observers so often complain about a general glut? In one sense, a surplus of one or more commodities simply means that *too little* has been produced of *other* commodities for which they might exchange. Looked at in another way, since we know that an increased supply of any product lowers its price, then if any unsold surplus of one or more goods exists, this price should fall, thereby stimulating demand so that the full amount will be purchased. There can never be any problem of 'overproduction' or 'underconsumption' on the free market because prices can always fall until the markets are cleared. While Say did not always put the matter in these precise terms, he saw it clearly enough, particularly in his *Letters to Malthus*, in his controversy with the Rev. Thomas Robert Malthus over Say's law. Those who complain about overproduction or underconsumption rarely talk in terms of price, yet these concepts are virtually meaningless if the price system is not always held in mind. The question should always be: production or sales *at what price*? Demand or consumption *at what price*? There is never any genuine unsold surplus, or 'glut', whether specific or general over the whole economy, if prices are free to fall to clear the market and eliminate the surplus.

Moreover, Say wrote in his *Letters to Malthus*, 'if the quantity sent in the slightest degree exceeds the want, it is sufficient to alter the price considerably'. It is this notion of what we would now call 'elasticity', and resulting sharp changes in price, that for Say leads many people to mistake a 'slight excess' of supply 'for an excessive abundance'.

The policy implications of attending to the price system are crucial. It means that to cure a glut, whether specific or pervasive, the remedy is not for the government to spend or create money; it is to allow prices to fall so that the market will be cleared.

In his *Letters to Malthus*, Say offers the following example. One hundred sacks of wheat are produced and exchanged for 100 pieces of cloth (or rather, each is exchanged for money and then for the other commodity). Suppose that productivity and output of each is doubled, and now 200 sacks of wheat are exchanged for 200 pieces of cloth. How is superabundance or overproduction going to affect either or both commodities? And if by producing 100 units of each product, the producer made 30 francs' profit, why couldn't the resulting increase of production and fall in the price of each product *still* reap 30 francs' profit for each seller? And how can general glut arise? Yet Malthus would have to maintain that part of the new production of cloth would find no buyers.

Say then notes that Malthus in a sense conceded the point about prices falling due to increased production, and then fell back on a second line of defence: that 'productions will fall to too low a price to pay for the labour necessary to their production'. Here we come to the nub of the overproductionist/underconsumptionist complaints – if we can get past their foggy aggregative concepts and their real or seeming neglect of the fact that a lower price of any product can always clear the market.

In reply, Say noted that Malthus, having unfortunately adopted the labour theory of value, neglected to add the productive services of land and capital to labour in the costs of production. So that the assertion is that selling prices will fall below the costs of production.

But where do 'costs' come from? And why are they somehow fixed, exogenous to the market system itself? How are they determined? Although Ricardo joined with Say on the question of overproduction, it was easy for a British follower of Smith and Ricardo (such as Malthus) on cost theories of value to fall into this trap and to assume that costs are somehow fixed and invariant. Say, believing as we have seen that costs are determined by selling price rather than the other way round, was impelled to a far clearer and more correct picture of the entire matter. Returning to his example, Say points out that if the wheat and cloth producers double the quantity produced with the same productive services, this means not only that the prices of wheat and cloth will fall, but also that factor productivity has risen in both industries. A rise of factor productivity means a lowering of cost. But this means that an increase in output will not only lower selling price; it will *also* lower costs, so there is no reason to assume grievous losses or even a lessening of profit if prices fall.

Apparently, Say continued, Malthus is worried about the prices of productive services remaining high and therefore keeping costs too high as production increases. But here Say brings in a brilliantly perceptive point: prices of productive factors must be high *for a reason*; they are not preordained to be high. But this high wage or rent in itself precisely 'denotes that what we seek for exists, that is to say, that there is a mode of employing them so as to make the produce sufficient to repay what they cost'. In short, factor prices being high means that they have been bid up to that height by alternative uses for them. If the costs of these factors seriously impinge upon or erase the profits of a firm or industry, this is because these factors are more productive elsewhere and have been bid up to reflect that vital fact. Say's reasoning is strikingly similar to the modern free trade reply to the 'cheap labour' argument for protective tariffs. The reason why labour is *more* expensive, say, in the United States or other industrialized country, is that *other* American industries have bid up these labour costs. These industries are therefore more efficient than the industry suffering from competition, and hence the latter should cut back or shut down and allow resources to shift to more efficient and productive fields.

In more peripheral but still relevant areas, J.B. Say engaged in some lovely and powerful examples of *reductio ad absurdum* argument. Thus, on the importance of demand *vis-à-vis* supply, and on the question of gluts, he asked what would have happened if a merchant shipped a current cargo to the site of New York City in the early seventeenth century. Clearly, he wouldn't have been able to sell his cargo. Why not? Why this glut? Because no one in the New York area was producing enough *other goods* to exchange for this cargo. And why would this merchant be sure to sell his cargo nowadays in New York City? Because there are now enough producers in the New York area to make and import products, 'by the means of which they acquire that which is offered to them by others'.

It would have been absurd to state that the problem about the seventeenth century cargo was there was *too many* producers and *not enough* consumers. Say adds that 'the only real consumers are those who produce on their part, because they alone can buy the produce of others, [while] ... barren consumers can buy nothing except by the means of value created by producers'. He concludes eloquently that 'it is the capability of production which makes the difference between a country and a desert'.

The other potent *reductio*, also in his *Letters to Malthus*, is part of his defence of innovation and machinery against charges of overproduction. Malthus, Say notes, concedes that machinery is beneficial when the production of the product is so increased that employment in that field increases also. But, Say adds, new machinery is advantageous even in the seeming worst case, when production of the particular good is not increased and labourers are discharged. For, first, in the latter case as well as the former, productivity increases, selling prices fall, and standards of living rise. Besides, writes Say, bringing in the *reductio*, tools are vital to mankind. To propose, as Malthus does, to limit and restrain the introduction of new machinery is to argue implicitly that 'we ought (retrograding rather than advancing the career of civilization) successively to renounce all the discoveries we have already made, and to render our arts more imperfect in order to multiply our labour by diminishing our enjoyments'.

As to labourers disemployed by the introduction of new machinery, Say writes that they can and will move elsewhere. After all, he adds caustically, the employer who brings in new machinery 'does not compel them [the labourers] to remain unemployed, but only to seek another occupation'. And many employment opportunities will open up for these labourers, since income in society has increased due to the new machinery and product.

Echoing Turgot, Say also counters the Malthus–Sismondi worry about the leaking out of savings from vital spendings, pointing out that savings do not remain unspent; they are simply spent on other productive (or *re*productive) factors rather than consumption. Rather than injuring consumption, saving is invested and thereby increases future consumer spending. Historically, savings and consumption thereby grow together. And just as there is no necessary limit to production, so there is no limit to investment and the accumulation of capital. 'A produce created was a vent opened for another produce, and this is true whether the value of it is spent' on consumption or added to savings.

Conceding that sometimes the savings might be hoarded, Say was for once less than satisfactory. He pointed out correctly that eventually the hoard will be spent, either on consumption or investment, since after all that is what money is for. Yet he admitted that he too deplored hoarding. And yet, as Turgot had hinted, hoarded cash balances that reduce spending will have the same effect as 'overproduction' at too high a price: the lower demand will reduce prices all round, real cash balances will rise, and all markets will again be cleared. Unfortunately, Say did not grasp this point.[15]

Say, however, was again powerful and hard-hitting in his critique of Malthus's belief in the importance of maintaining unproductive consumption by government: income and consumption by government officials, soldiers, and state pensioners. Say argued that these people live off production, whereas productive consumers add to the supply of goods and services. Say continued sardonically: 'I cannot think that those who pay taxes would be at a loss what to do with their money if the collector did not come to their assistance; either their wants would be more amply satisfied, or they would employ the same money in a reproductive manner'.

In contrast to his opponents, who wished the government to stimulate consumer demand, Say believed that problems of glut, as well as poverty in general, could be solved by increasing production. And so he inveighed in many passages against excessive taxation, which raised the costs and prices of goods, and crippled production and economic growth. In essence, J.B. Say countered the statist proposals of the underconsumptionists Malthus and Sismondi by an activist programme of his own: the libertarian one of slashing taxation.

Say combined his anti-tax insights with his critique of Malthus's fondness for government spending via a trenchant attack on Malthus and the public debt. Say noted that Malthus, 'still convinced that there are classes who render service to society simply by consuming without producing, would consider it a misfortune if the whole or a great part of the English national debt were paid off'. On the contrary, rebutted Say, this would be a highly beneficial event for England. For the result would be

> that the stock-holders [government bond-holders], being paid off, would obtain some income from their capital. That those who pay taxes would themselves spend the 40 millions sterling which they now pay to the creditors of the State. That the 40 millions of taxes being taken off, all productions would be cheaper, and the consumption would considerably increase; that it would give work to the labourer, in place of sabre cuts, which are now dealt out to them; and I confess that these consequences do not appear to me of a nature to terrify the friends of public welfare.

1.8 Recession and the storm over Say's law

We come now to a final, critical question about Say's law. Why did the storm over the law appear only in two massive clusters? For the timing of the swirling controversy over the law is no accident. J.B. Say coined the law in 1803, and James Mill brought it to Britain in 1808, converting Ricardo and his disciples. But why was there no particular controversy over the law until much later? Specifically, the storm erupted in 1819, when the French–Swiss economist Jean Charles Leonard Simonde de Sismondi (1773–1842) published his *Nouveaux principes d'économie politique* (*New Principles of Political Economy*). Sismondi's book was followed the next year by the Rev. Thomas Robert Malthus's (1766–1834) *Principles of Political Economy* (1820). The odd point is that both these men had been ardent Smithians for two decades; why publish these heretical underconsumptionist views at virtually the same moment?

Sismondi's aristocratic Florentine family had settled in France, only as Huguenots to be driven by persecution to settle in Geneva, the Calvinist heartland. Sismondi was born in Geneva, the son of a Calvinist clergyman. When the radical influence of the French Revolution reached Geneva, the Sismondis moved to London, where young Sismondi had a chance to study and participate in English business affairs.

Sismondi settled down as a farmer in Tuscany in the late 1790s, publishing a physiocratic tract on Tuscan agriculture in 1801. Soon after, he became an ardent follower of Adam Smith, and published his two-volume Smithian work, *De la richesse commerciale* (*On Commercial Wealth*) in Geneva in the same year – 1803 – that Say published his famous *Traité*. While Say skyrocketed to influence and fame, Sismondi's work was ignored, and remained totally unknown outside France. Perhaps resentment at this fate played a role is Sismondi's radical conversion, embodied in his *Nouveaux Principes*. But the timing, the prompting for this conversion, was critical, namely: the end, in 1815, of a generation of massive war and inflation in Europe led quickly and inevitably to a post war deflation and depression. Recessions, especially on such a grand scale, were new phenomena in Europe; there was therefore no body of theoretical explanation, and hence the typical business cry of 'glut' or 'overproduction' struck a chord among many observers. In the case of Sismondi, it led him straightaway and permanently into a thoroughgoing and lifelong statism, including the advocacy of a comprehensive welfare state, a deep hostility to capitalism and the factory system, and a call for return to a simple agrarian economy. In the second edition of his *Nouveaux Principes* in 1827, Sismondi, in his preface, proclaims the 'new economics' or 'new liberalism' which 'invokes government intervention' instead of *laissez-faire*.

Sismondi was offered a professorship of political economy at the University of Vilna on the strength of his first book; the *Nouveaux Principes* brought him an offer from the Sorbonne. But Sismondi preferred to remain in Geneva, churning out a remarkably prolific series of historical works (including a 16-volume history of the Italian republics in the Middle Ages, and a 31-volume history of the French), and tending to the life of a gentleman farmer. On his farm he fought against overproduction in his own dotty way: making sure that production would be as low as possible by choosing the feeblest workers for employment on the farm, and deliberately having his house repaired by an incompetent worker. One wonders why he did not go all the way in his living the exemplary life of underproduction, and stop working or producing altogether. Thoroughly embittered at the lack of recognition of his socialistic views, Sismondi write shortly before his death in 1842: 'I leave this world without having made the slightest impression, and nothing will be done'. Would that he had been right.

Far more of an impact at the time was made by the simultaneous conversion to underconsumptionism by the Rev. Malthus. Malthus, son of an aristocratic country gentleman, graduated from Cambridge with honours in mathematics, and was ordained in the Anglican clergy. After serving as a fellow of a college in Cambridge, Malthus became a country curate, writing his famous *Essay on Population* in 1798. Malthus was more than the gloomy population theorist that made his name: he was also an ardent Smithian economist. In 1804, Malthus became the first academic economist in England, taking up a chair of history and political economy at the new small East India College of Haileybury, established by the East India Company to train future employees. Not only was he the first, Malthus was to remain the only academic political economist in England for the next two decades.

Malthus was a firm friend of Ricardo, and his break with the Smith–Ricardo tradition on underconsumption did not mar their close friendship. The controversy gave rise to a famous correspondence between them, and when Ricardo died in 1823 he left Malthus a small legacy as a token of their *camaraderie*. More important is the fact that Malthus lost interest in his underconsumptionist heresy after 1824, and quickly reverted to being a leader of Smithian classical economics. Clearly the reason for Malthus's loss of interest was the fact that Britain recovered from the post-Napoleonic depression after 1823, and the first storm over Say's law was over.

Despite the fact that Malthus's interest in his underconsumption theory was generated and maintained solely by the postwar recession, his doctrine was, oddly enough, not a cyclical theory at all but an alleged tendency of free markets to a permanent depression. It should also be noted that Malthus was not worried about savings leaking out into hoarding and remaining unspent. He was an overproductionist as well as an underconsumptionist, so that invested savings only made matters worse by increasing production: 'If ... commodities are already so plentiful that an adequate portion of them is not profitably consumed, to save capital can only be still further to increase the plenty of commodities, and still further to lower already low profits'.

While Say, in reply to critics, did not of course come up with a full-fledged theory to explain the general recession and 'overproduction' in relation to a profitable selling price, he did offer some remarkably prescient insights which have been completely overlooked by historians, perhaps because they were presented in his *Letters to Malthus* rather than in his *Treatise*.

First, Say takes up the postwar depression in the United States, for Malthus had claimed in response to Say, that since the US enjoyed low taxes and free markets, their absence could not be the reason for the glut suffered there. Say very sensibly attributes the basic problems in the US to the great prosperity that country had enjoyed as a neutral during most of the Napoleonic wars, so that, unburdened by blockade, its exports and its commerce enjoyed unusual prosperity. Thus, with the end of the wars in 1815, and the swift return of European maritime trade in both hemispheres, the US was found to have overexpanded its mercantile products and, in contrast, *under*produced agricultural or manufactured goods. So in a deep sense, the problem is not general overproduction, but an overproduction of some goods and underproduction of others. What the United States is suffering from, then, is *under*production of these other goods. The Americans could have used the increased production to exchange for more of the goods offered by the resurgent European maritime trade. Prophetically, Say predicted that 'A few years more and their [American] industry altogether will form a mass of productions, amongst which will be found articles fit to make profitable returns or at least profits, which the Americans will employ in the purchase of European commodities'. And then Americans and Europeans will each produce whatever they are best and most efficient at.

> Those commodities which the Europeans succeed in making at least expense will be carried to America, and those which the American soil and industry succeed in creating at a lower rate than others, will be brought back. The nature of the demand will determine the nature of the productions; each nation will employ itself in preference about those productions in which they have the greatest success; that is, which they produce at least expense, and exchanges mutually and permanently advantageous will be the result.

And how about European business? What is the problem there? Why is it depressed? Here, Say put his finger on the heart of the problem: 'costs of production multiplied to excess'. In short, the problem with the European depression was not that there was a 'general overproduction' but that entrepreneurs had bid up costs of production (factor prices) too high, so that consumers were not willing to purchase the products at prices high enough to cover costs. The problem, in fact, was neither the producing of too many goods nor not buying enough, but a bidding up of costs to too high a level. Say goes on to say that these excessive costs created 'disorders ... in the production, distribution, and consumption of value produced; disorders which frequently bring into the market quantities greater than the want, keeping back those that would sell, and whose owner would employ their price in the purchase of the former'. In short, the bidding up of excess costs in some way distorted the production structure so as to cause a massive overproduction of some goods and an underproduction of others.

After these passages, pregnant with hints of the later Austrian theory of the trade cycle, Say unfortunately goes off on a tangent in ascribing the excess costs to the taxation of industry and the market. But then he returns with a remarkably perceptive passage, attributing seeming 'superabundance' to massive ignorance and error on the part of the entrepreneurs:

> This superabundance ... depends also upon the ignorance of producers or merchants, of the nature and extent of the want in the places to which they sent their commodities. In later years there have been a number of hazardous speculations, on account of the many fresh connexions with different nations. There was everywhere a general failure of that calculation which was requisite to a good result ...

In short, the problem centres on a general failure of entrepreneurial forecasting and 'calculation' leading to what turns out to be an excessive bidding up of costs. Unfortunately, Say does not pursue this crucial point to query why such an unusual entrepreneurial failure should have taken place. But he does go on to anticipate von Hayek's important point about entrepreneurs and producers employing the market as a learning experience, to become better at estimating costs and demands on the market. Say writes:

> but because many things have been ill done does it follow that it is impossible, with better instruction, to do better? I dare predict, that as the new connexions grow old, and as reciprocal wants are better appreciated, the excess of commodities will everywhere cease; and that a mutual and profitable intercourse will be established.

With the recovery of Europe from the postwar depression, Say's law – at least in the rather vulgarized form adopted by the British classical school[16] – became absorbed into the mainstream of economic thought and was challenged only by cranks and crackpots who properly constituted what Keynes later called 'the underworld' of economics. These denizens were resurrected by John Maynard Keynes in his *General Theory*, which, written during the depths of another and even more intense depression (1936), hailed them all – from Malthus to later underconsumptionists and to the egregious German-Argentinian merchant Silvio Gesell (1862–1930), who urged that the government force everyone to spend money in a brief period of time after receiving it. Gesell's objective, as in the case of all the most flagrant money cranks, was to lower the rate of interest to zero, a goal Keynes was later to echo in his call for the 'euthanasia of the rentier [bond-holder]'. It is perhaps fitting that this Gesell, whom Keynes called 'the strange, unduly neglected prophet', capped his dubious career by becoming the finance minister of the short-lived revolutionary Soviet republic of Bavaria in 1919.

Keynes's own doctrine followed in the line of Malthus and the others, except that underspending in general was substituted for underconsumption as the allegedly critical economic problem. Keynes made a denunciation of Say's law the centrepiece of his system. In stating it, Keynes badly vulgarized and distorted the law, leaving out the central role of price adjustments[17], and had the law saying simply that total spending on output will equal total incomes received in production[18].

Since Keynes's day, economists have managed to obfuscate Say's rather simple notion with a welter of turgid discussions of Say's alleged 'principle' or 'identity', made all the more obscure by a plentiful use of mathematics, a form of alleged explication particularly out of place when dealing with such an anti-mathematical theorist as J.B. Say.

1.9 The theory of money

Say's excellent discussion of money, like most of the rest of his doctrine, has been grievously neglected by historians of thought. He begins by setting forth a theory of how money originates that was later to be developed in a famous article by Carl Menger and would form the basis of the first chapter in every money and banking text for generations. Money, he pointed out, originates out of barter. To facilitate exchanges and overcome the difficulties of barter, people on the market begin to use particularly marketable commodities as media of exchange. Specifically, under barter everyone, in order to buy a product, must find someone who desires his own specific product, and this soon becomes very difficult. Thus: 'The hungry cutler must offer the baker his knives for bread; perhaps, the baker has knives enough, but wants a coat; he is willing to purchase one of the tailor's with his bread but the tailor wants not bread, but butcher's meat; and so on to infinity'.

How to overcome this problem of what later came to be called the 'double coincidence of wants?' By finding a more generally marketable commodity which the seller will take in exchange:

> By way of getting over this difficulty, the cutler, finding he cannot persuade the baker to take an article he does not want, will use his best endeavours to have a commodity to offer, which the baker will be able readily to exchange again for whatever he may happen to need. If there exist in the society any specific commodity that is in general request, not merely on account of its inherent utility, but likewise on account of the readiness with which it is received in exchange for the

> necessary articles of consumption ... that commodity is precisely what the cutler will try to barter his knives for; because he has learnt from experience, that its possession will procure him without any difficulty, by a second act of exchange, bread or any article he may wish for.

That commodity is precisely the money in that society.

Say then goes into a by now familiar analysis of which commodities are most likely to be chosen on the market as monies. A money commodity must have a high inherent value – this is, value in its pre-monetary use. It must also be physically easily divisible, preserving a proportionate quota of its value when divided; it should have a high value per unit weight, so that it will both be scarce and valuable, and easily portable; and it must be durable, so it can be retained as value for a long time. Of course, once a commodity is chosen as a general medium of exchange, its value becomes much higher than it had been in the pre-monetary state.

Say follows the continental tradition of assimilating money to all other commodities; i.e., the value of money, as of all other commodities, is determined by the interaction of its supply and its demand. Its value, its purchasing power on the market – moves directly with its demand and inversely with its supply. While he lacked the marginal approach, Say pointed the way to the eventual integration of a utility theory of goods with money. Since money, too, is an object of desire, its utility is the basis for its demand on the market. Say also criticized Ricardo and the British classical school for attempting to explain the value of money, not by utility or supply and demand, but, as in the case of all other goods, by its cost of production. In the case of money, only the supply of money and not the demand was considered important and the supply was supposedly governed by the cost of mining gold or silver.

Say was a hard-money man, insistent that all paper must be instantly convertible into specie. Irredeemable paper expands rapidly in quantity and depreciates the value of the currency, and Say pointed to the recent issue by the revolutionary French government of the *assignats*, inconvertible paper that depreciated eventually to zero. Say was thus able to analyse one of the first examples of runaway inflation.

> If the national money is deteriorated, it becomes an object to get rid of it in any way, and exchange it for commodities. This was one of the causes of the prodigious circulation that took place during the progressive depreciation of the French *assignats*. Everybody was anxious to find some employment for a paper currency, whose value was hourly depreciating; it was only taken to be re-invested immediately, and one might have supposed it burnt the fingers it passed through.

Say also pointed out that inflation systematically injures creditors for the benefit of debtors.

Say was highly critical of the Smith-Ricardo yen to find an absolute and invariable measure of the value of money. He pointed out that while the relative values of money to other prices can be estimated, they are not susceptible to measurement. The value of gold or silver or coin is not fixed but variable as is that of any commodity.

One of the splendid parts of Say's theory of money was his trenchant critique of bimetallism. He was insistent that the government's fixing the ratio of the weights of the two precious metals was doomed to failure, and only caused perpetual fluctuations and shortages of one or the other metals. Say called for parallel standards, that is, for freely fluctuating exchange rates between gold and silver. As he pointed out: 'gold and silver must be left to find their own mutual level, in the transactions in which mankind may think proper to employ them'. And again, the relative value of gold and silver 'must be left to regulate itself, for any attempt to fix it would be in vain'.

While at one point Say inconsistently looks with favour on Ricardo's plan for a central bank redeeming its notes only in gold bullion and not even coin, the general thrust of his discussion is for ultra-hard money. On the whole, Say comes out for 100 per cent specie money, for a money where paper is only a 'certificate' backed fully by gold or silver, 'A medium composed entirely of either silver or gold, bearing a certificate, pretending to none but its real intrinsic value, and consequently exempt from the caprice of legislation, would hold out such advantages to every department of commerce' that it would be adopted by all nations. So insistent was Say on separating money from government that he called for changing the national names of monies to actual units of weight of gold or silver e.g. *grams* instead of *francs*. In that way, there would be a genuinely worldwide commodity money, and the government could not impose legal tender laws for paper money or debase currency standards. The entire current monetary system, Say writes happily, 'would thenceforth fall to the ground; a system replete with fraud, injustice, and robbery, and moreover so complicated, as rarely to be thoroughly understood, even by those who make it their profession. It would ever after be impossible to effect an adulteration of the coin ...'. In short, Say concludes eagerly, 'the coinage of money would become a matter of perfect simplicity, a mere branch of metallurgy'.

Indeed, the only role that Say would, inconsistently, reserve for government is a monopoly of the coinage, since that coinage was to be this simple 'branch of metallurgy' that government could presumably not cripple or destroy.

There is not a great deal of analysis of banking in Say's *Treatise*. But despite his aberration in being favourable to the Ricardo plan for a central bank bullion standard, the main thrust of his discussion is, once, again, to separate government from bank credit expansion, *either* by a 100 per cent reserve banking system, or by freely competitive banking, which would presumably approximate that condition. Thus Say writes highly favourably of the 100 per cent reserve banks of Hamburg and Amsterdam. Free banks of circulation (issuing bank notes) he holds to be far better than a monopoly central bank, for 'the competition obliges each of them to court the public favour, by a rivalship of accommodation and solidity'. And if these banks are not to be based on 100 per cent specie reserve, which Say indicates would be the best system, competition would keep them investing in sound, very short-term credit which could easily be used to redeem their bank notes.

1.10 The state and taxation

Amidst the morass of bland economic writings on taxation, Jean-Baptiste Say stands out like a beacon light. It is true that he was unusually devoted – even in that generally liberal era – to *laissez-faire* and the rights of private property, and only waffled a very few times in that creed. But for some reason, most *laissez-faire* and libertarian thinkers in history have not really considered taxation to be an invasion of the rights of private property. In J.B. Say, however, an implacable hostility to taxation pervades his work; he tended to make it responsible for all the economic evils of society, even, as we have seen, for recessions and depressions. Say's discussion of taxation was brilliant and unique; and yet, as with almost all his work, it has received no attention whatever from the historians of economic thought.

In contrast to almost all other economists, Say had an astonishingly clearsighted view of the true nature of the state and of its taxation. In Say there was no mystical quest for some truly voluntary state, nor any view of the state as a benign semi-business organization supplying services to a public grateful for its numerous 'benefits'. No; Say saw clearly that the services government indubitably supplies are to *itself* and to its favourites, and that all government spending is therefore consumption spending by the politicians and the bureaucracy. He also saw that the tax funds for that spending are extracted by coercion at the expense of the tax-paying public.

As Say points out: 'The government exacts from a tax-payer the payment of a given tax in the shape of money. To meet this demand, the tax-payer exchanges part of the products at his disposal for coin which he pays to the tax-gatherers.' The money is then spent for the government's 'consumption' needs, so that 'the portion of wealth, which passes from the hands of the tax-payer into those of the tax-gatherer, is destroyed and annihilated'. Were it not for taxes, the tax-payer would have spent his own money on his own consumption. As it is, the state 'enjoys the satisfaction resulting from that consumption'.

Say goes on to attack the 'prevalent notion' that tax monies are no burden on the economy, since they simply 'return' to the community via the expenditures of government. Say is indignant:

> This is gross fallacy; but one that has been productive of infinite mischief, inasmuch as it has been the pretext for a great deal of shameless waste and dilapidation. The value paid to government by the tax-payer is given without equivalent or return: it is expended by the government in the purchase of personal service, of objects of consumption ...

Thus, in contrast to the naive Smith's purblind assumption that taxation always confers proportional benefit, we see J.B. Say treating taxation as very close to sheer robbery. Indeed, at this point Say revealingly quotes with approval Robert Hamilton's likening of government to a large-scale robber. Hamilton had been refuting this very point: taxation is harmless because the money is recirculated into the economy by the state. Hamilton had likened such impudence to the 'forcible entry of a robber into a merchant's house, who should take away his money, and tell him he did him no injury, for the money, or part of it, would be employed in purchasing the commodities he dealt in, upon which he would receive a profit'. (Hamilton might have added a Keynesian touch: that the robber's spending would benefit his victim manyfold, by the benign operations of the magical multiplier.) Say then comments on Hamilton's point that 'the encouragement afforded by the public expenditure is precisely analogous'.[19]

Say then bitterly goes on to denounce the 'false and dangerous conclusion' of writers who claim that public consumption (government expenditures) increases general wealth. But the damage is not really in the writing: 'If such principles were to be found only in books, and had never crept into practice, one might suffer them without care or regret to swell the monstrous heap of printed absurdity ...'. But unfortunately, these precepts have been put into 'practice by the agents of public authority, who can enforce error and absurdity at point of the bayonet or mouth of the cannon'. In short, once again, Say sees the uniqueness of government as the exercise of force and coercion, particularly in the way it extracts its revenue.

Taxation, then, is the coercive imposition of a burden upon the members of the public for the benefit of the government, or, more precisely, of the ruling class in command of the government. Thus Say writes:

> Taxation is the transfer of a portion of the national products from the hands of individuals to those of the government, for the purpose of meeting the public consumption or expenditure ... It is virtually a burthen imposed upon individuals, either in a separate or corporate character, by the ruling power ... for the purpose of supplying the consumption it may think proper to make at their expense; in short, an impost, in the literal sense.

He is not impressed with the apologetic notion, properly ridiculed in later years by Schumpeter, that all society somehow voluntarily pays taxes for the general benefit; instead, taxes are a burden coercively imposed on society by the 'ruling power'. Neither is Say impressed if the taxes are voted by the legislature; to him this does not make taxes any more voluntary: for 'what avails it ... that taxation is imposed by consent of the people or their representatives, if there exists in the state a power, that by its acts can leave the people no alternative but consent?'

Moreover, taxation cripples rather than stimulates production, since it robs people of resources that they would rather use differently:

> Taxation deprives the producer of a product, which he would otherwise have the option of deriving a personal gratification from, if consumed ... or of turning to profit, if he preferred to devote it to an useful employment ... [T]herefore, the subtraction of a product must needs diminish, instead of augmenting, productive power.

Say engages in an instructive critique of Ricardo, which reveals the crucial difference over the latter's long-run equilibrium approach and the great difference in their respective attitudes toward taxation. Ricardo had maintained in his *Principles* that, since the rate of return on capital is the same in every branch of industry, taxation cannot really cripple capital. For, as Say puts it, 'the extinction of one branch by taxation must needs be compensated by the product of some other, towards which the industry and capital, thrown out of employ, will naturally be diverted'. Here is Ricardo, blind to the real processes at work in the economy, stubbornly identifying a static comparison of long-run equilibrium states with the real world. Say replies forcefully and trenchantly:

> I answer, that whenever taxation diverts capital from one mode of employment to another, it annihilates the profits of all who are thrown out of employ by the change, and diminishes those of the rest of the community; for industry may be presumed to have chosen the most profitable channel. I will go further, and say, that a forcible diversion of the current or production annihilates many additional sources of profit to industry. Besides, it makes a vast difference to the public prosperity, whether the individual or the state be the consumer. A thriving and lucrative branch of industry promotes the creation and accumulation of new capital; whereas, under the pressure of taxation, it ceases to be lucrative; capital diminishes gradually instead of increasing; wealth and production decline in consequence, and prosperity vanishes, leaving behind the pressure of unremitting taxation.

Say then adds a charming sentence, taking a praxeological slap at Ricardo's fondness for what might be called his method of utterly unrealistic, verbal mathematics, 'Ricardo has endeavoured to introduce the unbinding maxims of geometrical demonstration; in the science of political economy, there is no method less worthy of reliance'.

Say then goes on to heap scorn on the argument that taxes can positively stimulate people to work harder and produce more. Work harder, he replies, to furnish funds to allow the state to tyrannize still further over you! Thus:

> To use the expedient of taxation as a stimulative to increased production, is to redouble the exertions of the community, for the sole purpose of multiplying its privations, rather than its enjoyments. For, if increased taxation be applied to the support of a complex, overgrown, and ostentatious internal administration, or of a superfluous and disproportionate military establishment, that may act as a drain of individual wealth, and of the flower of the national youth, and an aggressor upon the peace and happiness of domestic life, will not this be paying as dearly for a grievous public nuisance, as if it were a benefit of the first magnitude?

What, then, is the bottom line; what is Say's basic prescription for taxation? Indeed, what is his prescription for total public spending? Basically, it is what one might expect from a man who believed the state to be a 'grievous public nuisance' and 'an aggressor upon the peace and happiness of domestic life'. Quite simply, 'the best scheme of [public] finance, is to spend as little as possible; and the best tax is always the lightest'. In the next sentence, he amends the latter clause to say 'the best taxes, or rather those that are least bad ...'.

In short, J.B. Say, unique among economists, offered us a theory of total government spending as well as a theory of overall taxation. And that theory was a lucid and remarkable one, amounting to: that government is best (or 'least bad') that spends and taxes least. But the implications of such a doctrine are stunning, whether or not Say understood them or followed them through. For if, in the Jeffersonian phrase, that government is best that governs least, then it follows that 'least least' is zero, and therefore, as Thoreau and Benjamin R. Tucker were later to point out, that government is best that governs – or in this case, spends and taxes – not at all!

1.11 Notes

1. We should also mention as prominent in the ideologue group the historian Constantin François Chasseboeuf, Comte de Volney (1757–1820).
2. Emmet Kennedy, *Destutt De Tracy and the Origins of 'Ideology'* (Philadelphia: American Philosophical Society, 1978), p. 199.
3. It might be noted that de Tracy's intermediary in the negotiations with Jefferson on the translation was their mutual friend, the last of the physiocrats, DuPont de Nemours, who had emigrated to Wilmington, Delaware in 1815 to found his famous gunpowder manufacturing dynasty.
4. Thus in a famous speech in February 1801, Napoleon denounced the ideologues as the most harmful class of men. They were 'windbags and ideologues. They have always fought the existing authority', he thundered. 'Always distrusting authority, even when it was in their hands, they always refused to give it the independent force needed to resist revolutions'. See Kennedy, op. cit., note 2, pp. 80ff.
5. Or as Emmet Kennedy commented, 'political theory could not be tolerated in a state where politics was not'. Ibid.

6. Ernest Teilhac, *L'Oeuvre économique de Jean-Baptiste Say* (Paris: Librairie Felix Alcan, 1927), pp. 24–6. Quoted and translated in Leonard P. Liggio, 'Charles Dunoyer and French Classical Liberalism', *Journal of Libertarian Studies*, 1 (Summer 1977), pp. 156–7.
7. For a while, Rivadavia was also working on a translation of Bentham.
8. Storch's *Cours*, published in Russia in 1815, was reprinted in Paris in 1823, with notes appended by Say. Storch accused Say of theft in publishing the French edition without his consent, whereupon Say riposted that Storch lifted the bulk of the work from himself, de Tracy, Bentham, and Sismondi.
9. The sixth and last American edition of 1834, edited by Biddle, incorporated changes made in the final French edition of 1826.
10. J.A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), p. 491.
11. This distinction between certain theory and its application by an 'enlightened understanding' approximates von Mises's later distinction between conceptual theory (*'Begreiffen'*) and understanding (*'Verstehen'*).
12. Oswald St Clair, *A Key to Ricardo* (New York: A.M. Kelley, 1965), pp. 295–6.
13. In the first annotated biography of economics ever written, John R. McCulloch, along with James Mill, the leading British Ricardian, noted of Say that he was a lucid writer but stubbornly refused to accept all the great advances of Ricardo. The only creative insight McCulloch credited to Say was his law. John Ramsay McCulloch, *The Literature of Political Economy* (1845, London: London School of Economics, 1938), pp. 21–2.
14. Discussion of Say's law is made more complicated by the fact that Say, of course, did not set aside some particular passage or sentence and call it 'my law'. The *locus classicus* of Say's law is generally held to be Book 1, Chapter XV of the *Treatise*, and it indeed has been anthologized as 'the' statement of the law. *Treatise*, pp. 132–40. Actually, there are important and relevant passages scattered throughout the *Treatise*, especially pp. 109–19, 287–8, and pp. 303–4.

    Moreover, almost all of Say's *Letters to Malthus*, in particular p. 1–68, are taken up with defence of Say's law and his critique of Malthus's (and the Frenchman Simonde de Sismondi's) worry about general overproduction and complaint about alleged underconsumption. Historians of economic thought have often found Say's *Letters* superficial and erroneous, but in fact his being forced to give attention to the law carried him to the heart of the differences and led him to express his views in a lucid and pungent manner. See J.B. Say, *Letters to Mr. Malthus* (1821, New York: M. Kelley, 1967).

    For an anthologizing of Book I, Chapter XV as *the* statement of Say's law, see Henry Hazlitt (ed.), *The Critics of Keynesian Economics* (1960, New Rochelle, New York: Arlington House, 1977), pp. 12–22.
15. But Schumpeter and other historians are grossly unfair in ridiculing one of Say's arguments against Malthus: that there cannot be overproduction because 'to create a thing, the want of which does not exist, is to create a thing without value; this would not be production. Now from the moment it has a value, the producer can find means to exchange it for those articles he wants'. While this appears to eliminate the problem by defining it out of existence, there are two comments that may be made on Say's behalf. First, this is indeed a charming but unconvincing argument, but it is tangential, and does not vitiate the value of Say's law or its creator's crushing arguments on its behalf. In the heat of debate, Say, like many another intellectual combatant, sometimes used any argument that came to hand. But second, this point is not wholly valueless. For it focuses attention on a key question which Say raised but did not fully answer: *why* in the world did the producers make goods that, it turned out later, the consumers did not want to buy – at least at profitable prices? Needless to say, Say's opponents provided no satisfactory answer. For Schumpeter's attitude, see Schumpeter, op. cit., note 10, pp. 619–20.
16. The vulgarization took two forms. Most of Say's emphasis on price adjustments was omitted, as was any hint of entrepreneurial failure in bidding up costs, or in the idea that specific classes of overproduction and underproduction might be the hallmark of recessions. Another item was the Mills's formulation that 'commodities pay for commodities'

rather than all supplies of goods and services pay for each other. This was a legacy of Smith's stress that the only productive labour was that embodied in material objects, or commodities.

17. By leaving out three important sentences in his quotation from John Stuart Mill's summary of Say's law, Keynes omits any hint of the price system as equilibrating force. John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (New York: Harcourt, Brace, 1936), p. 18. On this point, see Hazlitt, op. cit., note 14, p. 23.
18. Keynes also summed up Say's law as holding that 'supply creates its own demand' – a formulation followed by virtually all economists since Keynes, including Schumpeter, Mark Blaug, Thomas Sowell and Axel Leijonhufvud. As Professor Hutt writes, in correcting this distortion: 'But the supply of plums does not create the demand for plums. And the word "creates" is injudicious. What the law really asserts is that the supply of plums *constitutes* demand for whatever the supplier is destined to acquire in exchange for the plums under barter, or with the money proceeds in a money economy'. W.H. Hutt, *A Rehabilitation of Say's Law* (Athens, Ohio: Ohio University Press, 1974), p. 3 and 3n.
19. The quotation comes from a critique of the British national debt by the Scottish mathematician Robert Hamilton (1743–1829). This work was *An Inquiry Concerning the Rise and Progress, the Redemption and Present State, and the Management of the National Debt of Great Britain and Ireland* (Edinburgh, 1813, 3rd ed., 1818). Hamilton was born in Edinburgh and, after leaving college, worked as a banker. Shifting to academic pursuits, he became rector of the Academy of Perth in 1769. Ten years later he became professor of mathematics at the University of Aberdeen.

2 Jeremy Bentham: the utilitarian as big brother

2.1 From *laissez-faire* to statism

Jeremy Bentham (1748–1832) began as a devoted Smithian but more consistently attached to *laissez-faire*. During his relatively brief span of interest in economics, he became more and more statist. His intensified statism was merely one aspect of his major – and highly unfortunate – contribution to economics: his consistent philosophical utilitarianism. This contribution, which opens a broad sluice-gate for state despotism, still remains as Bentham's legacy to contemporary neoclassical economics.

Bentham was born in London the son of a wealthy lawyer, whiled away his youth at Oxford, and was admitted to the bar in 1772. But it soon became clear that Bentham was not interested in a career as an attorney. Rather, he settled down for life with his inherited wealth to become a cloistered philosopher, legal theorist, and 'projector' or crank, eternally grinding out schemes for legal and political reform which he urged upon the great and powerful.

Bentham's first and enduring interest was in utilitarianism (which we shall examine further below), and which he launched with his first published work at the age of 28, the *Fragment on Government* (1776).

Most of his life, Bentham functioned as the Great Man, scribbling chaotically on endless and prolix manuscripts elaborating on his projected reforms and law codes. Most of the manuscripts remained unpublished until long after his death. The affluent Bentham lived in a capacious house surrounded by flunkies and disciples, who copied revision after revision of his illegible prose to get ready for eventual publication. He conversed with his disciples in the same made-up jargon with which he peppered his writings. While a cheery conversationalist, Bentham brooked no argument from his aides and disciples; as his precocious young disciple John Stuart Mill later recalled with kindly understatement Bentham 'failed in deriving light from other minds'. Because of this trait, Bentham was surrounded not by alert and knowledgeable disciples but by largely uncomprehending aides who, in the perceptive words of Professor William Thomas, 'looked on his work with a certain resigned scepticism as if its faults were the result of eccentricities beyond the reach of criticism or remonstrance'. As Thomas continues:

> The idea that he was surrounded by a band of eager disciples who drew from his system a searching critique of every aspect of contemporary society, which they were later to apply to various institutions in need of reform, is the product of later liberal myth-making. So far as I know, Bentham's circle is quite unlike that of any other great political thinker. It consisted not so much of men who found in his work a compelling explanation of the social world around them and gathered about him to learn more of his thoughts, as of men caught in a sort of expectant bafflement at the progress of a work which they would have liked to help on to completion but which remained maddeningly elusive and obscure.[1]

What Bentham needed desperately were sympathetic and candid editors of his work, but his relationship with his followers precluded that from happening. 'For this reason', adds Thomas, 'the steadily accumulating mass of manuscripts remained largely a *terra incognita*, even to the intimate members of our circle'. As a result, for example, such a major work in manuscript, *Of Laws in General*, astonishingly remained unedited, let alone unpublished, until our own day.

If anyone could have played this role, it was Bentham's outstanding follower, James Mill, whom we will deal with more fully below (Chapter 3). In many ways, Mill had the capacity and personality to perform the task, but there were two fatal problems: first, Mill refused to abandon his own intellectual work in order to subordinate himself exclusively to aiding the Master. As Thomas writes, 'Sooner or later all Bentham's disciples faced the choice of absorption or independence'. Though he was a devoted follower of Benthamite utilitarianism, Mill's personality was such that absorption for him was out of the question.

Second, the slipshod and volatile Bentham desperately needed shaping up, and the brisk, systematic, didactic, and hectoring James Mill was just the man to do the shaping. But, unsurprisingly, Bentham, the Great Man, was not about to be shaped up by anyone. The personality clash was too great for their relationship to be anything but arm's length, even at the height of Mill's discipleship, before Mill achieved economic independence from his wealthy patron. Thus, in exasperation, Mill wrote to a close mutual friend about Bentham: 'The pain he seems to feel at the very thought of being called upon to give his mind to the subject, you can have but little conception of'. At the same time Bentham, even long afterwards, confided his lingering resentment of Mill to his last disciple, John Bowring: 'He will never willingly enter into discourse with me. When he differs he is silent ... He expects to subdue everybody by his domineering tone – to convince everybody by his positiveness. His manner of speaking is oppressive and overbearing.' There is no better way to summarize the personality clash between them.[2]

Bentham's first published work, the *Fragment on Government* (1776), gained young Bentham an *entrée* into leading political circles, particularly the friends of Lord Shelburne. These included Whig politicians like Lord Camden and William Pitt the younger, and two men who were quickly to become Bentham's close friends and earliest disciples, the Genevan Etienne Dumont and Sir Samuel Romilly. Dumont was to be the main carrier of Benthamite doctrine to the continent of Europe.

While utilitarian political and legal reform continued to be his main interest throughout his life, Bentham read and absorbed *The Wealth of Nations* in the late 1770s or early 1780s, quickly becoming a devoted disciple. Although Bentham praised practically no other author, he habitually referred to Adam Smith as 'the father of political economy', a 'great master', and a 'writer of consummate genius'. In the early 1780s, Bentham's brother Samuel, a wealthy engineer, was engaged by the Empress Catherine the Great to organize various industrial projects. Samuel invited Jeremy to stay with him in Russia, which he did from the mid-1780s to the end of 1787, with a view to presenting an 'all-comprehensive [legal] code' to enable that despot to govern her realm more efficiently.

Bentham characteristically never completed the code for Catherine, but, while in Russia he learned – falsely, as it turned out – that William Pitt, now prime minister, was preparing to urge a reduction in the legal maximum rate of interest from 5 to 4 per cent. Agitated, Bentham wrote and soon published, in 1787, his first, and only well-known work on economics: the scintillating and hard-hitting *Defence of Usury*. Trying to bring more consistency into Smithian *laissez-faire*, Bentham argued against all usury laws whatever. He grounded his view squarely on the concept of freedom of contract, declaring that 'no man of ripe years and of sound mind, acting freely, and with his eyes open, ought to be hindered ... from making such a bargain, in the way of obtaining money, as he thinks fit'. The presumption, in any situation, is for freedom of contract: 'You, who fetter contracts; you, who lay restraints on the liberty of man, it is for you ... to assign a reason for your doing so.' Furthermore, how can 'usury' be a crime when it is exchange by mutual consent of lender and borrower? 'Usury', Bentham concludes, 'if it must be an offence, is an offence committed with consent, that is, with the consent of the party supposed to be injured, cannot merit a place in the catalogue of offences, unless the consent were either unfairly obtained or unfreely: in the first case, it coincides with defraudment; in the other, with extortion.'

In his appendix to the *Defence of Usury*, Bentham restates and sharpens the Turgot–Smith defence of savings. Savings results in capital accumulation: 'Whoever saves money, as the phrase is, adds proportionately to the general mass of capital ... The world can augment its capital in only one way: viz by parsimony.' This insight leads to the principle that 'capital limits trade', that the extent of trade or production is limited by the amount of capital that has been accumulated. In short: 'the trade of every nation is limited by the quantity of capital.'

The *laissez-faire* implication, as Bentham saw, is that government action or spending *cannot* increase the total amount of capital in society; it can only divert capital from free market to less productive uses. As a result, 'no regulations nor any efforts whatsoever, either on the part of subjects or governors, can raise the quantity of wealth produced during a given period to an amount beyond what the productive powers of the quantity of capital in hand ... are capable of producing'.

Defence of Usury had a great impact in Britain and elsewhere. Dr Thomas Reid, the distinguished Scottish 'common-sense' philosopher who succeeded

Adam Smith to the chair of moral philosophy at Glasgow, strongly endorsed the book. The great Comte de Mirabeau, the leading force in the early stages of the French Revolution, had the work translated into French. And in the United States, the tract went into several editions, and it inspired several states to repeal their laws against usury.

In the course of the *Defence*, there are hints of valuable analysis. Lending is defined as 'exchanging present money for future', and other intimations of time-preference or waiting as a key to saving include such phrases as the saver having 'the resolution to sacrifice the present to [the] future'. Bentham also intimates that part of interest charged includes a risk premium, a kind of insurance premium for the risk of loss incurred by the lender.

During the 1780s, Bentham was also writing his 'Essay on Reward', published only a half-century later as the *Rationale of Reward*. In it, Bentham expounded enthusiastically on 'Competition as rewards', and hailed the 'advantages resulting from the most unlimited freedom of competition'. It was on this principle of free competition and opposition to governmental monopolies that 'the father of political economy' had, in Bentham's over-enthusiastic words, 'created a new science'.

In his next economic work, the unpublished 'Manual of Political Economy' (1795), Bentham continued the *laissez-faire* theme of 'No more trade than capital'. The government, he emphasized, can only divert investment funds from the private sector; it cannot raise the total level of investment. 'Whatever is given to any one branch, is so much taken from the rest ... Every statesman who thinks by regulation to increase the sum of trade, is the child whose eye is bigger than his belly.' Towards the end of the same work, however, a cloud no bigger than a man's hand appeared that would eventually take charge of Bentham's economic analysis. For Bentham began his rapid slide down the inflationist chute. In a kind of appendix to the work, he states that government paper money could increase capital if resources were not 'fully employed'. There is no analysis, as of course there never is in the inflationist canon, of *why* these resources were 'unemployed' in the first place, i.e. why their owners withheld them from use. The answer must be: because the resource owner demanded an excessively high price or wage: inflation is therefore a means of fooling resource-owners into lowering their real demands.

It did not take long for Jeremy Bentham to slide down the slippery slope from Adam Smith and what would be Say's law back to mercantilism and inflationism. Shortly afterwards, in an unpublished 'Proposal for the Circulation of a [New] Species of Paper Currency' (1796), Bentham happily wedded his 'projecting' and constructivist spirit to his new-found inflationism. Instead of floating bonds and paying interest on them, the government, he proposed, should simply monopolize all issue of paper notes in the kingdom.

It could then issue the notes, preferably non-interest bearing, *ad libitum* and save itself the interest.

Bentham was scarcely at his best answering the question of what limit there might be to this government paper issue. The limit, he answered, would obviously be 'the amount of paper currency in the country'. Bentham's modern editor is properly scornful of this patent claptrap: 'It is like saying "the sky's the limit" when we do not know how high the sky may be.'[3]

In his later writings on the subject, Bentham searched for some limits to paper issue, if unsuccessfully. But his commitment to a broadly inflationist course deepened further. In his unfinished 'Circulating Annuities' (1800), he developed his government paper scheme further, and hailed the serviceability of inflation in wartime. Indeed, Bentham makes an all-out assault on the Turgot–Smith–Say insights and actually declares that employment of labour is directly proportional to the quantity of money: 'No addition is ever made to the quantity of labour in any place, but by an addition made to the quantity of money in that place ... In this point of view, then, money, it should seem, is the cause, and the cause *sine qua non*, of labour and general wealth.' Quantity of money is all; so much for Smithian doctrine! In fact, Bentham went further in *Circulating Annuities*, heaping scorn on his alleged mentor for denouncing the mercantilist preoccupation with the state's piling up of gold and silver and with a 'favourable' balance of trade. There is no absurdity, averred Bentham,

> in the exultation testified by public men at observing how [great] a degree of what is called the balance of trade is in favour of this country ... Seduced by the pride of discovery, Adam Smith, by taking his words from the kitchen, has attempted to throw an ill-grounded ridicule on the preference given to gold and silver.

After once again calling for the elimination of bank paper for the benefit of a government monopoly of paper issue (in the fragmentary 'Paper Mischief Exposed', 1801), Bentham reached the acme of inflationism in his 'The True Alarm (1801). In this unpublished work, Bentham not only continued the full-employment motif, but also grumbled about the allegedly dire effects of hoarding, of money saved from consumption that went into hoards instead of investment. In that case, disaster: a fall in prices, profits and production. Nowhere does Bentham recognize that hoarding and a general fall in prices also means a fall in costs, and no necessary reduction in investment or production. Indeed, Bentham worked around to the Mandeville fallacy about the beneficial and uniquely energizing effects of luxurious spending. In the mercantilist and proto-Keynesian manner, saving is evil hoarding while luxury consumption animates production. How capital can be maintained, much less increased, without saving is not explained in this bizarre model.

James Mill and David Ricardo have been considered loyal Benthamites, and this they were in utilitarian philosophy and in a belief in political democracy. In economics, however, it was a far different story, and Mill and Ricardo, sound as a rock on Say's law and the Turgot–Smith analysis, were firm in successfully discouraging the publication of the 'The True Alarm'. Ricardo scoffed at almost all of later Benthamite economics and, in the case of money and production, asked the proper questions: 'Why should the mere increase of money have any other effect than to lower its value? How would it cause any increase in the production of commodities ... Money cannot call forth goods ... but goods can call forth money.' Bentham's major theme ... 'that money is the cause of riches' – Ricardo rejected firmly and flatly.

In his penultimate work of importance on economics, Jeremy Bentham came full circle. He had launched the economic part of his career with a hard-hitting attack on usury laws; he ended it by defending maximum price control on bread. Why? Because the mass of the public would favour cheap bread (assuredly so!), and so there would then be a 'rational' and 'determinate standard' for the good and moral price of bread, a standard which apparently free contract and free markets cannot set. What would such a standard be? Showing that for Bentham his *ad hoc* utilitarianism and cost–benefit analysis had totally driven any sound economics out of his purview, he answered that it would have to be empirical and *ad hoc*. Casting economic logic to the winds, Bentham maintained that the authorities should set a 'moderate' maximum price, which would weigh the costs and benefits, the advantages and disadvantages, of each possible price. And Bentham assured his readers of his moderation: he did 'not mean it [his proposal] as a whip or scorpion for the punishment of the growers or vendors of corn'. But that would be the inevitable result.

Ad hoc empiricism was now rampant in Bentham. Admitting that all previous attempts at maximum price control were disasters, like any later institutionalist or historicist Bentham denied any relevance, since the circumstances of each particular time and place are necessarily different. In short, Bentham denied economics altogether – that is, denied the possibility of laws abstracting from particular circumstances and applying to all exchanges or actions everywhere.

In arguing against the opponents of price control, Bentham often used reasoning that was tortuous and even absurd. For example, to the charge that maximum price control would lead to attempted consumption exceeding supply (one of the greatest problems with price control), Bentham insisted that this could not happen in Britain, where the Poor Law ensured welfare payment to the poor with an increase in the price of bread. The opinion that, at some time or other, the demand curve can be vertical and not falling is in every century the hallmark of an economic ignoramus, and Bentham now passed that test. For centuries, writers and theorists knew that demand increased as price fell, and Bentham was now writing as if economics had never existed – and could never exist.

Since consistency was the realm of despised deductive logic, Bentham denied that his opposition to usury laws had any relation to his defence of price control on bread. But while he still maintained that his earlier analysis had been correct, he now offered a crucial revision: he had overlooked that a notable advantage of a usury law is that the government can then borrow more cheaply (at the expense, of course, of squeezing out marginal private borrowers). And he went on to admit that he now found this 'advantage' decisive, so that now he would place usury laws on the governmental agenda: 'I should expect to find the advantages of it in this respect predominate over its disadvantages in all others.' In short, Bentham, the alleged 'individualist' and exponent of *laissez-faire*, finds that advantage to government outweighs all private disadvantage!

Again treating his earlier views on usury, Bentham denied that he had ever believed in any self-adjusting and equilibrating tendencies of the market, or that interest rates properly adjust saving and investment. He went on in a revealing diatribe against *laissez-faire* and natural rights, to demonstrate to one and all the incompatibility between utilitarianism on the one hand and *laissez-faire* or property rights on the other:

> I have not, I never had, nor shall have, any horror, sentimental or anarchical, of the hand of government. I leave it to Adam Smith, and the champions of the rights of man ... to talk of invasions of natural liberty, and to give as a special argument against this or that law, an argument the effect of which would be to put a negative upon all laws. The interference of government, as often as in my jumbled view of the matter the smallest balance on the side of advantage is the result, is an event I witness with altogether as much satisfaction as I should its forbearance, and with much more than I should its negligence.

One wonders by what mystical standard the 'scientific' Bentham managed to weigh the advantages and disadvantages of every particular law.

Three years later, in 1804, Jeremy Bentham lost interest in economics, a fact for which we must be forever grateful. It is only unfortunate that this waning of zeal had not occurred a half-decade before. The case of Jeremy Bentham, however, should be instructive to that host of economists that attempt to weld utilitarian philosophy with free market economics.

One would think that the master of utilitarianism would have contributed to utility analysis in economics, but oddly enough Bentham proved to be interested only in the 'macro' realms of economic thought. The only exception came in the largely unfortunate *True Alarm* (1801), in which Bentham not only declared that 'all value is founded on utility', but also enters into a cogent critique of Adam Smith's alleged 'value paradox'. Water, Bentham noted, can and does have economic value, while diamonds *do* have value in use as a foundation of its economic value. Continuing on, Bentham approaches the marginalist refutation of the value paradox:

> The reason why water is found not to have any value with a view to exchange is that it is equally devoid of value with a view to use. If the whole quantity required is available, the surplus has no kind of value. It would be the same in the case of wine, grain, and everything else. Water, furnished as it is by nature without any human exertion, is more likely to be found in that abundance which renders it superfluous; but there are many circumstances in which it has a value in exchange superior to that of wine.

2.2 Personal utilitarianism

As we have seen, Jeremy Bentham's strictly economic views, especially when he slid back to mercantilism, had no impact on economic thought, even upon his own philosophic disciples such as James Mill and Ricardo. But his philosophic views, introduced into economics by these same disciples, left an unfortunate and permanent impact on economic thought: they provided economics with its underlying and dominant social philosophy. And that dominance would be no less powerful for being generally implicit and unexamined.

Utilitarianism provided economists with the ability to square the circle: to allow them to make pronouncements and take firm positions on public policy, while still pretending to be hard-headed, 'scientific', and therefore 'value-free'. As the nineteenth century proceeded and economics began to become a separate profession, a guild with its own code and practices, it became possessed of an overwhelming desire to ape the success and the prestige of the 'hard' physical sciences. But 'scientists' are supposed to be objective, disinterested, unbiased in their scientific work. It was therefore assumed that for economists to espouse moral principles or political philosophy was somehow introducing the virus of 'bias', 'prejudice', and an unscientific attitude into the discipline of economics.

This attitude of crude imitation of the physical sciences ignored the fact that people and inanimate objects are crucially different: stones or atoms don't have values or make choices, whereas people inherently evaluate and choose. Still, it would be perfectly possible for economists to confine themselves to analysing the consequences of such values and choices, *provided* they took no stand on public policy. But economists burn to take such stands; in fact, interest in policy is generally the main motivation for embarking on a study of economics in the first place. And advocating policy – saying that the government *should* or *should not* do *A*, *B* or *C*, – is *ipso facto* taking a value position and an implicitly ethical one to boot. There is no way of getting around this fact, and the best that can be done is to make such ethics a rational inquiry of what is best for man in accordance with his nature. But the pursuit of 'value-free' science precluded that path, and so economists, by adopting utilitarianism, were able to pretend or to delude themselves that they were being strictly scientific, while smuggling unanalysed and shaky ethical notions into economics. In that way, economics embraced the worst of both worlds, implicitly smuggling in fallacy and bias in the name of hard-nosed value-freedom. The Benthamite infection of economics with the bacillus of utilitarianism has never been cured and remains as rampant and as predominant as ever.

Utilitarianism consists in two fundamental parts: *personal* utilitarianism, and *social* utilitarianism, the latter being built upon the former. Each is fallacious and pernicious, but social utilitarianism, which we are more interested in here, adds many fallacies, and would be unsound *even if* personal utilitarianism were to be upheld.

Personal utilitarianism, as launched by David Hume in the mid-eighteenth century, assumes that each individual is governed only by the desire to satisfy his emotions, his 'passions', and that these emotions of happiness or unhappiness are primary and unanalysable givens. The only function of man's reason is use as a *means*, to show someone how to arrive at his goals. There is no function for reason in setting man's goals themselves. Reason, for Hume and for later utilitarians, is only a hand-maiden, a slave to the passions. There is no room, then, for natural law to establish any ethic for mankind.

But what, then, is to be done about the fact that most people decide about their ends by ethical principles, which cannot be considered reducible to an original personal emotion? Still more embarrassing for utilitarianism is the obvious fact that emotion is often a hand-maiden of such principles, and is patently *not* an ultimate given but rather determined by what happens to such principles. Thus someone who fervently adopts a certain ethical or political philosophy will feel happy whenever such philosophy succeeds in the world, and unhappy when it meets a setback. Emotions are then a hand-maiden to principles, instead of the other way round.

In grappling with such anomalies, utilitarianism, priding itself on being anti-mystical and scientific, has to go against the facts and introduce mystification of its own. For it then has to say, *either* that people only *think* they have adopted governing ethical principles, and/or that they *should* abandon such principles and cleave only to unanalysed feelings. In short, utilitarianism has either to fly in the face of facts obvious to everyone (a methodology that is surely blatantly unscientific) and/or to adopt an unanalysed ethical view of its own in denunciation of all (other) ethical views. But this is mystical, value-laden, and self-refuting of its own anti-ethical doctrine (or rather, of any ethical doctrine that is not a slave to unanalysed passions).

In either case, utilitarianism is self-refuting in violating its own axiom of not going beyond given emotions and valuations. Furthermore, it is common human experience, once again, that subjective desires are *not* absolute, given and unchanging. They are not hermetically sealed off from persuasion, whether rational or otherwise. One's own experience and the arguments of others can and do persuade people to change their values. But how could that be if all individual desires and valuations are pure givens and therefore not subject to alteration by the intersubjective persuasion of others? But if these desires are not givens, and *are* changeable by the persuasion of moral argument, it would then follow that, contrary to the assumptions of utilitarianism, supra-subjective ethical principles *do* exist that can be argued and can have an impact on others and on their valuations and goals.

Jeremy Bentham added a further fallacy to the utilitarianism that had grown fashionable in Great Britain since the days of David Hume. More brutally, Bentham sought to reduce all human desires and values from the qualitative to the quantitative; all goals are to be reduced to quantity, and all seemingly different values – e.g. pushpin and poetry – are to be reduced to mere differences of quantity and degree. The drive to reduce quality drastically to quantity again appealed to the scientistic passion among economists. Quantity is uniformly the object of investigation in the hard, physical sciences; so doesn't concern for quality in the study of human action connote mysticism and a sloppy, unscientific attitude? But, once again, economists forgot that quantity is precisely the proper concept for dealing with stones or atoms; for these entities do not possess consciousness, do not value and do not choose; therefore their movements can be and should be charted with quantitative precision. But individual human beings, on the contrary, are conscious, and do adopt values and act on them. People are not unmotivated objects always describing a quantitative path. People are qualitative, that is, they respond to qualitative differences, and they value and choose on that basis. To reduce quality to quantity, therefore, gravely distorts the actual nature of human beings and of human action, and by distorting reality, proves to be the reverse of the truly scientific.

Jeremy Bentham's dubious contribution to personal utilitarian doctrine – in addition to being its best known propagator and popularizer – was to quantify and crudely reduce it still further. Trying to make the doctrine still more 'scientific', Bentham attempted to provide a 'scientific' standard for such emotions as happiness and unhappiness: quantities of pleasure and pain. All vague notions of happiness and desire, for Bentham, could be reduced to quantities of pleasure and pain: pleasure 'good', pain 'bad'. Man, therefore, simply attempts to maximize pleasure and minimize pain. In that case, the individual – and the scientist observing him – can engage in a replicable 'calculus of pleasure and pain', what Bentham termed 'the felicific calculus' that can be churned out to yield the proper result in counselling action or non-action in any given situation. Every man, then, can engage in what neo-

Benthamite economists nowadays call a 'cost–benefit analysis'; in whatever situation, he can gauge the benefits – units of pleasure – weigh it against the costs – units of pain – and see which outweighs the other.

In a discussion which Professor John Plamenatz aptly says 'parodies reason', Bentham tries to give objective 'dimensions' to pleasure and pain, so as to establish the scientific soundness of his felicific calculus. These dimensions, Bentham asserts, are sevenfold: intensity, duration, certainty, propinquity, fecundity, purity and extent. Bentham claims that, at least conceptually, all these qualities can be measured, and then multiplied together to yield the net resultant of pain or pleasure from any action.

Simply to state Bentham's theory of seven dimensions should be enough to demonstrate its sheer folly. These emotions or sensations are qualitative and not quantitative, and none of these 'dimensions' can be multiplied or weighted together. Again, Bentham raised an unfortunate scientistic analogy with physical objects. A three-dimensional object is one where each object is linear, and therefore where all these linear units can be multiplied together to yield units of volume. In human valuation, even with pleasure and pain, there is no *unit* common to each of their 'dimensions' and therefore there is no way to multiply such units. As Professor Plamenatz trenchantly points out:

> the truth is that even an omniscient God could not make such calculations, for the very notion of them is impossible. The intensity of a pleasure cannot be measured against its duration, nor its duration against its certainty or uncertainty, nor this latter property against its propinquity or remoteness.[4]

Plamenatz adds that it is true, as Bentham states, that people often compare courses of action, and choose those they find most desirable. But this simply means that they decide between alternatives, not that they engage in quantitative calculations of units of pleasure and pain.

But one thing can be said for Bentham's grotesque doctrine. At least Bentham attempted, no matter how fallaciously, to ground his cost–benefit analysis on an objective standard of benefit and cost. Later utilitarian theorists, along with the body of economics, eventually abandoned the pleasure–pain calculus. But in doing so, they also abandoned any attempt to provide a standard to ground *ad hoc* costs and benefits on some sort of intelligible basis. Since then, the appeal to cost and benefit, even on a personal level, has necessarily been vague, unsupported and arbitrary.

Moreover, John Wild eloquently contrasts utilitarian personal ethics with the ethics of natural law:

> Utilitarian ethics makes no clear distinction between raw appetite or interest, and that deliberate or voluntary desire which is fused with practical reason. Value, or pleasure, or satisfaction is the object of any interest, no matter how incidental or

> distorted it may be. Qualitative distinctions are simply ignored, and the good is conceived in a purely quantitative manner as the maximum of pleasure or satisfaction. Reason has nothing to do with the eliciting of sound appetite. One desire is no more legitimate than another. Reason is the slave of passion. Its whole function is exhausted in working out schemes for the maximizing of such interests as happen to arise through chance or other irrational causes ...
>
> As against this, the theory of natural law maintains that there is a sharp distinction between raw appetites and deliberate desires elicited with the cooperation of practical reason. The good cannot be adequately conceived in a purely quantitative manner. Random interests which obstruct the full realization of essential common tendencies are condemned as antinatural ... When reason becomes the slave of passion, human freedom is lost and human nature thwarted ...
>
> (T)he ethics of natural law sharply separates essential needs and rights from incidental rights. The good is not adequately understood as a mere maximizing of qualitatively indifferent purposes, but a maximizing of those tendencies which qualitatively conform to the nature of man and which arise through rational deliberation and free choice ... There is a stable universal standard, resting on something firmer than the shifting sands of appetite, to which an appeal can be made even from the maximal agreements of a corrupt society. This standard is the law of nature which persists as long as man persists – which is, therefore, incorruptible and inalienable, and which justifies the right to revolution against a corrupt and tyrannical social order.[5]

Finally, in addition to the problems of the pleasure–pain calculus, personal utilitarianism counsels that actions be judged not on their *nature* but on their *consequences*. But, in the non-Bethamite, mere cost–benefit (rather than 'objective' pleasure–pain) analysis, how is anyone to gauge the consequences of any action? And why is it considered easier, let alone more 'scientific', to judge *consequences* than to judge an act itself by its nature? Furthermore, it is often very difficult to figure out *what* the consequences of any contemplated action will be. How we are to find the secondary, tertiary, etc. consequences, let alone the more immediate ones? We suspect that Herbert Spencer, in his critique of utilitarianism, was correct: it is often easier to know what is *right* than what is expedient.[6]

2.3 Social utilitarianism

In extending utilitarianism from the personal to the social, Bentham and his followers incorporated all the fallacies of the former, and added many more besides. If each man tries to maximize pleasure (and minimize pain), then the social ethical rule, for the Benthamites, is to seek always 'the greatest happiness of the greatest number', in a social felicific calculus in which each man counts for one, no more and no less.

The first question is the powerful one of self-refutation: for if each man is necessarily governed by the rule of maximizing pleasure, then why in the world are these utilitarian philosophers doing something very different – that is, calling for an abstract social principle ('the greatest happiness of the greatest number')?[7] And why is *their* abstract moral principle – for that is what it is – legitimate while all others, such as natural rights, are to be brusquely dismissed as nonsense? What justification is there for the greatest happiness formula? The answer is none whatever; it is simply assumed as axiomatic, above and beyond challenge.

In addition to the self-refuting nature of the utilitarians clinging to an overriding – and unanalysed – abstract moral principle, the principle itself is shaky at best. For what is so good about the 'greatest number'? Suppose that the vast majority of people in a society hate and revile redheads, and greatly desire to murder them. Suppose further, that there are only a few redheads extant at any time, so that their loss would entail no discernible drop in general production or in the real incomes of the non redheads remaining. Must we then say that it is 'good', after making our social felicific calculus, for the vast majority to cheerfully slaughter redheads, and thereby maximize their pleasure or happiness? And if not, why not? As Felix Adler wryly put it, utilitarians 'pronounce the greatest happiness of the greatest number to be the social end, although they fail to make it intelligible why the happiness of the greater number should be cogent as an end upon those who happen to belong to the lesser number'.[8]

Furthermore, the egalitarian presumption of each person counting precisely for one is hardly self-evident. Why not some system of weighting? Again, we have an unexamined and unscientific article of faith at the heart of utilitarianism.

Finally, while utilitarianism falsely assumes that the moral or the ethical is a purely subjective given to each individual, it on the contrary assumes that these subjective desires can be added, subtracted, and weighed across the various individuals in society so as to result in a calculation of maximum social happiness. But how in the world can an objective or calculable 'social utility' or 'social cost' emerge out of purely subjective desires, especially since subjective desires or utilities are strictly ordinal, and cannot be compared or added or subtracted among more than one person? The truth, then, is the opposite of the core assumptions of utilitarianism. *Moral principles*, which utilitarianism claims to reject as mere subjective emotion, are intersubjective and can be used to persuade various persons; whereas utilities and costs are purely subjective to each individual and therefore *cannot* be compared or weighed between persons.

Perhaps the reason why Bentham quietly shifts from 'maximum pleasure' in personal utilitarianism to 'happiness' in the social realm is that talking about the 'greatest pleasure of the greatest number' would be too openly ludicrous, since the emotion or sensation of pleasure is quite clearly not addable or subtractable between persons. Substituting the vaguer and looser 'happiness' enabled Bentham to fuzz over such problems.[9]

Bentham's utilitarianism led him to an increasingly numerous 'agenda' for government intervention in the economy. Some of this agenda we have seen above. Others items include: a welfare state; taxation for at least a partial egalitarian redistribution of wealth; government boards, institutes and universities; public works to cure unemployment as well as to encourage private investment; government insurance; regulation of banks and stockbrokers; guarantee of quantity and quality of goods.

2.4 Big brother: the panopticon

Utilitarian economists have often been – in my view properly – accused of trying to substitute 'efficiency' for ethics in advocating or developing public policy. 'Efficiency', in contrast to 'ethics' sounds unsentimental, hard-nosed and 'scientific'. Yet extolling 'efficiency' only pushes the ethical problem under the rug. For in *whose* interests, and at *whose* expense, shall social efficiency be pursued? In the name of a spurious science, 'efficiency' often becomes a mask for exploitation, for plundering one set of people for the benefit of another. Often, utilitarian economists have been accused of being willing to advise 'society' on how to build the most efficient 'concentration camps'. Those who have held this charge to be an unfair *reductio ad absurdum* should contemplate the life and thought of the prince of utilitarian philosophers, Jeremy Bentham. In a profound sense, Bentham was a living *reductio ad absurdum* of Benthamism, a living object lesson of the results of his own doctrine.

It was in 1768, at the age of 20, when Jeremy Bentham, returning to his *alma mater*, Oxford, for an alumni vote, chanced upon a copy of Joseph Priestley's *Essay on Government*, and came across the magical phrase that changed and dominated his life from then on: 'the greatest happiness of the greatest number'. But, as Gertrude Himmelfarb points out in her scintillating and devastating essays on Bentham, of all his numerous schemes and tinkerings in pursuit of this elusive goal, the one closest to Jeremy's heart was his plan for the panopticon. In visiting his brother Samuel in Russia, in the 1780s, Bentham found that his brother had designed such a panopticon, as a workshop, and Bentham immediately got the idea of the Panopticon as the ideal physical site for a prison, a school, a factory – indeed, for all of social life. 'Panopticon', in Greek, means 'all-seeing', and the name was highly suitable for the object in view. Another Benthamite synonym for the panopticon was 'the Inspection House'. The idea was to maximize the supervision of prisoners/school children/paupers/employees by the all-seeing inspector, who would be seated at a tower in the centre of a circular spider-web able to spy on all the cells in the periphery. By mirrors and other devices, each of the spied-upon could never know where the inspector was looking at any given time. Thus the panopticon would accomplish the goal of a 100 per cent inspected and supervised society without the means; since everyone *could* be under inspection at any time without knowing it.

Bentham's apologists have reduced his scheme to merely one of prison 'reform', but Bentham tried to make it clear that all social institutions were to be encompassed by the panopticon; that it was to serve as a model for 'houses of industry, workhouses, poorhouses, manufactories, mad-houses, lazrettos, hospitals, and schools'. An atheist hardly given to scriptural citation, Bentham nevertheless waxed rhapsodic about the social ideal of the panopticon, quoting from the Psalms: 'Thou art about my path, and about my bed; and spies out all my ways ...'

As Professor Himmelfarb aptly puts it:

> Bentham did not believe in God, but he did believe in the qualities apotheosized in God. The Panopticon was a realization of the divine ideal, spying out the ways of the transgressor by means of an ingenious architectural scheme, turning night into day with artificial light and reflectors, holding men captive by an intricate system of inspection.[10]

Bentham's goal was to approach, or simulate, the 'ideal perfection' of complete and continuous inspection of everyone. Because of the inspector's 'invisible eye', each inmate would conceive himself in a state of total and continuing inspection, thus achieving the 'apparent omnipresence of the inspector'.

Consistent with utilitarianism, the social arrangement was decided upon by the social despot, who acts 'scientifically' in the name of the greatest happiness of all. In that name, his rule maximizes 'efficiency'. Thus, in Bentham's original draft, every inmate would be kept in solitary confinement, since this would maximize his being 'safe and quiet', without chance of unruly crowds or planning of escape.

In arguing for his panopticon, Bentham at one point acknowledges the doubts and reservations of people who appear to want maximum inspection of their children or other charges. He recognizes a possible charge that his inspector would be excessively despotic, or even that the incarceration and solitary confinement of all might be 'productive of an imbecility', so that a formerly free man would no longer in a deep sense be fully human: 'And whether the result of this high-wrought contrivance might not be constructing a set of *machines* under the similitude of *men*?' To this critical question, Jeremy Bentham gave a brusque, brutal and quintessentially utilitarian reply: who cares? he said. The only pertinent question was: 'would *happiness* be most likely to be increased or diminished by this discipline?' To our 'scientist' of happiness, there were no doubts of the answer: 'call them soldiers, call them monks, call them machines; so they were but happy ones, I should not care.'[11] There speaks the prototypical humanitarian with the guillotine, or at least with the slave-pen.

Bentham was only willing to modify the solitary confinement of each inmate in the panopticon because of the great expense of constructing an entire cell for each person. Economy was an overriding concern in running the panopticon – economy and productivity. Bentham was concerned to maximize the coerced labour of the inmates. After all, 'industry is a blessing; why paint it as a curse?' Seven-and-a-half hours a day sufficed for sleep, and an hour-and-a-half total for meals, for after all, he admonished, 'let it not be forgotten, meal times are times of rest: feeding is recreation.' There is no reason why inmates should not be forced to work 14 or even 15 hours a day, six days a week. Indeed, Bentham wrote to a friend that he had been 'afraid' of revealing many of his proposed savings, 'for fear of being beat down'. He had in mind working the inmates no less than 'sixteen and a half profitable hours' a day, dressing them without stockings, shirts or hats, and feeding them exclusively on potatoes, which at that time were regarded even by the poorest citizens as fit only for animal fodder. Bedding was to be as cheap as possible with sacks used instead of sheets, and hammocks instead of beds.

Bentham's overriding concern with economy and productivity is made understandable by a crucial element in his panopticon plan – an element often neglected by later historians. For the Great Inspector was to be none other than Bentham himself. Prisons of the realm, and presumably eventually schools and factories, were to be contracted out to Bentham, who would be contractor, inspector and profit-maker from the scheme. It is no wonder then, that Bentham had such supreme confidence in the ability of the inspector to maximize his own happiness along with the happiness of the 'greatest number' of panopticon inmates at the same time. Bentham's long-term gain, if not the 'greatest happiness' of the prisoners, was also to be ensured by long-run provisions that would keep 'released' prisoners in the almost permanent thrall of the inspector. In Bentham's final plan for his panopticon, no prisoner would be released unless he enlisted in the army; enlisted in the navy; or had a bond of £50 posted for him by a 'responsible householder'. It must be realized that £50 was a handsome sum at a time when the average unskilled labourer received a wage of about 10 shillings a week – or about two year's salary. The bond was to be renewed annually, and any failure to renew would subject the prisoner to be shipped back to the panopticon, 'though it should be for life'. Why would any responsible householder be interested in posting a £50 bond for an ex-prisoner? To Bentham, the answer was clear: only if the prisoner was willing to contract his labour to that householder, with the understanding that the householder would have the same power over the labourer as that 'of a father over his child, or of a master over his apprentice'. Since this mammoth bond had to be renewed every year, the ex-prisoner was envisioned by Bentham as a perpetual slave to the householder. If there was no bond, the prisoner would have to shipped to a 'subsidiary establishment', also run on panopticon principles. And who better to run such establishments than the main prison contractor, i.e. Bentham himself? Indeed, all the conditions of the panopticon were designed to induce the prisoners or other inmates to be enslaved to the contractor (Bentham) virtually for life.

In view of Bentham's overriding concern with the panopticon, and of his explicit identification of himself as the contractor, we must remark on what Himmelfarb points to as:

> the strange, almost willing inattentiveness of biographers and historians to the most striking feature of the plan and the decisive cause of its rejection. To them Bentham was a philanthropist who sacrificed years of his life and most of his fortune to the exemplary cause of penal reform and who was inexplicably, as one biographer put it, 'not to be allowed to benefit his country'. Most books on Bentham and even some of the most respectable histories of penal reform do not so much as mention the contract system in connection with the Panopticon, let alone identify Bentham as the proposed contractor.[12]

Finally, Bentham's panopticon was supposed to be intimately connected with a woodworking machine that his brother Samuel had invented in Russia about the same time as the panopticon workshop. What better use for thousands, if not many thousands of inmates than to be busily and cheaply at work making an enormous amount of wood? Samuel's woodworking machine proved to be too costly to be built and powered by a steam engine; so why not, in Bentham's own terms, 'human labour to be extracted from a class of person, on whose part neither dexterity nor good will were to be reckoned upon, ... now substituted to the steam engine ...?'

That Bentham scarcely aimed to confine the panopticon to the class of prisoners is shown particularly by his panopticon poorhouse scheme. Written originally in 1797 and reissued in 1812, Bentham's *Pauper Management Improved* envisioned a joint-stock company, like the East India Company, contracted by the government to operate 250 'Industry Houses', each to house 2 000 paupers subject to the 'absolute' authority of a contractor–inspector–governor, in a building and suffering under a regimen very similar to the panopticon prison.

Who would constitute the class of paupers living under the slave labour regime of the panopticon poorhouse? To Bentham, the company – of which he, of course, would be the head – would be assigned 'coercive powers' to seize anyone 'having nether visible livelihood or assignable property, nor honest and sufficient means of livelihood'. On that rather elastic definition, the average citizen would be legally encouraged to aid and abet the coercive powers of the poorhouse company by seizing anyone he considered of insufficient livelihood and trundling him off to the panopticon poorhouse.

Bentham's envisioned scale of the network of panopticon poorhouses was nothing if not grandiose. The houses were to confine not only 500 000 poor but also their children, who were to continue bound to the company, even if their parents were discharged, as apprentices until their early 20s, even if married. These apprentices would be confined in an additional 250 panopticon houses, bringing the total number of inmates in the industry houses up to no less than one million. If we consider that the total population of England at that time was only nine million, this means that Bentham envisioned the confining in slave labour, regimented and exploited by himself, of at least 11 per cent of the nation's population. Indeed, sometimes Bentham envisioned his panopticons as incarcerating up to three-fifths of the British population.

Jeremy Bentham conceived of his panopticon in 1786 at the age of 38; five years later, he published the scheme and fought hard for it for two more decades, also urging France and India in vain to adopt the scheme. Parliament finally rejected the plan in 1811. For the rest of his long life, Bentham mourned the defeat. Near the end of his life at the age of 83, Bentham wrote a history of the affair, paranoiacally convinced that King George III had sabotaged the plan out of a personal vendetta arising from Bentham's opposition, during the 1780s, to the king's projected war against Russia. (The book's title is *History of the War Between Jeremy Bentham and George III* (1831), By 'One of the Belligerents'.) Bentham lamented, 'Imagine how he hated me ... But for him all the paupers in the country, as well as all the prisoners in the country, would have been in my hands'.[13] A tragedy indeed!

Jeremy Bentham started out in life as a Tory, a typical eighteenth century believer in 'enlightened despotism'. He looked to the enlightened despots, whether Catherine the Great of Russia or George III, to put his reforms and crank schemes for the 'greatest happiness of the greatest number' into effect. But the failure to push through the panopticon soured him on absolute monarchy. As he wrote, 'I ... never suspected that the people in power were against reform. I supposed they only wanted to know what was good in order to embrace it'. Disillusioned, Bentham allowed himself to be converted, partially by his great disciple James Mill, to radical democracy, and to the panoply of what came to be known as philosophic radicalism. As Himmelfarb summed up the new radicalism, its innovation 'was to make the greatest happiness of the greatest number dependent upon the greatest power of the greatest number', the greatest power to be lodged in an 'omnicompetent legislature'.[14] And if, as Himmelfarb puts it, the 'greatest happiness of the greatest number' might require 'the greatest misery of the few', then so be it.

It seems scarcely an exaggeration when Douglas Long compares Bentham's social outlook with that of the modern 'scientific' totalitarian, B.F. Skinner. Bentham wrote toward the end of his life that the words 'liberty' and 'liberal' were among 'the most mischievous' in the English language, because they obscured the genuine issues, which are 'happiness' and 'security'. For Bentham, the state is the necessary cradle of the law, and every individual citizen's duty is to obey that law. What the public needs and wants is not liberty but 'security', for which the power of the sovereign state must be unbounded and infinite. (And who is to guard the citizen from his sovereign?) For Bentham, as Long puts it:

> by its very nature the idea of liberty more than any other concept posed a continual threat to the completeness and stability Bentham sought in his 'science of human nature'. The indeterminate, open-ended quality of the libertarian view of man was alien to Bentham. He sought rather the perfection of a neo-Newtonian social physics.[15]

It is certainly apt if grandiloquent that Bentham saw himself as the 'Newton of the moral world'.

The philosophic radicals, despite their proclaimed devotion to *laissez-faire*, adopted not only Bentham's later democratic creed, but also his devotion to the panopticon. John Stuart Mill, even when most anti-Benthamite in the course of his eternally wavering career, never criticized the panopticon. More starkly, Bentham's brilliant 'Lenin', James Mill, despite his eagerness to bury Bentham's statist economic views, admired the panopticon with the extravagance of the Master himself. In an article on 'Prisons and Prison Discipline', written for the *Encyclopedia Britannica* in 1822 or 1823, Mill praised the panopticon to the skies, as 'perfectly expounded and proved' on the great principle of utility. Every aspect of the panopticon received Mill's plaudits: the architecture, the hammocks instead of beds, the all-seeing inspection, the labour system, the contract system, the perpetual slavery of the 'released prisoners'. Mill's lavish praise was private as well as public, for in a letter to the editor of the *Encyclopedia*, Mill insisted that the panopticon 'appear(s) to me to approach perfection'.

2.5 Notes

1. William E.C. Thomas, *The Philosophic Radicals: Nine Studies in Theory and Practice 1817–1841* (Oxford: The Clarendon Press, 1979), p. 25.
2. See, ibid., pp. 35–6.
3. Werner Stark, 'Introduction', in Stark (ed.), *Jeremy Bentham's Economic Writings* (London: George Allen & Unwin, 1951), II, 18–19.
4. John Plamenatz, *The English Utilitarians* (2nd ed., Oxford: Basil Blackwell, 1958), pp. 73–4.
5. John Wild, *Plato's Modern Enemies and the Theory of Natural Law* (Chicago: University of Chicago Press, 1953), pp. 69–70.
6. Herbert Spencer, *Social Statics* (New York: Robert Schalkenbach Foundation, 1970), pp. 3ff.
7. As Plamenatz points out, Bentham and his followers assert 'that no man can desire any pleasure except his own', and yet, paradoxically, 'they both insist that the greatest happiness, no matter whose, is the only criterion of morality'. Plamenatz, op. cit. note 4, p. 18.

And Professor Veatch points out that 'the utilitarians have always had some difficulty in showing why anyone has any obligation to think about others. If one begins by basing one's ethics on straightforward hedonistic principles, asserting that pleasure is the only thing of any value in life and recommending that the moral agent simply do as he pleases, it is patently difficult to make the transition from such a starting point to the further assertion that this same moral agent ought to concern himself not merely with his own pleasure, but equally with the pleasure of others'. Henry B. Veatch, *Rational Man: A Modern Interpretation of Aristotelian Ethics* (Bloomington, Indiana: Indiana University Press, 1962), pp. 182–3.

8. Felix Adler, The Relation of Ethics to Social Science', in H.J. Rogers, (ed.), *Congress of Arts and Science* (Boston: Houghton Mifflin, 1906), VII, p. 673. Peter Geach also makes the point that what if, even in utilitarian terms, more social happiness can be obtained by following the wishes of the *smaller* number? See Peter Geach, *The Virtues* (Cambridge: Cambridge University Press, 1977), pp. 91ff.
9. There are many other deep flaws in utilitarianism. For one, even assuming that happiness can be added or subtracted between persons, why couldn't more total social happiness be obtained by following the wishes of the *smaller* number? And what then? See Geach, op. cit., note 8. And further, the utilitarian assumption of complete moral indifference among subjective utilities or preferences will often prove counter-intuitive. How many people, for example (the majority?) will stubbornly hold with the utilitarians that someone's desire to see an innocent person hurt should count as fully in the social calculus as other, less harmful, preferences? Cf. Murray N. Rothbard, *The Ethics of Liberty* (Atlantic Highlands, NJ: Humanities Press, 1982), p. 213.
10. Gertrude Himmelfarb, *Victorian Minds* (1970, Gloucester, Mass.: Peter Smith, 1975), p. 35.
11. Ibid., p. 38.
12. Ibid., pp. 58–9.
13. Ibid., p. 71.
14. Ibid., p. 76.
15. Douglas C. Long, *Bentham on Liberty* (Toronto: University of Toronto Press, 1977), p. 164. And Long wrote: Bentham 'broadened his view of the functions attributable to a lawmaker until they ... seemed to include every imaginable form of social control over the universe of human actions'. Ibid., p. 214.

3 James Mill, Ricardo, and the Ricardian system

3.1 James Mill, the radicals' Lenin

James Mill (1771–1836) was surely one of the most fascinating figures in the history of economic thought. And yet he is among the most neglected. Mill was perhaps one of the first persons in modern times who might be considered a true 'cadre man', someone who in the Leninist movement of the next century would have been hailed as a 'real Bolshevik'. Indeed, he was the Lenin of the radicals, creating and forging philosophical radical theory and the entire philosophical radical movement. A brilliant and creative but an insistently Number 2 man, Mill began as a Lenin seeking his Marx. In fact, he simultaneously found two 'Marxes', Jeremy Bentham and David Ricardo. He met both at about the same time, at the age of 35, Bentham in 1808 and Ricardo around the same date. Bentham became Mill's philosophic Marx, from whom Mill acquired his utilitarian philosophy and passed it on to Ricardo and to economics generally. But it has been largely overlooked that Mill functioned creatively in his relationship with Bentham, persuading the older man, formerly a Tory, that Benthamite utilitarianism implied a political system of radical democracy. David Ricardo (1772–1823) was an unsophisticated, young, but retired wealthy stockbroker (actually bond dealer) with a keen interest in monetary matters; but Mill perceived and developed Ricardo as his 'Marx' in economics.

Until he acquired his post at the East India Company in 1818, at the age of 45, Mill, an impoverished Scottish emigré and freelance writer in London, lived partially off Bentham, and managed to keep on good enough formal terms with his patron despite their severe personality conflicts. An inveterate organizer of others as well as himself, Mill tried desperately to channel Bentham's prolific but random scribblings into a coherent pattern. Bentham meanwhile wrote privately to friends complaining of the impertinent interference of this young whippersnapper. Mill's publication of his massive *History of India* in 1818 won him immediate employment to an important post at the East India Company, where he rose to the head of the office in 1830 and continued there until his death.

As for David Ricardo, self-taught and diffident, he scarcely acted as a Great Man. To the contrary, his admiration for Mill, his intellectual mentor and partly his mentor in economic theory, allowed him to be moulded and dominated by Mill. And so Mill happily hectored, cajoled, prodded and bullied his good friend into becoming the 'Marx', the great economist, that Mill felt for whatever reason he himself could or should not be. He pestered Ricardo into writing and finishing his masterpiece, *The Principles of Political Economy and Taxation* (1817), and then into entering Parliament to take an active political role as leader of the radicals. Mill was then delighted to become the leading and highly devoted Ricardian in economics.

As a 'Lenin' then, James Mill had a far more active intellectual role than the real Lenin would ever enjoy. Not only did he integrate the work of two

'Marxes'; he contributed substantially to the system itself. Indeed, in endless conversations Mill instructed Ricardo on all manner of topics, and Mill looked over, edited, and undoubtedly added to many drafts of Ricardo's *Principles*. We have already seen, for example, that it was Mill who first absorbed and adopted Say's law and passed it on to his pupil Ricardo. Recent researches indicate that James Mill may have played a far more leading role in developing Ricardo's *magnum opus* than has been believed – for example, in arriving at and adopting the law of comparative advantage.

Mill's stance is surely unique in the history of social thought. Very often theorists and writers are anxious to proclaim their alleged originality to the skies (Adam Smith being an aggravated though not untypical case). But what other instance is there of a man far more original or creative than he liked to claim; how many others have insisted on appearing to be a mere Number 2 man when in many ways they were Number 1? It is possible, it should be noted, that the explanation for this curious fact is simple and materio-economic rather than depth-psychological. Mill, son of a Scottish shoemaker, was an impoverished Scot without steady employment trying to make his way and raise a family in London.. Bentham was a wealthy aristocrat who functioned as Mill's patron; Ricardo was a wealthy retired stockbroker. It is certainly possible that Mill's posture as devoted disciple was a function of a poor man keeping his wealthy mentor–disciples happy as well as maximizing the public's reception for their common doctrines.

As a pre-eminent cadre man, Mill possessed all the strengths and weaknesses of that modern type. Humourless, eternally the didact, but charismatic and filled with prodigious energy and determination, Mill found enough time to carry on an important full-time job at the East India House, while yet functioning as a committed scholar–activist on many levels. As a scholar and writer, Mill was thorough and lucid, committed strongly to a few broad and overriding axioms: utilitarianism, democracy, *laissez-faire*. On a scholarly level, he wrote important tomes on the history of British India, on economics, on political science, and on empiricist psychology. He also wrote numerous scholarly reviews and articles. But strongly committed, as Marx would be, to changing the world as well as understanding it, Mill also wrote countless newspaper articles and strategic and tactical essays, as well as tirelessly organizing the philosophic radicals, and manoeuvring in Parliament and in political life. With all that, he had the energy to preach and instruct everyone around him, including his famous and failed attempt to brainwash his young son John. But it must be noted that Mill's fierce and fervent education of John was not simply the crotchet of a Victorian father and intellectual; the education of John Stuart was designed to prepare him for the presumptively vital and world-historical role of James's successor as leader of the radical cadre, as the new Lenin. There was a method in the madness.

James Mill's evangelical Calvinist spirit was tailor-made for his lifelong cadre role. Mill was trained in Scotland to be a Presbyterian preacher. During his days as a literary man in London he lost his Christian faith and became an atheist, but, as in the case of so many later evangelically trained atheist and agnostic intellectuals, he retained the grim, puritanical and crusading habit of mind of the prototypical Calvinist firebrand. As Professor Thomas perceptively writes:

> This is why Mill, a sceptic in later life, always got on well with (Protestant) dissenters [from the Anglican Church] ... He may have come to reject belief in God, but some form of evangelical zeal remained essential to him. Scepticism in the sense of non-commitment, indecision between one belief and another, horrified him. Perhaps this accounts for his long-standing dislike of Hume. Before he lost his faith, he condemned Hume for his infidelity; but even when he had come to share that infidelity, he continued to undervalue him. A placid scepticism which seemed to uphold the *status quo* was not an attitude of mind Mill understood.[1]

Or perhaps Mill understood Hume all too well, and therefore reviled him.

Mill's Calvinism was evident in his conviction that reason must keep stern control over the passions – a conviction which hardly fitted well with Benthamite hedonism. Cadre men are notorious puritans, and Mill puritanically disliked and distrusted drama or art. The actor, he charged, was 'the slave of the most irregular appetites and passions of his species', and Mill was hardly the one to delight in sensuous beauty for its own sake. Painting and sculpture Mill scorned as the lowest of the arts, only there to gratify a frivolous love of ostentation. Since Mill, in a typically Benthamite utilitarian manner, believed that human action is only 'rational' if done in a prudent, calculating manner, he demonstrated in his *History of British India* a complete inability to understand anyone motivated by mystical religious asceticism or by a drive for military glory or self-sacrifice.

If Emil Kauder is right, and Scottish Calvinism accounts for Smith's introduction of the labour theory of value into economics, then Scottish Calvinism even more accounts for James Mill's forceful and determined crusade for the labour theory of value and perhaps for its playing a central role in the Ricardian system. It also might explain the devoted adherence to the labour theory by Mill's fellow Scot and student of Dugald Stewart, John R. McCulloch.

A prime, and particularly successful example of Mill the cadre man at work was his role in driving through Parliament the great Reform Bill of 1832. The centrepiece of Mill's political theory was his devotion to democracy and universal suffrage; but he was sensibly willing to settle, temporarily, for the Reform Bill, which decisively expanded British suffrage from an aristocratic and gerrymandered to a large middle-class base. Mill was the behind-the-scenes 'Lenin' and master manipulator of the drive for the Reform Bill. His strategy was to play on the fear of the timorous and centrist Whig government that the masses would erupt in violent revolution if the bill were not passed. Mill and his radicals knew full well that no such revolution was in the offing; but Mill, through friends and allies placed strategically in the press, was able to orchestrate a deliberate campaign of press deception that fooled and panicked the Whigs into passing the bill. The campaign of lies was engaged in by important sectors of the press: by the *Examiner*, a leading weekly owned and edited by the Benthamite radical Albany Fonblanque: by the widely read *Morning Chronicle*, a Whig daily edited by Mill's old friend John Black, who made the paper a vehicle for the utilitarian radicals; and by the *Spectator*, edited by the Benthamite S. Rintoul. The *Times* was also friendly to the radicals at this point, and the leading Birmingham radical, Joseph Parkes, was owner and editor of the *Birmingham Journal*. Not only that; Parkes was able to have his mendacious stories on the allegedly revolutionary public opinion of Birmingham printed as factual reports in the *Morning Chronicle* and the *Times*. So well did Mill accomplish his task that most later historians have been taken in as well.

Ever the unifier of theory and praxis, James Mill paved the way for this organized campaign of deception by writing in justification of lying for a worthy end. While truth was important, Mill conceded, there are special circumstances 'in which another man is not entitled to the truth'. Men, he wrote, should not be told the truth 'when they make bad use of it'. Ever the utilitarian! Of course, as usual, it was the utilitarian who was to decide whether the other man's use was going to be 'good' or 'bad'.

Mill then escalated his defence of lying in politics. In politics, he claimed, disseminating 'wrong information' (or, as we would now say, 'disinformation') is 'not a breach of morality, but on the contrary a meritorious act ... when it is conducive to the prevention of misrule. In no instance is any man less entitled to right information, than when he would employ it for the perpetuation of misrule'.

A decade and a half later, John Arthur Roebuck, one of Mill's top aides in the campaign, and later a radical MP and historian of the drive for reform, admitted that

> to attain our end, much was said that no one really believed; much was done that no one would like to own ... often, when there was no danger, the cry of alarm was raised to keep the House of Lords and the aristocracy generally in what was termed a state of wholesome terror.

In contrast to the 'noisy orators who appeared important' in the campaign, Roebuck recalled, were the 'cool-headed, retiring, sagacious determined men ... who pulled the strings in this strange puppet-show'. 'One or two ruling minds, to the public unknown', manipulated and stage-managed the entire movement. They 'use[d] the others as their instruments ...'. And the most cool-headed, sagacious and determined was the master puppeteer of them all, James Mill.

Although he worked as a high official for the East India Company and could not run for parliament himself, James Mill was the unquestioned cadre leader of the group of 10–20 philosophic radicals who enjoyed a brief day in the sun in Parliament during the 1830s. Mill continued to be their leader until he died in 1836, and then the others attempted to continue in his spirit. While the philosophic radicals proclaimed themselves Benthamites, the aging Bentham had little to do personally with this Millian group. Most of the parliamentary philosophic radicals had been converted personally by Mill, beginning with Ricardo over a decade earlier, and also including his son John Stuart, who for a while succeeded his father as radical leader. Mill, along with Ricardo, also converted the official leader of the radicals in Parliament, the banker and later classical historian George Grote (1794–1871). Grote, a self-educated and humourless man, soon became an abject tool of James Mill, whom he greatly admired as 'a very profound thinking man'. As Mill's most faithful disciple, Grote, in the words of Professor Joseph Hamburger, was 'so inoculated, as it were' that for him all of Mill's dicta 'assumed the force and sanction of duties'.

The Millian circle also had a fiery cadre lady, Mrs Harriet Lewin Grote (1792–1873), an imperious and assertive militant whose home became the salon and social centre for the parliamentary radicals. She was widely known as 'the Queen of the Radicals', of whom Cobden wrote that 'had she been a man, she would have been the leader of a party'. Harriet testified to Mill's eloquence and charismatic effect on his young disciples, most of whom were brought into the Millian circle by his son, John Stuart. A typical testimony was that of William Ellis, a young friend of John, who wrote in later years of his experience of James Mill: 'He worked a complete change in me. He taught me how to think and what to live for.'

3.2 Mill and libertarian class analysis

The theory of class conflict as a key to political history did not begin with Karl Marx. It began, as we shall see further below, with two leading French libertarians inspired by J.B. Say, Charles Comte (Say's son-in-law), and Charles Dunoyer, in the 1810s after the restoration of the Bourbon monarchy. In contrast to the later Marxist degeneration of class theory, the Comte–Dunoyer view held the inherent class struggle to focus on *which classes* managed to gain control of the state apparatus. The *ruling* class is whichever group has managed to seize state power; the *ruled* are those groups who are taxed and regulated by those in command. Class interest, then, is defined as a group's relation to the state. State rule, with its taxation and exercise of power, controls, and conferring of subsidies and privileges, is the instrument that creates conflicts between the rulers and the ruled. What we have, then, is a 'two-class' theory of class conflict, based on whether a group rules or is ruled by the state. On the free market, on the other hand, there is no class conflict, but a harmony of interest between all individuals in society cooperating in and through production and exchange.

James Mill developed a similar theory in the 1820s and 1830s. It is not known whether he arrived at it independently or was influenced by the French libertarians; it is clear, however, that Mill's analysis was devoid of the rich applications to the history of western Europe that Comte, Dunoyer, and their young associate, the historian Augustin Thierry, had worked out. All government, Mill pointed out, was run by the ruling class, the few who dominated and exploited the ruled, the many. Since all groups tend to act for their selfish interests, he noted, it is absurd to expect the ruling clique to act altruistically for the 'public good'. Like everyone else, they will use their opportunities for their own gain, which means to loot the many, and to favour their own or allied special interests as against those of the public. Hence Mill's habitual use of the term 'sinister' interests as against the good of the public. For Mill and the radicals, we should note, the public good meant specifically *laissez-faire*–government confined to the minimal functions of police, defence and the administration of justice.

Hence Mill, the pre-eminent political theorist of the radicals, harked back to the libertarian Commonwealthmen of the eighteenth century in stressing the need always to treat government with suspicion and to provide checks to suppress state power. Mill agreed with Bentham that 'If not deterred, a ruling elite would be predatory'. The pursuit of sinister interests leads to endemic 'corruption' in politics, to sinecures, bureaucratic 'places' and subsidies. Mill lamented: 'Think of the end [of government] as it really is, in its own nature. Think next of the facility of the means – justice, police, and security from foreign invaders. And then think of the oppression practised upon the people of England under the pretext of providing them.'

Never has libertarian ruling-class theory been put more clearly or forcefully than in the words of Mill: there are two classes, Mill declared, 'The first class, those who plunder, are the small number. They are the ruling Few. The second class, those who are plundered, are the great number. They are the subject Many'. Or, as Professor Hamburger summed up Mill's position: 'Politics was a struggle between two classes – the avaricious rulers and their intended victims.'[2]

The great conundrum of government, concluded Mill, was how to eliminate this plunder: to take away the power 'by which the class that plunder succeed in carrying on their vocation, has ever been the great problem of government'.

The 'subject Many' Mill accurately termed 'the people', and it was probably Mill who inaugurated the type of analysis that pits 'the people' as a ruled class in opposition to the 'special interests'. How, then, is the power of the ruling class to be curbed? Mill thought he saw the answer: 'The people must appoint watchmen. Who are to watch the watchmen? The people themselves. There is no other resource; and without this ultimate safeguard, the ruling Few will be forever the scourge and oppression of the subject Many.'

But how are the people themselves to be the watchmen? To this ancient problem Mill provided what is by now a standard answer in the western world, but still not very satisfactory: by all the people electing representatives to do the watching.

Unlike the French libertarian analysts, James Mill was not interested in the history and development of state power; he was interested only in the here and now. And in the here and now of the England of his day, the ruling Few were the aristocracy, who ruled by means of a highly limited suffrage and controlled 'rotten boroughs' picking representatives to Parliament. The English aristocracy was the ruling class; the government of England, Mill charged, was 'an aristocratical engine, wielded by the aristocracy for their own benefit'. Mill's son and ardent disciple (at that time), John Stuart, argued in a Millian manner in debating societies in London that England did *not* enjoy a 'mixed government', since a great majority of the House of Lords was chosen by '200 families'. These few aristocratic families 'therefore possess absolute control over the government ... and if a government controlled by 200 families is not an aristocracy, then such a thing as an aristocracy cannot be said to exist'. And since such a government is controlled and run by a few, it is therefore 'conducted wholly for the benefit of a few'.

It is this analysis that led James Mill to place at the centre of his formidable political activity the attainment of radical democracy, the universal suffrage of the people in frequent elections by secret ballot. This was Mill's long-run goal, although he was willing to settle temporarily – in what the Marxists would later call a 'transition demand' – for the Reform Bill of 1832, which greatly widened the suffrage to the middle class. To Mill, the extension of democracy was more important than *laissez-faire*, for to Mill the *process* of dethroning the aristocratic class was more fundamental, since *laissez-faire* was one of the happy consequences expected to flow from the replacement of aristocracy by the rule of all the people. (In the modern American context, Mill's position would aptly be called 'right-wing populism'.) Placing democracy as their central demand led the Millian radicals in the 1840s to stumble and lose political significance by refusing to ally themselves with the Anti-Corn Law League, despite their agreement with its free trade and *laissez-faire*. For the Millians felt that free trade was too much of a middle-class movement and detracted from an overriding concentration on democratic reform.

Granted that the people would displace aristocratic rule, did Mill have any reason for thinking that the people would then exert their will on behalf of *laissez-faire*? Yes, and here his reasoning was ingenious: while the ruling class had the fruits of their exploitative rule in common, the people were a different kind of class: their only interest in common was getting rid of the rule of special privilege. Apart from that, the mass of the people have no common class interest that they could ever actively pursue by means of the state. Furthermore, this interest in eliminating special privilege is the common interest of all, and is therefore the 'public interest' as opposed to the special or sinister interests of the few. The interest of the people coincides with universal interest and with *laissez-faire* and liberty for all.

But how then explain that no one can claim that the masses have always championed *laissez-faire*? – and that the masses have all too often loyally supported the exploitative rule of the few? Clearly, because the people, in this complex field of government and public policy, have suffered from what the Marxists would later call 'false consciousness', an ignorance of where their interests truly lie. It was then up to the intellectual vanguard, to Mill and his philosophic radicals, to educate and organize the masses so that their consciousness would become correct and they would then exert their irresistible strength to bring about their own democratic rule and install *laissez-faire*. Even if we can accept this general argument, the Millian radicals were unfortunately highly over-optimistic about the time span for such consciousness-raising, and political setbacks in the early 1840s led to their disillusionment in radical politics and to the rapid disintegration of the radical movement. Curiously enough, their leaders, such as John Stuart Mill and George and Harriet Grote, while proclaiming their weary abandonment of political action or political enthusiasm, in reality gravitated with astonishing rapidity toward the cosy Whig centre that they had formerly scorned. Their proclaimed loss of interest in politics was in reality a mask for loss of interest in *radical* politics.

3.3 Mill and the Ricardian system

Much has been recently revealed about James Mill's formative and shaping role over his friend Ricardo's system. How much of Ricardianism is really Mill's creation? Apparently a great deal. One thing is certain: it was Mill who took from J.B. Say the great Say's law and converted Ricardo to that stand. Mill had developed Say's law in his important early book, *Commerce Defended* (1808), written shortly before he met Ricardo. Ricardo faithfully followed Say's law, and, while in Parliament, consistently opposed expenditure on public works during the depressed year of 1819. And we have seen that Mill and Ricardo together managed to kill the publication of Bentham's 'pre-Keynesian' *True Alarm* in 1811.

In expounding Say's law, Mill was carrying on and developing the important Turgot–Smith insights on saving and investment. But most of the rest of Mill's economic legacy was a disaster. Much of it was the heart and soul of the Ricardian system. Thus, in a forgotten early work, *The Impolicy of a Bounty on the Exportation of Grain* (1804), Mill sets forth the essence of Ricardianism, from the actual content, to the characteristic disastrous methodology of brutal and unrealistic oversimplification, and to a holistic concentration of unsound macro-aggregates unrelated to the actions of the individual, whether consumer or businessman, in the real world. Mill churns out chunks of alleged interrelations between these macro-aggregates, all *seeming* to be about the real world, but actually relevant only to deeply fallacious assumptions about the never-never land of long-run equilibrium. The methodology is essentially 'verbal mathematics', since the statements are only the implicit churning out of what are really mathematical relations but are never admitted as such. The use of the vernacular language adds a patina of pretend realism that mathematics can never convey. An open use of mathematics might at least have revealed the fallacious assumptions of the model.

Ricardo's exclusive concern with long-run equilibria may be seen from his own declaration of method: 'I put those immediate and temporary effects quite aside, and fixed my whole attention on the permanent state of things which will result from them.'

Unrealistic oversimplification compounded upon itself is the 'Ricardian Vice'. Both the Ricardian and the Say–Austrian methodology have been termed 'deductive', but they are really poles apart. The Austrian methodology ('praxeology') sticks close in its axioms to universally realistic common insights into the essence of human action, and deduces truths only from such evidently true propositions or axioms. The Ricardian methodology introduces numerous false assumptions, compounded and multiplied, into the initial axioms, so that deductions made from these assumptions – whether verbal in the case of Ricardo or mathematical in the case of the modern Walrasians or a blend of both as in the Keynesians – are all necessarily false, useless and misleading.

Thus, in his essay on a bounty on grain, James Mill introduces the typically 'Ricardian' error of melding all agricultural commodities into one, 'corn' (wheat), and claiming corn to be *the* basic commodity. With corn now adopted as a surrogate for all food, Mill makes the sweeping statement that the most scientific principle of political economy is 'that the money price of corn, regulates the money price of everything else'. Why? Here, Mill introduces a typically and brutally drastic variant of Malthusianism. Not just that there is a long-run *tendency* for population to press on the means of subsistence so that wage rates are pushed down to the cost of subsistence. But more, in a typically Ricardian confusion of the non-existent long-run equilibrium with constant, everyday reality, that wage rates are always set by the price of corn (a surrogate for food, or subsistence, in general). Mill lays down the proposition that wage rates are always set directly by the price of corn as 'so obviously necessary, that we need spend no more time proving it'. That takes care of *that*! He concludes therefore that the wage rate is 'entirely regulated by the money price of corn'.

Mill's extreme version of Malthusianism can be seen in his statement that 'no one ... will hesitate to allow ... that the tendency of the species to multiply is much greater than the rapidity with which there is any chance that the fruits of the earth will be multiplied'. Mill even goes so far in wild extremes as to say that 'raise corn as fast as you please, mouths are producing still faster to eat it. Population is invariably pressing close upon the heels of subsistence; and in whatever quantity food be produced, a demand will always be produced greater than the supply'.

Another unfortunate notion contributed to Ricardo by Mill in his 1804 essay is an overriding focus on the behaviour of a few aggregate macro-shares. Labour was assumed to be of uniform quality; therefore, all 'wages' were pushed down to subsistence level by the price of corn. There are only three macro-distributive shares: 'wages', 'profits' and 'rents' in the Ricardian scheme. There is no discussion whatever of *individual* prices or wage rates – the proper concern of economic analysis – and no hint of the existence of or the need for the entrepreneur. Say's brilliant analysis of the entrepreneur's central role is completely forgotten; there is no role for a risk-bearing entrepreneur if all is frozen into a few aggregative chunks in long-run equilibrium, where change is slow or non-existent, and knowledge is perfect rather than uncertain. 'Profits', therefore, are the net returns aggregatively received by capitalists, which could well be called 'interest' or 'long-run profits'.

If wages, profits and rents exhaust the product, then, tautologically and virtually by definition, if one of the three increases, and the *total is frozen*, one or both of the other shares must fall. Hence, the implicit Ricardian assumption of inherent class conflict between the receivers of the three blocs of distributive shares. In the Mill–Ricardian system, wages are fixed by the price of corn, or the cost of food. The cost of food, for its part, is always increasing because of the fixed supply of land and the alleged Malthusian necessity to move to ever less productive land as the population increases and presses on the food supply. Thus: rents are always slowly but inexorably increasing, and money wage rates are always rising in order to maintain the real wage at subsistence level. Therefore – hey presto! – aggregate 'profits' must always be falling.

Schumpeter's blistering critique of the Ricardian system is highly perceptive and perfectly apt:

> ...he [Ricardo] cut that general system [of economic interdependence in the market] to pieces, bundled up as large parts of it as possible in cold storage – so that as many things as possible should be frozen and 'given'. He then piled one simplifying assumption upon another until, having really settled everything by these assumptions, he was left with only a few aggregative variables between which, given these assumptions, he set up simple one-way relations so that, in the end, the desired results emerged almost as tautologies. For example, a famous Ricardian theory is that profits 'depend upon' the price of wheat. And upon his implicit assumptions, and in the particular sense in which the terms of the proposition are to be understood, that is not only true, but undeniably, in fact trivially, so. Profits could not possibly depend upon anything else, since everything else is 'given', that is, frozen. It is an excellent theory that can never be refuted and lacks nothing save sense.[3]

3.4 Ricardo and the Ricardian system, I: macro-income distribution

While much of the Ricardian system turns out to be the creation of James Mill, perhaps most of it was due to Ricardo himself, who of course must, in any case, bear major responsibility for his own work. To continue the Marxian metaphor, in many ways the Mill–Ricardo relationship might be more of a Marx–Engels than a Lenin–Marx connection.

Ricardo was born in London into a prosperous family of Spanish–Portuguese Jews who had settled in Holland after having been expelled from Spain at the end of the fifteenth century. Ricardo's father had moved to London, where he prospered as a stockbroker, and had 17 children, of whom David was the third. At the age of 11, David was sent by his father to Amsterdam, to attend Orthodox Hebrew school for two years. At the age of 14, with only an elementary education, Ricardo began his business career, employed by his father's 'stockbroker' house. It must be emphasized that, with the exception of the quasi-governmental Bank of England, there were no corporations or corporate stocks in that era. Government bonds were then called 'stocks', and so 'stockbrokers' were what would now be called government bond dealers.

Seven years later, however, David married a Quaker girl, and left the Jewish faith, whereupon he was disowned by his parents. Eventually, he became a confirmed Quaker. A London bank, already impressed with young Ricardo, lent him enough money to set himself up in his own business as a stockbroker. Within a few years, Ricardo made an enormous amount of money in the bond business, until he was ready to retire to the country in his early 40s. In 1799, at the age of 27, Ricardo, bored while whiling away time at a health resort, chanced upon a copy of *The Wealth of Nations*, and devoured it, becoming, like so many others of that era, a dedicated Smithian.

As Schumpeter points out, Ricardo's *Principles* can only be understood as a dialogue with, and reaction to, *The Wealth of Nations*. Ricardo's logical bent was offended at the basic confusion of mind, the chaos that J.B. Say also saw in the Smithian canon, and he, like Say before him, set out to clarify the Smithian system. Unfortunately, and in deep contrast to Say, Ricardo simplified by taking all the most egregious errors in Smith, throwing out all qualifications and contradictions, then building his system upon what was left. The worst of Smith was magnified and intensified. In his basic method, all of Smith's historical and empirical points were tossed out. This was not bad in itself, but it left a deductive system built on deep fallacy and incorrect macro-models. In addition, while Ricardo's theoretical system might have been brutally oversimplified in relation to Smith, his writing style was inordinately crabbed and obtuse. The methodology of verbal mathematics is almost bound to be difficult and obscurantist, with blocks of words spelling out equilibrium mathematical relations in a highly cumbersome manner. But on top of that, Ricardo, in contrast to his mentor Mill, was undoubtedly one of the worst and most turgid literary stylists in the history of economic thought.

In contrast to Adam Smith, for whom the output, or wealth, of nations was of supreme importance, Ricardo neglected total output to place overriding emphasis on the alleged distribution of a given product into macro-classes. Specifically, into the three macro-classes of landlords, labourers and capitalists. Thus, in a letter to Malthus, who on this question at least was an orthodox Smithian, Ricardo made the distinction clear: 'Political economy, you think, is an enquiry into the nature and causes of wealth; I think it should rather be called an enquiry into the laws which determine the division of the produce of industry amongst the classes who concur in its formation.'

Since entrepreneurship could not exist in Ricardo's world of long-run equilibrium, he was left with the classical triad of factors. His analysis was strictly holistic, in terms of allegedly homogeneous but actually varied and diverse classes. Ricardo avoided any Say-type emphasis on the individual, whether he be the consumer, worker, producer or businessman.

In Ricardo's world of verbal mathematics there were, as Schumpeter has astutely pointed out, four variables: total output or income, and shares of income to landlords, capitalists, and workers, i.e. rent, profits (long-run interest) and wages. Ricardo was stuck with a hopeless problem: he had four variables, but only one equation with which to solve them:

$$\text{Total output (or income)} = \text{rent} + \text{profits} + \text{wages}$$

To solve, or rather pretend to solve, this equation, Ricardo had to 'determine' one or more of these entities from outside his equation, and in such a way as to leave others as residuals. He began by neglecting total output, i.e. by assuming it to be a *given*, thereby 'determining' output by freezing it on his own arbitrary assumptions. This procedure enabled him to get rid of one variable – to his own satisfaction.

Next, on to wages. Here, Ricardo took from Mill the hard-core, or ultra-Malthusian, view that 'wages' – all wages – are always and everywhere pressing on the food supply to such an extent that they are always set, and determined, precisely at the level of the cost of subsistence. Labour is assumed to be homogeneous and of equal quality, so that all wages can be assumed to be at subsistence cost. While briefly and dimly acknowledging that labour can have different qualities or grades, Ricardo, like Marx after him, drastically assumed away the problem by blithely postulating that they can all be incorporated into a weighted quantity of 'labour hours'. As a result, Ricardo could maintain that wage rates were uniform throughout the economy. In the meanwhile, as we have seen, food, or subsistence generally, was assumed to be incorporated into one commodity, 'corn', so that the price of corn can serve as a surrogate for subsistence cost in general.

Given these heroic and fallacious assumptions, then, 'the' wage rate is determined instantly and totally by the price of corn, since the wage rate can neither rise above the subsistence level (as determined by the price of corn) nor sink below it.

The price of corn, in its turn, is determined according to Ricardo's famous theory of rent. Rent served as the linchpin of the Ricardian system. For, according to Ricardo's rather bizarre theory, *only* land differed in quality. Labour, as we have seen, was assumed to be uniform, and therefore wage rates are uniform, and, as we shall see, profits are also assumed to be uniform because of the crucial postulate of the economy's always being in long-run equilibrium. Land is the only factor which miraculously is allowed to differ in quality. Next, Ricardo assumes away any discovery of new lands or improvements in agricultural productivity. His theory of history therefore concludes that people always begin by cultivating the most fertile lands, and, as population increases, the Malthusian pressure on the food supply forces the producers to use ever more inferior lands. In short, as population and food production rise, the cost of growing corn must inexorably rise over time.

Rent, in Ricardo's phrase, is payment for the 'use of the original and indestructible powers of the soil'. This hints at a productivity theory, and indeed Ricardo did see that more fertile and productive lands earned a higher rent. But unfortunately, as Schumpeter put it, Ricardo then 'embarks upon his detour'. In the first place, Ricardo made the assumption that at any moment the poorest land in cultivation yields a zero rent. He concluded from that alleged fact that a given piece of land earns rent not because of *its own* productivity, but merely because its productivity is greater than the poorest, zero-rent, land under cultivation. Remember that, for Ricardo, labour is homogeneous and hence wages uniform and equal, and, as we shall see, profits are also uniform and equal. Land is unique in its permanent, long-run structure of differential fertility and productivity. Hence, to Ricardo, rent is *purely* a differential, and Land *A* earns rent solely because of its differential productivity compared to Land *B*, the zero-rent land in cultivation.

To Ricardo, several important points followed from these assumptions. First, as population inexorably increases, and poorer and poorer lands are used, *all the differentials keep increasing*. Thus, say that, at one point of time, corn lands (which sums up all land) range in productivity from the highest, Land *A*, through a spectrum down to Land *J*, which, being marginal, earns a zero rent. But now population increases and farmers have to cultivate more and poorer lands, say *K*, *L*, and *M*. *M* now becomes the zero-rent land, and Land *J* now earns a positive rent, equal to the differential between *its* productivity and that of *M*. And all the previous infra-marginal lands have their differential rents raised as well. It becomes ineluctably true, therefore, that over time, as population increases, rents, and the proportion of income going to rent, increase as well.

Yet, though rent keeps increasing, *at the margin* it always remains zero, and, as Ricardo put it in a crucial part of his theory, being zero rent *does not enter into cost*.

Put another way: quantity of labour cost, being allegedly homogeneous, is uniform for each product, and profits, being uniform and fairly small throughout the economy, form a part of cost that can be basically neglected. Since the price of every product is uniform, this means that the quantity of labour cost on the highest-cost, or zero-rent, land, uniquely determines the price of corn and of every other agricultural product. Rent, being infra-marginal in Ricardo's assumptions, cannot enter into cost. Total rental income is a passive residual determined by selling prices and total income, and selling prices are determined by quantity of labour cost and (to a small extent) the uniform rate of profit. And since the quantity of labour needed to produce corn keeps rising as more and more inferior lands are put into production, this means that the cost of producing corn and hence the price of corn keep rising over time. And, paradoxically, while rent keeps rising over time, it remains zero at the margin, and therefore without any impact on costs.

There are many flaws in this doctrine. In the first place, even the poorest land in cultivation never earns a zero rent, just as the least productive piece of machinery or worker never earns a zero price or wage. It does not benefit any resource owner to keep his resource or factor in production unless it earns a positive rent. The marginal land, or other resource, will indeed earn less of a rent than more productive factors, but even the marginal land will always earn *some* positive rent, however small.

Second, apart from the zero-rent problem, it is simply wrong to think that rent, or any other factor return, is *caused* by differentials. Each piece of land, or unit of any factor, earns whatever *it* produces; differentials are simple arithmetic subtractions between two lands, or other factors, *each of which* earns a positive rent of its own. The assumption of zero rent at the margin allows Ricardo to obscure the fact that *every* piece of land earns a productive rent, and allows him to slip into the differential *as cause*.

We might just as well turn Ricardo on his head and apply the differential theory to wages, and say, with Schumpeter, that 'one pays more for good than for bad land exactly as one pays more for a good than a bad workman'.[4]

Third, in discussing the rise in cost of producing corn, Ricardo reverses cause and effect. Ricardo states that increasing population 'obliges' farmers to work land of inferior quality and *then* causes a rise in its price. But as any utility theory analyst would realize, the causal chain is precisely the reverse: when the *demand* for corn increases, its price would rise, and the higher price would lead farmers to grow corn on higher-cost land. But this realization, of course, eliminates the Ricardian theory of value and with it the entire Ricardian system.

And fourth, as numerous critics have pointed out, it is certainly not true historically that people always start using the highest-quality land and then sink gradually and inevitably down to more and more inferior land. Historically, there have always been advances, and enormous ones, in the productivity of agriculture, in the discovery and creation of new lands, and in the discovery and application of new and more productive agricultural techniques and types of products. Defenders of Ricardo counter that this is a purely historical argument, ignoring the logical beauty of the Ricardian theory. But the whole point is that Ricardo was, after all, advancing a *historical* theory, a law of history, and he certainly claimed historical accuracy for past and future predictions for his theory. And yet it is all a purely arbitrary, and hence largely untrue, assumption of his logical doctrine in the guise of a theory of history. Ricardo's basic problem throughout was making cavalier and untrue historical or empirical generalizations the building blocks of his logical system, from which he drew self-confident and seemingly apodictically true empirical and political conclusions. Yet from false assumptions only false conclusions can be drawn, regardless how imposing the logical structure may or may not be.

Ricardo's differential rent theory has been widely hailed as the precursor of the neoclassical law of diminishing returns, which the neoclassicals were supposed to have generalized from land to all factors of production. But this is wrong, since the law of diminishing returns applies to increasing doses of a factor to *homogeneous* units of other, logically fixed, factors – in this case land. But the whole point of Ricardo's differential rent theory is that his areas of land are not homogeneous at all, but varying in a spectrum from superiority to inferiority. Therefore the law of diminishing returns – as grasped by Turgot and rediscovered by the neoclassicals – simply does not apply.[5]

Rent, though increasing, is then effectively zero and not part of expenses or costs. Rent is disposed of in the Ricardian equation. But we have not yet finished the determination of wages, which so far we have said is precisely fixed at the subsistence level. What will happen to the costs of subsistence over time? They will rise as the cost of the production of corn rises with the increasing population, forcing the cultivation of ever more inferior lands. Over time, in the slow-moving long-run Ricardian equilibria, the cost of food will rise, and since wages must *always* be at the subsistence level, wages will *have* to rise to maintain *real* wage rates equal to the cost of subsistence. Now we begin to close the Ricardian circle. Rents are in effect zero, and wage rates, always at subsistence, must rise over time as the cost of food increases, in order to keep precise pace with the rising cost of subsistence. But, then – voilà! – we have finally determined all the variables except profits (at least to Ricardo's satisfaction), and, since total income is 'given' or kept frozen, this means that profits are the residual from total income. With rents out of the picture, if wage rates have to keep rising over time, this necessarily means that profits, or profit rates, have to keep falling. Hence the Ricardian doctrine of the ever-falling rate of profit (i.e. long-term rate of interest). Note that this is not the same as Adam Smith's view that the profit rate falls over time because and in so far as capital continues to accumulate; profit was supposed to be an inverse function of the stock of capital. Ricardo's doctrine of the falling rate of profit follows by triumphant tautology from his attempt to determine the other factor shares of total income. When profits fall to zero, or at any rate to a low level, capital will cease to accumulate and we arrive at Ricardo's 'stationary state'.

Ricardo, even more than Smith, totally leaves out the entrepreneur. There can be no role for the entrepreneur, after all, if everyone is always in long-run equilibrium and there is never risk or uncertainty. His 'profits', as in Smith, are the long-run rate of return, i.e. the rate of interest. In long-run equilibrium, furthermore, all profits are uniform, since firms rapidly move out of low-profit industries and into high-profit ones until equalization takes place. We then have 'profits' at a uniform rate throughout the economy at any given time.

A plausible insight into Ricardo's habitual confusion of long-run equilibrium and instantaneous adjustments with the real world has been offered by Professor F.W. Fetter. Fetter points out that Ricardo's practical familiarity was not with business and industry (as was, we might note, J.B. Say) but with the bond and foreign exchange markets. Ricardo 'usually assumed that even in industry and agriculture, adjustment took place on the basis of as small price differences, and almost as quickly, as did arbitrage in government securities and in foreign exchange'.[6]

To return to the Ricardian world: note that Ricardo does *not* say that the cost of corn rises over time because rents keep rising on corn land. He must get rid of the rent variable, and he can only do so by assuming that rent is zero at the margin, and therefore never forms any part of costs. Rent, then, is effectively zero. Why then does the cost of corn rise? As we have indicated, because the quantity of labour needed to produce corn, and hence the cost of producing corn, rises over time. This brings us to Ricardo's theory of cost and value. Rents are now out of it. Wages are not costs either, because a key to Ricardo's system is that rising wages lead only to lower profits, and *not* to higher prices. If rising wages meant that costs increased, then Ricardo, who as we shall see had a cost-theory of value and price, would have to say that prices rose rather than that profits would necessarily fall. Wages he treated as uniform, since Ricardo, like Marx after him, maintained that labour was homogeneous in quality. Not only did that mean that wages were uniform; but Ricardo could then treat, as the crucial part of its labour cost, the quantity of labour embodied in any product. Differences in quality or productivity of labour could then be dismissed as simply trivial and as a slightly more complex version of the quantity of labour hours. Quality has been quickly and magically transformed into quantity.

We have reached the edge of the Ricardian – and Marxian – labour theory of value. So far we just have a labour-quantity theory of cost. Ricardo vacillated at this point, between a strict labour theory of cost, and a labour-quantity theory plus the uniform rate of profit. But, since the uniform rate of profit, presumably around 3–6 per cent, is small compared to the quantity of labour hours, Ricardo may be pardoned for dismissing the profit-rate part of cost as of trivial importance. And, since all profit rates are assumed to be uniform, and, as we shall see, Ricardo had a cost theory of value or price, he could easily dismiss the uniform and small proportion, profit, as of no account in explaining relative prices.

It is, of course, peculiar to consider profits, even profits as long-run interest, as part of the 'costs' of production. Again, this usage stems from eliminating any consideration of entrepreneurial profits and losses, and focusing on interest as a long-run 'cost' of inducing savings and the accumulation of capital.

If profits for Ricardo are always uniform, how is this uniform profit determined? Curiously, profits are *in no way* related to savings or capital accumulation; for Ricardo, they are only a residual left over after paying wages. In short, to hark back to our original equation of Ricardian distribution: total output (or income) = rent + profits + wages. Remarkably, Ricardo has attempted to determine all the variables with *only* one variable explicitly determined. Output, as we have seen, was assumed as mysteriously given, from outside the Ricardian system. Wages ('the' uniform wage throughout the economy) is the only explicitly determined variable, determined completely to equal the cost of subsistence, embodied in the cost of producing corn. But that leaves *two* residuals, rents and profits, to be determined. The way Ricardo tries to get around that problem is to dispose of rents. Rents are the differential between the lands in cultivation and the least productive, zero-rent, land in use. The cost of producing corn is equal to the quantity of labour hours embodied in its production. Since rents are zero at the margin, they do not enter into costs, and are passively determined; at the no-rent margin, labour and capital's shares exhaust output. And since wages are supposedly determined by the cost of raising corn, this means that profit *can only* be a truistic residual of wages, otherwise the variable would be overdetermined, and the system would evidently collapse.

The alleged historical laws follow from the model. Since increasing population forces more and more inferior land into cultivation, the cost of labour in producing corn (i.e. the quantity of labour hours needed to produce it), must keep rising. And since price is determined by cost, supposedly boiled down into the quantity of labour hours to produce the good, this means that the price of corn must keep rising over time. But since *real* wage rates are fixed always at the cost of subsistence, and this is assumed to be the price of corn, money wage rates must keep rising over time (while workers remain at the subsistence level), and therefore profits must keep falling in the course of history.

Adam Smith believed that the rate of profit, or the long-run rate of interest return, is determined by the quantity of accumulated capital, so that more capital will lead to a falling rate of profit. While this theory is not fully correct, it at least understands that there is *some* connection between saving, capital accumulation, and long-run interest or profit. But to Ricardo there is no connection whatever. Interest on capital is only a residual. By a series of fallacies, and holistic, locked-in assumptions, trivial conclusions are at last ground out, all with a portentous air, allegedly telling us conclusive insights about the real world. As Schumpeter scornfully puts it: propositions such as 'profits depend upon wages', and the falling rate of profit, are excellent examples of 'that Art of Triviality that, ultimately connected with the Ricardian Vice, leads the victim, step by step, into a situation where he has got either to surrender or to allow himself to be laughed at for denying what, by the time that situation is reached, is *really* a triviality'.[7]

3.5 Ricardo and the Ricardian system, II: the theory of value

This brings us to Ricardo's theory of value, or price. While Ricardo formally admitted that supply and demand determine day-to-day market pricing, he tossed that aside as of no consequence, and concentrated solely on long-run equilibrium, i.e. 'natural' price and the alleged macro-distribution of income in that equilibrium. Utility Ricardo brusquely disposed of as ultimately necessary to production but of no influence whatever on value or price; in the 'value paradox' he embraced exchange value and abandoned utility completely. Not only that: he frankly and boldly discarded any attempt to explain the prices of goods that are not reproducible, that could not be increased in supply by the employment of labour. Hence Ricardo simply gave up any attempt to explain the prices of such goods as paintings, which are fixed in supply and cannot be increased. In short, Ricardo abandoned any attempt at a *general* explanation of consumer prices. We have arrived at the full-fledged Ricardian – and Marxian – labour theory of value.

The Ricardian system is now complete. Prices of goods are determined by their costs, i.e. by the quantity of labour hours embodied in them, trivially plus the uniform rate of profit. Specifically, since the price of each good is uniform, it will equal the cost of production on the highest-cost (i.e. zero-rent) or marginal land in cultivation. In short, price will be determined by cost, i.e. the quantity of labour hours on the zero-rent land used to work on the product. As time goes on, then, and population increases, poorer and poorer soils must be brought into use, so that the cost of producing corn continues to increase. It does so because the quantity of labour hours needed to produce corn keeps increasing, since labour must be employed on ever poorer soil. As a result, the price of corn keeps increasing. Since wage rates are always kept precisely at the subsistence level (the cost of growing corn) by population pressure, this means that money wage rates must continue to increase over time in order to keep *real* wage rates in pace with the ever-rising price of corn. Wage rates must increase over time, and hence profits must keep falling until they are so low that the stationary state is reached.

To return to the idea of rent as not entering into cost: if we focus, as we should on the 'micro' – on the individual farmer or capitalist – it should be clear that the individual *must* pay rent in order to gain use of any particular plot of land in the productive process. To do so, he must outbid other firms in his own as well as other industries. Ricardo's refusal to even consider the individual firm, and his focus on holistic aggregates, enables him to overlook the fact that rents, even if differentials, enter into costs the way *every* expense on factors of production enters into them. This is the only way that is real and that counts in the real world: the point of view of the individual firm or entrepreneur. There is, in fact, no 'social' point of view, since 'society' as an entity does not exist.

Ricardo's system is both gloomy and rife with allegedly inherent class conflict on the free market. First, there is tautological conflict because, given the fixed total, the income shares of one macro-group can only increase at the expense of another. But the point of the free market in the real world is that generally production increases, so that the total pie tends to keep rising. And, second, if we focus on individual factors and on how much they earn, as does the later marginal productivity theory (and as did J.B. Say), then each factor tends to earn its marginal product, and we need not even concern ourselves with the alleged but non-existent laws and conflicts of macro-class income distribution. Ricardo kept his eye unerringly on the radically wrong problem – or rather, problems.

But there is even more class conflict here than implied by Ricardo's tautological macro-approach. For if value is the product solely of labour hours, then it becomes easy for Marx, who was after all a neo-Ricardian, to call all returns to capital exploitative deductions from the whole of 'labour's' product. The Ricardian socialist call for turning over all of the product to labour follows directly from the Ricardian system – although Ricardo and the other orthodox Ricardians did not of course make that leap. Ricardo would have countered that capital represents embodied or frozen labour; but Marx accepted that point and simply riposted that all labour producers of capital, or frozen labour, should obtain their full return. In fact, *neither* was right; if we wish to consider capital goods as frozen *anything*, we would have to say, with the great Austrian Böhm-Bawerk, that capital is frozen labour and *land* and *time*. Labour, then, would be earning wages, land would earn rent, and interest (or long-run profits) would be the price of time.

Recent analysts, in an attempt to mitigate the crude fallacy of Ricardo's labour theory of value, have maintained, as in the case of Smith but even more so, that he was attempting not so much to explain the cause of value and price but to *measure* values over time, and labour was considered an invariable measure of value. But this hardly mitigates Ricardo's flaws; instead, it adds to the general fallacies and vagaries of the Ricardian system *another important* one: the vain search for a non-existent chimera of invariability. For values always fluctuate, and there is no invariable, fixed base of value from which other value changes can be measured.

Thus, in rejecting Say's definition of the value of a good as its purchasing power of other goods in exchange, Ricardo sought the invariable entity, the unmoved power:

> A franc is not a measure of value for any thing, but for a quantity of the same metal of which francs are made, unless francs, and the thing to be measured, can be referred to some other measure which is common to both. This, I think, they can be, for they are both the result of labour; and, therefore, labour is a common measure, by which their real as well as their relative value may be estimated.

It might be noted that both products are the result of capital, land, savings, and entrepreneurship, as well as labour, and that, in any case, their values are incommensurable except in terms of relative purchasing power, as Say had in fact maintained.

Part of Ricardo's impassioned quest for an invariable measure of values undoubtedly stemmed from his deep-dyed scientism. Ricardo was almost as interested in the natural sciences as in economics. From his early youth, Ricardo was keenly interested in the natural sciences, in mathematics, chemistry, mineralogy and geology. He joined the Geological Society in his 30s shortly after it was founded. It is probable that Ricardo's quest for an invariable measure of values was based on the physical science model; if 'scientific' in the physical sciences meant measurement, then surely this would be required in the human sciences as well. As Emil Kauder wrote, 'I venture to say that Ricardo and his contemporaries believed that economics could only reach the dignity of a science if it could be based on objective measures like the Newtonian Physics'.[8]

An even stronger and more direct class struggle than that implied by the labour theory of value stemmed from Ricardo's approach toward landlords and land rent. Landlords are simply obtaining payment for the powers of the soil, which, at least in the hands of many of Ricardo's followers, meant an unjust return. Furthermore, Ricardo's gloomy vision of the future held that labour must be kept at subsistence level, capitalists must see their profits inevitably falling – these two classes doing as badly as ever (labour) or always worse (capital) while the idle and useless landlords keep inexorably adding to their share of worldly goods. The productive classes suffer, while the idle landlords, charging for the powers of nature, benefit at the expense of the producers.[9] If Ricardo implies Marx, he implies Henry George far more directly. The spectre of land nationalization or the single tax absorbing all land rent follows straight from Ricardo.

One of the greatest fallacies of the Ricardian theory of rent is that it ignores the fact that landlords *do* perform a vital economic function: they allocate land to its best and most productive use. Land does not allocate itself; it must *be* allocated, and only those who earn a return from such service have the incentive, or the ability, to allocate various parcels of land to their most profitable, and hence most productive and economic uses.

Ricardo himself did not go all the way to government expropriation of land rent. His short-run solution was to call for lowering of the tariff on corn, or even repeal of the Corn Laws entirely. The tariff on corn kept the price of corn high and ensured that inferior, high-cost domestic corn land would be cultivated. Repeal of the Corn Laws would enable England to import cheap corn, and thereby postpone for a time the use of inferior and high-cost land. Corn prices would for a while be lower, money wage rates would therefore immediately be lower, and profits would rise, adding to the accumulation of capital. The dread stationary state would be put further off on to the horizon.

Ricardo's other anti-landlord action was political: by entering Parliament by joining Mill and the other Benthamite radicals in calling for democratic reform, Ricardo hoped to swing political power from the grip of the aristocracy, which meant in practice the landlord oligarchy, to the mass of the people.

But if Ricardo was too individualistic or too timorous to embrace the full logical consequence of the Ricardian system, James Mill characteristically was not. James Mill was the first prominent 'Georgist', calling frankly and enthusiastically for a single tax on land rent. In his high office in the East India Company, Mill felt able to influence Indian government policies.

Before obtaining this post, Mill had characteristically presumed to write and publish a massive *History of British India* (1817) without ever having been in that country or knowing any of the Indian languages. Steeped in the contemptuous view that India was thoroughly uncivilized, Mill advocated a 'scientific' single tax on land rent. Mill was convinced as a Ricardian that a tax on land rent was not a tax on cost and *therefore* would not reduce the incentive to supply any productive good or service. Hence a tax on land rent would have no bad effect on production – it would only have the effect of eliminating the ill-gotten gains of the landlords. In effect, a tax on land rent would be no tax at all! The land tax could be up to and including 100 per cent of the social product caused by the differential fertility of the soil. The state, according to Mill, could then use this costless tax for public improvement, and largely for the function of maintaining law and order in India.

We see now the pernicious implications of the fallacious view that any part of the expense of production is in some way, from a holistic or social point of view, 'really' not a part of cost. For if an expense is not part of cost, it is in some sense not necessary to the factor's contribution to production. And therefore this income can be confiscated by the government with no ill effect. Despite the deep pessimism of Ricardo about the nature and consequences of the free market, he oddly enough cleaved strongly, and more firmly than Adam Smith, to *laissez-faire*. Probably the reason was his strong conviction that virtually any kind of government intervention could only make matters worse. Taxation should be at a minimum, for all of it cripples the accumulation of capital and diverts it from its best uses, as do tariffs on imports. Poor laws – welfare systems – only worsen the Malthusian population pressures on wage rates. And as an adherent of Say's law, he opposed government measures to stimulate consumption, as well as the national debt. In general, Ricardo declared that the best thing that government can do to stimulate the greatest development of industry was to remove the obstacles to growth which government itself created.

While Adam Smith's free market views concentrated on the sinister nature of predatory government action, Ricardo was particularly struck by government's pervasive ineptness and counterproductivity. A typical and charming note was struck in a letter from Germany by Ricardo to James Mill in 1817: 'We were very much delayed by the dilatoriness of the German Post, which being a monopoly, is of course very much mismanaged...'.

The paradox of Ricardo's gloom about the alleged class conflict on the free market and his determined opposition to virtually all government intervention was best and most wittily described by Alexander Gray:

> Such is the Ricardian scheme of distribution; in place of the old harmony of interest, he has placed dissension and antagonism at the heart of things. 'The interest of the landlord is always opposed to that of the consumer and manufacturer;' So also the interests of the worker and the employer are eternally and irreconcilably opposed; when one gains, the other loses. Further, the outlook for all, except the landlord, is a process of continual pejoration. ...Yet Ricardo remains immovably non-interventionist. 'These, then', he says, 'are the laws by which wages are regulated'; and he adds inconsequently, 'like all other contracts, wages should be left to the fair and free competition of the market, and should never be controlled by the interference of the legislature'. In a world of Ricardian gloom one might ask, and did in effect ask, why there should not be interference. An optimist carolling that God's in his Heaven, and that all's right with enlightened self-interest has a right to nail the *laissez-faire* flag to the mast, but a pessimist who merely looks forward to bad days and worse times ought not in principle to be opposed to intervention, unless his pessimism is so thorough-going as to lead to the conviction that, bad as all diseases are, all remedies for all diseases are even worse.[10]

Finally, a fundamental and fatal flaw in Ricardo's whole approach in his system was that he started at the wrong end. He began with his overriding focus on the laws of macro-income distribution; his theory of value and price was only a subsidiary appendage, enabling him to maintain that wages are not a part of cost, and therefore that the only influence of rising wages was to cause profits to fall. Ricardo, in short, never grasped the crucial point understood by his continental counterpart, J.B. Say: that there *are no* laws of macro-income distribution. Economics only establishes 'micro'-laws determining price, including the prices of the various factors of production. In a sense, of course, the distribution of income in practice is a spin-off of market-determined factor prices; but this 'distribution' also depends on entrepreneurial profits and losses, in short on entrepreneurial responses to risk and uncertainty, and on the supplies at any time of the respective factors. None of the latter can be determined by economic theory. Once again, David Ricardo was pursuing a chimera, and in doing so took British economic theory off on a detour, or rather into a dead end.

Put another way, the French (Cantillon–Turgot–Say) analysis of the free market demonstrated that on the market there *is no* separate 'distribution' of income process, as there indeed would be under a state-controlled, or socialist economy. 'Distribution' is the indirect consequence of free production, exchange, and price determination.[11]

All of this escaped David Ricardo, who had little or no conception of the economy as a web of 'micro'-relations linking together individual utilities, exchanges and prices. As Frank Knight has pointed out, Ricardo, in a letter to his disciple McCulloch, denied that 'the great questions' of macro-income distribution were 'essentially connected' with the theory of value. And further, Ricardo and his followers gave 'practically no hint of a system of economic organization worked out and directed by price forces'.[12]

There is another point that needs to be made about Ricardo's basic economic goal. Chiding Adam Smith for being primarily interested in the total wealth of the nation rather than in the macro-distribution of income, Ricardo pursues his Malthusian hostility to population growth by asking what is the point of looking at gross rather than net income. As Ricardo puts it, in a famous and astonishing passage:

> what would be the advantage resulting to a country from the employment of a great quantity of productive labour, if, whether it employed that quantity or a smaller, its net rent and profits together would be the same... To an individual with a capital of £20,000, whose profits were £2000 per annum, it would be a matter quite indifferent whether his capital would employ a hundred or a thousand men...provided, in all cases, his profits were not diminished below £2000. Is not the real interest of the nation similar? Provided its net real income, its rent and profits be the same, it is of no importance whether the nation consists of ten or of twelve millions of inhabitants.

The difference between ten and twelve million may not make any difference to David Ricardo, but it makes a considerable difference, I should think, to the two million who would not have been around, and to their parents, friends and relations. There is no better example of the aggregative utilitarian economist looking upon the economy from the holistic viewpoint of a social slavemaster, rather than from the point of view of individuals on the market. As Alexander Gray, in his witty and perceptive way, puts it:

> [Ricardo's] logic would lead to the desirability of the population being reduced to one, and that last remnant producing a vast net surplus with the aid of sorcery and mechanical contrivances. The repellent doctrine that man exists for the production of wealth, rather than that wealth exists for the use of man, here finds its classical utterance.[13]

3.6 The law of comparative advantage

Even the most hostile critics of the Ricardian system have granted that at least David Ricardo made one vital contribution to economic thought and to the case for freedom of trade: the law of comparative advantage. In emphasizing the great importance of the voluntary interplay of the international division of labour, free traders of the eighteenth century, including Adam Smith, based their doctrines on the law of 'absolute advantage'. That is, countries should specialize in what they are best or most efficient at, and then exchange these products, for in that case the people of both countries will be better off. This is a relatively easy case to argue. It takes little persuasion to realize that the United States should not bother to grow bananas (or, rather, to put it in basic micro-terms, that individuals and firms in the United States should not bother to do so), but rather produce something else (e.g. wheat, manufactured goods) and exchange them for bananas grown in Honduras. There are, after all, precious few banana growers in the US demanding a protective tariff. But what if the case is *not* that clear-cut, and American steel or semi-conductor firms are demanding such protection?

The law of comparative advantage tackles such hard cases, and is therefore indispensable to the case for free trade. It shows that *even if*, for example, Country *A* is more efficient than Country *B* at producing *both* commodities *X* and *Y*, it will pay the citizens of Country *A* to specialize in producing *X*, which it is *most* best at producing, and buy all of commodity *Y* from Country *B*, which it is better at producing but does not have as great a comparative advantage as in making commodity *X*. In other words, each country should produce not just what it has an absolute advantage in making, but what it is *most* best at, or even least worst at, i.e. what it has a *comparative* advantage in producing.

If, then, the government of Country *A* imposes a protective tariff on imports of commodity *Y*, and it forcibly maintains an industry producing that commodity, this special privilege will injure the consumers in Country *A* as well as obviously injuring the people in Country *B*. For Country *A*, as well as the rest of the world, loses the advantage of specializing in the production of what it is most best at, since many of its scarce resources are compulsorily and inefficiently tied up in the production of commodity *Y*. The law of comparative advantage highlights the important fact that a protective tariff in Country *A* wreaks injury on the efficient industries in that country, and the consumers in that country, as well as on Country *B* and the rest of the world.

Another implication of the law of comparative advantage is that no country or region of the earth is going to be left out of the international division of labour under free trade. For the law means that *even if* a country is in such poor shape that it has no absolute advantage in producing *anything*, it still pays for its trading partners, the people of other countries, to allow it to produce what it is *least worst* at.

In this way, the citizens of every country benefit from international trade. No country is too poor or inefficient to be left out of international trade, and everyone benefits from countries specializing in what they are most best or least bad at – in other words, in whatever they have a comparative advantage.

Until recently, it has been universally believed by historians of economic thought that David Ricardo first set forth the law of comparative advantage in his *Principles of Political Economy* in 1817. Recent researches by Professor

Thweatt, however, have demonstrated, not only that Ricardo did not originate this law, but that he did not understand and had little interest in the law, and that it played virtually no part in his system. Ricardo devoted only a few paragraphs to the law in his *Principles*, the discussion was meagre, and it was unrelated to the rest of his work and to the rest of his discussion of international trade.

The discovery of the law of comparative advantage came considerably earlier. The problem of international trade sprang into public consciousness in Britain when Napoleon imposed his Berlin decrees in 1806, ordering the blockade of his enemy England from all trade with the continent of Europe. Immediately, young William Spence (1783–1860), an English physiocrat and underconsumptionist who detested industry, published his *Britain Independent of Commerce* in 1807, advising Englishmen not to worry about the blockade, since only agriculture was economically important; and if English landlords would only spend all their incomes on consumption all would be well.

Spence's tract caused a storm of controversy, stimulating early works by two noteworthy British economists. One was James Mill, who critically reviewed Spence's work in the *Eclectic Review* for December 1807, and then expanded the article into his book, *Commerce Defended*, the following year. It was in rebuttal of Spence that Mill attacked underconsumptionist fallacies by bringing Say's law to England. The other work was the first book of young Robert Torrens (1780–1864), an Anglo-Irish officer in the Royal Marines, in his *The Economists Refuted* (1808).[14] It has long been held that Torrens first enunciated the law of comparative advantage, and that then, as Schumpeter phrased it, while Torrens 'baptized the theorem', Ricardo 'elaborated it and fought for it victoriously'.[15] It turns out, however, that this standard viewpoint is wrong in both its crucial parts, i.e., Torrens did *not* baptize the law, and Ricardo scarcely elaborated or fought for it. For, first, James Mill had a far better presentation of the law – though scarcely a complete one – in his *Commerce Defended* than did Torrens later the same year. Moreover, in his treatment, Torrens, and not Mill, committed several egregious errors. First, he claimed that trade yields greater benefits to a nation that imports durable goods and necessities as against perishables or luxuries. Second, he claimed also that advantages of home trade are more permanent than those of foreign trade, and also that *all* advantages of domestic trade remain at home, whereas part of the advantages of foreign trade are siphoned off for the benefit of foreigners. And finally, following Smith, and anticipating Marx and Lenin, Torrens asserted that *foreign* trade, by extending the division of labour, creates a surplus over domestic requirements that must then be 'vented' in foreign exports.

Six years later, James Mill led Robert Torrens again in presenting the rudiments of the law of comparative advantage. In the July 1814 issue of the

Eclectic Review, Mill defended free trade against Malthus's support for the Corn Laws in his *Observations*. Mill pointed out that labour at home will, by engaging in foreign trade, procure more by buying imports than by producing all goods themselves. Mill's discussion was largely repeated by Torrens in his *Essay on the External Corn Trade*, published in February of the following year. Furthermore, in this work, Torrens explicitly hailed Mill's essay.

Meanwhile, at the very time when this comparative cost ferment was taking place among his friends and colleagues, David Ricardo displayed no interest whatever in this important line of thought. To be sure, Ricardo weighed in to second his mentor Mill's attack on Malthus's support for the Corn Laws, in his *Essay on ... Profits*, published in February 1815. But Ricardo's line of argument was exclusively 'Ricardian', that is, based solely on the distinctive Ricardian system. In fact, Ricardo displayed no interest in free trade in general, or in the arguments for it; his reasoning was solely devoted to the importance of lowering or abolishing the tariff on corn. This conclusion, as we have noted, was deduced from the distinctive Ricardian system, which was to be fully set forth two years later in his *Principles*. For Ricardo the key to the stifling of economic growth in any country, and especially in developed Britain, was the 'land shortage', the contention that poorer and poorer lands were necessarily being pressed into use in Britain. In consequence, the cost of subsistence kept increasing, and hence the prevailing (which must be the subsistence) money wage kept increasing as well. But this inevitable secular increase of wages must lower profits in agriculture, which in turn brings down all profits. In that way, capital accumulation is increasingly dampened, finally to disappear altogether. Lowering or abolishing the tariff on corn (or other food) was, for Ricardo, an ideal way of postponing the inevitable doom. By importing corn from abroad, diminishing fertility from corn land is deferred. The cost of corn, and therefore of subsistence, will fall sharply, and therefore money wage rates will fall *pari passu*, thereby raising profits and stimulating capital investment and economic growth. There is no hint in any of this discussion of the doctrine of comparative cost or anything like it.

But how about the mature Ricardo, the Ricardo of the *Principles*? Once again, except for the three paragraphs on comparative advantage, Ricardo displays no interest in it, and he instead repeats the Ricardian system argument for repeal of the Corn Laws. Indeed, his discussion in the rest of the chapter on international trade is couched in terms of the Smithian theory of absolute advantage rather than of the comparative advantage found in Torrens and especially in Mill.

The three paragraphs on comparative advantage, furthermore, were not only carelessly worded and confused; they were the only account, brief as they were, that Ricardo would ever write on comparative advantage. Indeed, this was his only mention at any time of this doctrine. Even Ricardo's sudden reference to Portugal and his absurd hypothesis that the Portuguese had an absolute advantage over Britain in the production of cloth, seem to indicate his lack of serious interest in the theory of comparative cost.

Furthermore, Ricardo's views on foreign trade in the *Principles* received almost no comment at that time; writers concentrated on his labour theory of value, and his view that wage rates and profits always move inversely, with the former determining the latter.

If Ricardo had no interest in the theory of comparative advantage, and never wrote about it except in this single passage in the *Principles*, what was it doing in the *Principles* at all? Professor Thweatt's convincing hypothesis is that the law was injected into the *Principles* by Ricardo's mentor James Mill, whom we know wrote the original draft, as well as the revisions, for many parts of Ricardo's *magnum opus*. We know also that Mill prodded Ricardo on including a discussion of comparative cost ratios. As we have seen, Mill originated the doctrine of comparative cost, and led in developing it eight years later. Not only that: while Ricardo dropped the theory as soon as he enunciated it in the *Principles*, Mill fully developed the analysis of comparative advantage further, first in his article on 'Colonies' for the *Encyclopedia Britannica* (1818), and then in his textbook, *The Elements of Political Economy* (1821). Once again, Robert Torrens tailed after Mill, repeating his discussion with no additional insights in 1827, in the fourth edition of his 1815 *Essay on the External Corn Trade*.[16] Meanwhile, George Grote, a devoted Millian disciple, wrote in 1819 an important, unpublished essay setting forth the Millian view on comparative advantage.

And so, once again, James Mill, by the force of his mind as well as his personal charisma, was able to foist an original analysis of his own on to the 'Ricardian system'.[17] It is true that Mill was every bit a fan of the Ricardian system as Ricardo himself; but Mill was a man of far broader scope and erudition than his friend, and was interested in far more aspects of the disciplines of human action. It seems possible that Mill, the inveterate disciple and Number 2 man, was Number 1 man far more often than anyone has suspected.

3.7 Notes

1. William E.C. Thomas, *The Philosophic Radicals: Nine Studies in Theory and Practice 1817–1841* (Oxford: The Clarendon Press, 1979), p. 100.
2. Joseph Hamburger, *Intellectuals in Politics: John Stuart Mill and the Philosophic Radicals* (New Haven: Yale University Press, 1965), p. 44.
3. J.A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), pp. 472–3. Compare Walter Bagehot on Ricardo: 'He dealt with abstractions without knowing they were such: he thoroughly believed that he was dealing with real things. He thought that he was considering actual human nature in its actual circumstances, when he was really considering a fictitious nature in fictitious circumstances. And James Mill,

his instructor on general subjects, had on this point as little true knowledge as he had himself.' Quoted in T.W. Hutchison, 'James Mill and Ricardian Economics: a Methodological Revolution?' in Hutchison, *On Revolutions and Progress in Economic Knowledge* (Cambridge: Cambridge University Press, 1978), p. 57; also see ibid., pp. 26–57.

4. Schumpeter, op. cit., note 3, p. 676n.
5. As Schumpeter points out, Ricardo has been falsely credited with anticipating marginal productivity analysis, particularly since some later marginal productivity theorists, such as J.B. Clark, 'represented their theory as an outgrowth of Ricardo's theory of rent'. Yet they didn't realize that 'they were not generalizing Ricardo's schema but upsetting it'. Schumpeter, op. cit., note 3, pp. 674n, 675–6.
6. Frank W. Fetter, 'The Rise and Decline of Ricardian Economics', *History of Political Economy*, 1 (Spring 1969), p. 73.
7. Schumpeter, op. cit., note 3, p. 653n.
8. Emil Kauder, 'The Retarded Acceptance of the Marginal Utility Theory', *Quarterly Journal of Economics*, 67 (Nov. 1953), p. 574.
9. As St Clair sums up Ricardo's view: landlords, 'though contributing nothing in the way of work or personal sacrifice, will nevertheless receive an ever-increasing portion of the wealth annually created by the community'. Oswald St Clair, *A Key to Ricardo* (New York: A.M. Kelley, 1965), p. 3.
10. Alexander Gray, *The Development of Economic Doctrine* (London: Longmans, Green and Co., 1931), pp. 186–7.
11. Schumpeter, op. cit., note 3, pp. 567–8.
12. Frank H. Knight, 'The Ricardian Theory of Production and Distribution', in *On the History and Method of Economics* (Chicago: University of Chicago Press, 1956), p. 41. Also see ibid., pp. 61–3.
13. Gray, op. cit., note 10, pp. 188–9.
14. Torrens served in the Royal Marines from 1797 to 1834.
15. Schumpeter, op. cit., note 3, p. 607.
16. Torrens, furthermore, was scarcely in a position to take the leadership of the free trade forces, since he had abandoned his previously radical defence of unilateral free trade on behalf of reciprocal trade agreements between countries. As for Mill's fellow leading Ricardian and Scotsman, John Ramsey McCulloch, he stuck to the Smithian line, and publicly repudiated the doctrine of comparative cost.
17. See William O. Thweatt, 'James Mill and the Early Development of Comparative Advantage', *History of Political Economy*, 8 (Summer 1976), pp. 207–34.

4 The decline of the Ricardian system, 1820–48

4.1 The conundrum of Ricardo's popularity

What accounts for the popularity of Ricardo's *Principles*, and for the enduring dominance of the Ricardian system? The marginal utility 'revolutionary', W. Stanley Jevons, writing the preface to the second edition of his great *Theory of Political Economy* in 1879, was forced to complain of the continuing dominance of the Ricardian doctrine, and to lament that 'when at length a true system of Economics comes to be established, it will be seen that that able but wrong-headed man, David Ricardo, shunted the car of Economic science on to a wrong line...'. Indeed. And Ricardo won the day with a theory that was not only far from self-evident but in many ways bizarre (such as the labour theory of value), and he wrote his work in a crabbed and obscurantist style that would hardly be expected to sweep the field, either among laymen or in those more particularly interested in economics.

Part of the explanation, as Schumpeter pointed out, is that Ricardo was politically in tune with the *Zeitgeist*. Even though his methodology was so abstract as to be divorced from and to falsify reality, Ricardo's motivation was not abstract theory but its use in advancing politico-economic conclusions. Ricardo, like Mill, was devoted to free trade and *laissez-faire*, and, as we shall see, to hard money, and he applied his abstract system like a hammer in their service. This ideology was fast becoming the wave of the future in England, in the circles of businessmen and intellectuals.[1]

But what of Ricardo's abysmal writing, in style and in organization? Alexander Gray's heartfelt critique is on the mark:

> As to the form rather than the substance of Ricardo's writings, it is perhaps sufficient to say that he was no writer. He himself dimly realized that he was a bad writer, but it is doubtful whether he can have known the whole truth. It is undiscerning flattery to regard his chief work, *The Principles of Political Economy and Taxation*, as a book at all. Rather does it suggest the sweepings of a busy man's study – chapters of very varying length, which he clearly found it difficult to arrange in the right order, brusque notes and memoranda on points which interested the author. In defence, it may be admitted that Ricardo ... did not mean to write a book. These were indeed memoranda written for himself and his friends, published on his friends' [actually Mill's] incitement. But this is a poor consolation to the lonely traveller befogged in the Ricardian jungle.[2]

It is very possible, however, that it was precisely Ricardo's obscurantism that accounted for his success. For all too many people, laymen and professionals alike, obscurity and bad writing equal profundity. If they can't understand it, and they hear at every hand that so-and-so is a great man and his theories the current light, their belief in his profundity will be redoubled.[3,4] There are great charms to obscurity. Moreover, there are particular charms for the adepts who cluster around the great man, the circle of initiates who claim – probably correctly – that only *they* can truly understand his work.

Only they can penetrate the fog caused by the depth of the great man's wisdom. Schumpeter notes that 'quickly his circle developed the attitude – so amusing but also, alas!, so melancholy to behold – of children who have been presented with a new toy. They thought the world of it. To them it was of incalculable value that only he could fail to appreciate who was too stupid to rise to Ricardian heights.'[5] Its murkiness and difficulty only heightened the enjoyment and pride of the adepts over their new toy. Nowadays, this effect is considerably heightened by the fact that obscurity gives disciples and critics more to talk and write about, and thus greatly multiplies the career opportunities for scholars in the current age of publish-or-perish.

Another reason for the popularity of Ricardianism was the persistent cadre activity of the indefatigable James Mill. One of Mill's important actions was to help found the Political Economy Club in London in 1821, a club that quickly became for many years the centre of economic discussion and learning in Great Britain. It is characteristic of the early nineteenth century shift of the locus of economics from Scotland to England that this transfer was one of occupation as well as location. In Scotland, economic thought had centred in the two great universities of Edinburgh and Glasgow, with influence spread through academic, literary and business circles, and members of social clubs in the two cities. In England, on the contrary, there was almost no academic economics in the fossilized university courses of the day. Of the 30 founding members of the Political Economy Club, only one – Thomas Robert Malthus – was an academic, teaching political economy at the East India Company's College at Haileybury. The other leading English economists in the club included David Ricardo, businessman and financier Thomas Tooke (1774–1858), with Colonel Robert Torrens of the Royal Marines chairing the first meeting. Others were businessmen, publicists, and government officials.

A few years later, academic opportunities began to open up. Mill's Scottish friend and fellow leading Ricardian, John Ramsay McCulloch, who had been lecturing for several years, became professor of political economy in 1828 at the University College, London, and joined the Political Economy Club shortly thereafter. But after four years of teaching he had to spend the rest of his life as a financial controller. The first economics post at Oxford was a chair founded by the banker and evangelist Henry Drummond in 1825, but the term of the chair was only five years. The first chair-holder was the attorney and important young economist Nassau William Senior (1790–1864), son of an Anglican vicar in Berkshire, who had studied at Oxford and had joined the Political Economy Club two years earlier.[6] The new King's College, London, established in the same year as University College (1828) as a Tory and Anglican haven to offset its non-denominational neighbour, appointed Senior to its own political economy post in 1831. But Senior was kicked out unceremoniously for publishing a pamphlet urging a reduction in the budget of the Anglican establishment in Ireland, and he spent the rest of his career as a real-property attorney and government lawyer, with the exception of another Drummond professorship at Oxford in 1847–52.

Cambridge treated economics with such disdain that its only contribution was to have a young lawyer of no distinction in the field, George Pryme, teach economics without pay and at unpopular hours. Pryme taught under those conditions for over 40 years from 1816 on, remarkably becoming professor of political economy in 1828. Apparently he wrote nothing in economics and contributed to no important discussions.

4.2 The rapid decline of Ricardian economics

Before setting out to explain a problem one must be quite sure that the problem really exists. Surely, a partial answer to the conundrum of Ricardo's popularity and dominance over English economics is that that dominance was largely a myth. Until recently, the orthodox view in the history of economic thought was that Ricardianism dominated British thought from the date of Ricardo's *Principles* through Jevons's abortive revolution in 1871, and until the 1890s when Alfred Marshall's neo-Ricardianism supposedly integrated marginal utility into a basically Ricardian framework. One of the last expressions of this orthodoxy came in 1949, when Professor Sydney G. Checkland, from an anti-Ricardian perspective, bewailed the manner in which the two Scotsmen, James Mill and McCulloch, like Ricardo – the Spanish–Portuguese Jew – expatriates from their native culture, and therefore presumably alienated from mainstream English life, used brilliant cadre tactics to acquire their hegemony over English thought. Checkland saw that Mill was the cadre leader of the Ricardians, cleverly advising Ricardo not to give publicity to his critics by deigning to reply to them in the third, 1821 edition of his *Principles*. Mill wrote his *Elements of Political Economy* as a Ricardian textbook in 1821, but since it lacked popular appeal, the younger McCulloch, a charismatic, enormously strong, booming, burly, Scotch whisky-drinking figure of a man, took over as the popularizer and propagator of Ricardianism.

The first important revision of the myth of Ricardian triumph came with the Marxist Ronald Meek's rebuttal of Checkland the following year.[7] Checkland, he points out, made the crucial mistake – following J.M. Keynes – of treating Say's law as equivalent to the Ricardian system. While Ricardo and McCulloch followed Mill in considering Say's law to be very important, they did not regard it as crucial to the Ricardian system, which actually comprised the Ricardian theories of value and distribution. While Say's law indeed triumphed early, with only Malthus temporarily opposing it, the Ricardian system proper met a very different fate.

In fact, as he managed to do in other areas of the history of economic thought, John Maynard Keynes, in his *General Theory*, skewed and distorted

Ricardian development. It was only Keynes, in his preoccupation with promoting government deficits and inflationism and attacking Say's law, who made that law the central feature of the Ricardian system. It was also Keynes who distorted the facts by holding up Malthus as the proto-Keynesian hero, stubbornly calling for an anti-Say and anti-Ricardian alternative to the Ricardian system. On the contrary, Malthus, despite various differences, considered himself a Smithian and was generally friendly to Ricardianism as well as to Ricardo personally. Malthus's interest in the alleged 'general glut' and in denouncing Say's law, was an ephemeral product of the post-Napoleonic War depression in England. When England's prosperity returned after 1823, Malthus totally lost interest in the general glut question, and wrote no more about it. Say's law had triumphed except among a few radical fringe people in the economic underworld; and Malthus steadfastly refused to be drawn into alliance with them. These fringe persons, who continued their worn-out cries of a general glut into the 1830s, included the prolific left Tory statist poet and essayist Robert Southey (1774–1843), who had attacked deflation after the Napoleonic War, and MP, geologist, and authority on volcanoes George Poulett Scrope (1797–1876). Raising the fallacious cry of underconsumption, Scrope, in his *Principles of Political Economy* (1833), charged that any decline in consumption in favour of a 'general increase in the propensity to save' would necessarily and 'proportionately diminish the demand as compared with the supply, and occasion a *general glut*'. In this old proto-Keynesian fallacy, savings apparently 'leak' out of the economy, and result in permanent(?) depression. Apparently, investment, since it is transitional and not 'final', is not considered spending at all. And then, as in all varieties of crank economic analysis, the price system, and the relationship of selling prices to costs, is somehow not considered worthy of mention at all.[8]

George Poulett Scrope was originally named George Thomson, son of John Poulett Thomson, head of a firm of Russia merchants. He took the name Scrope after marrying an heiress of the Scrope family. Born in London, Scrope studied at Oxford and Cambridge, and was a member of the House of Commons for 35 years. A champion of free trade, he wrote so many pamphlets on economic issues (about 70) that he was commonly dubbed 'Pamphlet Scrope'.

In contrast to the triumph of Say's law, the Ricardian system proper was rapidly repudiated in the world of English economics. In January 1831, eight years after Ricardo's death, Colonel Robert Torrens addressed the Political Economy Club that Ricardo had helped to found. Torrens raised the crucial question: how many of the Ricardian principles were still held to be correct? His answer: all the great principles of Ricardian system had been abandoned, especially the critical ones of value, rent and profits. Samuel Bailey, in his great espousal of the utility theory of value in 1825, had smashed the labour theory; Thomas Perronet Thompson had disposed of the Ricardian theory of rent; the theory of profit is unsound because Ricardo ignored the replacement of capital; and the Malthusian subsistence theory of wages had been generally abandoned.

To the Marxian Ronald Meek, this wholesale desertion of Ricardianism comprised a capitalist plot against the labour theory of value, whose socialistic implications had been drawn out during the 1820s by the Ricardian socialists. At any rate, by 1829–31, there were no adherents of the labour theory of value left in mainstream British economics; to Meek, the only exception was McCulloch, who in turn had abandoned Ricardo on many other issues, including the idea of productive *vs* unproductive labour, the theory of profit, and the theory of class conflict on the market implicit in the Ricardian theory of distribution.[9] Only Say's law, with its strong *laissez-faire* implications, had survived what Meek laments as 'the purge'.

But the 'purge' or abandonment came even earlier, antedating the Ricardian socialists. Professor Frank W. Fetter, in his classic article,[10] points out that upon Ricardo's death in 1823, James Mill wrote despairingly to McCulloch and noted that they were 'the two and only genuine disciples' of Ricardo in existence and McCulloch did not stay one for long. Fetter notes that economic opinion in the 1820s was diverse and unsettled, except for a general adherence to free trade. Everyone dismissed the portentous Ricardian conclusion that profits varied inversely to wages, except as a banal arithmetic truism. Furthermore, even Ricardo himself had pointed the way to abandoning his own crucial permanent subsistence theory of wages (which the German socialist Ferdinand Lassalle was later to call 'the Iron Law of Wages'). Ricardo had adopted the subsistence wage theory, taken from the hard-core Malthusian first edition of Malthus's *Essay on Population* (1798). But many of his statements apart from this rigid formal model were really adopted from the much weaker, indeed contradictory, second edition of the *Essay* (1803). These were qualifications which Marx would correctly note amounted to a desertion of the 'iron law'. Criticism of Malthusian doctrine prevailed in the journals by the late 1820s. Thus, in early 1826, a writer noted in the *Monthly Review* that the law of relentless increase in population operates only in poor societies. It moves

> in an inverse proportion to the acquisition of wealth; ... it is only when people become more luxuriant, when those engagements which form the principal charm in humble life lose their attractions by the substitution of habits of refinement, that the increase [in population] becomes progressively less.[11]

Finally, in 1829, Nassau W. Senior's letters to Malthus effectively put the boots to the iron law. In this published exchange of correspondence, following the delivery of his lectures on population (*Two Lectures on Population, to* *which is added A Correspondence between the Author and the Rev. T.R. Malthus* (London, 1829)), Senior dealt a devastating blow to the Malthusian doctrine. In the first place, while agreeing that excessive population growth could conceivably one day constitute a problem, Senior in effect stood Malthus on his head by pointing out that while population indeed pressed on the food supply in undeveloped countries, the history of the prosperous countries of the West had been marked by an increase in the food supply outstripping the rise in population. Indeed, this fact is simply demonstrated by the rising living standards of the western countries over the centuries. And this economic growth must be due to a general tendency of agricultural and other productivity to rise, as well as people devoting themselves to safeguarding their higher living standards. As a result, population does not grow enough to reduce the living standards of the public to the subsistence level. And while Malthus would not verbally go so far as Senior in speaking of a general 'tendency for food to increase faster than population', it was clear from Malthus's reply that the mellower Malthus of the second edition had triumphed. That Senior saw the full implications of the changes of the second edition is also demonstrated by his own formulation of the population principle: 'that the population of the world ... is limited only by moral or physical evil, *or* by fear of the deficiency of those articles of wealth which the habits of individuals of each class of its inhabitants lead them to acquire'. (Italics added.)

But while the iron law of wages was in fact finished *de facto*, it still continued to reign, as it were, *de jure*. For Nassau Senior, suffering from excessive piety toward Malthus, lacked the instinct for the jugular that would have stripped the veil of evasions from the grave fallacies of the Malthusian doctrine. Instead, Senior collaborated in the sham, insisting, though he knew better, on continuing to hail the Malthusian principle of population as a cornerstone of economic science. As Joseph Schumpeter, ever alive to the follies of economists, lamented:

> [Senior] always treated Malthus with infinite respect – he even called him a benefactor of humanity (sic!) – and did all in his power to minimize his deviation from what he evidently considered to be established doctrine. All the less justification is there for the practice of some later writers who, with nauseating pontificality, treated Senior as a none too intelligent pupil who needed to be set right by Malthus. As a matter of fact, it is perfectly clear that Senior realized the extent to which Malthus' qualifications ought to have spelled recantation and to what degree his adherence to some of his former opinions spelled contradiction.[12]

4.3 The theory of rent

The Ricardian theory of rent was effectively demolished by Thomas Perronet Thompson (1783–1869) in his pamphlet, *The True Theory of Rent* (1826).

Thompson weighed in against this fallacious capstone to the Ricardian system: 'The celebrated Theory of Rent', Thompson charged, 'is founded on a fallacy', for demand is the key to the price of corn and to rent.

> The fallacy lies, in assuming to be the cause what in reality is only a consequence... [I]t is the rise in the price of produce ... that enables and causes inferior land to be brought into cultivation; and not the cultivation of inferior land that causes the rise of rent.

Thompson goes on to note in wonder that Ricardo perceived the fallacy in the view that corn sells for a high price because rent is paid, and not vice versa, and *yet* pressed on to adopt a similar cost theory of price. Here Ricardo reversed cause and effect by maintaining that the cultivation of inferior land causes the price of corn to rise, instead of the other way round.

During the same year, Colonel Robert Torrens himself destroyed the Ricardian theory of rent even more effectively, zeroing in on the crucial fallacy of rent-as-a-differential. Characteristically Torrens, who was involved in all the economic controversies of the day and changed his mind significantly on nearly all of them, delivered his *coup de grace* in the third edition of a work in which he had originally predated Ricardo in the discovery and championing of the theory of differential rent. This work was the *Essay on the External Trade*, originally published in 1815. But now Torrens honed in on the critical point that the rent of land, *A*, does *not* depend on its being more fertile or productive than some other piece of land, *B*; that, on the contrary, the rent on each land stems from *its own* productivity, period, in turn partially determined by the scarcity of that particular land and by the demand for its product. The existence of a return on a piece of land is by no means dependent on the existence of inferior lands. As Torrens puts it:

> Neither the gradations of soil, nor the successive applications of capital to land, with decreasing returns, are in any way essential to the appearance or the rise of rents. If all soils were of one uniform quality, and if land, after having been adequately stocked, could yield no additional produce ... still the rise in the value of raw produce ... would cause a portion of the surplus produce of the soil to assume the form of rent.

In the very same year, 1831, that Colonel Torrens was thus pronouncing the death of the Ricardian system, the Rev. Richard Jones (1790–1855), a Cambridge graduate, put the final boots to the Ricardian theory in his discourse 'On Rent', in his *Essay on the Distribution of Wealth*. A Baconian inductivist, historicist, and anti-theorist who paradoxically first succeeded Senior as professor of political economy at King's College, London, and then followed Malthus as professor at the East India College of Haileybury, Jones stressed the error of Ricardo's historical dictum that the most fertile lands are always cultivated first in every country, which then moved successively to less and less fertile lands. For Schumpeter and others to dismiss Jones's case as confusing historical fact with an abstract theoretical model, misses the real point. Fallacious anti-theorist Richard Jones undoubtedly was; but from his own point of view, David Ricardo was *not* simply setting up an abstract and totally unrealistic theoretical model. Ricardo was interested above all in political applications, and he was deluded enough to believe that his model was spewing forth accurate laws of past and future historical trends. For Ricardo, inexorable rises in rent, crippling future economic development, were a predictable empirical consequence of his own theory. Specific empirical facts cannot give rise to or test theory, but a theoretical law that attempts to predict past and future *can* be validly countered by examining the course of actual history. Empirical facts can properly be used to refute empirical generalizations.

The various demolitions of Ricardo's theory of rent, especially that of Perronet Thompson, quickly triumphed in the economic literature. The Thompson critique had been anticipated in the influential journals, in the *British Critic* as early as 1821, and by Nassau W. Senior in the *Quarterly Review* in the same year. By the early 1830s, Thompson's view had triumphed in the journals, including an article by Samuel Mountifort Longfield, the first Irish professor of political economy at Trinity College, Dublin. By the 1840s, the Ricardian theory of rent was dead in the water, and almost beneath discussion; apart from McCulloch, the only one willing to defend it was the ardent and emotional Ricardian, the poet and writer Thomas De Quincey (1785–1859).

David Ricardo, as he himself acknowledged, did not originate his differential theory of rent. It began in 1777, on the publication of *An Enquiry into the Nature of the Corn Laws*, by the Scottish farmer, James Anderson (1739–1808). An Aberdeenshire farmer, Anderson founded and edited the weekly *Bee*, and later moved to London, where he edited publications in agricultural science and the arts. Anderson's theory, however, remained forgotten, until independently replicated by three writers in 1815: Thomas Robert Malthus, in his *Inquiry into the Nature and Progress of Rent*; Sir Edward West's (1782–1828), *Essay on the Application of Capital to Land*; and the first edition of Torrens's *Essay on the External Corn Trade*. Malthus did not integrate his theory into anything like the Ricardian system, and, furthermore, he was scarcely an opponent of the landlords or of land rent. To the contrary, Malthus defended the Corn Laws. On the other hand, West, an attorney and fellow of University College, Oxford, who later served as supreme court justice in India and died early of disease, so closely anticipated the Ricardian system that Schumpeter habitually refers to the 'West–Ricardian' theory.

The interesting question is: what gave rise, in a very short period of time (1815–17) to such intense concern, or at least attention to, the alleged problems of rising rents? For apart from the relatively unknown James Anderson, attention to rising rents occurs within a very few years shortly after the end of Napoleonic Wars. The answer was brilliantly supplied by the early twentieth century American 'Austrian' economist Frank Albert Fetter: the Napoleonic Wars of the first fifteen years of the nineteenth century were marked by high taxation, blockages of food imports, currency inflation, and consequently unprecedentedly high prices for 'corn' in England and hence highly inflated agricultural rents. It is surely no accident, as Fetter notes, that 'the so-called Ricardian doctrine of rent was independently formulated by several other writers – West, Malthus, Torrens and others between 1813 and 1815 – when wheat prices were at their peak'.[13]

4.4 Colonel Perronet Thompson: anti-Ricardian Benthamite

We must pause a moment to consider the fascinating character of Colonel Perronet Thompson, an ardent Benthamite radical, and a champion of free trade and opponent of the Corn Laws. Thompson, the son of a prosperous merchant and banker from Sussex, and MP for a decade, spent the first part of his adult life in the military, retiring from active service in 1922 at the age of 39 with the rank of lieutenant. Despite this relatively low rank, Thompson had been made the first royal governor of the colony of Sierra Leone in 1808, but got himself recalled quickly by clamouring for the abolition of the slave trade. His removal by the Tory British government over the issue of slavery radicalized young Thompson, whose education in classical liberalism was further advanced by reading Adam Smith and Turgot. After retiring from active service, Thompson was compensated for his low rank in important work over a long military career by being repeatedly promoted while inactive. By the time of his death, Thompson had risen to the rank of full general.

Before going into military service, Thompson had graduated from Queen's College, Cambridge, and been made a fellow of that college. On retiring from the military life, he joined Bentham's circle of admirers and plunged into Benthamite utilitarianism and radicalism. Thompson's first published work appeared in the very first issue of Bentham's own periodical, the *Westminster Review* (1824). His *True Theory of Rent*, designed to uphold Adam Smith's views on rent as against Ricardo, followed; and the next year, Perronet Thompson published his well-known *Catechism on the Corn Laws* (1827), generally considered the most important work in the entire anti-Corn Law literature. Later, Thompson became one of the most effective members of the Anti-Corn Law League. In 1829, only half a decade since his plunge into politics, the now Lieutenant Colonel Thomas Perronet Thompson became the sole owner of the Benthamite *Westminster Review*, and contributed articles to every issue until relinquishing ownership seven years later. After being defeated for Parliament in 1834, Thompson won election a year later, taking his stand with George Grote and the philosophic radicals in Parliament. Losing his seat two years later, he ran several times unsuccessfully, serving in Parliament from 1847 to 1852, and again from 1857 to 1859.

Thompson's writings were prolific, and in many areas. At the age of 59, a six-volume collection of his writings to date was published, *Exercises, Political and Others* (1842), and he kept writing pamphlets and newspaper articles on democratic reform until the day before his death, at the age of 86. In addition to his widespread political and economic concerns, Thompson wrote and published works on mathematics, the science of acoustics, and the theory of musical harmony. An organ built on the lines of Thompson's harmonic theory received honourable mention at the Great Exhibition of 1851.

Thompson contributed more to economics than his attack on rent. His first article in the *Westminster Review*, 'On the Instrument of Exchange', followed Bentham's own inflationist views by advocating an inconvertible paper currency. Another, equally dubious, contribution of Thompson's in the same essay followed up a hint made ten years before by Malthus. Malthus, who had been trained in mathematics at Cambridge, had observed, in a pamphlet in 1814, that differential calculus might prove useful in the theory of morals, economics and politics, since many questions in these disciplines centre around the pursuit of maxima and minima. By the time of the publication of his *Principles of Political Economy* in 1820, however, Malthus had wisely grown sceptical of the possibilities of maths in economics as well as in ethics and politics. Thompson, however, also trained in mathematics at Cambridge, had no such scruples, and his 1824 article opened a fateful door by using the differential calculus in defining a maximum gain. The perfect Benthamite, steeped in looking at maxima of pleasure and minima of pain, had struck a fateful chord; Pandora's Box had been opened.

Thompson's sympathy for mathematical economics, however, did not keep him from denouncing the Smith–Ricardo search for a fixed and invariable measure of value, which he wisely dismissed as a chimera. Furthermore, in the *Westminster Review* in 1832, Thompson trenchantly criticized all cost theories of value, pointing out that cost and price almost always differ. And these differences, he added, are not accidental and ephemeral, as Smith and especially Ricardo assumed in their focus on the long-run 'natural' price; on the contrary, these 'short-run' differences are the essence of the dynamic real world: 'This perpetual oscillation on both sides of the cost price, instead of being an inconsiderable accident, is in reality the great agent by which the commercial world is kept in motion'.

4.5 Samuel Bailey and the subjective utility theory of value

In 1825, Samuel Bailey (1791–1870), a rising young merchant from Sheffield, published a thorough demolition of Ricardian value theory, in his *A Critical Dissertation on the Nature, Measures, and Causes of Value*. Bailey at last brought into English economics the subjective utility theory of the French tradition; unfortunately, he was not gracious enough to acknowledge that fact. While his essay was clearly in the Say tradition, for example, his brief and brusque references to Say's *Treatise* gave no hints of acknowledging his indebtedness. But in any case, Bailey's demolition of Ricardo was devastating. Beginning with Ricardo's definition of value as the relative price, or purchasing power, of particular goods, Bailey went on to show the absurdity and inner contradiction of Ricardo's claim that each good acquires an absolute and invarying value from the quantity of labour hours embodied in its production. For one thing, if the quantity of labour needed to produce good *A* remains the same, its value, contra Ricardo, can scarcely be invariable, if the quantity of labour embodied in other goods, *B*, *C*, *D*, etc. has changed. In short, value is strictly relational, a ranking among goods, and therefore cannot be absolute or invariant. Furthermore, Bailey demonstrates that value is not inherent in goods at all, but is rather always a process of subjective *evaluation* in the minds of individuals. Value, as Bailey pointed out, 'in its ultimate sense, appears to mean the esteem in which any object is held. It denotes strictly speaking, an effect produced on the mind ...'. Value is purely a 'mental affection'. Furthermore, he profoundly states that value is not only a subjective estimation, but also that valuation is necessarily *relative* among various goods or objects; value is a matter of relative preference. Thus Bailey:

> When we consider objects in themselves, without reference to each other; the emotion or pleasure or satisfaction, with which we regard their utility or beauty, can scarcely take the appellation of value. It is only when objects are considered as subjects of preference or exchange, that the specific feeling of value can arise. When they are so considered, our esteem for one object, or our wish to possess it, may be equal to, or greater or less than our esteem for another...

But if value is subjective and relative (or relational) valuation, it follows that it is absurd for Ricardo to hanker after an invariable measure of value.

In a scintillating and telling passage, Bailey displays the inner contradictions and absurdities of any objective, absolute theory of value, and specifically of the Ricardian quantity of labour variant. The Ricardians had lost sight of

> the relative nature of value, and ... consider it as something positive and absolute; so that if there were only two commodities in the world, and they should both

> from some circumstance or other come to be produced by double the quantity of labour, they would both rise in real value, although their relation to each other would be undisturbed. According to this doctrine, everything might at once become more valuable, by requiring at once more labour for its production, a position utterly at variance with the truth, that value denotes the relation in which commodities stand to each other as articles of exchange. Real value, in a word, is on this theory considered as being the independent result of labour; and consequently, if under any circumstances the quantity of labour is increased, the real value is increased. Hence, the paradox, [quoting from the devoted Ricardian Thomas De Quincey] 'that it is possible for A continually to increase in value – in real value observe – and yet command a continually decreasing quantity of B'; and this though they were the only commodities in existence.

In sum, as Bailey pungently noted, 'the very term absolute value, implies the same sort of absurdity as absolute distance...'.

Bailey then enters into a penetrating discussion of the theory of measurement, showing the tremendous gulf between genuine measurement of real or physical objects and any concept of 'measuring' something as subjective and relative as human valuation. In the case of physical objects, such concepts as length or weight are measured by fixing an invariant physical measure, such as a foot rule, and then comparing the length of other objects in question with such a rule. In human valuation, 'measurement' is quite different; it is simply the expression of prices or relative purchasing powers of different goods in terms of one money, or medium of exchange. Here there is no physical operation such as measurement of physical objects. In the case of money there is a 'common expression or denominator of value' in money rather than an invariable physical object of comparison. In fact, these prices or quantities are relative and variable, and there is no invariability involved. Indeed, Bailey would have done still better to abandon the term 'measure' altogether, and to confine it strictly to the invariant standards used to compare physical objects, simply confining the idea of comparing relative prices in terms of money to the term 'common expression' or common denominator'. A great deal of confusion in economic theory might have been avoided.

In the course of demolishing the idea of an invariable measure of value, Bailey took deadly aim at the notion that the value of money is invariant over time, and therefore can be used to compare general prices over time. While the money commodity is not more fixed in value than any other, one of its attributes, and one of the reasons it is chosen as money on the market, is its 'comparative steadiness of value', as Bailey sensibly termed it in a later work on money and its value (*Money and its Vicissitudes in Value*, 1837). But its value is not constant, and therefore there is no way of measuring value over time. But commodities only have value relations to each other at the same time; a commodity has no value relation to itself at different times. As Bailey puts it:

> We cannot ascertain the relation of cloth at one time to cloth at another, as we ascertain the relation to cloth in the present day. All that we can do is to compare the relation in which cloth stood at each period to some other commodity ... We cannot say, that a pair of stockings in James the First's reign would exchange for six pair in our own day; and we therefore cannot say, that a pair in James the First's reign was equal in value to six pair now, without reference to some other article. Value is a relation between contemporary commodities, because such only admit of being exchanged for each other; and if we compare the value of a commodity at one time with its value at another, it is only a comparison of the relation in which it stood at these different times to some other commodity.

Until recently, historians have believed that Bailey's work made no impact on the Ricardian world of British economics, and fell into obscurity, only to be resurrected at the end of the nineteenth century by economists looking for forerunners of the marginal utility theory. Actually, we now know that, despite a vicious personal assault (probably by James Mill) on Bailey in the *Westminster Review*, Bailey's *Critical Dissertation* was widely read among economists and virtually swept the field. In his January 1831 funeral rites for the Ricardian system before the Political Economy Club, Colonel Robert Torrens declared that 'as to value', Bailey's *Dissertation* 'has settled that question'. Indeed, the year after Bailey's work was published, Torrens praised it highly in the third edition of his *Essay on the External Corn Trade*, calling it in his preface 'a masterly specimen of perspicuous and accurate logic', spearing 'that vague and ambiguous language in which some of our most eminent economists have indulged'. And remarkably, the changeable Torrens stuck to that estimate throughout his life. In the lengthy introduction to his *The Budget* (1844), in which he revised and retracted many of his earlier views, Colonel Torrens went out of his way to affirm that 'the gifted author of "A Dissertation on the Nature, Causes, and Measures of Value", has set finally at rest the long agitated question, whether value should be regarded as an absolute or positive quality inhering in commodities, or as a relation existing between them'.

Samuel Bailey wrote an effective reply to the *Westminster* critic (*A Letter to a Political Economist*, 1826), but apart from this and his *Money* tract, most of his numerous writings dealt with philosophy and with political reform. For this prosperous Sheffield merchant, born into a mercantile family, founder and four-time president of the Sheffield Literary and Philosophical Society, was in intellectual matters an ardent Benthamite. He devoted the bulk of his intellectual resources to Benthamite writings on philosophy and on radical reform, and twice ran unsuccessfully on a reform ticket for Parliament. Bailey made a considerable philosophical impact with his first book, his *Essay on the Formation and Publication of Public Opinion* (1821). The *Essay's* emphasis on the utilitarian value of free discussion greatly influenced James Mill, John Stuart Mill's *On Liberty*, and Francis Place. In economic matters, Bailey's *Essay* grounded economic activity in subjective, mental phenomena, and explicitly rejected the emphasis on British classical economics on physical material objects. The methodology of economics, Bailey maintained, was introspective of one's empirical surroundings. Bailey saw economics as a 'science of mind' rather than as technology. Clearly, his methodology and philosophy of economics were far more 'Austrian' than has been realized.[14]

Bailey's later works were non-economic, including *Essays on the Pursuit of Truth* (1844), *The Theory of Reasoning* (1851, 1852), and three series of *Letters on the Philosophy of the Human Mind* (1855–62). His final publication was a two-volume book using etymology to rearrange and reinterpret some of Shakespeare's plays (*On the Received Text of Shakespeare's Dramatic Writings and its Improvement* (1862–66)).

Samuel Bailey was the most important and influential subjective value theorist; but he was not the first to bring subjective utility theory to nineteenth century Britain. That honour belongs to the virtually unknown Scotsman, John Craig (c. 1780–c. 1850). All that we know about Craig is that he was a citizen of Glasgow, and was a member of the fellowship of the Royal Society of Edinburgh, and yet nothing else is known about his occupation or background. After writing a three-volume work on the *Elements of Political Science* (1814), Craig made his striking if unnoticed contribution to economics, in his *Remarks on Some Fundamental Doctrines of Political Economy* (1821).

Craig not only brought utility into a British economics dominated by discussions of cost and 'natural price'; for the first time in Great Britain, he brought value theory to the verge of the concept of marginal utility. Starting with the axiom that utility is the basis of all value, Craig proceeds to the influence of supply: 'relative values of commodities may change, and those persons who happen to be possessed of articles which are produced in larger quantities than formerly, or which from other circumstances becomes less in demand, may find themselves poorer…'. In short, greater quantity leads to a lesser value. More abundance leading to lower value had once been a commonplace of economic thought; but precisely why is this true? Craig first notes that an increased quantity of, say, broadcloth will lower its price. He then goes on to explain, in a truly notable passage, that

> All of the broadcloth, that, in the estimation of purchasers, was worth the former price, had been formerly brought to market, and if more is now to be disposed of, it must be to those who did not reckon its utility equivalent to its former cost. New purchasers indeed will appear in proportion to the reduction of price; because at every step of the decline it is brought down to the estimate, which an additional number of persons had formed of its power of producing gratification, or in other words, to their estimate of its value in use.

Thus, John Craig not only explicitly refuted the dominant Smithian view of the separation of value in use from value in exchange, showing that the latter depended strictly on the former. Even more important, Craig had captured the essence of the marginal utility doctrine without the label: showing that as the quantity of a good increases, its price or value must fall in order to tap a new group of purchases whose utility estimate of the good had been too low to allow them to purchase the good at the original higher price for the smaller product. In short, purchasers previously sub-marginal now become marginal for the additional product as the price falls. As Professor Thor Bruce declares,

> Craig appears on the very verge of expressing the idea of marginal utility. He broke away from the theory held by his contemporaries, which was based on the cost idea, and became the first exponent of the idea of the connection between utility and value. In thus emphasizing the utility theory he was the forerunner of the Austrian School of the latter half of the nineteenth century.[15]

Craig doesn't stop there. If more broadcloth, for example, has been produced and its price has therefore fallen, the previous purchasers now have surplus revenue, which they will use to increase the demand and therefore the price of other products. Hence the fall in value of broadcloth will increase the demand and the price of other goods. Therefore, an increased supply of some goods does not necessarily lead to a fall in general values, but rather to a restructuring of prices and to additional real income to consumers.

Craig concludes from his value analysis that exchange-value not only depends on use-value, but is also an accurate measure of that value. Craig points out in his introduction to the *Remarks* that only after the body of his tract was written did he come across J.B. Say's *Treatise* and see the similarity in approach. He adds, however, that Say's proper concentration on exchange-value should have been amended to point out that it is also the embodiment or expression of value in use.

Attacking the Ricardian labour or cost theory of value, Craig points out that the value of any good is determined not by its cost of production, but by its demand and supply, the demand varying continually in accordance with consumer desires, and the supply changing according to the scarcity or abundance of its factors of production, as well as the fertility of agriculture. Or, as Craig put it:

> even if the cost were ascertained, it would not enable us to judge of the exchangeable value. Exchange value depends entirely on the proportion in the market which the demand for an article may bear to the supply, a proportion ever varying, on the one hand, according to the plenty or scarcity of capital or labour, and the fertility of the season.

If Samuel Bailey was preceded by John Craig, he was succeeded, six years after his *Dissertation*, by Charles Foster Cotterill, in his *an Examination of the Doctrine of Value...* (1831). Cotterill not only generally endorsed Bailey's subjective utility theory; he also pronounced, the same year as Torrens, the demise of the Ricardian movement, noting bemusedly that 'there are some Ricardians still remaining'.

4.6 Nassau Senior, the Whately connection, and utility theory

During the late 1820s, Nassau W. Senior delivered a series of lectures as Drummond professor at Oxford, some of which were collected in Senior's only published book, his *Outline of the Science of Political Economy* (1836). Senior carried forward Bailey's subjective utility theory; how much he was influenced by Bailey is difficult to say, since, like all too many economists of his era, Senior acknowledged virtually no like-minded colleagues or influences upon his own work.

Senior did acknowledge J.B. Say, however, and began his value analysis by stating that value depends on utility and scarcity, thus returning to the continental tradition. Senior added that utility is relative to human desires and to different persons, and is not intrinsic in objects. Utility, he pointed out:

> denotes no intrinsic quality in the things which we call useful; it merely expresses their relations to the pains and pleasures of mankind. And, as the susceptibility of pain and pleasure from particular objects is created and modified by causes innumerable, and constantly varying, we find an endless diversity in the relative utility of different objects to different persons, a diversity which is the motive of all exchanges.

Scarcity, or the natural limitation of supply, was for Senior the main influence on relative utility. In the course of his discussion, Senior virtually came to formulate the law of diminishing marginal utility:

> Not only are there limits to the pleasure which the commodities of any given class can afford, but the pleasure diminishes in a rapidly increasing ratio long before those limits are reached. Two articles of the same kind will seldom afford twice the pleasure of one, and still less will ten give five times the pleasure of two.

While he was completing his studies at Oxford, young Senior acquired as his tutor a young man, only three years older than himself, recently appointed as a fellow at Oriel College, from which he had graduated several years earlier. The Rev. Richard Whately (1787–1863), philosopher and theologian, and son of an Anglican minister, was to become Senior's close and lifelong friend. Even though Senior became an attorney, he remained a central part of the Oriel College circle clustered around the charismatic Whately. The circle engaged in literary studies and pursuits, with Senior publishing several literary articles and launching a short-lived literary and intellectual quarterly, the *London Review*. Whately published what was to become the standard text on logic, the *Elements of Logic* (1826), in which Senior included an appendix on 'Ambiguous Terms Used in Political Economy'. Indeed, Whately was probably responsible for injecting an unfortunate tendency in Senior towards word-chopping and logomachy, which helped dampen the influence of the great Senior in the world of economics. At any rate, Senior learned philosophy and theology from Whately, and the latter economics from Senior.

In Oxford, the Oriel circle was becoming a highly influential centre for Liberal and Whig views within the Anglican Church, a remarkable influence indeed in that traditionally high Tory and High Church university.[16] When the Drummond professorship in political economy opened up in 1825, Whately secured the post for Nassau Senior, and when Senior's term expired five years later, he recommended and obtained the position for Whately as his successor. Whately's Drummond lectures, the *Introductory Lectures on Political Economy* (1831, 2nd edition, 1832) continued and expanded the Senior tradition, particularly in value theory.

Indeed, methodologically, Whately went further than Senior. His linguistic and philosophical interests led Whately to see that the concept and terminology of 'political economy' tended to confuse and conflate these two distinct fields. This confusion hindered the scientific development of economics; hence Whately proposed substituting a new word, *catallactics*, the science of exchanges, for political economy. Whately defined man as 'an animal that makes exchanges', pointing out that even the animals nearest to human rationality did not have 'to all appearance, the least notion of bartering, or in any way exchanging one thing for another'. Focusing on human acts of exchange rather than on the *things* being exchanged, Whately was led almost immediately to a subjective theory of value, since he saw that 'the same thing is different to different persons', and that differences in subjective value are the foundation of all exchanges. Moreover, Whately pointed out that 'labour [is] not essential to value', and noted that pearls do not 'fetch a high price *because* men have dived for them; but on the contrary, men dive for them because they fetch a high price'.

Whately saw that the economic realm, and particularly exchange activity on the market, deserved its own sphere of analysis and inquiry. Even if integration later takes place, as analysis is applied to the political realm, there must first be a separation to allow the reasoning process its head.

But after separation and analysis, integration; and Richard Whately understood that the very fact that a separate sphere was secured for catallactic analysis meant all the more that integration with moral and theological analysis was required in order to come to policy conclusions. In his Drummond lectures, Whately was concerned to show, first, that, contrary to Oxford

Tories, political economy was not sinful, materialistic, or opposed to Christianity. In the first place, political economy is not to be considered, as had Smith and the classicals, a study of wealth; it is instead a study of human exchanges. But even a study of wealth is not sinful; in the first place, it is not sinful *per se* to examine the means of increasing wealth. There is no need for the political economist to step beyond his role as a scientist or catallactician, and advocate *policy* as a means of acquiring wealth or on any other grounds. Indeed, once he does so, he advocates public policy not as a political economist but in some other capacity. Whately also denounced, in their turn, the attempt to monopolize economics by the aggressively atheistic, secular, and 'anti-Christian' Ricardian circle. Certainly the latter adjective would not be excessive for people like James Mill and the Benthamite radicals. Whately also believed Ricardian teachings to be dangerous and 'anti-Christian' in the sense that they implied inherent class conflict between capital and labour, and between landlords and everyone else, and therefore denied the essential *laissez-faire* insight of a harmonious social order, an order that testifies to the existence of divine wisdom. In short, for Whately *laissez-faire* harmony and Christian insight into a divine order meet on a broad integrative level. Thus, while economic analysis is scientific and value-free, and cannot *directly* imply political conclusions, such analysis will lead to *laissez-faire* conclusions and, as such, is perfectly consistent with Christian insight into a beneficent divine order.

In addition to his subtle exposition on the nature of and distinctions among positive and normative economics, Whately denounced the naive fact-gathering methodology of the Baconian Cambridge inductivists, led by Richard Jones and William Whewell. The role of fact-gathering, Whately perceptively pointed out, was not in framing theory but in applying it to specific conditions. Looking at facts without the guidance of theory in their selection is virtually impossible. Scientific advances, Whately correctly noted, come not from gathering more data, but from looking at old facts in new ways – an example was modern insight into the nature of the circulation of the blood.

In 1832, Richard Whately left his Drummond chair prematurely on getting a surprise appointment to the high post of Anglican archbishop of Dublin, where he scandalized the evangelical faithful by refusing to be anti-Catholic and by insisting on being joyous on the Sabbath. The position of archbishop carried with it being one of the two 'visitors' of Trinity College, Dublin, the two who formed the ultimate appeals court for all intra-College disputes. Whately used his clout at Trinity to drive through, over fierce opposition, the establishment of a new chair of political economy at Trinity, under terms closely modelled on the Drummond chair. For the rest of his life, Whately examined and selected candidates for the post himself, and paid the salary of the professors.

The opposition from the board and the provost of Dublin University was based on a fear of the alleged radicalism of political economy. The provost wanted Whately to guarantee that the holders of the new chair would have 'sound and safe conservative views', to which the archbishop indignantly replied that he was 'appalled at such a suggestion, involving as it did the introduction of party politics into the subject of abstract science...'.

It was a subtle but important distinction that Whately was trying to convey – on an issue that plagues academia to this day. He was saying that it was proper – indeed important – to select a professor with the correct view of the broader implications of his subject as well as of its strictly scientific aspects. Yet it was decidedly not proper to judge the professoriat on the basis of their direct positions on narrow political issues, which Whately lumped together as 'party politics'. Thus, in gaining agreement on the Whately chair, the archbishop closely quizzed and selected the professors on the basis of their commitment to the Christian-liberal view of the harmony of the universe in general, and of the free market in particular; and to the Senior subjective utility theory of value as against the Ricardian labour theory.

Whately himself wrote a bit more on economics, reiterating his ideas in his *Easy Lessons on Money Matters; for the Use of Young People* (1833), an enormously popular work for children, that went into 15 editions in the next 20 years, and was translated into many languages. Remarkably, in this primer Whately hinted at another huge theoretical advance: generalizing the theory of pricing for all factors of production: 'If you consider attentively what is meant by the words Rent, Hire, and Interest, you will perceive that they all, in reality, signify the same sort of payment.'[17] But, unfortunately, Whately did not apply himself further to economics, and insights into value or distribution theory became scattered and fragmentary. From now on, he would have to rely on Whately chair holders to pursue the subjective tradition more systematically.

The first holder of the Whately chair suited the archbishop's requirements admirably. Samuel Mountifort Longfield (1802–84), the son of an Anglican vicar in County Cork, Ireland, had graduated from Trinity College a decade earlier and had won a gold medal in science for particular excellence in mathematics and physics. Longfield later won a coveted fellowship at Trinity, a post concentrating on mathematics and sciences – areas in which Trinity was far stronger than Oxford and Cambridge, which were just now enlarging their exclusively classical curriculum to enter the modern world. While serving as fellow of the college, Longfield entered Dublin Law School, and, graduating in 1831, became assistant to the Dublin professor of feudal and English law. Not only that: Longfield delivered a series of public lectures on the common law that was highly favourably received.

Mountifort Longfield more than fulfilled Whately's expectations. Not only did he use the leisure and the stimulus of the chair to hammer out a remarkably complete subjective and even marginalist theory of value and distribution – a genuine alternative to Ricardianism; he also imparted his stamp and the tradition of a subjective value theory alternative on Dublin University, leaving worthy successors to his chair. The brunt of Longfield's system was presented in his first published series of lectures, *Lectures on Political Economy* (1834). During the rest of his term, Longfield published two more sets of lectures; in 1836, he left the Whately chair to resume his legal career, becoming Regius professor of feudal and English law at Dublin University. Later he became a member of the Queen's Council. Longfield was an expert in real estate law, and in 1849 he was appointed as one of the three land commissioners in Ireland. A decade later, he became the prestigious judge of the landed estates court in Ireland. From then on he was known widely in Great Britain as 'Judge Longfield' for his efforts on behalf of land reform in Ireland. Aside from a few articles on banking, Longfield had no further leisure to pursue economic studies, and so his remarkable contributions to economics were crammed into his four years in the Whately chair. At the end of his life, Longfield returned to his early interest in mathematics, publishing a mathematical text, *An Elementary Treatise on Series*, in 1872.

Longfield's broad perspective of market harmony was quite similar to Whately's. In his *Lectures*, he wrote that the 'laws according to which wealth is created, distributed, and consumed, have been framed by the Great Author of our being, with the same regard to our happiness which is manifested by the laws that govern the material world'. Furthermore, Longfield was disturbed by Ricardo's pessimistic theory of distribution, and his portrayal of inherent class conflict between workers, capitalists, and landlords, with the former two being doomed by an inevitable rising lion's share of the product accruing to the unproductive class of landlords.

In value theory, Longfield worked out the subjective theory of value and price more fully than had been accomplished before in Great Britain. He concentrated firmly on market price as the important consideration rather than long-run price, and also showed that both are in any case determined by supply and demand. Longfield broke important new ground in his detailed marginal analysis of demand. Here he worked out the concept of consumer demand as a schedule, related to sets of prices, and even developed the idea of individual falling demand schedules as the fundamental basis of aggregate market demand. Even more fully than John Craig, Longfield showed that market demand curves are constituted by a spectrum of supramarginal, marginal, and submarginal buyers, each with different intensities of demand. Furthermore, 'the measure of the intensity of any person's demand for any commodity is the amount which he would be willing and able to give for it, rather than remain without it, or forego the gratification which it is calculated to afford him'. Yet, of course, despite the different intensities of demand, all exchanges will be at the same market price. If, then, 'the price is attempted to be raised one degree beyond this sum, the demanders, who by the change cease to be purchasers, must be those the intensity of whose demand was precisely measured by the former price... Thus the market price is measured by the demand, which being of the least intensity, yet leads to actual purchases'. In short, the marginal demand becomes a key to the determination of price.

In his analysis of supply, Longfield showed that the supply relevant to the real, day-to-day market price is a previously produced stock of a good now fixed for the immediate present period (in short, what would now be called a vertical supply curve for the immediate market period). Furthermore, Longfield saw clearly, in contrast to Ricardo, that cost of production in no sense determines price; at most, it contributes indirectly to that determination by affecting the extent of supply. His analysis comes close to the later Austrian theory by brilliantly pointing out that the effect of cost on supply comes from the expectations of producers in deciding how much of a good to make and put on the market. Thus the cost of production acts by its influence on the supply, 'since men will not produce commodities unless with the reasonable expectation of selling them for more than the cost of producing them'.

Professor Laurence Moss, a biographer of Longfield, has deprecated the latter's contribution to value theory as not a marginal utility theory.[18] Moss complains that while Longfield realized that utility was the source of all demand, he did not analyse utility beyond that, and stuck merely to an analysis of marginal demands and the demand schedule. This revisionist view seems merely to quibble over terms; while Longfield did not use the term marginal utility or break 'utility' down into individuals or groups, his doing so for demand and the degrees of demand goes most of the way towards a complete utility theory. Professor Moss is in danger of mistaking the term for the substance. It is true, however, that an unfortunate lingering Ricardianism led Longfield to endorse labour as a measure of value, a concept which is every bit as fallacious as the labour theory of value itself.

In Ireland, as we shall see, Mountifort Longfield, aided by Whately, left an important legacy of subjective value theory and anti-Ricardianism to his successors in the Whately chair at Dublin. But, unfortunately, he had no influence in England, where he was ironically well-known as Judge Longfield the Irish land reformer and unknown as an important and challenging economist. Senior, though closest in doctrine, knew of Longfield but only referred to him once on a trivial point and displayed no signs of being influenced by him. This neglect was intensified by the extreme provinciality of English economics in the nineteenth century. Generally, they would not deign to notice foreign writers, especially 'colonials' like Irishmen and Americans from whom they might have profited.

But Mountifort Longfield did succeed, at least, in establishing a utility-value tradition in Ireland. His successor in the Whately chair, Isaac Butt (1813–79), proudly called himself a disciple of Longfield, and advised his students to read, above all in economics, Longfield, Say and Senior – a worthy trio indeed. Like Longfield, and even more so, Butt's economic contributions were confined to the 1836–40 term of his Whately chair, his most important publications, *Introductory Lecture* (1837) and *Rent, Profits, and Labour* (1838), consisting of lectures delivered at Trinity. As we shall see below, Butt's main contribution was generalizing Longfield's marginal productivity theory of factor pricing and integrating Say's utility analysis with that theory. In utility theory proper, Butt corrected Longfield's Smith-like error in referring to consumption *per se* as 'unproductive'. Butt also noted that the labour theory of value might be in a sense applicable if labour were the only scarce resource, and if, moreover, it were homogeneous and costlessly mobile between industries. But such conditions are of course impossible.

Isaac Butt began as a precocious classical scholar and translator of Virgil. He was named to the Whately chair at the early age of 23, and, while teaching there, he took his bar examinations. After his term was over, Butt became an eminent attorney, and soon became an alderman of the City of Dublin. Later Isaac Butt denounced British policy during the Irish famine, and went on to became a famous and hard-hitting advocate of Irish home rule. Butt defended leaders of the Irish rising of 1848 in court, as he did the Fenian rebels in the late 1860s. Butt was also the founder, leader and chief organizer of the Home Rule Party, serving for a while in Parliament. His published writings after his Trinity period dealt with the Irish land question, where Butt advocated land reform on behalf of the Irish tenantry. As a tenants' advocate, Butt took the poorly paid side of these legal disputes, and hence was never well off and was often deeply in debt. His main publications on the Irish question were *A Voice for Ireland – the Famine in the Land, What Has Been Done and What is to be Done* (1847), and *The Irish People and the Irish Land* (1867).

Isaac Butt's successor in the Whately chair, James Anthony Lawson (1817–87), was also an attorney involved with the Irish question, but he took the opposing route to Butt, becoming a stern advocate of British law and order and suppression of his rebellious countrymen. Lawson also became the holder of the political economy chair at a remarkably early age (24), serving the full term from 1841 to 1846. Lawson entered Parliament, and rose to become solicitor-general and then attorney-general for Ireland, becoming a judge of the Common Pleas in 1868. There he meted out punishment for land rebels and Fenians; while Richard Cantillon remains as the only possibly murdered man in the history of economic thought, Lawson suffered an attempted assassination on the streets of Dublin in 1882.

Lawson's productivity in economics followed the same restricted path as that of his predecessors. His only published book was his *Five Lectures on Political Economy* (1844), consisting of some of his Trinity lectures; in later years, he occasionally printed some of his lectures on legal topics, the best-known being on mercantile law in 1855.

Unfortunately, the series of Lawson's lectures on value have been lost, his only published reference to them being contained in a brief appendix to his *Five Lectures*. We know enough, however, to see that Lawson was decidedly in the Trinity utility tradition, and even made a distinguished contribution to that doctrine. Thus Lawson declared that it was subjective utility and utility alone that determined the price of all goods. Lawson declared that 'It is a proposition always true, and of universal application, *that the exchangeable value of all articles depends upon their utility*, that is, upon their power to gratify the wants and wishes of man'. (Italics in original.) All other attempted explanations of value he saw as only partial. Demand and supply, for example, can only influence price by way of their effect on utility. In dealing with the effect of an increase of supply, Lawson arrived flatly and notably at the law of diminishing marginal utility. Thus, if someone's supply of a good increased,

> this will generally diminish its utility to him, or the degree in which he desires its possession, for as our particular desires are capable of being satisfied, it is obvious that we may have more of an article than we wished to use, therefore retaining the possession of that surplus is less desirable to us.

When coming to the cost-of-production theory of value, Lawson pointed out that the utility of a product, and not its cost, determines how much anyone will pay for it. While price may sometimes equal cost of production, this does not mean that cost determines the price. On the contrary, the coinciding of cost and price, Lawson added, can only come about 'through the medium of a change in supply and when this cannot be brought about, there is no such coincidence and no tendency toward it'. In that way, Lawson arrived at Stanley Jevons's newly hacked-out value position of a generation later.

In his *Five Lectures*, Lawson also developed the Whatelyan idea of economics as catallactics, as the study of exchanging man. In his first lecture, Lawson declared that economics views man 'in connection with his fellow-man, having reference solely to those relations which are the consequences of a particular act, to which his nature leads him, namely, the act of making exchange'. In his second lecture, Lawson failed to continue this line, and fell back on older discussions of political economy as the study of 'wealth'.[19]

The next holder of the Whately chair, William Neilson Hancock (1820–88), a student of Whately at Oxford, taught at Trinity from 1846 to 1851, and was also an attorney. He was a particularly scholarly lawyer, and in the last two years of his Trinity term he simultaneously held the chairs of jurisprudence and political economy at the new Queen's College, Belfast. Afterwards, Hancock was a secretary to many government commissions on land and education matters, and held posts as court clerk, ending his career as clerk of the Crown and Hanaper in Dublin. He was the principal founder of the Statistical Society of Ireland in 1847, and the Social Inquiry Society of Belfast four years later.

In contrast to the other Trinity chair holders, Hancock was interested in statistics and empirical work; he had graduated from Trinity in 1842 with a first in mathematics. He published a host of articles and pamphlets on empirical questions. Several dealt, almost inevitably, with the Irish land question, where, like Longfield and Butt but unlike Lawson, he championed the rights of the Irish tenantry and deplored the effect upon their condition of the British-imposed system of land tenure: e.g., *The Tenant-right of Ulster* (1845); *Impediments to the Prosperity of Ireland* (1850); and *Two Reports for the Irish Government on the History of the Landlord and Tenant Question in Ireland* (1859, 1866). Other pamphlets dealt with taxation and local government, in which he advocated a single tax on income, including the inheritance of wealth. A third group of articles advocated stricter control and supervision of the savings banks. Hancock's statistical work was done under the influence and guidance of Thomas Larcom, a land surveyor and statistician who filled many government posts, becoming under-secretary for Ireland in the 1850s.

While better known for applied economics, Hancock did publish a valuable theoretical work consisting of his *Introductory Lecture on Political Economy, 1848* (1849) delivered at Trinity College. He began by noting the ambiguity that had pervaded the use of the word 'value', and made clear that 'the word "price" is fortunately free from all ambiguity, and always means the exchangeable value of a commodity, estimated in the money of the country where the exchange takes place'. He proposed, then, to use the word price exclusively instead of exchange value. Price, furthermore, can change either 'from the side of things', or 'from the side of money'. Treating the former, he notes that such changes can only take place as a result of one or both of the following causes: 'either a change in the degree in which its possession is desired, or in its desirability; or a change in the force of the causes by which its supply is limited, or, in other words, by which it is made scarce'. Turning to demand, Hancock added that 'the degree in which the possession of a commodity is desired, is measured by the number of persons able and willing to purchase at each amount of price'. Hancock's utility, or quasi-marginal utility, analysis, emphasized a slightly different aspect than did that of his predecessors: namely, another aspect of what we would now call the falling demand curve. For he noted that 'it is observed that for commodities in general, their desirability increases very rapidly as their prices fall'.

On supply, Hancock again stressed limitations of supply rather than cost; and the limitations, or scarcities, of supply are dependent on the scarcities of the various factors of production. He implied that the returns to these factors is a question of their prices, and that any explanation of the prices of the factors must treat them uniformly, in accordance with the influences upon their demand and supply, i.e., 'by the application of the laws already stated with regard to other prices'.

But while Hancock was clearly in the Trinity utility tradition, we see already a falling-back, a loss of interest and a greater vagueness in the discussion of value or, indeed, of theory in general. And indeed, William Neilson Hancock was destined to be the last of the distinguished line of Irish subjective utility theorists at Trinity College.

4.7 William Forster Lloyd and utility theory in England

Just because Mountifort Longfield and the Trinity connection had no influence in England does not mean that the utility theory of value died out with such prominent economists as Bailey and Senior. Indeed, Nassau Senior's successor in the Drummond chair at Oxford was also a distinguished utility theorist. William Forster Lloyd (1794–1852) was the son of an Anglican rector from Gloucestershire. Lloyd went to Christ Church, Oxford, where he took a first in mathematics and a second in classics. Lloyd was a reader in Greek and then a lecturer in mathematics at Christ Church, and was also ordained as an Anglican minister, but never served a parish. Lloyd held the Drummond chair from 1832 to 1837, and seems to have done little at all after that. A sickly man, Lloyd retired to his county and displayed little interest in economics, in writing, or in politics before dying in middle age.

But for Lloyd as for the other Drummond and Whately chair holders, his term as professor provided him both opportunity and stimulus to compose, deliver and publish lectures in economics. His various lectures, including one delivered on value in 1833, were all published separately, and then collected and republished as *Lectures on Population, Value, Poor-Laws, and Rent* (1837).

One does not have to agree in politics to have similar views of economic theory. We have seen, for example, James Lawson's hard-core attitude against the peasantry. While William Lloyd was a utility theorist, he was far from a Whatelyan at Oxford; on the contrary, at Oxford Lloyd belonged to the high Tory circle at Christ Church that was the main counterweight to the Liberals at Oriel. Leader of the Christ Church Tories was William's elder brother, Charles Lloyd (1774–1829), who tutored future Prime Minister Sir Robert Peel at Christ Church, and soon became a close friend and adviser to Peel. At his untimely death in 1829, Charles Lloyd was Regius professor of divinity and canon of Christ Church, as well as serving as bishop of Oxford. He was widely known as 'the most influential Oxford Professor of his day'. Even though Lloyd taught and inspired many of the leaders of the future ultra-Tory, proto-Catholic Oxford movement, he himself, as well as William Lloyd, was a moderate, Peelite Tory, both theologically and politically. The influence of Peel and of his late brother Charles undoubtedly secured the Drummond chair for William Lloyd.

Most of Lloyd's lectures were devoted to his quasi-statist and paternalistic views on public policy. Of particular interest, however, was his lecture on value. There Lloyd, stumbling through the literature, thinks he discovers in the *Wealth of Nations* inspiration for a subjective theory of value. Value, Lloyd asserts, is 'a feeling of the mind'. It can be understood as belonging to a single object, he added, where the feeling reveals itself 'at the margin of separation between the satisfied and unsatisfied wants'. But value, or even utility, cannot be intrinsic to any object. Utility, points out E.R.A. Seligman of Lloyd's theory, 'is predicated of an object with reference to the wants of mankind. Ice is useful in summer, useless in winter. Still the intrinsic qualities of ice are at all times and in all places the same'.[20]

After treading what was by now familiar ground about an increase in the supply of an object diminishing and eventually satiating demand, William Lloyd suddenly arrives at a great light – a remarkably clear portrayal of the law of diminishing marginal utility. Lloyd points out:

> Let us suppose the case of a hungry man having one ounce, and only one ounce of food at his command. To him this ounce is obviously of very great importance. Suppose him now to have two ounces. These are still of great importance; but the importance of the second is not equal to that of the single ounce. In other words he would not suffer so much from parting with one of his two ounces ... as he would suffer, when he had only one ounce, by parting with that one, and retaining none. The importance of a third ounce is still less than that of the second; so likewise of a fourth, until at length, in the continual increase of the number of ounces, we come to a point when ... the appetite is entirely ... lost; with respect to a single ounce, it is a matter of indifference whether it is parted with or retained. Thus, while he is scantily supplied with food, he holds a given portion of it in great esteem, in other words, he sets a great value on it; when his supply is increased, his esteem for a given quantity is lessened, or, in other words, he sets a less value on it.

Similarly, Lloyd goes on, the utilities of different goods compared with one another and each of their values falls with increase in supply; so a good that may be more valuable than another in an absolute philosophic sense, in the sense of a class of the commodity, can be worth very little if its supply is abundant. Thus, 'Water is more wanted by a man almost dying with thirst than by another who has quenched his thirst, and desires only to wash himself. It is on want, thus estimated, that value depends'.

More specifically,

> If, to a man who has already half a dozen coats, you should offer to give another, he might probably reply that he would have no use for it. Here, however, he would speak, not of the abstract utility of the coat, but of its special utility to him under the circumstances of his want of coats being already so far supplied. This, though not quite the same thing as value, approaches very near to it. The coat would be of no use to him; therefore, were he to have it, it would not be valuable in his estimation... But this is very different from the utility of the coat in the general sense of utility...[21]

William Lloyd was also clear that value, being subjective, could not be measured. In a passage reminiscent of and going beyond Bailey, he writes trenchantly that

> It would indeed be difficult to discover any accurate test, by which to measure either the absolute utility of a single object, or the exact ratio of the comparative utilities of different objects. Still it doesn't follow, that the notion of utility has no foundation in the nature of things. It does not follow, that because a thing is incapable of measurement, therefore it has no real existence. The existence of heat was no less undeniable before thermometers were invented, than at present.

Lloyd goes on to point out, quite correctly, that value or valuation is anterior to exchange, and that such valuations also take place in the case of an isolated Robinson Crusoe economy. Unfortunately, Lloyd was so enamoured of the distinction between value and exchange, and of Smith's faulty split between use- and exchange-values, that he failed to complete the task of the theory of demand and link up marginal utility analysis with consumer demand and the determination of market pricing. Such men as Butt, Longfield, Lloyd and Bailey had hammered out many of the building blocks of the marginal utility theory of pricing and even of the marginal productivity theory of factor prices; it required the Austrians, however, to put the pieces together and set forth an integrated whole.

If Lloyd's value theory seems to have had little or no influence in England, the eminent Nassau Senior's utility theory was picked up and lauded a decade after the publication of his *Lectures*. Thomas C. Banfield (c. 1800–60), had spent many years in Germany, and in his 1844 lectures at Cambridge, Banfield brought to England the good news that economic theory on the Continent was not blighted by any Ricardian miasma; instead, he noted that a flexible form of Smithianism was dominant in Europe. In addition to basing his doctrines on Say, von Storch, and Senior, Banfield was the first English economist to refer to the marginal theorist Heinrich von Thünen, and to the advanced Smithian Friedrich von Hermann. In the preface to his lectures, published as *The Organization of Industry* (1845), Thomas Banfield pointed to the enormous changes that had been made in economic theory during the past two decades by the subjective theory of value, 'which demands of producers at least as much attention to the physical and mental improvement of their consuming fellow-citizens as to the mechanical operations' or production. Wages, he noted, will depend on the productivity of labour, i.e., 'the utility of the instrument of which a man understands the use'. In his lectures, Banfield emphasized the relativity and degree of intensity of wants as the function of economic science.

It certainly seems that economics in England, by the later 1840s, was poised for a mighty 'Austrian' breakthrough, for an integrated system elaborating the effect of human purposes and values and their interaction with the scarcity of resources. Yet something happened; and economics, poised for a great breakthrough, sank back into the slough of fallacies constituting the Ricardian system. And the important body of pre-Austrian or anti-Ricardian thought was forgotten as if it never existed, only to be resurrected either a generation later or as late as the twentieth century. How this unfortunate retrogression came about will be treated below.

4.8 A utility theorist in Kentucky

If the Trinity College contributions to subjective utility theory remained unknown outside Ireland, still more obscure was an isolated and amazing contribution in the course of several articles in a Kentucky newspaper. Written by the youngish but influential editor of the *Frankfort (Ky) Argus*, Amos Kendall (1789–1869), later to become a leading brain-truster of Andrew Jackson in his battle against fractional-reserve banking and particularly against the Bank of the United States, the articles remained unread and unknown even in the United States until exhumed by historians in the twentieth century.[22] And yet especially considering that they were written in 1820, antedating Bailey and even Craig, they were phenomenal. Not only did they champion subjective value; they were the first expression of the law of diminishing marginal utility.

Kendall was moved to explore the question of economic value by a fierce dispute in Kentucky during the catastrophic Panic of 1819 on whether or not debtors should receive relief at the hands of the state government. While Kendall was not opposed to all relief measures, he was disturbed by proposals that would have repudiated all existing debt. To explore the subject in depth, Kendall published three articles in the *Argus*, beginning on 27 April, examining the problems of money and more fundamentally, the nature of value. Unfortunately, in his autobiography, arranged and edited posthumously by his son-in-law, Kendall gives no hint on which economists might have inspired his advanced views.

In his first article, Kendall went straight to the basics and examined the question of value *per se*. He begins by saying that there have been many erroneous explanations of value: labour expended, price, even demand. But, he points out,

> All these notions are erroneous. Things have *value*, not because they are produced by labor, nor because they are in general demand, nor because they will sell or exchange for a certain number of dollars, *but simply because men desire to possess them. Desirableness is value*. In exact proportion that a thing is desirable it is valuable. (Italics in original.)

Kendall went on, in dismissing the 'value paradox', to say that water and air have little or no value because of their abundance: 'Were meat and bread as common as air and light they would possess no more value; they would not create desire.' In the Garden of Eden, land, being superabundant, possessed no value. Labour, Kendall went on, conferred no value, for:

> With regard to the produce of labor, value is generally antecedent to the labor of production. It springs from our desire to possess that which labor may produce. Were labor to fix value upon its products, everything on which much has been spent would be very valuable. This notoriously is not the fact... But labor could not make a thing valuable which was not desirable. Labor may be wasted. It may be applied to the production of that which nobody desires, which has no value.

And Kendall sparkingly concludes: 'Things do not become valuable because men spend labor upon them, but men spend their labor upon them because they are valuable.'

The demand for a product, furthermore, stems from men's desire to obtain it. The desire is primary: 'Demand is not, therefore, the cause of value... A thing becomes desirable or valuable before there is a demand for it. The demand follows... But when the desire to possess it cease, it has value no longer, and is no longer in demand.'

The next step, for Kendall, is that desires, being subjective and evanescent, cannot be measured, and that therefore neither can value:

> What standard can be invented for the desires of men? Can the necessities, the comforts, the pleasures, the fashions, the opinions, and the caprices of man be reduced to any standard? Are they not ever changing like the winds of heaven? Measure never varies. A yard is always equal to the length with which it is compared... These lengths, surfaces, and quantities never vary or change. Therefore they may be reduced to a standard which shall be uniform and last forever. But does value never vary? Will that which is now worth a dollar always be worth just the same sum?

Tastes and desires are ever-changing, and so therefore is value; hence it can have no measure or standard. Kendall then concludes his devastating critique – one that we might wish Ricardo and his epigones had read and understood:

> To make a standard of value you must first make every acre of ground, every bushel of wheat, and any given quantity of any other article, at all times, in all situations and under all circumstances, sell for precisely the same amount. There must be no such thing as profit or loss, or buying or selling.
>
> We have said enough to show the utter impossibility of a standard of value, and that to talk seriously of any such thing is simply ridiculous. We may as well talk of a standard of hunger, thirst, opinion, fashion, caprice, and all those wants ... which make things desirable.

4.9 Wages and profits

In addition to the labour theory of value, another vital cornerstone of the Ricardian system – the alleged inverse relation of wages and profits – was also riddled quickly by British economists. We have already seen the disappearance of the hard-core Malthus of the first edition of the *Essay on Population*, so necessary to the conclusions of Ricardian theory.

Even more than the explicit rejection of Malthusianism, the periodicals vehemently attacked the Ricardian view that wages and profits move inversely to each other. The *British Critic* denounced this thesis as early as October 1817, and two years later another writer zeroed in on the methodology of what would later be called the 'Ricardian Vice' with proper scorn:

> taking for granted, as usual, that money never changes in value and the proportion between the supply and demand of any given commodity never alters (which is as if the astronomer were to assume as the basis of his calculations, that all the planets stand still and that they all stand still to all eternity), he assigns a specific sum to be divided between the master and the workman, as the unalterable price of the goods which they produce; from which adaptation of hypothetical conditions, it naturally follows, that, if the workmen get more, the master-manufacturer must receive less, there being only a certain sum to divide between them.[23]

Other writers, including Malthus in 1824, made similar critiques, and also noted that, empirically, wages and profits generally increase or decrease in the same direction. Thus, John Craig pointed out that historically wages and profits moved not inversely but together: 'It is rather a startling circumstance attending this theory, that what it represents as the necessary effect produced by high wages upon profits in all branches of industry, is directly contrary to the experience in each particular trade.' Craig went on to explain that 'a new demand for a commodity at first enriched those, who, being in possession of this commodity, are enabled to raise the price; the desire to participate in their gains soon directs new capital to its production, and a rise in wages speedily ensures'.

Once again, it is not legitimate for Ricardian apologists to dismiss this critique as historical rather than analytical in nature, for empirical generalizations meant to apply directly to reality as in the Ricardian system are properly open to empirical rebuttal. Such rebuttal may challenge the conclusions as well as the more familiarly 'theoretical' procedure of challenging the realism of the theory's premises.

By the 1840s, the idea of an inverse relation between wages and profits had been completely discarded. But if the Malthusian subsistence theory did not determine wages themselves, then what *did*? Not many wandered into this unknown territory. But as early as 1821 the unknown but remarkable Scotsman John Craig emphasized that wages are determined by the supply and demand for labour, and not in any sense by the price of food. Two elements in the demand for labour were stated though not analysed in full: the 'capital from which wages are advanced to the workman', and the 'demand for the produce of his labour'. Craig, by the way, neatly demolished Adam Smith's spurious distinction between 'productive' and 'unproductive' labour. He cogently concluded that 'wealth may consist in whatever be the object of man's desire, and every employment which multiplies those objects of desire, or which adds to their property of yielding enjoyment is productive'.

The next important step in the theory of wages came from Samuel Bailey who, in the course of his definitive critique of Ricardian value theory in 1825, pointed to the crucial role of the productivity of labour in determining wages:

> the value of labour does not entirely depend on the proportion of the whole produce which is given to the labourers in exchange for their labour, but also on the productiveness of labour... The proposition, that when labour rises profits must fall, is true only when its rise is not owing to an increase in its productive powers... If the productive power of labour be augmented, that is, if the same labour produce more commodities in the same time, labour may rise in value without a fall, nay, even with a rise of profits.

One of the critical problems in developing the productivity theory of wages was the Ricardian insistence on emphasizing the alleged laws of aggregate distribution, of 'wages' as a whole and as a total share of national product and income, rather than as wage *rates* of individual units of labour. J.B. Say had presented a productivity theory of wages, but had not analysed the determination of particular wage rates in any detail. Nassau Senior, in the early 1830s, while confused on the topic of wages, came out for the productivity theory. He also managed to demolish Adam Smith's 'productive' *vs* 'unproductive' labour doctrine, stressing, as had J.B. Say, 'production' as the flow of *services*, which emanate both from material and immaterial products.

The truly revolutionary step forward in the theory of wages – indeed in the theory of all factor pricing – came with Mountifort Longfield, in his *Lectures on Political Economy*. As we have seen, Longfield was concerned to show, in contrast to the Ricardian class-conflict theory of income distribution, that workers benefit from capitalist development. (Ironically, Longfield's *laissez-faire Harmonielehre* was replaced by a far more statist attitude in later life.)

In the course of doing so, Longfield took J.B. Say's correct but vague productivity theory of factor incomes, and worked out, for the first time, a remarkable marginal productivity theory of the rental prices (i.e. prices per unit time) of capital goods (which Longfield oddly called 'profits', in a typical confusion of returns on capital with the pricing of capital *goods* that has plagued economics since the early nineteenth century). Working out the specifics, Longfield showed that the price of each machine will tend to equal the marginal productivity of the machine, i.e. the productive value (in terms of value of their products) of the least productive machine which it pays to keep employed on the market, i.e. the marginal machine.

Thus, for the first time, in an unknowing echo of Turgot, Longfield used the proper *ceteris paribus* method of analysing productive returns, holding one factor or class of factors constant, varying another set of factors, and analysing the result.

Longfield stopped there in his brilliant pre-Austrian contribution, applying marginal productivity analysis only to capital goods. He was content that the analysis showed that wages – the residual labour income left over after payment to capital – rose as the marginal productivity of capital goods fell with each increase in the amount of capital. In short, the accumulation of capital led to an increase in wages. Furthermore, Longfield demolished any Malthusian fears totally. Not only was hard-core malthusianism long in the discard, but even the soft-core emphasis on the workers' customary level of wages as determining the supply of labour had the causal chain reversed. Instead, custom, he sensibly pointed out, is guided by the actual prevailing market wage rather than the other way round. As an anonymous Irish follower wrote in the *Dublin University Magazine* a decade later (July 1845), custom will render it suitable to be paid whatever the prevailing wage rate may be, while it would be considered disgraceful to be paid below that norm. Hence the demand for labour, rather than its supply, will dominate the determination of the market wage.

Longfield's further demolition of even soft-core Malthusianism pointed out that population growth can have a favourable effect by widening the market for manufactured goods, thereby raising the marginal productivity of capital goods across the board. Hence population can grow, capital can develop, and both capitalists and workers will benefit – a far more realistic picture of capitalist development than the Ricardian.

Longfield's successor and disciple Isaac Butt, however, was not content to stop there, and he provided an outstanding development of the Longfieldian analysis. In the first place, Butt took the crucial step of seeing that Longfield's marginal productivity analysis could be generalized from capital goods to *all* factors of production: to wages, and to land rent. Each of these classes of factors could be analysed in terms of marginal productivity, and the result would be that each of them would obtain the return, or price, of the least productive factor profitable to be employed on the market (the marginal labourer or acre of land). Thus, whatever kernel of sense there was to the Ricardian differential return theory of land rent, was isolated and incorporated into Butt's brilliant pioneering generalized theory of marginal factor pricing.

Not only that: Butt also built on Say's utility analysis and correct but vague productivity analysis, and integrated it at least in outline, with generalized Longfieldian marginal productivity theory. In short, in a prefiguring of the Austrian Menger–Böhm-Bawerk insight, the value of consumer goods, determined by the subjective utility of the goods to consumers, is imputed back on the market to the values of the various factors of production, which will be set equal to the marginal value productivity of each factor. Thus the unit price of every type of factor will tend to be equal to its marginal value productivity as imputed back through the competitive market process from the subjective utility of the final products.

Unfortunately, this excellent Say–Longfield–Butt tradition of productivity theory had no influence and no successors. Although Senior, as a fellow Whatelyan, certainly knew Longfield's work, he never referred to him or to Butt, and even Longfield's Irish successors at Trinity College, Dublin, while continuing the utility theory of value, neglected the corollary theory of imputation and productivity.

It is true that Longfield's marginal productivity analysis gained one faithful follower in England, Joseph Salway Eisdell, whose two-volume work, *A Treatise of the Industry of Nations* (1839), propounded a sophisticated version of the Longfieldian theory. The book by the unknown Eisdell, however, sank without trace, gaining no reviews in the journals, or citations anywhere else.

But if factor pricing had been analysed, what of profits? If profits could not be explained simply as a residual, then they had to be explained directly, and so some economists began to search for a satisfactory theory of what would determine long-run profits or what would later be called long-run interest return. For one thing, it was pointed out that Ricardo erred greatly in assuming instantaneous and total mobility of capital, and there was a harkening back to the more realistic outlook of Adam Smith. A writer in *Monthly Review*, in 1822, for example, stressed 'the impracticability of transferring capital and the personal acquirements of skill from one business to another'.

But if profits were only uniform as a long-run tendency, what explained them? Malthus moved closer to the correct view, in the *Quarterly Review* in 1824, by stressing that whereas rents are determined by productivity, profit, for example, that is earned in keeping wine and selling it when it matures, is due to 'waiting', and the longer the waiting the greater the margin of profit.

A particularly important contribution to the journal literature pointed to the eventually correct theories of profit and interest. This was an article by

William Ellis (1794–1872) in the Benthamite *Westminster Review* for January 1826. In a highly sophisticated analysis of saving and investment, Ellis pointed out that saving is induced by 'the expectation of greater enjoyment from deferred than immediate consumption', while, on the other hand, investment is called forth by the expectation of profit. In the course of analysing investment, Ellis, with great perceptiveness, distinguished between profit as a return to risk taking as against interest as a return on savings that may also carry a risk premium.

Particularly interesting was Ellis's pioneering risk theory of profits. 'The largeness of the profit', he maintained, 'must be proportioned to the risk incurred in drawing treasure from the hoard and employing it in production'. He also keenly stressed the importance of a large expected profit for undertaking technological innovation. New technology is 'untried' and its introduction must overcome 'the loss of superseded machinery, the want of skill and practice, in workmen and the uncertainty of the result, all unite in preventing the adoption and application of that which is untried'. Chiding previous writers for ignoring innovation and its problems, Ellis pointed out that its difficulties 'are only conquered ... by the prospect of the great additional profit, with which the adopted invention is expected to be accompanied'.

Ellis also introduced separating out the elements of 'gross profit' in a business firm, and distinguishing them from long-run normal interest. Where an entrepreneur uses his own capital exclusively, his gross profit, Ellis perceptively pointed out, can be broken down into premium for risk, remuneration for the entrepreneur's labour and supervision, and, finally the 'remuneration for the productive employment of his savings, which is called interest'. Productive loans in business tend to comprise the interest part of gross business profit.

Who was William Ellis who contributed such a startlingly perceptive and advanced article to one of Britain's distinguished journals? Apparently this was Ellis's sole foray into economics. Born in London, Ellis became a nonconformist missionary, and spent his life working and travelling for the London Missionary Society. Sent to Polynesia from 1816 to 1824, Ellis, who had worked as a gardener in his boyhood, acclimatized many tropical fruits and plants in Polynesia, and also set up the first printing press in the South Seas. The fruits of this labour appeared in his two-volume *Polynesian Researches* (1829). His interest in the theory of profits soon upon his return from his first Polynesian sojourn appears to have been a sport in Ellis's busy missionary career.

While he was not as perceptive as Ellis, a similar analytic division of gross and net profits was contributed by the Scottish philosopher Sir George Ramsay (1800–71), in an unknown and unremarked work, *An Essay on the Distribution of Wealth* (1836). While much of the book was Ricardian, Ramsay adopted the concept of entrepreneur from the French, and he too broke down the gross profits of capital into interest on the use of capital, and the 'profits of enterprise', which was in turn divided into wages of management and superintendence, and payment for the risk incurred by the 'masters', or entrepreneurs. Ramsay pointed out that, analytically, entrepreneurs receive the profits of enterprise, while capitalists receive interest or 'profits' on capital. In practice, however, the two returns are generally combined as the gross profits of capitalist entrepreneurs.

Ramsay was also the first Briton to adopt Destutt de Tracy's analysis of the process of production as either change of the form of matter, or the geographical place, to which Ramsay added, a change in time.

4.10 Abstinence and time in the theory of profits

If profit were perhaps related to risk, what then accounts for the long-run 'interest' component of business profits? The dominant explanation for long-run interest in British economics soon became the abstinence theory of interest.

The first presentation of time as the determinant of interest came from a theory related but superior to abstinence: Samuel Bailey's pioneering time-preference theory. Bailey's discussion came in the course of his brilliant demolition of Ricardo's labour theory of value and his championing of an alternative utility theory. Bailey begins his discussion of time and value by noting that if one commodity takes more time than another for its production, even using the same amount of capital and labour, its value will be greater. While Ricardo admits a problem here, James Mill in his *Elements of Political Economy* indefatigably asserts that time, being 'a mere abstract word', could not possibly add to anything's value.

Rebutting Mill, Bailey points out that 'every creation of value' implies a 'mental operation' – in short, a subjective analysis of value. Given a particular pleasure, Bailey went on, 'We generally prefer a present pleasure or enjoyment to a distant one' – in short, the omnipresent fact of time-preference for human life. Thus:

> We are willing, even at some sacrifice of property, to possess ourselves of what would otherwise require time, to procure it, without waiting during the operation ... If any article were offered to us, not otherwise attainable, except after the expiration of a year, we should be willing to give something to enter upon present enjoyment.

Considerations of time-discount influence buyers, sellers and capitalists, as well as both parties who realize, for example, that wine gains value by being kept for longer periods of time. Bailey, interested in rebutting labour and other objective theories of value rather than explaining interest *per se*, did not press on to explain time-preference as the basis of interest nor to discuss the time-discount rate. But his analysis clearly paved the way for the later Austrian time-preference theory, although Böhm-Bawerk, the creator of the theory, remained unaware of Bailey's insights.[24]

Six years later, G. Poulett Scrope – despite his unfortunate fringe views on Say's law – made an important contribution to profit (or interest) theory, by pioneering an abstinence theory of interest. Writing in the *Quarterly Review* for January 1831, Scrope deplored the absence of any genuine theory of profit in Ricardo, and proceeded to set forth an abstinence theory.

Despite Böhm-Bawerk's uncharitable strictures on the more highly developed abstinence theory of Nassau Senior, there is not a great deal of difference between the abstinence view and the later, and more sophisticated, Austrian theory of time-preference. Profit, said Scrope, was 'the compensation for abstinence from immediate gratification' involved in saving and investing rather than consuming. But Scrope did not stop at outlining an abstinence theory; much of profit, he pointed out, is the narrow form of profit identical with interest. What is vulgarly called 'profit', as Scrope called it, is identical with Ellis's 'gross profit'. This consists, Scrope went on, of interest on capital + insurance against the risks of business + wages for the superintendence labour of the capitalist. Scrope also added monopoly rent, in which he lumped the possession of superior soil or location along with the gains from patented inventions or processes.

But the *locus classicus* of the abstinence theory was the lectures of Nassau W. Senior. It is true that they were not published until 1836, when they were published as the *Outline of the Science of Political Economy* (and also as the article on 'Political Economy' for the *Encyclopedia Metropolitana*), but they were delivered earlier as lectures at Oxford in 1827–28.

Senior pointed out that savings and the creation of capital necessarily involve a painful present sacrifice, an abstinence from immediate consumption, which would only be incurred in expectation of an offsetting reward. Unfortunately, Senior lacked the concept of time-preference, so he was fuzzy about the specific motivation that would lead people to prefer present to future consumption. But he came to very similar conclusions, relating the degree of abstinence-pain (or, as the Austrians would later put it, time-preference for the present over the future) to 'the least civilized' peoples and the 'worst educated' classes, who are generally 'the most improvident, and consequently the least abstinent'.

Even more interesting and valuable than Senior's abstinence theory was his developed theory of capital, which strongly anticipated the Austrian doctrine. For Senior saw that factors of production could be divided into two classes: the original, primary ones: land (or natural resources) and labour; and all the secondary, intermediate goods which are produced by the joint efforts of the primary factors (as well as pre-existing intermediate factors). Eventually, the intermediate factors are transformed into consumer goods that are able to satisfy the wants of the consumers. It might be thought that ultimately the intermediate factors, or capital goods, might be reduced to nature and labour, but this cannot be done, because another element is needed to combine the primary factors into more and more capital: abstinence. For again anticipating the Austrians, Senior saw that a crucial aspect of this process of production is that it must take *time*, and therefore an act of abstinence, 'a term' added Senior, 'by which we express the conduct of a person who either abstains..., or designedly prefers the production of remote to that of immediate results'.

Capital, or capital goods, then, taking time, are the result of the combination of land, labour and abstinence, and consists of the application of present resources to future production. Capital goods are *produced* rather than primary, factors of production. And the way in which production and living standards may increase indefinitely is by using the products of labour and nature, 'as the means of further Production'. Capital, Senior sums up,

> is not a simple productive instrument: it is in most cases the result of all the three productive instruments combined. Some natural agent must have afforded the material, some delay of enjoyment must in general have reserved it from unproductive use, and some labour must in general have been employed to prepare and preserve it.

Senior, then, does not simply have a naive productivity theory of profit or interest. While all factors earn their productivity, and therefore labour earns wages, and land or natural agents earn rent, capital goods are not simple productive agents but complex products of other factors; and so, peeling away the influence of land and labour, the ultimate, distinct productive contribution of capital, is interest – the return to abstinence. While not fully arriving at it, Senior was here groping for a distinction between the *gross* return of capital goods, whose productivity is reflected in their market *prices*, and their *net* return (after deducting from the wages, rents, and prices of other intermediate goods in their production), which equals the rate of interest and is payment for abstinence or time-preference.

In his discussion of how increasing provision of capital funds can allow ever increasing extensions of the division of labour and the production of consumer goods, Nassau Senior captured the essence of the Austrian insight that capital, and eventually production, expands with increased saving because of the superior physical productivity of many longer, or more 'roundabout', processes of production. Since it takes more time to invest in these longer processes and intermediate factors, there must be greater willingness to invest in future as opposed to present enjoyment.

Meanwhile, Senior's fellow Whatelyan, Mountifort Longfield, was working along similar lines. Even if capitalists *qua* capitalists and not as labourers, produce nothing tangible, they perform a vital service in saving capital and paying factors to engage in 'time-consuming' processes of production. While most of the British classicists, including Ricardo, spoke perfunctorily of a period of production, they linked it strictly to the one-year harvest cycle in agriculture. Longfield was able to break out of this agricultural framework, moving 'toward making the time dimension of production a variable in his analysis. He did this by linking the period of production directly to the division of labour and identifying increases in one with extensions of the other'.[25]

Longfield accomplished this linkage by repeating Adam Smith's famous discussion of the pin factory and the division of labour, while showing that extending that division will bring more roundabout processes into play. In short, greater capital investment will eventually lower the labour time required to produce a unit of output, but only by increasing the waiting time between the initial point of investment and the eventual unit of consumer goods. During the time of waiting for the eventual product, the workers must be able to live, and this living is precisely what the capitalists provide.

They do so by 'abstaining' from consumption, thereby allowing the worker to 'consume something produced by the toil of others, although nothing produced by him has yet been consumed by anyone'. In short, while the product of labour is off in the future, the capitalist saves money now and hires the worker: 'The person who employs him [the worker] and directs his labour, in general pays him in the first instance, and repays himself by the sale of the articles thus produced.'[26] In this way, Longfield was able to offer a remarkable anticipation of the Böhm-Bawerkian theory of capital.

The capitalists' gross profit, then, consists of two parts: a return for the service of advancing wages to the workers until the product is sold (long-run interest), and returns for the labour of direction and for the assumption of business risk. Longfield made no attempt to stress the latter and concentrated on the former, the return for the service of advancing wages. Hence, as Longfield points out in anticipation of the sophisticated and highly perceptive Austrian *discounted* marginal productivity theory of factor pricing, the worker in effect pays the capitalist a discount from his marginal productivity for the service of supplying money now rather than having to wait for the sale of the product. Again Longfield:

> [The capitalist] pays the wages immediately, and in return receives the value of [the worker's] labour, to be disposed of to the best advantage... Hence the value of the labour fixed in ... any article, is greater than the wages of that labour. The difference is the profit made by the capitalist for his advances; it is, as it were, the discount which the labourer pays for prompt payment.

It is only a slight step from this analysis to the identification of this discount as a payment for time-preference.

Sir George Ramsay, in his work of 1836, also stressed the importance of time in production and capital, though hardly in as sophisticated a manner as Senior. Time, as well as labour, enters into capital, and Ramsay points as an example to two casks of identical wine. The cask that ages several years longer increases in value, so that value therefore depends not only on labour expended, but also 'on the length of time during which any portion of the product of that labour has existed as a fixed capital'. Lastly, in 1839, Joseph S. Eisdell, an unknown English follower of Longfield, generalized marginal productivity theory, also noting the important service of the capitalists in serving the worker by 'advancing his wages immediately on the performance of his work, before the goods are ready for sale, he being too necessitous to wait until the sale, and the receipt of the money for the goods'. Here Eisdell captured the essence of the service the capitalist renders the worker and for which the latter is willing to 'pay' the former his discount or profit return: the service of paying the worker *now*, at present, while the capitalist takes on the burden of waiting for his return until some point in the future.

4.11 John Rae and the 'Austrian' theory of capital and interest

The most remarkable contribution to the theory of capital and interest in the post-Ricardian period was by the drifter and eccentric, John Rae (1796–1872). Rae set forth his theory as part of a tract designed to argue for a protective tariff: *Some New Principles on the Subject of Political Economy* (Boston, 1834). Rae had the most extensive and fully developed analysis, until Böhm-Bawerk and the Austrians, of the crucial role of *time* in the theory of capital and interest. In the theory of capital, Rae saw that a key to production is increasing investment in capital goods, themselves the product of labour and nature, and that capital goods can be ranked on the basis of their rate of return, and the time necessarily involved from their formation until their depletion. Specifically, lengthening the process of production, or the time involved in the process of investing in capital, will enable the use of capital goods of greater physical productivity. But while waiting a longer time will enable one to tap more physically productive processes of production, this benefit must always be weighed against the unwelcome necessity of waiting longer into the future until the return from capital is obtained. And here, John Rae presented the fullest development to date of the time-preference theory of interest. To balance against the greater productivity of waiting longer into the future, the capitalist must charge an interest rate based on the greater desirability of present as against future goods. In short, investors must sacrifice present for future goods, and so they must be compensated for this investment by a return reflecting their degree of time-preference. Investors will be sacrificing a smaller present good for a larger future good, the degree of difference – their interest return – being dependent on people's cultural and psychological willingness to take a long-run view of the future. Those with lower time-preference rates, i.e. those who take a longer view of the future, are particularly looking to raise the standard of living of their children; on the other hand, for Rae, those with higher time-preference possess weak intellectual and moral principles and suffer from a 'defect of the imagination'.

Rae also anticipated Schumpeterian theory in placing great emphasis on the importance of inventions, and stressed that inventions opened up new opportunities for highly profitable capital investment, and that resulting high profits stimulated such investment.

Schumpeter paid high tribute to Rae's achievement, calling his work a 'theory of capital, conceived in unprecedented depth and breadth', although, oddly enough, he doesn't mention Rae's stress on inventions. Schumpeter does add, however, that given 'ten additional years of quiet work, graced by an adequate income', Rae's *New Principles* 'could have grown into another – and more profound – *Wealth of Nations*'. And Böhm-Bawerk, who had not known of Rae's achievement in the first edition of his *History and Critique of Interest Theories*, for once was very generous in his glowing account in later editions, calling Rae's work 'exceedingly original and remarkable'.

John Rae's accomplishment was all the more striking because it did not come from a writer steeped in the economic discussions of the Great Britain of his day. On the contrary, it came from a man who must be described overall as a brilliant drifter, crank and loser. John Rae was a Scotsman, born in Aberdeen, the son of a prosperous self-made merchant and shipbuilder. Interested in invention and the natural sciences, Rae, as a young maths student at the University of Aberdeen, presented some inventions in mechanics to his professor, who pronounced them ingenious but impractical. Dropping the matter so as not to irritate his practical-minded father, Rae decided, upon graduation, to go to the University of Edinburgh to study medicine. But, typical of Rae, while studying for his M.D. dissertation, he became convinced that prevailing physiological theories were false, and so he dropped out of medical school, determined to write a grandiose 'philosophical history' of mankind. Embarking on this ambitious but truly impractical life work, Rae plunged into the study of biology, philology, ethnology, aeronautics, geology, education, and the social sciences, undoubtedly with radical ideas in them all. Very little of this ever got written or published, his published work consisting of a few scattered articles on such matters as emigration, education, Canadian religion, Hawaiian customs and legislation, and Polynesian languages. His extant unpublished papers are on geological topics.

This sort of life plan was scarcely calculated to yield John Rae a secure income, and the bankruptcy of his father, as well as a possible social stigma from his marrying the daughter of a shepherd, drove him to emigrate to the backwoods of Canada, at the age of 25.

It was during this course of self-study that John Rae read the *Wealth of Nations*, and developed an antipathy to that Scotsman's general commitment to free trade and *laissez-faire*. In particular Rae acquired a lifelong interest in protectionism and government subsidies to industry. At least some of that reaction reflected a typically Scottish Calvinist hostility to luxury and consumer indulgence. A strong advocate of thrift and abstinence, Rae lamented any luxurious consumption among the lower classes, which weakens their 'effective desire for accumulation'. Sensual appetites lead the poor to marry and increase their number of children unduly, also weakening their propensity to save and to raise their standard of living. Rae's first interest in the protective tariff came in Scotland in 1819, attacking the desire of the numerous followers of Adam Smith to greatly lower the taxes and tariffs on whisky, and to allow the manufacture of whisky in small stills. Rae reacted angrily, worrying as he did about the 'general morals of the people' resulting from an abundance of cheap whisky.

Arriving in Canada, Rae soon became a schoolmaster at a private school and a physician in the small village of Williamstown, Ontario. Williamstown was a centre of the Scottish Presbyterian settlement in Canada, and Rae, a devout adherent of the Presbyterian Church of Scotland, embroiled himself in the claims of that Church to government support as against the exclusivist claims of the Church of England. Apart from Anglican élitism unsuited to North American conditions, Rae opined, the Presbyterian Church of Scotland insisted on austere morality as against the laxity of the Anglicans. He criticized the United States for not having an established religion, thereby lessening the incomes and tenure of the clergy and weakening the bonds of 'genuine religion'.

After a decade in Williamstown, John Rae felt it was time to move on. In 1831, he resigned his post as schoolmaster and as one of the three coroners of the Eastern District of Ontario, and moved to Montreal. He had decided to begin work on his life project, or at least a subset of it to be devoted to the 'Present State of Canada', which would present his ideas on Canadian geology and economic development, and to make a strong plea for continued Canadian membership in the British Empire. While in Montreal, he petitioned the government of Upper Canada for a travel and research grant to finance this projected work, but the Upper Canada Assembly felt there were more important things to be done and turned down Rae's grant proposal, despite the favourable recommendation of the lieutenant-governor.

Rae was still determined to work on his life project, and he repaired to the lumbering village of Godmanchester, not far from Montreal, where he apparently worked in menial tasks in lumbering while publishing pro-British Empire articles in the *Montreal Gazette*. There he wrote what was supposed to be another subset of his master plan, his great work on the *New Principles of Political Economy*.

The spirit of revolution against the British Empire was abroad in Canada, and Rae's letters to the *Gazette* were vitriolic in denunciation. The criticisms of Britain, he fulminated, were 'gross misrepresentations, infamous falsehoods and horrid blasphemies'. Recalling the horrors of the French Revolution, Rae thundered that 'the banners of imperial justice must be displayed, else in a short time the reign of terror be attempted in Canada, and red ruin ride triumphantly'.

In view of Rae's strong connections in Montreal, it is difficult to see why he languished in Godmanchester. His sister, Ann Cuthbert, a poet and headmistress of a boarding school, was married to a wealthy dry-goods merchant, James Fleming. Fleming's brother, John, was a prominent writer as well as a leading official of the Bank of Canada and Bank of Montreal, and the family moved in the circle of leading Scottish Presbyterian merchants and ultra-loyalists of the British Empire, surrounded by a Canadian populace of what they took to be French–Canadian insurgents and radicals.

Rae conceived his *New Principles* to be another subset of his life work, this time devoted to the growth of nations and to the necessity for a protective tariff and other forms of government promotion of industry. He finished the book in 1833 and originally meant to publish it in England, but for some reason changed his plans and travelled to Boston to seek aid in publishing the book there. In Boston, Rae met and was taken under the wing of the powerful Alexander Hill Everett (1790–1847), a leading Boston Brahmin, a protégé of ex-President John Quincy Adams, and recently Adams's minister to Spain. An accomplished linguist and classicist as well as an attorney, Everett had left government service to become the editor of the prominent and influential *North American Review*. A decade earlier, Everett had written *New Ideas on Population* (1823), in which he sensibly attacked Malthus for not realizing that population growth can bring abundance, not poverty, by extending the division of labour, expanding markets and cities, and increasing the production of food and manufactures.

Everett, like the rest of New England, had lately shifted from free trade to the advocacy of a protective tariff, particularly for the region's nascent textile manufacturers. The protectionists were looking around wildly for textbooks and academics who would support their cause, since the works of Adam Smith and J.B. Say were dominant in American universities. Meeting and being impressed with John Rae and hearing of his new protectionist work, Everett was enthusiastic about him and arranged, sight unseen, to publish the book in Boston.

Apparently, Everett had bought a pig in a poke. Reviewing it in the *North American Review*, Everett damned Rae's *New Principles* with faint praise. He had been looking for a hard-hitting protectionist tract; instead, he found the book filled with technical jargon he could barely comprehend. And much of it had little or no bearing on the tariff issue. The bulk of the book dealt with the theory of capital and interest, and the importance of the expansion of capital to the growth of a nation. As Everett shrewdly pointed out, these views were not really at variance with those of Adam Smith. And none of it bore directly on the protectionist issue.

To Rae himself the connections were clear, if too remote for those interested in public policy. He believed that economic development depended jointly on new inventions and their application in capital investment, and most of his proposed government policies were subsidies and bounties to new inventions and industries, to be financed by heavy tariffs on the imports of 'luxuries'. In that way, Rae's Calvinist soul would be satisfied, for the government would be imposing moral principles by promoting thrift, invention and industry, while discouraging sinful luxuries, especially, in a prefigurement of Thorstein Veblen, where 'consumption is ... conspicuous' and therefore particularly wasteful. Rae's denunciation of luxurious consumption, which Rae boldly called 'a loss to the society, in proportion to their amount', did not sit very well with Everett, but his main criticism was that the country needed a 'well-written and well-reasoned essay on this [protectionist] question', a work of 'sufficient compass and authority to serve as a textbook'. Clearly, John Rae's work did not fill the bill.

The book was a commercial failure, and was quickly forgotten. The understandably chagrined and embittered Rae wrote in a letter, years later, that 'unfortunately, I was induced to publish in Boston, under the assurance from A.H. Everett that it would be appreciated there. He was, however, I believe scared of it. Could not make up his mind, nor could anyone there, if I was right or wrong, and so passed it by with praise of its style, etc. This damned it'. In addition, the free traders and the worshippers at the shrine of Adam Smith – who came in for considerable direct criticism in the book – attacked Rae's work. But possibly more fatal than any of these factors was the timing of the book. For after the tariff of 1833, lowering tariffs considerably, tariff agitation in the United States began to subside, and the tariff was repeatedly lowered throughout the 1840s. Free trade had apparently triumphed, at least until the Civil War.

In Canada, furthermore, there were scarcely any economists or academics fit to appraise Rae's work, and in Britain there was a general scorn for 'colonials', and failure to take North Americans seriously. In England, however, Nassau Senior, whose work on capital and interest was not far from Rae's, read the *New Principles* by the mid-1840s and admired it greatly, and traces of Rae can be found in Senior's later writings. Senior passed the book on to John Stuart Mill, who commended it warmly in his overwhelmingly popular 1848 treatise, the *Principles of Political Economy*. Rae heard of Mill's praise five years later, through a Canadian friend, and wrote warmly if mournfully to Mill that 'it is the only thing connected with that publication which has afforded me any gratification'.

Here a mystery arises for the history of economic thought. Despite Mill's warm commendation of Rae's book in what was the dominant treatise on economics for a generation, no economist anywhere picked up on the reference, and knowledge of Rae virtually disappeared. The only exception was the great Italian classical economist Francesco Ferrara (1810–1900), who translated Rae's *New Principles* into Italian in the mid-1850s. Apart from that, nothing. W. Stanley Jevons, devoted to the history of economic thought, apparently never heard of the book, and even the great Böhm-Bawerk had never read John Rae when in the 1880s he wrote the first edition of his *History and Critique of Interest Theories*. Rae remained unknown to economists until his memory was revived, and his work reprinted, by Professor Charles Whitney Mixter at the turn of the twentieth century. Perhaps a clue to the puzzle is in Böhm-Bawerk's later editions, where he points out that Mill's encomiums to Rae, while warm, were general and even banal, and scarcely conveyed the brilliance and originality of his work on capital and interest. As Böhm-Bawerk explains it:

> But it is a strange fact that in all his numerous quotations [from Rae] John Stuart Mill never included any of the material which constitutes the essence of Rae's original ideas. He quotes, instead, merely ornamental incidentals, and even among those only the sort of thing that could be used to illustrate the traditional doctrines that Mill himself was presenting. And since Rae's book seems to have been read in the original by only extremely few persons, just the most interesting part of its contents remained unknown to his contemporaries. There was little likelihood that they, and even less that subsequent generations would be apprised by Mill's quotations of the importance of the book, or impelled to conduct any research into his quickly forgotten work.[27]

Disappointed in the reception of his book, unemployed and destitute, Rae won an appointment as headmaster of a government district grammar school in what was then the brawling frontier town of Hamilton, Ontario. There he lived in genteel poverty on a low salary and was continually in debt, but he was apparently beloved by his students and was known in Hamilton as a graceful and elegant ice skater as well as president of the Hamilton Literary Society. There he played a prominent role in the first contingent of Hamilton militia which, in 1837 and 1838, helped put down an armed rebellion by Canadian nationalists anxious to cut the ties with the empire. Rae engaged in aeronautical experiments with balloons, and wrote increasingly on geological topics. He also continued to work on the economic geography of Canada, and finally in 1840, completed his *magnum opus*, a lengthy book on the 'Outlines of the natural History and Statutes of Canada'.

Unfortunately, however, the decade of the 1840s saw fate land a series of hammer blows against John Rae. First, the manuscript of his book on Canada was irretrievably lost en route to possible publishers in New York. Second, after teaching in Hamilton for 14 years, Rae was summarily fired in 1848. The problem was that Rae became inevitably embroiled in educational political struggles, particularly over getting Presbyterians appointed to teaching and administrative posts in the Anglican-dominated Ontario school system. Furthermore, in 1843, in the Disruption, the Church of Scotland (and hence its affiliated Presbyterian Church in Canada) split in irretrievable schism, with hard-core Calvinists opposed to secular state domination of the Church splitting off from the established Church of Scotland and forming the Free Church. As we might expect from his character, Rae, along with his friends, joined the Free Church, which lost him the political support of the established Presbyterian officials dominant in his school district. Rae's stay in Hamilton was doomed.

Rae then left Canada and did some school teaching in Boston and New York, where, a year after his dismissal, he received another staggering blow – news of the death of his wife, Eliza. Discouraged, restless, penniless and uprooted at the age of 53, John Rae began a new life of wandering and drift. Attracted by the gold rush, he sailed to California, where he did a little school teaching and carpentry; in ill-health in California, Rae was soon off to the Hawaiian Islands, where he was to spend the rest of his days. There, on the island of Maui, Rae prospered economically for the first time, teaching English to Hawaiian natives, farming, and functioning as medical agent for the board of health. Rae began to blossom politically because of his new friendship with a fellow Scottish expatriate, Robert Crichton Wyllie, a surgeon from Glasgow University, wealthy businessman, and now minister of foreign relations of the Hawaiian Kingdom. With Wyllie's patronage, Rae became coroner, notary public, medical attendant and district judge in Maui.

His favourable circumstances now led Rae to resume his various scientific interests: he wrote articles and papers on geology, particularly on volcanoes, ocean tides, and Hawaiian geology; on the Polynesian language; and tried to revive interest in marketing his long-neglected navigational inventions.

But John Rae was incapable of holding onto money, and so perpetually reverted to destitution. With his patron Wyllie dead, and in ill-health, Rae accepted the offer of an old friend and former student to pay for his trip from Hawaii to live with him permanently at his home in Staten Island. But Rae died on Staten Island the following year.

Restless and eccentric, John Rae in a sense wrote a suitable and poignant epitaph for himself in *New Principles*, in his sensitive appreciation of the lone role of the inventor or innovator in society:

> Pursuing objects not to be perceived by others, or if perceived, whose importance is beyond the reach of their conceptions, the motives of their conduct are necessarily misapprehended. They are esteemed either idlers, culpably negligent in turning account the talents they have got, dullards deficient in the common parts necessary to discharge the common offices of life, or madmen unfit to be trusted with their performance; shut out from the esteem or fellowship of those whose regard they might prize, they are brought into contact with those with whom they can have nothing in common, knaves who laugh at them as their prey, fools who pity them as their fellows. Their characters misunderstood, debarred from all sympathy, uncheered by any approbations, the 'eternal war', they have to wage with fortune, is doubly trying, because they are aware, that, if they succumb, they will be borne off the field, not only unknown, but misconceived.[28]

4.12 Nassau Senior, praxeology, and John Stuart Mill

There are few economists in any age who are self-conscious about the methodology of their craft. Even more was this true during the alleged heyday of the British classical school which, as we have seen, was an era of disintegration rather than triumph of the Ricardian paradigm. But an excellent methodologist was one of the finest economists of that epoch, Nassau W. Senior. Senior indeed took up the torch of the praxeological method that had been expounded and used by the great French economist of the early nineteenth century, Jean-Baptiste Say.

Senior began to spell out his views on methodology in his very first, introductory lecture at Oxford in 1826. With exceptional clarity, he began by stating that economic theory rests on the broadest general insights about human nature, insights that are self-evident in the sense that once stated they command universal assent. Economic theory, says Senior, 'will be found to rest on a very few general propositions, which are the result of observation, or consciousness, and which almost every man, as soon as he hears them, admits, as familiar to his thoughts, or at least, as included in his previous knowledge'. But if these premises, or axioms, rest on general knowledge of man and the world, then conclusions deduced from them must possess equal generality: 'Its conclusions are also nearly as general as its premises – those which relate to the nature and production of wealth, are universally true.' It is then the task of the economist to narrow down the conclusions to those areas which are directly relevant to the problem at hand. Thus:

> those [conclusions] which relate to the distribution of wealth, are liable to be affected by peculiar institutions of particular countries – in the cases, for instance, of slavery, corn laws or poor-laws – the natural state of things can be laid down as

> a general rule, and the anomalies produced by particular disturbing causes can be afterwards accounted for.

As specifically part of his apodictic conclusions, Nassau Senior generalized laws that other economists had been approaching or groping for. For example, Senior defined 'wealth' as all goods and services that possess utility and which therefore will be purchased in exchange. He then stated in his first 'fundamental proposition': 'That every person is desirous to obtain, with as little sacrifice as possible, as much as possible of the articles of wealth.' Not only did Senior thus ably generalize some important insights of universal human action: he also in that way dismissed Adam Smith's unfortunate distinction between 'productive' (material) and 'unproductive' (immaterial) labour; everything which people desired and were willing to buy was 'productive'. It is because Ricardo at least implicitly adopted this distinction that he was able to dismiss cavalierly any explanation of the pricing of immaterial services and hence to move toward a cost theory of value.

In elaborating on this first fundamental proposition, Senior moved on to an eloquent summation of the relationship between desire, individual diversity, choice, and human effort:

> In stating that every man desires to obtain additional wealth with as little sacrifice as possible, we must not be supposed to mean that everybody, or indeed anybody, wishes for an indefinite quantity of everything... What we mean to state is, that no person feels his whole wants to be adequately supplied; that every person has some unsatisfied desires which he believes that additional wealth would gratify. The nature and urgency of each individual's wants are as various as the differences in individual character. Some may wish for power, others for distinction, others for leisure... Money seems to be the only object for which the desire is universal; and it is so because money is abstract wealth...
>
> As equal diversity exists in the amount and the kind of the sacrifice which different individuals, or even the same individual, will encounter in the pursuit of wealth.[29]

Two decades later, on returning to the Drummond chair at Oxford, Nassau Senior, in his introductory lectures in 1847, returned to the problem of the methodology of economics (published in 1852 in his *Four Introductory Lectures on Political Economy*). He now defined economic science as expounding 'the laws regulating the production and distribution of wealth, so far as they depend on the action of the human mind' – the latter clause emphasizing that economics was a 'mental' rather than 'physical' science. Indeed, Senior saw clearly that the proper scientific method was dualistic, the physical sciences treating the properties of matter, while the mental ones study 'the sensations, faculties, and habits of the human mind, and regard in matter only the qualities which produce them'. The methods of the two sciences must necessarily differ, for the physical sciences 'being only secondarily conversant with mind, draw their premises almost exclusively from observation or hypothesis'. Observation may guide such strictly empirical sciences as technology, but such sciences as physics, 'those which treat only of magnitude and number. ... draw them altogether from hypothesis'. The physical sciences must rest on tentative hypotheses, precisely because they are 'only secondarily conversant with mind'. On the other hand, 'the mental sciences and the mental arts draw their premises principally from consciousness. The subjects with which they are chiefly conversant are the working of the human mind. And the only mind whose workings a man really knows is his own'. And of course economics was one of the mental sciences.

In this way, Nassau Senior, with brilliant clarity, developed the essentials of what Ludwig von Mises, a century later, would call 'praxeology'. As in the case of other mental sciences, economics cannot, like the physical sciences, conduct experiments. It is true, Senior noted, that economics deals with such material matters as production, productivity and diminishing returns, but the 'political economist dwells on them only with reference to the mental phenomena which they serve to explain', as among the motives or sources or capital, rent, profit, etc. In short, wrote Senior,

> All the technical terms, therefore, of Political Economy, represent either purely mental ideas, such as *demand, utility, value,* and *abstinence,* or objects which, though some of them may be material, are considered by the Political Economist so far only as they are the causes of certain affectations of the human mind, such as *wealth, capital, rent, wages,* and *profits.*

It is important to consider the once famous battle between Nassau Senior and John Stuart Mill on economic method, for Mill was soon to become the undeservedly towering economist for the next half-century. Mill agreed that economics, as a mental science, cannot conduct experiments; but he did not conclude, with Senior, that its premises or axioms should be complete, general and apodictic. Instead, he asserted that the foundations and premises of economics can only be 'hypothetical', that is, they must make assumptions that abstract from, and hence distort, reality. The axioms of economics are only partially, or hypothetically, true. In short, for Mill, since economics focuses on man's desire for wealth, it must *assume*, even though admittedly falsely, that man's *only* desire is for wealth. Thus, as Mill stated in his *Essays on Some Unsettled Questions in Political Economy* in 1844:

> Political Economy ... does not treat of the whole of man's nature as modified by the social state, nor of the whole conduct of man in society. It is concerned with him solely as a being who desires to possess wealth, and who is capable of

judging the comparative efficacy of means for obtaining that end. It predicts only such of the phenomena of the social state as take place in consequence of the pursuit of wealth. It makes entire abstraction of every other human passion or motive... Political Economy considers mankind as occupied solely in acquiring and consuming wealth; and aims at showing what is the course of action into which mankind living in a state of society, would be impelled, if that motive ... were absolute ruler of all their actions... Not that any political economist was ever so absurd as to suppose that mankind are really thus constituted, but because this is the mode in which science must necessarily proceed.[30]

Mill conceded that the founding assumption of his economics was 'an arbitrary definition of man'. For it reasoned from 'assumed premises – from premises which might be totally without foundation in fact, and which are not pretended to be universally in accordance with it...'.

And thus, John Stuart Mill, in this adumbration of the methodology of the deliberate creation of the fallacious 'economic man' – the man who is only interested in pursuing wealth – elaborated what might be called the orthodox, or dominant, 'positivist' methodology in economics. The positivist method, set down with such fallacious and fateful clarity by Mill, after a struggle with alternative praxeological (as well as other) methods, finally triumphed in the mid-twentieth century with the unfortunate rise to dominance of the positivism of Vilfredo Pareto and Milton Friedman.

Part of the motivation of Senior's thoughtful lectures on method in 1847 was precisely to engage in a critique and demolition of Millian positivism. Since Mill, like Smith and Ricardo before him, returned to their fallacious limitation of 'wealth' to material goods, the resulting distortion of value and production theory made Senior's task all the more important. Senior's assault on Mill, as well as on Ricardo, was formidable and devastating. He made their essential differences clear:

neither the reasoning of Mr. Mill, nor the example of Mr. Ricardo, induce me to treat Political Economy as a hypothetical science. I do not think it necessary, and, if unnecessary, I do not think it desirable.

It appears to me, that if we substitute for Mr. Mill's hypothesis, that wealth and costly enjoyment are the *only* object of human desire, the statement that they are universal and constant objects of desire, that they are desired by all men and at all times, we shall have laid an equally firm foundation for our subsequent reasoning, *and have put a truth in the place of an arbitrary assumption.* (Italics added.)

Senior goes on to concede that indeed we shall not now be able to infer, from the fact that a labourer may so act as to obtain higher wages, or a capitalist higher profits, that 'they will certainly act in that manner'. But, at least 'we shall be able to infer that they will do so in the absence of disturbing causes. And if we are able, as will frequently be the case, to state the cases in which these causes may be expected to exist, and the force with which they are likely to operate, we shall have removed all objection to the positive as opposed to the hypothetical treatment of the science'.[31]

One danger of the hypothetical method, Senior wisely and prophetically points out, is the perpetual danger of forgetting that the premises are not complete and are only partial and even false assumptions. Another and even deeper flaw is that, since the assumptions are false from the very beginning, there is no way to bring in experience or observation to correct or even check on the conclusions of the abstract analysis. In this way, positivists, who always trumpet their method as being the only truly scientific and 'empirical' one, turn out to be resting on runaway and uncorrectable false premises. On the other hand, and ironically, the praxeological method, which has long been accused of *a priori* mysticism, is the only one that bases theory on broadly known and deeply empirical – indeed universally true – premises!

Being universally true, the praxeological method provides *complete* and general laws rather than partial, and hence generally false, ones. As Marian Bowley astutely sees the difference:

> Thus in the question of the definition of the desire for wealth: if it is stated in Mill's form that everyone always prefers wealth to anything else [the 'economic man'], with the added warning that it is only a hypothesis, the constant relation between the desire for wealth and all other conflicting motives is not defined completely by the general law. It remains necessary to introduce a further premise in each individual stating the general relation of other motives to that of the desire for wealth, as well as evaluating the actual variables. Now Senior's explanation of the desire for wealth includes information as to the interconnections between the variables.

Or, as Miss Bowley explains further:

> Senior's substitution of net advantages for earnings is equivalent to defining in general terms the relation between all the variables which influence the distribution of resources between occupations, instead of leaving that relation to be considered afresh in each use.[32]

Thus, a positivist, assuming that businessmen are always and only interested in maximizing money profits, might well overlook and ignore instances of businessmen placing other motives (such as giving an executive post to one's relative) higher than profits. Or, worse still, if acknowledging such instances, he would be tempted to dismiss these cases contemptuously as 'irrational behaviour'. Similarly, Charles Dickens, who repeatedly spoofed and attacked classical economics in his novels, had a utilitarian son refuse to help his impoverished mother on the ground that the science of political economy told him that to be rational a man must always buy in the cheapest market and sell in the dearest. And since Smith–Ricardo–Mill classical economics solely emphasized cost of production and therefore was totally blocked from even talking about the consumer, it was especially open to this Dickensian misconception.

4.13 Notes

1. J.A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), p. 473 (italics in original).
2. Alexander Gray, *The Development of Economic Doctrine* (London: Longmans, Green and Co., 1931), pp. 170–71. Noting that Ricardo habitually wrote in sweeping conclusions, followed by mumbled qualifications and backtrackings, enabling his followers to claim that such pursuers of the Ricardian logic as Marx and Henry George 'misrepresented' Ricardo, Gray retorts that 'perhaps the final lesson to be learned from Ricardo is that the literary graces are not merely ornamental but useful, and that he who is deficient in the art of expression has only himself to blame if he is misrepresented'. Amen! Ibid., p. 189.
3. No more delightful passage has been written on the effectiveness of the obscure than in the sparkling essay of H.L. Mencken on the work of Thorstein Veblen: 'What was genuinely remarkable about them [Veblen's ideas] was not their novelty, or their complexity, nor even the fact that a professor should harbor them; it was the astoundingly grandiose and rococo manner of their statement, the almost unbelievable tediousness and flatulence of the gifted headmaster's prose, his unprecedented talent for saying nothing in an august and heroic manner... If one tunneled under his great moraines and stalagmites of words, dug down into his vast kitchen-midden of discordant and raucous polysyllables, blew up the hard, thick shell of his almost theological manner, what one found in his discourse was chiefly a mass of platitudes – the self-evident made horrifying, the obvious in terms of the staggering.

   'Marx, I daresay, had said a good deal of it long before him, and what Marx overlooked had been said over and over again by his heirs and assigns. But Marx, at this business, labored under a technical handicap; he wrote in German, a language he actually understood. Professor Veblen submitted himself to no such disadvantage. Though born, I believe, in these States, and resident here all his life, he achieved the effect, perhaps without employing the means, of thinking in some unearthly foreign language – say Swahili, Sumerian or Old Bulgarian – and then painfully clawing his thought into a copious but uncertain and book-learned English. The result was a style that affected the higher cerebral centers like a constant roll of subway expresses. The second result was a sort of bewildered numbness of the senses, as before some fabulous and unearthly marvel. And the third result, if I make no mistake, was the celebrity of the professor as a Great Thinker.' H.L. Mencken, 'Professor Veblen', *A Mencken Crestomathy* (New York: Knopf, 1949), pp. 269–70.
4. St Clair writes about the poet and ardent Ricardian Thomas De Quincey: 'De Quincey, a great admirer of Ricardo, attributed his obscurity to profundity of thought. It is natural, said the author of the *Opium Eater*, that a man of brilliant intellect should express himself in elliptical language, difficult for less gifted persons to follow...'. Oswald St Clair, *A Key to Ricardo* (1957, New York: M. Kelley, 1965), p. xxiii.
5. Schumpeter, op. cit., note 1, p. 474.
6. Senior's ancestors had been prosperous merchants. His grandfather, Nassau Thomas Senior, had converted from Judaism to Christianity in the mid-eighteenth century. Nassau Thomas's father, Moses Aaron Senior, had emigrated from Hamburg in the 1720s; he had come from a long line of Spanish–Portuguese Jews who had been merchants and financiers in Spain and had emigrated to Amsterdam and Hamburg.
7. S.G. Checkland, 'The Propagation of Ricardian Economics in England', *Economica*, n.s., 16 (Feb. 1949), pp. 40–52; Ronald Meek, 'The Decline of Ricardian Economics in England', *Economica*, n.s. 17 (Feb. 1950), pp. 43–62.
8. Other writers doggedly pushing underconsumptionist fallacies in this period include the protectionist Yorkshire landowner and later MP Edward Stillingfleet Cayley (1802–62);

Captain William R.A. Pettman; and a top royal bureaucrat in India, Sir William Henry Sleeman (1788–1856).

9. Since Meek's article, D.P. O'Brien, in the first comprehensive study of McCulloch, has demonstrated that McCulloch had abandoned the Ricardian labour theory of value for the more qualified Smithian cost-of-production theory. In fact, O'Brien shows that McCulloch was far more Smithian than Ricardian. D.P. O'Brien, *J.R. McCulloch: A Study in Classical Economics* (New York: Barnes & Noble, 1970).
10. Frank W. Fetter, 'The Rise and Decline of Ricardian Economics', *History of Political Economy*, 1 (Spring 1969), pp. 67–84.
11. Quoted in Barry Gordon, 'Criticism of Ricardian Views on Value and Distribution in the British Periodicals, 1820–1850', *History of Political Economy*, 1 (Autumn 1969), p. 380.
12. Schumpeter, op. cit., note 1, p. 580n. Also see Edwin Cannan, *A History of the Theories of Production & Distribution* (3rd ed., London: Staples Press, 1917), pp. 133–4.
13. Frank A. Fetter, 'Rent', *Encyclopedia of the Social Sciences*, reprinted in M. Rothbard (ed.), *Capital, Interest, and Rent: Essays in the Theory of Distribution, by Frank A. Fetter* (Kansas City: Sheed Andrews & McMeel, 1977), p. 368.
14. It has only recently been recognized that Bailey was philosophically Austrian – an insight buried in Robert Rauner's neglected 1956 doctoral dissertation at the University of London, 'Samuel Bailey and Classical Economics'. Denis P. O'Brien, 'Classical Reassessments', in W.O. Thweatt (ed.), *Classical Political Economy: A Survey of Recent Literature* (Boston: Kluwer, 1988), pp. 199–200.
15. Thor W. Bruce, 'The Economic Theories of John Craig, A Forgotten English Economist', *Quarterly Journal of Economics*, 52 (August 1938), p. 699.
16. Whately's biographer noted that Oxford 'was one way, and Richard Whately the other. Oxford had resigned itself to Orthodoxy and Toryism and Whately was an inquirer and a liberal'. In W.J. Fitzpatrick, *Anecdotal Memoirs of Richard Whately ...* (London, 1864), I, p. 56, quoted in Salim Rashid, 'Richard Whately and Christian Political Economy at Oxford and Dublin', *Journal of the History of Ideas*, 38 (Jan.–Mar. 1977), p. 148. In 1826, Whately anonymously published a rousing and controversial pamphlet, *Letters of the Church, by an Episcopalian*, calling for disestablishment of the Anglican Church, and separation of Church and state. Ibid.
17. The Rev. John McVickar, professor of political economy and moral philosophy at Columbia University, was moved to rewrite Whately's *Easy Lessons* for an American audience, in his own primer for children, *First Lessons in Political Economy* (1835).
18. Laurence S. Moss, *Mountifort Longfield: Ireland's First Professor of Political Economy* (Ottawa, Ill.: Green Hill Pubs, 1976), pp. 39–42.
19. One English writer who adopted catallactics during this period was the pseudonymous Patrick Plough who, in the custom of the day, both introduced and explained the term within the title of his tract, *Letters on the Rudiments of a Science, called, formerly, improperly, Political Economy, recently more pertinently, Catallactics* (London, 1842). See Israel Kirzner, *The Economic Point of View: An Essay in the History of Economic Thought* (Princeton, N.J.: Van Nostrand, 1960), pp. 72–5.
20. E.R.A. Seligman, 'On Some Neglected British Economists, I', *Economic Journal*, 13 (Sept. 1903), pp. 360–1.
21. Lloyd's 'special utility' was his term for what would later be called 'marginal utility'; 'abstract' or 'general' utility would later be called 'total utility'. See Seligman, op. cit., note 20, pp. 360–1.
22. Kendall was born to a Massachusetts farm family, and graduated from Dartmouth College in 1811 at the head of his class. He became a lawyer, and emigrated to Kentucky in 1814, where he functioned as attorney, editor and postmaster. He became editor of the important *Frankfort (Ky) Argus* in the capital of Kentucky, in 1814, and later became a leading Jacksonian brain-truster and postmaster-general.
23. Quoted in Gordon, op. cit., note 11, p. 384.
24. Bailey, however, did add a welcome methodological critique of James Mill's clumsy attempt to define away the increase of the value of wine through aging as some sort of mystical, vicarious expenditure of a year's worth of labour. As Bailey sardonically rebut-

ted Mill's assertion that the equivalent 'labour may be correctly considered as having been expended' on the wine: 'a fact may be correctly considered as having taken place only when it really has taken place'. Colonel Torrens also provided a similar critique of Mill's labour theory.

25. Moss, op. cit., note 18, p. 67.
26. Ibid., pp. 68, 201.
27. Eugen von Böhm-Bawerk, *Capital and Interest, Vol. I, History and Critique of Interest Theories* (South Holland, Ill.: Libertarian Press, 1959), p. 208.
28. Quoted in R. Warren James, *John Rae: Political Economist* (Toronto: University of Toronto Press, 1965), I, pp. 191–2.
29. Published in Senior's *Outline of the Science of Political Economy* (1836), cited in Marian Bowley, *Nassau Senior and Classical Economics* (1937, New York: A.M. Kelley, 1949), pp. 47–8.
30. It should be noted that, in this passage, Mill also made two exceptions to his assumed exclusive motivation of the desire for wealth: aversion to labour, and desire to consume at present. But he correctly added while these motives may conflict with the pursuit of wealth, they also 'accompany it always as a drag, or impediment, are therefore inseparably mixed up in the consideration of it'.
31. Senior's use of the term 'positive' we would now say is 'praxeologic', his 'hypothetical' we would now say is broadly 'positivist'.
32. Bowley, op. cit., note 29, pp. 63, 62n.

5 Monetary and banking thought, I: the early bullionist controversy

5.1 The restriction and the emergence of the bullionist controversy

The Bank of England had been the bulwark of the English (and, by serving as bankers' bank, of the Scottish) banking system since its founding in 1694. The bank was the recipient of an enormous amount of monopoly privilege from the British government. Not only was it the receiver of all public funds, but no other corporate banks were allowed to exist, and no partnerships of more than six partners were allowed to issue bank notes. As a result, by the late eighteenth century, the Bank of England was serving as an inflationary engine of bank deposits and especially of paper money, on top of which a flood of small partnership banks ('country banks') were able to pyramid their own notes, using Bank of England notes as their reserve. As if this were not enough privilege, when the bank got into trouble by overinflating, it was permitted to suspend specie payment, that is, refuse to meet its obligation to redeem its notes and deposits in specie. This privilege was granted to the bank several times during the century after it opened its doors. However, each time the suspension, or 'restriction' of specie payment lasted only a few years.

In the 1790s, however, a startlingly new epoch began in the history of the British monetary system. In February 1793, a generation of fierce warfare broke out between revolutionary France and the crowned heads of Europe, led by Great Britain. While not exactly continuous, the war lasted, with slight interruptions, until Napoleon was finally defeated in 1815 and the monarchies of Europe reimposed the Bourbon dynasty upon the French nation. This massive war effort meant a rapid escalation of monetary inflation, government spending, and public debt by the British government.

During the 1780s, the inflationary process of bank credit expansion had managed to double the number of country banks in England, totalling nearly 400 by the outbreak of war. The shock of the war led to a massive financial crisis, including runs on the country banks, as well as numerous bankruptcies among banks and financial houses. One-third of the country banks suspended specie payment during 1793.

For a few years, the bank saved itself by pursuing a cautious and conservative policy. But soon, inflationary war finance, the drain of gold abroad in response to higher purchasing power elsewhere, the alarms of war, and the increased demand for gold upon the banks, all combined to precipitate a massive run on banks, including the Bank of England, in February 1797. The country banks suspended specie payments, and the government brought matters to a head by 'forcing' the bank to suspend specie payments, a 'Restriction' which the Bank of England of course was all too delighted to accept. For the bank could now continue operations, could expand credit, inflate its supply of notes and deposits, and insist that *its* debtors must repay their loans, while it could avoid the bother of redeeming its own obligations in specie. In effect, bank notes were unofficially legal tender, indeed virtually the only legal tender, and they were made official legal tender in 1812 until the resumption of specie payments in 1821.

At the beginning, the general view held the restriction to be strictly temporary, and indeed the decree, at any given time, was only supposed to last for a few years. But the restriction was extended repeatedly, and was eventually continued for 24 years, from 1797 to 1821. Until the end of the eighteenth century, it was unthinkable that Great Britain could be on an irredeemable fiat standard for an entire generation.

Apart from a few years during the continental paper period of the American Revolution, the South Sea and Mississippi bubbles of the early eighteenth century, the hyperinflated *assignats* during the French Revolution, or a few brief suspensions of specie payment, the world had always been on some form of gold or silver standard. All these episodes had been mercifully brief if catastrophic. But now, after a while, it began to dawn on the British public that the era of inflationary fiat paper would continue indefinitely.

Great Britain suspended specie payments indefinitely so as to permit the Bank of England, and the banking system as a whole, to maintain and greatly expand the previously inflated system of fractional reserve banking. Accordingly, the bank was able to greatly inflate credit and the money supply of notes and deposits. Statistics for the period are sparse, but it is clear that from 1797 until the end of the Napoleonic Wars the supply of money approximately doubled. This monetary inflation had several predictable – and generally unwelcome – consequences. Domestic prices skyrocketed, the price of silver and especially of gold bullion vaulted upwards in relation to the official par with the pound, and the pound depreciated in the foreign exchange market.[1] The monetary inflation, as usual, proceeded in fits and starts rather than as a smooth line, and so the various consequences in domestic prices, bullion, and foreign exchanges were themselves scarcely uniform or proportional. But the rough general trend was unmistakeable, with the three latter effects each eventually rising to a peak of approximately 40 or 50 per cent over their pre-restriction levels.

Before 1800, decades of inconvertible paper money in England would have been considered unthinkable, and so previous monetary theorists had scarcely contemplated or analysed such an economy. But now writers were forced to come to grips with fiat paper, and to propose policies to cope with an unwelcome new era.

The political controversies during the restriction period centred on explaining the price inflation and depreciation and on assessing the role of the Bank of England. The 'bullionists' pointed out that the cause of the price inflation, the rise in the price of bullion over par, and the depreciation of the pound was the fiat money expansion. They further maintained that the central role in that inflation was played by the Bank of England, freed of its necessity to redeem in specie. Their opponents, the 'anti-bullionists', tried absurdly to absolve the government and its privileged bank of all blame, and to attribute all unwelcome consequences to specific problems in the particular markets involved. Depreciation in foreign exchange was charged to the outflow of bullion caused by excessive imports or by British war expenditures abroad (presumably unrelated to the increased amount of paper pounds or to the lowered purchasing power of the pound). The rise in the price of bullion was supposedly caused by an increased 'real' demand for gold or silver (again unrelated to the depreciated paper pound). The increases in domestic prices received less attention from the two sides of the debate, but they were attributed by the anti-bullionists to wartime disruptions and shortages in supply. Any *ad hoc* cause could be seized upon, so long as the great integrating cause, the expansion of bank credit and paper money, was carefully ignored and let off the hook. In short, the anti-bullionists reverted to mercantilist worry about *ad hoc* causes and the balance of trade on the market. The previous hard-won analysis of money and overall prices went by the board.

5.2 The bullionist controversy begins

The announcement of the restriction brought a flurry of activity, pro and con, consisting not of extensive theoretical analyses but of general statements of approval or warnings of things to come. The prime minister, William Pitt the Younger (1759–1806), and his followers egregiously maintained that there was no cause for alarm, since unlike the *assignats* of the evil French Revolutionaries, the Bank of England was issuing 'private' rather than government paper. Hence the reluctance of the government to make bank notes legal tender until nearly the end of the war, although its policies made them legal tender *de facto*. The opposition leader, Charles James Fox (1749–1800), denounced the restriction and called for resumption of specie payments, and also pointed out that the war against France bore ultimate responsibility for the plunge into fiat paper. And the distinguished playwright and Whig M.P. Richard Brinsley Sheridan (1751–1816) warned that 'we were doomed to all the horrors of a paper circulation'.

The inflationist economic historian Norman Silberling summed up the Fox–Sheridan position unsympathetically as follows:

> Fox and Sheridan constituted themselves the leaders of a persistent tirade against the Bank Suspension, not upon grounds of financial principle, but because the Suspension permitted that institution to support the activities of what they regarded as a militaristic, reactionary, and withal bankrupt administration...[T]hey concentrated their eloquent invective against this alliance of Bank and State which was productive of 'robbery and fraud'; and they urged that the Bank be divorced forthwith from their public responsibilities and their participation in the

War. Let the Ministry repay the debts of the Bank (if it could!) and let the bank resume the honest payment of their Notes.[2]

For the first few years, however, all seemed well. The initial caution of the bank and the minimal expansion of government demands on its credit, combined with the inevitable time lag between issue of new money and rise in prices to lull Britons into a false sense of security. The price of food rose substantially in 1799, but it was easy for the anti-bullionists and other administration apologists to dismiss this rise in a flurry of pamphlets as the product of crop failure and wartime disruption in the import of grain. Even the Rev. Thomas Robert Malthus, afterwards to emerge as at least a partial bullionist, diffidently raised the monetary question, and then dismissed the increase of paper money as 'rather...the effect than the cause of the high price of provisions'.[3]

In the Spring of 1800, however, war expenditures and bank financing government debt accelerated, leading to a depreciation of the pound by 9 per cent in the main foreign exchange market of Hamburg, and gold bullion appreciated to 9 per cent above its official par value. In addition, domestic prices rose even more sharply than before. The depreciation of the pound had evidently begun.

The first phase of the bullionist controversy (1800–4) started when one of the best of the bullionists published his remarkable pamphlet on the cause of the depreciation. Certainly there was little in the previous career of Walter Boyd (c.1754–1837), a wealthy adventurer and seeker of state privilege, to prepare one for a pamphlet of keen insight into the calamitous consequences of irredeemable paper money. Boyd had been a wealthy English banker in Paris, the chief partner of Boyd, Ker and Co., who had to flee for his life in 1793 from the wrath of the French Revolution, which also confiscated his property. Back in London, Boyd established the banking firm of Boyd, Benfield and Co., of which he was principal partner. A close friend of Prime Minister William Pitt for many years, Boyd rode high in the British Establishment, becoming an MP in 1796 from his partner Paul Benfield's pocket borough. In 1794, the firm floated an important loan to the Austrian emperor. Furthermore, Boyd, Benfield received the enormous contract of £30 million in government debt after the beginning of the war with France.

Things began to go sour for Boyd in 1796, however, when the Bank of England, whose loans had been keeping Boyd, Benfield and Co. afloat, failed to renew its discounts. Boyd tried desperately to get Parliament to establish a new board for the issue of a massive amount of notes, and the scheme received considerable support, but it was ended by the opposition of William Pitt.

The only thing left for Boyd was to try to get more Bank of England loans, and in Parliament during 1796 and 1797 he denounced the bank for too tight a credit policy, presumably not mentioning himself as one of the prominent sufferers from its allegedly tight money. Facing 'ruin' Boyd managed to obtain financial aid from friends in the Navy Office, and he finally got the bank to lend Boyd, Benfield & Co. £80 000 in 1798. But Samuel Thornton (1755–1838), deputy governor of the Bank of England, and MP, warned Pitt that Boyd, Benfield & Co. was only being kept alive by bank largesse, and as a result, Pitt refused to let the House of Boyd contract for the 1799 public loan. Finally, Boyd, Benfield & Co. went bankrupt in March 1800, and the result was total financial ruin, so much so that Walter Boyd was reluctant to show his face in Parliament.

As might be expected, Boyd put the blame for his failure not on his own reckless feeding at the public trough, but on the niggardly policies of the Bank of England. In November 1800, Boyd wrote *A Letter to the Rt. Hon. William Pitt* published in 1801, which won quick fame and caused Boyd to publish a second edition later that year. With Boyd's *Letter*, the bullionist controversy was born, Boyd now denouncing the Bank of England not for overly tight credit but to the contrary for generating the inflation and monetary depreciation in the first place.

His new-found fame did Boyd little personal good, however, and he promptly went to France for financial manoeuvring. There he was arrested the following year, and jailed by the French until the end of the Napoleonic Wars. He then returned to England, wrote other financial pamphlets, and once again became an MP.

5.3 Boyd's *Letter to Pitt*

Walter Boyd did not intend his pamphlet, the *Letter to Pitt*, to be a treatise on monetary theory. It was, as one historian put it, a 'tract for the times', written in a 'heated temper', and the tract assumed a generally accepted set of monetary principles on the part of his readers. Nonetheless, since Adam Smith and the other eighteenth century economists could not have addressed their analyses to a non-existent inconvertible fiat money, Boyd felt called upon to extend the conventional analysis to this unwelcome new system that had suddenly come to Great Britain. In the course of doing so, Boyd not only launched the 'bullionist controversy', but also set forth an excellent exposition of what came to be known as the 'bullionist' position in the great controversy.

Boyd pointed to the three new and unwelcome conditions: the premium of gold bullion over the paper pound, the depreciation of the pound on the foreign exchange market, and the 'increase in the prices of almost all articles of necessity, convenients, and luxury, and indeed of almost every species of exchangeable value, which has been gradually taking place during the last two years, and which had recently arrived at so great a height'. He argued that the cause of all three troublesome phenomena was the same: a depreciation of the value of the pound, brought about by 'the issue of Bank-notes, uncontrolled by the obligation of paying them, in specie, on demand'. An increase in the supply of money diminishes its value, whether in the form of a premium on gold bullion or of a rise in the prices of goods. And 'the same circumstances which raise the value of Gold in the home market, necessarily tend to depreciate our currency when compared with currency of other countries'. Boyd summed up the bullionist position clearly in the preface to the second edition (1801) of his *Letter*: 'The premium on bullion, the low rate of exchange, and the high prices of commodities in general, are...symptoms and effects of the superabundance of paper'.

If the supply of money is crucial to the movement of prices, bullion and exchange rates, it becomes vital to clarify what precisely that supply may be. Before Adam Smith, the eighteenth century British writers on money, such as Hume and Harris, muddied the waters by including in the concept of money virtually all liquid assets, such as bills of exchange and government securities. In the *Wealth of Nations*, however, Smith helped matters by distinguishing clearly between money, the general medium of exchange and the final means of payment, and other liquid instruments that are exchanged *against* money. Following Smith, Walter Boyd makes the distinction between money, or 'ready money', and other assets crystal-clear:

> By the words 'Means of Circulation', 'Circulating Medium', and 'Currency', which are used almost as synonymous terms in this letter, I understand always *ready money*, whether consisting of Bank Notes or specie, in contradistinction to Bills of Exchange, Navy Bills, Exchequer Bills, or any other *negotiable* paper, which form no part of the circulating medium, as I have always understood that term. The latter is the *Circulator*; the former are merely *objects of circulation.*

Not only that: Boyd proceeded to go beyond Smith and to be the first to clearly identify bank demand deposits as fully 'ready money' as bank notes. As he put it: 'Credits in the Books of the Banks...may be considered as Bank Notes *virtually*, though not *really* in circulation...'. Much grief and error would have been spared economic thought as well as the development of money and banking if the currency school – the mid-nineteenth century successors to the bullionists – had heeded this lesson, and understood that demand deposits were equivalent to bank notes as a part of the supply of money.

On another crucial point, too, Boyd proved to be far superior to Adam Smith. Like Cantillon and Turgot, Boyd objected to the unfortunate doctrine, propounded by Hume and then by Smith, that an increase in the quantity of money results in an equiproportional increase in the 'price level'. Considering the essence of the Hume model, of assuming a magically great proportionate increase in the money supply and discussing the consequences, Boyd echoes Cantillon rather than Hume:

> if...this country had acquired, by supernatural means, and thrown into every channel of circulation, the same additional currency in gold and silver, within the same period, this influx, altogether disproportioned to the progress of the industry of the country; within that period, could not have failed to produce a very great rise in the price of every species of *property, not all with equal rapidity, but each by different degrees of celerity, according to the frequency or rarity of its natural contact with money.* (Italics added.)

Internationally, such a magical influx of gold and silver according to Boyd and Smith before him, would ordinarily have rapidly flowed out of the country, thereby limiting the inflationary harm that the inflow might do. Unfortunately, as in Smith, the mechanism for this allegedly rapid outflow is highly obscure. At any rate, Boyd pressed on to be the first to apply mainstream monetary theory to the problem of inconvertible fiat currencies. He begins by showing that since bank notes cannot be exported, there is no mechanism, as there is with specie, for draining off an 'excess' quantity of money to foreign countries. As a result, in the first place, the price rise resulting from an influx of specie would not be 'so great as that which has been occasioned by the introduction of so much paper, destitute of the essential quality of being constantly convertible into specie'.

More specifically, according to Boyd, the depreciation of fiat paper in terms of other currencies would be reflected in a rise in the price of gold or silver bullion, and an appreciation of foreign currencies on the foreign exchange market. This view, as Professor Salerno points out, provides the germ of the purchasing-power-parity theory of exchange rates under inconvertible fiat currencies:

> Specifically, Boyd contends that an increase in the supply of inconvertible paper money effects a general rise in domestic prices or, what is the same thing, a depreciation in the exchange value of the currency in terms of commodities which necessarily drives down the value of domestic currency in terms of foreign currencies whose exchange values have remained unchanged. This fall in the value of the inflated and depreciated domestic currency relative to foreign currencies is manifested in the depreciation of the exchange rate. Contained in Boyd's argument...is the seminal formulation of the purchasing-power-parity of exchange-rate determination which, of course, is the logical outcome of the application of the monetary approach to conditions of inconvertible paper currency.[4]

In addition, Walter Boyd set the tone for the bullionists following him by placing the full blame for the monetary inflation on the Bank of England rather than the country banks. For the country banks could not have expanded their notes in circulation, Boyd pointed out, unless their reserve base had expanded proportionately. And that reserve base was constituted by notes of the Bank of England. For the country banks remain under the same 'salutary control' as the Bank of England had been under before the advent of restriction. Just as the bank's notes had to be redeemed on demand in specie, so do the country banks' notes still have to be redeemed in the notes of the Bank of England. The key to the problem is the escape from redeemability that the government had permitted to the Bank of England. As Boyd put it:

> The circulation of Country Bank-notes must necessarily be proportioned to the sums, in specie or Bank of England notes, requisite to discharge such of them as may be presented for payment: but the paper of the Bank of England has no such limitation. It is itself now become (what the coin of the country only ought to be) the ultimate element into which the whole paper circulation of the country resolves itself. The Bank of England is the great source of all the circulation of the country; and, by the increase or diminution of its paper, the increase or diminution of that of every country-Bank is infallibly regulated...

Walter Boyd specifically cited and patterned himself on Adam Smith, and unfortunately also followed Smith in hailing the expansion of private redeemable bank notes as providing a less costly and more efficient 'highway in the sky' (though Boyd did not use that phrase). But, being an embattled Smithian in a new world of fiat money, Boyd stressed his militant opposition to bank notes in a context of fiat money. Boyd denounced inconvertible or 'forced' paper money as 'that dangerous quack-medicine, which, far from restoring vigour, gives only temporary artificial health, while it secretly undermines the vital powers of the country that has recourse to it'. Boyd concluded that restoring the nation's currency 'to its pristine purity', would be 'not only proper and practical, but indispensably necessary, in order to prevent the numberless calamities which the uncontrolled circulation of paper not convertible into specie, must infallibly produce'.

Boyd was what we may call a 'complete' bullionist, and was therefore a sophisticated one. He fully recognized that partial 'real' factors – such as government expenditures abroad, a sudden scarcity of food, or 'a sudden diminution of the confidence of foreigners, in consequence of any great national disaster' – could influence overall prices or the status of the pound in the foreign exchange market. But he also realized that such influences can only be trivial and temporary. The overriding causes of such price or exchange movements – not just in some remote 'long run' but a *all* times except temporary deviations – are monetary changes in the supply of and demand for money. Changes in 'real' factors can only have an important impact on exchange rates and general prices by altering the composition and the height of the demand for money on the market. But since market demands for money are neither homogeneous nor uniform nor do they ever change equiproportionately, real changes *will* almost always have an impact on the demand for money. As Professor Salerno writes:

> ...since real disturbances are invariably attended by 'distribution effects', i.e. gains and losses of income and wealth by the affected market participants, it is most improbable that initially nonmonetary disturbances would not ultimately entail relative changes in the various national demands for money...[U]nder inconvertible conditions, the relative changes in the demands for the various national currencies, their quantities remaining unchanged, would be reflected in their long-run appreciation or depreciation on the foreign exchange market.[5]

Here we must emphasize a crucial distinction between the proper status of the 'short run' and the 'long run' in economic theory. In price theory proper, the short run should take precedence, because it is the real-world market price, while the long run is the remote, ultimate tendency that never occurs, and could only take place if all the data were frozen for several years. In sum, we could only live in the improbable if not impossible world of long-run general equilibrium – where all profits and losses are zero – if all values, technologies and resources were frozen for years. But in *monetary* theory, the order of precedence should be different. For in monetary theory, the impact of partial 'real' factors on the price level, exchange rates, and on the balance of payments, are all ephemera determined by the general factors: the supply of and demand for money. These monetary influences are not 'long-run' in the sense of far off and remote, but are underlying and dominant every day in the real world. The monetary influence corresponding to the long run of general equilibrium would be a condition where all price levels and all real wage levels in a gold standard world would be identical, or strictly proportionate to the relative currency weights of gold. In a freely fluctuating, fiat money world, this would be the situation where all price levels would be strictly proportionate to the currency ratios at the international market exchange rates. But dominant influences of the supply and demand for money on price levels and exchange rates occur in the real world all the time, and always predominate over the ephemera of 'real' specific price and expenditure changes. Hence real-world analysis, which must always predominate, comprises short-run price analysis and slightly longer-run (but still far from final equilibrium) monetary reasoning.

To put it another way: in the real world, all prices are determined by the interaction of supply and demand. For individual prices, this means consumer valuations and consumer demands for a given stock: supply and demand in the real world. This is 'short-run' micro-analysis. For overall prices or the 'price level', the relevant supply and demand is the supply of and demand for money: the result of individual utility valuations of the given stock of money at any time. And while equally real and dominant in the 'macro-sphere', this is determinant in a slightly longer run than the superficial 'real' factors stressed by anti-bullionists in all ages.

5.4 The storm over Boyd: the anti-bullionist response

The *Letter* by someone of Boyd's renown and stature stung the British banking Establishment to the quick.[6] The Establishment responded with a flurry of pamphlets in opposition to Boyd, some of which were subsidized by the government. The key point was to defend the actions of the Bank of England, and to attribute the undesirable consequences of the inflation and depreciation to a hodge-podge of 'real' rather than monetary factors. The most eminent critic whom Boyd could rebut in the second edition of the *Letter*, published a few months after the original, was Sir Francis Baring (1740–1810), founder of the famous banking house of Baring Brothers and Co.

Baring had been born to a clothing manufacturer in Exeter. After plunging into commerce in London, Baring founded his own mercantile firm and became a multimillionaire, and known as the leading merchant in Europe. In addition to his mercantile and banking prominence, Baring was also a director, and then chairman of the board of the East India Company, as well as a long-time Whig MP. Curiously enough, when the restriction first appeared, Baring, in his first monetary pamphlet, while strongly supporting the suspension as a necessary wartime measure, was worried about the inevitable depreciation that would accompany over-issue of paper and suggested a strict limit on the bank's issue. This pamphlet, *Observations on the Establishment of the Bank of England* (1797) went through two quick editions, followed by a supplementary *Further Observations* later the same year.

Now that the bank was under substantial attack, however, Sir Francis rallied round, his previous qualifications and warnings forgotten. In his *Observations on the Publication of Walter Boyd* (1801), Baring absurdly defended the bank from the charge of causing increases in domestic prices by pointing out that the depreciation of the pound on the foreign exchange market was less than the rise in price. But Boyd had not claimed equiproportional rises in all prices, as he pointed out in his rebuttal. Baring also claimed, conveniently enough, that an increase in the money supply could *only* affect foreign exchange rates and not domestic prices.

Another inveterate defender of the bank and an anti-bullionist who entered the controversy in this period was Henry Boase (1763–1827). Boase joined the fray in 1802, and wrote five anti-bullionist pamphlets between then and 1811. He insisted that, under conditions of inconvertibility, exchange rates had nothing to do with the supply of money, but were only determined by the balance of international payments, which in turn was supposed to be set solely by real rather than monetary factors. As Boase put it dogmatically: 'the rate of exchange is governed by the balance of exchange operations, and (great political convulsions apart) by no other principle whatever...'. In his 1802 tract, *Guineas an Unnecessary and Expensive Incumbrance on Commerce*, Boase, as his title indicates, carried the fallacious Smithian 'highway in the sky' argument to its logical conclusion: the restriction was so beneficial that it should be made permanent, 'a permanent measure of prudence and sound policy'.

Who was this Boase, this point man for inflation and fiat money? Born in Cornwall, he went to live for years in Brittany, and then returned to London, where he became a corresponding clerk in 1788 in the banking firm of Ransom, Morland, and Hammersley. The outbreak of the French Revolution the following year found Boase, with his extensive French connections, in a good spot to obtain considerable funds for support of a number of emigré French clergy and nobility in England. Boase then rose rapidly in the bank, becoming chief clerk and then managing partner in 1799. He was also a distinguished evangelical, being a leading member of the London Missionary Society and founder of the British and Foreign Bible Society. After retiring to Cornwall in 1809, Henry Boase became a partner in the Penzance Union Bank and mayor of Penzance.

5.5 Henry Thornton: anti-bullionist in sheep's clothing

Although the bullionist controversy has been studied at length, historians of economic thought have had great difficulty identifying and analysing the various different doctrines held in the bullionist camp. Generally, they have grouped the bullionists into an 'extreme' or 'rigid' camp, consisting of John Wheatley and David Ricardo (to appear later on), and the others, including Henry Thornton, ranked as more sophisticated 'moderates'. The issue supposedly centres on Wheatley and Ricardo's extreme devotion to long-run factors, leading them to deny any role to real factors in determining prices, exchange rates or balances of payments. On the other hand, all the other bullionists, being 'moderate', are supposed to have believed that real factors can often be dominant, and that it is touch and go which factors will prevail in any given situation.

Professor Joseph T. Salerno has recently made a notable advance by providing a far superior framework of analysis of the various thinkers. He notes that Boyd (as we have seen) and Lord King, another leading bullionist, were really 'extreme' rather than moderate, and that they can be classified as such because they realized that monetary factors were always predominant, even though real factors could exert temporary influence. Thus the 'extreme' bullionist camp now includes (a) Ricardo and Wheatley, who ignore all temporary and real factors, as well as short-term processes, and concentrate exclusively and mechanistically on the long run; and (b) Boyd and later Lord

King, who analyse short-run processes and real factors but realize that long-run monetary factors predominate at all times. Then there are (c) 'moderate' bullionists like Thornton who are agnostic about whether real or monetary factors predominate at any given time; and (d) anti-bullionists who ignore all underlying monetary causes. It is clear that Professor Salerno properly gives the accolade to group (b) as having the correct analysis.[7]

But Salerno, it seems to the present author, does not quite go far enough. While he sees fully and lucidly the crucial differences between groups (a) and (b), it is still confusing to classify these two as dwelling in the same camp. For it would clarify matters further if we totally dropped the 'extreme' *vs* 'moderate' distinction. Let group (b) be termed 'complete' bullionists and group (a) 'rigid' or 'mechanistic' bullionists. As for group (c), men like Henry Thornton do not really deserve the term 'bullionist' at all. They are surely 'moderate', though 'confused' might be a better term. Mired in their *ad hoc* approach they could just as well end up, in any given situation, as 'anti-bullionist' rather than 'bullionist'. And, indeed, Henry Thornton began his career of monetary theorist as a moderate *anti*-bullionist, which was his position in the course of his famous contribution of 1802. Later on, as depreciation and inflation continued, Thornton concluded that the preponderance of forces had moved the other way, and he changed his mind, gaining his undeserved historiographical reputation as a bullionist by signing the famous Bullion Committee Report of 1811, which recommended resumption of the gold standard. But Thornton remained a moderate. Focusing on Thornton's later stance, and conflating it with his theoretical work of a decade earlier, only misled historians into extravagantly overpraising Thornton and into placing him unequivocally in the bullionist camp.

During the twentieth century Thornton revival, it was said that earlier historians were unfair in attributing Henry Thornton's (1760–1815) pro-Bank of England bias to his being a director of the bank. It is true that he himself was not a board member of the bank; but his elder brother, Samuel, was a director and deputy governor of the bank, and his grandfather Robert Thornton, as well as Robert's brother Godfrey, was also a director of the Bank of England.

Henry Thornton was a descendant of a long line of prominent merchants. Great-grandfather John was a merchant in Hull, in what was then Yorkshire, in the late seventeenth and early eighteenth centuries. John's sons moved to London to become important merchants there, particularly engaged in trade with Russia and the Baltic. Henry's father, also named John, continued the line of 'Russia merchant' in London, was a senior partner in the firm of Thornton, Cornwall & Co. and was also a leading member and financial supporter, beginning around 1750, of the first generation of evangelicals, low-church puritan Anglicans under the influence of John Wesley. John gave enormous sums to charity, especially for the distribution of countless Bibles and prayer books abroad. Since the Thornton family and several of the other leaders of the movement resided in the wealthy London suburb of Clapham, they were eventually to become known as the highly influential 'Clapham sect'.

Henry Thornton received only a sparse education; at an early age, he began working in the counting houses of his relatives and then of his father. Soon, in 1784, he left the family firm to become a partner in the banking house of Down, Thornton, and Free, where he remained as an active partner until his death. Thornton was able to build the small banking house into one of the largest in the City of London. In 1788, Thornton joined his father and several other family members as a director of the Russia Company. Meanwhile, in 1782, he had been elected an MP, and was soon joined by his brothers Samuel and Robert. Henry was to remain in Parliament, too, for the rest of his life.

Not only was Henry Thornton a distinguished banker, MP and closely related to Bank of England directors; he was also a dedicated leader and patron of the Clapham sect, and his home at Clapham was to serve as a virtual organizing headquarters for the evangelical movement. One of Henry's closest friends, William Wilberforce III, belonged to a powerful family long friendly to and intermarried with the Thorntons. Wilberforce became an MP at about the same time as Thornton, and it was characteristic of their earnestness, personal austerity and moral fervour that they soon came to form an independent 'party of the saints' in Parliament. There, Wilberforce became the leading force in the eventually successful agitation for the abolition of the slave trade in the British West Indies.

In 1796, Thornton married Marianna Sykes, daughter of another 'Russian merchant' from Hull, and also a lifelong family friend. The couple had nine children. Most of Thornton's intellectual energies were expended on evangelical religion; though considered a distinguished expert on banking and finance, he wrote only his famous work of 1802 on paper credit and participated in writing the Bullion Committee Report. The remainder of his voluminous writings were devoted to family prayers, family commentaries on the Bible, and scores of articles on politics, literature and religion for the Clapham sect journal which he helped to found, the *Christian Observer*.

After Thornton' death in 1815, his place as senior partner in the bank was taken by Sir Peter Pole. The bank prospered greatly for a while, but soon it turned out to be undercapitalized and overexpanded, and in 1825 it, along with lesser country banks, was plunged into crisis. It soon failed, despite a friendly £300 000 emergency loan from the Bank of England. Ironically, in view of Thornton's monetary views, there is some evidence that the two men most responsible for the mismanagement were Sir Peter Pole and Henry

Thornton. In particular, Thornton appears to have led the way in lax practices to induce Yorkshire country banks to keep their deposits in his London bank.

Bank failure was no stranger to Thornton. Indeed, it was the temporary failure of his bank in the crisis of 1793 that turned his thoughts to problems of banking, and led him to conclude that it was necessary for the Bank of England to play a supporting, expansionist role in monetary affairs. As the banking theorist Thomas Joplin was to put it in his *Analysis and History of the Currency Question* (1832), on the financial crises of 1793:

> Mr. Thornton, being a banker – a partner, it is curious to remark, of the house that failed on this occasion – had his attention particularly called to this subject: and a very considerable portion of his work, on public credit, is devoted to show, that, in a period of panic, the Bank ought to lean to the side of enlarging, than contracting its issues.[8]

When the restriction came in early 1797, Henry Thornton was honoured by being the only London banker asked to give testimony before the committees of the Houses of Lords and of Commons investigating the suspension of specie payment. Thornton's influence was magnified by the lifelong friendship of Wilberforce and Prime Minister William Pitt, and Pitt's brother-in-law was the first tenant of one of the houses on Thornton's estate. The results of his pondering are scarcely surprising for someone of Thornton's status and background. Taking an inflationist and Establishment line, Thornton opined that in times of crisis paper money could not be limited or suppressed, since that would constitute a shock to commerce. On the contrary, the Bank of England must suspend specie payment in order to avoid the spectre of monetary contraction and general business failure. Indeed, Thornton undoubtedly gladdened the hearts of the bank by criticizing it for not being expansionist enough!

Thornton's testimony won him the accolade of being the foremost authority on monetary affairs, and he was appointed to several parliamentary committees on money, expenditures and foreign exchange. Thornton, indeed, became one of the leading parliamentary defenders of the restriction and of expanded paper credit.

We can easily imagine Henry Thornton's sentiments towards Walter Boyd's *Letter to Pitt* when that tract hit the world of English opinion like a thunderbolt at the turn of 1800–1. Here was this well-connected fellow banker, but an unsound adventurer, this rogue whom his own brother had brought to ruin by persuading the Bank of England to cut off his credit. And now, only months after this man had met his deserved fate, here was Boyd again, trying to gain revenge by discrediting the noble banking and credit system of England. Thornton was stung to try to refute the dangerous Boyd, and it was in the service of this goal that he published his *An Enquiry into the Nature* *and Effects of the Paper Credit of Great Britain* a year after Boyd's tract, in February or March of 1802.[9]

But first Thornton hit out at Boyd in Parliament, in December 1800. As in his book, his words exerted all the more impact for the eminence of their author combined with their seeming judiciousness and moderation. For there are always a host of people who will hold firmly that the more qualified and tentative the judgement, the more well-balanced and sound it must therefore be. Mushiness of mind, especially in an eminent man, is all too often mistaken for wisdom.

In this early phase of the bullionist debate, Thorntonian mushiness tended inexorably in the wrong direction. The depreciation of the pound in foreign exchange was caused, he opined in his speech in Parliament, not by the increase of paper money, but by the unfavourable balance of trade and specifically by the heavy imports of provisions. Typical of the anti-bullionist view, imports and exports were assumed to have *ad hoc* lives of their own, and not to be determined by relative prices or by the supply and demand for money. But Thornton's anti-bullionism was nothing if not 'moderate', that is, he conceded the theoretical possibility that increased money supply could bring about higher prices:

> as to the assertion that the increased issue of Bank paper was the cause of the dearness of provisions, he [Thornton] would not deny that it might have some foundation; but he would contend that its effect was far from being as great as was being alleged...

Henry Thornton's book on *Paper Credit* was a considerable expansion of his parliamentary speeches, and it was *Paper Credit* that took its place as not only the leading work on behalf of anti-bullionism, but also the most influential on either side of the debate. The timing was right, since the restriction was in particular need of defence in 1802. A peace with France was signed in March, and yet the British government persisted in extending the restriction another year. Soon after that year was up, war with France broke out again, but in the meantime the seeming end of the wartime emergency had taken away the apparent reason for the suspension of specie payments. Other anti-bullionist tracts appearing in 1802 were scarcely rivals for Thornton, ranging from Jasper Atkinson's anonymous pamphlet (*Consideration on the Propriety of the Bank of England Resuming its Payments in Specie...*) denying that inflation had taken place, to another anonymous tract applying Adam Smith's erroneous theory of an automatic limit to excess bank credit to a situation Smith would never have applied it to: fiat money (*The Utility of Country Banks Considered*).

Thornton disarmed many of his critics by conceding the theoretical *possibility* that excess issues of paper money can cause price increases, outflow of gold, higher prices of gold bullion and depreciation of the pound, but maintaining that the situation did not now apply, and that the problems of the day were due to such particular real factors as unusual demand for gold and for the importation of food, and unusual blockages to exports.

Thornton cleverly loaded the dice by spending the bulk of the book on the alleged horrors of monetary deflation and the contraction of bank credit. Deflation would lead to trade depression, unemployment and bankruptcies. Furthermore, he claimed, deflation would not even accomplish an export surplus or an inflow of gold, since it would 'so exceedingly distress trade and discourage manufacturers as to impair...those sources of returning wealth to which we must chiefly trust for the restoration of our balance'. Thornton neglected to realize that if times were really that bad, Englishmen would scarcely earn enough income to sustain a heavy excess of imports. As in all modern agitation against deflation, he also failed to realize that deflation only causes losses and bankruptcies if it is unexpected, revealing an excessive bidding up of wage rates and other business costs. Deflation, in addition to having the healthy impact of purging unsound investments and unsound banks from the economy, would have strictly limited and temporary effect; first, because while inflation is technically unlimited until the value of the currency is totally destroyed, deflation must necessarily be limited to the amount of bank expansion over specie; and second, deflation will cease having a depressionary effect as soon as excessive costs are brought down to pre-inflated levels.

In fact, Thornton acknowledged that the fall in price and the depression brought about by monetary deflation would be 'unusual' and 'temporary'. But he anticipated Keynes in focusing on allegedly sticky wage rates, for

> a fall [of prices] arising from temporary distress will be attended probably with no correspondent fall in the rate of wages; for the fall of price, and the distress, will be understood to be temporary, and the rate of wages, we know, is not so variable as the price of goods. There is reason, therefore, to fear that the unnatural and extraordinarily low price arising from the sort of distress of which we now speak, would occasion much discouragement of the fabrication of manufactures.

There are two problems here. First, while the economic distress, due to faulty forecasting and excess bidding up of wage rates and other costs, will indeed be temporary, there is no reason why the fall in prices should not be permanent. Prices had previously been artificially raised by monetary and credit expansion; their decline simply reflects the contraction of credit down to more realistic levels. The knowledge that the decline is permanent should greatly speed up the adjustment mechanism. Second, if workers persist in keeping their wage demands higher than the market, they have only themselves to blame for their unemployment. Keeping any price, including a wage rate, higher than market equilibrium will always lead to an unsold surplus of the good or service: in the case of labour, unsold labour time, or unemployment. If labourers wish to change their unemployed status, they need only lower their wage demands to clear the market and allow themselves to be hired. We should also recognize that, in this situation, with prices falling and wage rates constant, workers are thereby insisting on higher *real* wage rates than they had enjoyed before. Why should workers holding out for higher real wage rates be able to induce an inflationist policy in the central government?

So worried about deflation was Thornton that he actually urged the bank of England to neutralize outflows of gold so as to obstruct the price-specie-flow mechanism from bringing about equilibrium in the balance of payments. Instead, he would have the bank inflate bank notes to replace gold outflows, and then hope that his vague long-run real principles of 'economy' and 'exertion', of expenditure and income, would eventually work to equilibrate imports and exports. Thus, Thornton writes that

> ...it may be true policy and duty of the bank to permit for a time, and to a certain extent, the continuance of that unfavourable exchange which causes gold to leave the country, and to be drawn out of its own coffers: and it must, in that case, necessarily increase its loans to the same extent to which its gold is diminished.

Thornton's work has been excessively hailed by von Hayek and other historians as being theoretically excellent if unfortunate in its political anti-bullionist conclusions. But his theoretical weakness did not only consist of his excessive horror of deflation and his stress on the alleged empirical dominance of real factors in his analysis of inflation and depreciation. For this stress itself reflected a grave if subtle theoretical flaw in Thornton's entire monetary and balance of payments analysis. His entire analysis lingered disproportionately on the real and short-term factors, to the almost complete neglect of the tendency of the economy towards long-run equilibrium. And even Thornton's perfunctory discussion of long-run equilibrium is divorced from short-run processes and also from its *monetary* nature. It goes without saying that Thornton therefore also neglects the monetary supply and demand nature of the short-run processes leading towards that equilibrium. Thus Professor Salerno, who has given us a notable critique of Thornton, writes:

> Without the conception of international monetary equilibrium at his disposal, he is forced to explain the tendency to balance-of-payments equilibrium by a hazy reference to an alleged disposition amongst people to 'adapt their individual expenditure to their income'. This is in sharp contrast to the extreme bullionists and their eighteenth-century forebears who invariably began their analyses of

> balance-of-payments phenomena with a discussion of the nature and necessity of international monetary equilibrium and *then* explained the tendency to balance-of-payments equilibrium as a logical implication of the necessary tendency to an equilibrium distribution of the world stock of money.[10]

Indeed the entire structure and organization of the book tilted Thornton heavily towards short-term real factors and away from any monetary approach towards analysing inflation or the balance of payments.[11]

To sum up: the correct analysis of complete bullionism (such as presented by Boyd and later by Lord King) stresses monetary factors leading to monetary equilibrium, while showing that real factors can only have temporary effects. The analysis of real factors is integrated with, and at all times subordinated to, the monetary factors, and short-run and long-run monetary processes are integrated as well. In Thornton's moderate anti-bullionist position (often miscalled 'moderate bullionist'), however, both real and monetary causal factors and processes are presented as separate and independent of each other, with real factors presented as empirically more important. Short-run factors are similarly stressed, to the neglect of long-run forces.

Henry Thornton has been extravagantly praised by Schumpeter and other historians for adding velocity of circulation to the quantity of money as a determinant of overall prices. But, in the first place, we have seen that ever since the scholastics, the demand for money – the inverse of the 'velocity' – had always been integrated with the supply of money in analysing the determination of general prices. It is true that Thornton analysed the different influences on, and different variabilities of, velocity in considerable and pioneering detail: e.g. frequency of payments, development of clearing systems, confidence in the money, and variations of the same stock of money over time. But unfortunately, Thornton ruined this contribution by not realizing that velocity of circulation is simply the inverse of the demand for money and by treating the velocity as somehow different, and independent of, demand in helping determine the money relation of supply, demand and price.

Thornton has been lauded by von Hayek and others for including bank deposits as well as bank notes in the supply of money. True enough; but, as we have seen, Walter Boyd preceded him in this insight by a year. But not only that: Boyd also demonstrated that bills of exchange and Treasury bills are decidedly *not* part of the money supply, that they are objects of circulation rather than the 'circulator'. But Thornton restored the older error of lumping bills of exchange in with notes and deposits as part of the supply of money.

Henry Thornton did make some important contributions in the last two chapters of *Paper Credit*, particularly in the long-deferred paper money-as-cause of inflation sections that rested uneasily with the separate and contrary earlier chapters. Most of the anti-bullionist writers applied Adam Smith's dictum that bank credit cannot inflate the currency if confined to short-term, self-liquidating, 'real bills'. The difference is that Smith had applied it only to a specie standard, whereas the anti-bullionists extended it to a fiat money system. Thornton replied that this criterion will not work, since an increased quantity of bank notes will also indefinitely inflate the monetary value of the real bills. So that the Smith–anti-bullionist 'limit' is an indefinitely elastic one that will in practice only provide an open channel for bank credit inflation. Thornton further pointed out that the current usury law in Britain of 5 per cent will aggravate the problem. For the free market interest rate or profit rate will rise higher than that in wartime (or in any boom situation). Consequently, the artificial holding down of the bank loan rate below the profit rate will stimulate an excessive borrowing, artificially high levels of investment, and a continuing monetary and price inflation. Thus, holding the bank rate of interest below the profit rate stimulates an increase in the demand for borrowing, and the continuing increase in the supply of money allows that demand to be fulfilled.

In setting forth the inflationary consequences of artificially lowering the rate of interest on bank loans, Henry Thornton anticipated the later Austrian theory of the business cycle, set forth by Ludwig von Mises and F.A. von Hayek and in turn based on the analysis of the Swedish–Austrian economist Knut Wicksell at the end of the nineteenth century. Thornton also hinted at the Austrian analysis of 'forced saving', pointing out that if excessive issues of paper money raise prices of goods more rapidly than wage rates, there will be some increase of capital investment, but that this increase will be at the expense of the labouring classes, and will therefore 'be attended with a proportionate hardship and injustice'. Unfortunately, Thornton did not press on to the Austrian business cycle point: that since the public's time- and saving-preferences are not sufficient to sustain these 'forced' investments, a recession is bound to liquidate those investments when the artificial credit expansion stops and the true savings-consumption preferences of the public are thereby revealed.

It is very possible that, despite the author's prominence in the world of banking, *Paper Credit* might have sunk quickly into obscurity. It was very long (several hundred pages), badly written and organized, unsystematic, muddled, and what its greatest admirers have called 'prolix'. Even von Hayek, Thornton's biggest modern booster, concedes that his 'exposition lacks system and in places is even obscure'. Even his greatest disciple and popularizer, Francis Horner, admitted that Thornton had 'little management in the disposition of his materials'; that he 'frequently...was much embarrassed in the explanation of arguments', that his 'reasonings are not to be trusted' and are sometimes 'defective', that he was not trained in theorizing, that his style was poor, and that 'the various discussions are so unskillfully arranged, that they throw no light on each other, and we can never seize a full view of the plan'. In short, the 'prolixity' and 'the obscurity' of the work 'oppress the reader'.

And yet, ironically, it was this very Francis Horner who rescued *Paper Credit* from these grave defects, and put the work on the map. The form Horner used was a great stroke of luck for granting Thornton's work its maximum impact. We have noted in an earlier chapter on the influence of the Smithian movement (Chapter 17, Volume 1) that Francis Horner was one of a scintillating group of young Scotsmen who studied under Dugald Stewart at the turn of the nineteenth century, and went on to conquer the British intellectual climate for Smithian doctrine. It was in 1802 that these young pupils of Stewart founded the *Edinburgh Review*, which struck the British intellectual world with enormous impact and quickly vaulted to the status of one of the leading journals. And it was precisely in the first, October 1802 issue of the *Edinburgh Review* that Francis Horner wrote his famous review-essay of Thornton's *Paper Credit.* In this 30-page *tour de force* Horner systematized Thornton's work, made as much sense of it as was possible and, as von Hayek admits, 'gave an exposition of the main argument of the book in a form which was considerably more systematic and coherent than the original version'. Horner beat the drums for *Paper Credit*, trumpeted it as 'the most valuable unquestionably of all the publications which the momentous event of the Bank Restriction had produced'. The great fame and influence of *Paper Credit* was unquestionably Thornton mediated through Francis Horner. It was also important to realize that Horner, though chairman of the later Bullion Committee of 1810–11 which recommended resumption of the gold standard, agreed with Thornton in his anti-bullionist stance of 1802.

While Horner hailed Thornton's work as decisive, he paved the way for his (and Thornton's) later change of mind politically by writing that he was not sure which factors – the monetary or the real – had been more decisive in the inflation and the depreciation of the pound. He expressed his fundamental theoretical confusion (along with Thornton's) by declaring himself agnostic on the causal issue, the matter to be decided later by more empirical data. In short, while Thornton, in his *Paper Credit*, carved out the new moderate anti-bullionist position, his follower Horner was what might be called a moderate moderate, squarely in the middle of the issue.

We might also note that Horner took his stand squarely with Thornton against Boyd on the issue of defining the money supply. Rejecting Boyd's lucid 'circulator' *vs* 'objects of circulation', Horner perpetuated Thornton's unfortunate and fuzzy view that there is no definite boundary between commodities and means of exchange, so that everything is a mish-mash of degrees of convertibility.

5.6 Lord King: the culmination of bullionism

When the British government asked Parliament for a year's extension of the bank restriction in April 1802, it had to justify the renewal of suspension on some ground other than the war with France, since the Treaty of Amiens had been signed the previous month. Prime minister Henry Addington (1757–1844) argued that since the balance of payments remained unfavourable to Britain, the suspension of specie payments should be extended – presumably until the balance of trade reversed itself. When the renewal came up again in February of the following year, Addington again argued for an extension of the fiat system on the same grounds. He was answered trenchantly by the great opposition leader, Charles James Fox, who pointed out that 'perhaps even it might happen that the unfavourable turn of the exchange against this country might be owing to the very restriction on the bank'. Not only that, but Fox saw incisively that the outflow of gold was essentially a Gresham's law situation, where money undervalued by the government flows inexorably out of circulation to be replaced by overvalued (or 'bad') money. He essentially showed that this process applies to paper fully as much as to 'bad gold':

> In 1772 to 1773, when there was a great quantity of bad money in the country, the course of exchange was then also much against us...As long as our currency continued bad, the exchange was against us; so is it now, because paper is not much better than bad gold...May it not therefore be expected that as in the former case, when our currency was ameliorated, the course of exchange turned in our favour, so also if the Bank now resumed its cash payments the same favourable circumstances might attend the change?

During this debate, a new voice entered the bullionist controversy, with Peter Lord King (1776–1833) denouncing the restriction in a speech in the House of Lords on 22 February. Taking the lead of the bullionist forces, Lord King zeroed in on the increase of the quantity of paper money during the restriction as the culprit: 'from the time the restriction was first imposed, the course of exchange began to turn against this country in various proportions to the quantity of paper in circulation.' In May, Lord King repeated these arguments in arguing against a bill to extend bank restriction in Ireland. Later in May of 1803, King elaborated his views in a highly important pamphlet: *Thoughts on the Restriction of Payments in Specie at the Bank of England and Ireland*, and then followed with an enlarged second edition of the pamphlet the following year, under the title, *Thoughts on the Effects of the Bank Restriction*. Lord King's *Thoughts* was widely read and highly influential, and with this pamphlet King took his place as the leader of the bullionist camp, just as Thornton, who continued to support the renewal of restriction, was established as the leader of the moderate anti-bullionists.

Lord King was a young nobleman of distinguished lineage. He was the great-grandson of Peter, the first Lord King, who became Lord Chancellor of the realm. The Whig and classical liberal tradition of the King family was emphasized by the fact that the first Lord King's mother was a cousin of John Locke, and that the first Lord King was a protégé of Locke and a leading Whig and MP. Peter King was educated at Eton and at Trinity College, Cambridge, taking his place as a follower of Charles James Fox and an important Whig in the House of Lords in 1800. In addition to his leadership of the hard-money forces in Britain, Lord King, though a great landlord, was a lifelong militant enemy of the Corn Laws. A critic of the Established Church, King was a principal battler for the unpopular cause of emancipation of the Catholics of England, as well as an opponent of the oppression of the Catholics of Ireland. In 1829, Lord King wrote a *Life of John Locke*, revised and expanded into two volumes in the following year.

Lord King began his *Thoughts* with a chapter on 'Paper Money'. Unfortunately, King accepted Smith's fallacious argument for paper money as providing a highway in the sky, but at least he rejected Smith's idea of an automatic 'reflux' of any excess paper to the banking system. Instead, King applied the quantity theory (or, to put it better, the supply and demand theory) of money to the case of convertible paper. King, in a statement which Nassau Senior later referred to admiringly as 'Lord King's principle', stressed that it was important for paper money not to be issued to any extent greater than its 'exact' replacement of the quantity of gold coin in circulation; and that this equivalence is maintained by the immediate convertibility of paper into gold.

King then moved to rebut, one by one, the pro-restrictionist arguments that the Bank of England notes were not excessive and therefore not depreciated. The idea that the bank had not exceeded some abstract proportion of money to industry, or some arbitrary optimum money supply, was effectively shot down, King demonstrating that 'there is no rule or standard by which the due quantity of circulating medium in any country can be ascertained, except the actual demand of the public'. King then shows trenchantly that the demand for money, like the demand for any product, is variable and uncertain:

> The requisite proportion of currency, like that of every other article of use or consumption, regulates itself entirely by this demand; which differs materially in different countries and states of society, and even in the same country at different times...
>
> It is manifest...that the proportion of circulating medium required in any given state of wealth and industry is not a fixed, but a fluctuating and uncertain quantity; which depends in each case upon a great variety of circumstances, and which is diminished or increased by the greater or less degree of security, or enterprise and of commercial improvement. The causes which influence the demand are evidently too complicated to admit of the quantity being ascertained by previous computation or by any process of theory...

King goes on to conclude that

> If the above reasoning is well founded, it must follow that there is no method of discovering *a priori* the proportion of the circulating medium which the occasions of the community require; that it is a quantity which has no assignable rule or standard; an that its true amount can be ascertained only by the effective demand.

Next, King was the first to see the importance of Thornton's devastating critique of his fellow anti-bullionists' extension of Smithian real-bills doctrine, and he put the critique even more strongly. Putting their discount rates below the free market interest rate can permit unlimited extension of bank credit on real bills. Furthermore, the bank possesses no real means of distinguishing between 'real' and 'fictitious' bills, and merchants can always be induced to borrow far beyond real demands of the public by artificially low interest charged by the banks.

In the case of inconvertible paper money, King concluded, there is no way to discover the real demand for money by the public, or to figure out when paper money is excessive or not. Without convertibility, paper circulation is 'deprived of this natural standard, and is incapable of admitting any other'. Hence, banks or governments entrusted with the task of finding the optimum level of money and credit are doomed to 'committing perpetual mistakes'.

Building on Boyd's pioneering work and the contributions of Thornton, Lord King then set out to develop the culmination of the complete bullionist theory of inconvertible paper money, a theory consisting of a systematic and forceful development of supply and demand analysis. He first notes that inconvertible paper is subject to two distinct but related influences towards depreciation: 'want of confidence on the part of the public, and an undue increase of the quantity of notes'. In every instance of inconvertible currency, he notes, both factors have soon gone to work. How does one know, King went on, when depreciation of inconvertible currency has occurred? Walter Boyd had asserted that one test of depreciation was a rise of the free market bullion price higher than the official mint price. King reinforced Boyd's insight by pointing out that bullion value tends to be stable in the short run, making any deviation of the two the result of a change in the value of the paper. King also provides a rigorous grounding for Boyd's second proffered test: the depreciation of the pound compared to other currencies. For a specie-convertible currency cannot depreciate, since any surplus can be exported. But inconvertible paper cannot be exported, and will there 'remain in that country, and, if multiplied beyond the demand, must be depreciated in the degree of its excess'. Furthermore,

> In the course of commercial dealings this increase of quantity is soon discovered; and prices are increased in proportion. A similar effect takes place in transactions with foreign currencies according to the status of their respective currencies.

King goes on to develop a concise statement of the purchasing-power-parity theory of exchange rates under inconvertible currencies.

While in the above passage, King appeared to adopt the mechanistic proportionality quantity theory, he made it clear later in the pamphlet that this proportionality, if it occurs at all, only does so in the long run. For King, like Boyd, was a complete bullionist, and presented by far the best and most developed statement of this position in this entire period. King demonstrates that the inflation process *necessarily* involves a redistribution of wealth and income. Developing hints of process analysis from Hume, King writes that the proportional effect of an increase of the quantity of paper money on prices is far from immediate, and that 'some time must elapse before the new currency can circulate through the community and affect the prices of all commodities'. But while Hume hailed this interval as spurring business activity, King correctly focused on the coerced advantages that this process gives to the early, as opposed to the later, recipients of the new money:

> It is this interval between the creation of the new paper and the rise of prices which may be a source of advantage to the persons who obtain loans from the Bank. The merchant, to whom the notes are immediately issued, employs them in the purchase of goods at the prices which they then bear. But by the very effect of these notes, when they are afterwards circulated, the price of the goods is enhanced and the merchant has the advantage of this rise in addition to the ordinary profits of trade. If he is an exporting merchant, he will receive, beside the usual profit, the amount of the depreciation which will have taken place in the currency between the time of purchasing the goods and the arrival of the remittance in return.

King also calls the depreciation of central Bank of Ireland notes like 'an income tax which levies not for the benefit of Government, but of the proprietors of Irish Bank stock'. And on the Bank of England, he noted that the 'undue advantage [that] has been obtained by the bank in the exact degree of the excess of their notes' has been more than offset by 'the loss and injury to the public, as in all cases of depreciated currency'. Hence 'An indirect tax is thus imposed upon the community, not for the benefit of the public, but of individuals. It is levied in the most pernicious manner; and is of all taxes the least productive in proportion to the loss and inconvenience sustained'.

In short, King recognizes that the privileged beneficiaries of inflation and depreciation are, largely, the central banks themselves and their stockholders, as well as merchants who borrow from these banks, and exporters who benefit by the depreciation of foreign exchange. All these are bought at the expense of the public. King also perceptively notes that it is precisely these groups who had been the main apologists for the bank restriction. He suggests that these London and Dublin merchants had probably never read

Hume, nor precisely traced the theoretical steps by which they obtained the privilege of bank inflation:

> But their experience has undoubtedly led them to the same conclusions; and there can be no doubt that since the period of the Restriction discounts have been obtained from the Bank by commercial men with less difficulty and that these accommodations together with the profits derived from hence have given their minds a strong bias in favour of the measure.

Furthermore, Lord King's mordant analysis of the advantages accruing to the bank as against the public by inflation of its notes led him to denounce *per se* any 'exclusive privilege' in issuing notes granted to the Bank of England. For such a privilege would be 'as unjust and impolitic as to grant a monopoly of any other branch of skill and industry to any private merchant or company'.

Tied in with his rejection of the mechanistic proportionality approach, Lord King conceded that real factors can have subordinate and temporary effects on depreciation and the exchange rate. Indeed, it is precisely this understanding of the temporary effects of real factors that helped lead King to reject the idea of strict proportionality, and hence of any precise quantitative *measurement* of the degree of depreciation or of the excess of paper money. As King wrote: 'nor will the most careful reference to the two tests of the price of bullion and the state of the exchanges enable us to ascertain in what precise degree a currency is depreciated; though the general fact of a depreciation may be proved beyond dispute.' Indeed, he gently chided Boyd for unduly stressing such a measure of excess, and thereby having 'given an advantage to his opponents by insisting too much on the degree of depreciation...'

Finally, it is unfortunate that King followed Smith's and Thornton's confusion of bills of exchange and other evidences of debt with money, and rejected Walter Boyd's clear-cut distinction between them.

Lord King's contribution immediately vaulted him to the front rank of bullionist theorists; and when David Ricardo entered the fray almost a decade later, he hailed King's booklet as having had a great influence on him. For some reason, however, King's vital contribution has been grievously overlooked by most later historians, and even in Nassau Senior's day, in the mid-1840s, Senior found it necessary to chide posterity for neglecting Lord King's great achievement. Indeed, Senior lauded King's work as 'so full, and in the main so true, an exposition of the Theory of Paper Money, that after more than forty years of discussion, there is little to add to it, or to correct'. Senior's reminder was afterwards echoed by Henry D. MacLeod and by Francis A. Walker, and as late as 1911, Jacob Hollander, in his famous resurrection of monetary theory between Smith and Ricardo, briefly hailed

King's pamphlet as a 'remarkable contrast to the prolix obscurity of Thornton's essay, and the heated temper of Boyd's performance', and 'fitted to become, as it speedily did, the epitome of what had already been written in sound criticism and in reasonable interpretation of the Bank's course no less than the inspiration of future effort in the same direction'.[12] Yet, unaccountably, appreciation of King's contribution promptly dropped completely out of sight once again, only to be resurrected in the seminal dissertation of Professor Salerno.

Perhaps the most important immediate impact of Lord King's *Thoughts* was on Francis Horner, for Horner was promptly converted by the booklet from his previous moderate moderate position to his permanent stance of moderate bullionist. The conversion probably rested not so much on King's theoretical analysis, as on his thorough marshalling of the statistics of the restriction period, which convinced the theoretical agnostic Horner that the facts were on the side of the cause of price inflation and depreciation from an excessive issue of paper money. Reviewing King's *Thoughts* in the July 1803 issue of the *Edinburgh Review*, Horner abandoned his previous policy agnosticism on the restriction to plumb squarely for redeemability. 'From the very first', he now wrote, 'there could be no doubt of the impolicy and injustice of the restriction...'. But whereas before, he felt that the facts were too complicated to decide whether Boyd had been right about the restriction's inflationary impact on prices, Horner was convinced by King that Boyd had been right. He now concluded that 'Throughout all these changes, one uniform effect may be perceived which, with the evidence by which it is proved, and the reasonings by which it is explained, is very ably and perspicuously described by Lord King'.

5.7 The Irish currency question

Much of Lord King's strictures were directed against the central Bank of Ireland as well as of England, and indeed, during 1803, as the restriction was extended into the future with the resurgence of war with France, attention shifted to the rapid depreciation of the currency of Ireland.

When Britain imposed the restriction in 1797, it also suspended specie payment for the Bank of Ireland and for the banking system of its Irish colony. It did so even though the Irish banking system was then in relatively sound and uninflated shape. The Bank of Ireland, however, quickly took advantage of its new-found privileges to inflate the supply of money and credit sharply, quadrupling its note circulation over the next six years. By 1803, therefore, the Irish pound had fallen over 10 per cent below its gold standard parity of 108:100 with the English pound. It was particularly evident that the problem here was the Irish supply of paper money, and nothing else, since Belfast, in the English currency orbit with no central bank of its own, remained at par with the English pound, and since the Dublin pound had depreciated to the same extent in Belfast as it had in London.

When the extension of bank restriction came up in Parliament in February 1803, an extension defended by Thornton, a bullionist critique of the Irish situation was launched by Lord King, who continued the same discussion in May when an extension of Irish restriction arose in Parliament.

With attention turned toward the Irish problem, the House of Commons in March 1804 established an Irish currency committee to investigate the matter (more precisely, the 'Select Committee on the Circulating Paper, the Specie and the Current Coin of Ireland'). The Bank of Ireland officials, desperately trying to defend their record, proclaimed with increasing absurdity that the depreciation of the Irish pound was due not to excessive issue but to the mysteriously 'unfavourable' balance of payments out of Ireland. The committee, of which Henry Thornton was a leading member, issued its report in June and gave short shrift to the anti-bullionist rationalizations. It adopted squarely the bullionist insight that the depreciation of the Irish pound was due to excessive issue of paper and extension of credit by the Bank of Ireland, and that this excessive issue had been made possible by the restriction. The committee report presaged the famous bullion committee report six years later, and was notable also for the virtual conversion of Henry Thornton, following Horner, into the moderate bullionist camp. The report declared that the 'great and effectual remedy' for Irish currency ills was 'Repeal of the Restriction Act from whence all the evils have flowed', but it then drew back from such a radical solution to opt for an intermediary solution: for the Bank of Ireland at least to make its notes redeemable in the far less depreciated Bank of England currency. This, in fact, was also the intermediate solution proffered by Lord King. Above all, the committee warned that the Bank of Ireland must limit its paper issue in all times of unfavourable balances of trade, 'and that all the evils of a high and fluctuating Exchange must be imputable to them if they fail to do so'.

Joining the bullionist camp around the Irish currency question were two important members of the Anglo-Irish Establishment. A month before the appointment of the Irish currency committee, Henry Brooke Parnell (1776–1842), the first Baron Congleton, published his pamphlet of *Observations on the State of Currency in Ireland*. Parnell, the son of Sir John, Chancellor of the Irish Exchequer, was educated at Eton and at Trinity College, Cambridge. An influential MP from 1802 on, Parnell's application of bullionist principles to the Irish question was largely influenced by Lord King. Parnell brought charges against the Bank of England of inundating the country with its paper; of diminishing the value of the greatest portion of the property of the country; of establishing a ruinous rate of exchange; and of bringing upon the state all the calamities attending a depreciated currency. As an intermediate remedy, Parnell also recommended King's proposal to make Irish paper redeemable in Bank of England notes. So compatible was Parnell's booklet with the Irish currency committee report, that the third edition of Parnell's essay placed a summary of the committee's evidence in its appendix.

The committee report, and the King proposal, were also backed by another member of the Anglo-Irish Establishment, the young Irish attorney in London, John Leslie Foster (d. 1842), in his pamphlet, an *Essay on the Principles of Commercial Exchanges* (1804). Foster, the son of an Anglican bishop, and graduate of Trinity College, Dublin, later became an Irish judge and a Tory MP in England. There is also the curious case of James Maitland, the eighth earl of Lauderdale (1759–1839), a Scottish attorney and first a Whig and then a Tory MP. On the one hand, Lauderdale was a fanatical underconsumptionist and opponent of saving – thereby anticipating Keynes – in his *Inquiry into the Nature and Origins of Public Wealth* (1804) and in his argument against debt repayment and for government expenditure *per se* (*Three Letters to the Duke of Wellington*, 1829). On the other hand, Lord Lauderdale was a sound hard-money man, endorsing the Irish currency report in a hard-hitting pamphlet. Not only did Lauderdale agree that excessive paper issue of the Bank of Ireland had led to the depreciation of the Irish pound and the premium on gold; he went beyond the report to insist that outright contraction of Bank of Ireland paper was the only effective remedy for the existing problem (In his *Thoughts on the Alarming State of the Circulation and on the Means of Redressing the Pecuniary Grievances of Ireland* (1805). It is certainly unusual for one person to be at the same time an arch-underconsumptionist and an ardent hard-money deflationist!

While the King and committee solutions did not triumph, the Irish bank officials apparently understood the situation far better than they had let on. For they soon managed to defuse the problem by pursuing harder monetary policies, and thereby bringing the Irish pound back to par with England.

5.8 The emergence of mechanistic bullionism: John Wheatley

After 1804, the Bank of England dampened its expansionist policy for a few years, and inflation and depreciation abated as well. As a result, the bullionist controversy about England and Ireland died down. Phase 1 of the great bullionist controversy was over. There had appeared on the scene three schools of monetary thought and opinion: first, the anti-bullionist apologists of the British government and the Bank of England, whose views can scarcely be dignified by the name of 'theory' and who simply denied that monetary issue had any relation to the evils of inflation and depreciation. Ranged against them, were, second, the complete bullionists, headed by Lord King and by Walter Boyd, who trenchantly applied supply and demand for money analysis to the new conditions of irredeemable fiat money, and who attacked the

Bank of England's over-issue as the cause of the evils, with 'real' factors also playing a temporary and subordinate role. In the middle were, third, the moderates, consisting largely of Henry Thornton and Francis Horner, theoretical agnostics who claimed that either monetary or real factors might be responsible for any given inflation, and emphasized empirically and *ad hoc* which set of factors might be the culprits in any given situation. Starting as a moderate anti-bullionist, the empirical weight shifted quickly for Horner, at least, to enter the moderate bullionist camp by 1803.

Before Phase 1 had ended, however, a fourth school of thought, and the third strand of bullionism, had emerged: mechanistic bullionism. The great error of mechanistic bullionism was not simply to neglect all real influences, and to insist that monetary factors and monetary factors alone determined price levels and exchange rates. If that had been the only flaw, the error would have been a relatively minor one. The main problem was that the mechanists were also moved to neglect *all other* causal factors than the money supply – many of them of great importance. In brief, they neglected the demand for money, in all its subtle variations, and such vital 'distribution' effects – even in the long run – as changes in relative assets and incomes and changes in relative prices. In sum, the mechanists claimed that, in the short run and in the long, the *only* causal factors on price and exchanges were changes in the quantity of money. Hence their erroneous and distorted view that changes in price 'levels' are exactly quantitatively proportionate to changes in the quantity of money.

The mechanistic bullionist view, presumably emerging in over-reaction to the moderates, was first presented by a man who was neither an MP nor otherwise in the public eye: the attorney John Wheatley (1772–1830). In his first of many contributions to monetary economics, *Remarks on Currency and Commerce* (1803), Wheatley set forth the long-run bullionist and monetary approach in its starkest and most simplistic form. Any discussion of temporary adjustments or even temporal processes was cast aside, in order to linger exclusively on final equilibrium states. To Wheatley, all export or import of gold was exclusively determined by its demand and price, i.e. by monetary factors, and bullion prices and exchange rates were solely determined by monetary considerations. Real factors play no role in these matters even temporarily or in the short run. Hence the effect of the supply of money on price levels or exchange rates is strictly and precisely proportionate. Overall prices move, not only proportionately, but also uniformly in 'levels', with no changes occurring in relative prices. Thus Wheatley:

> The increase of currency by paper must cause the same reduction in the value of money, in proportion to the activity of its circulation as an increase of currency by specie. But...if paper depreciate money, it must advance in similar proportion the price of articles of subsistence and luxury.

From these principles, it was easy for Wheatley to deduce that it was impossible for an expansion of the money supply *ever* to stimulate the economy, since by definition, 'the wages of labour are augmented only in porportion to the increase [of currency]'. And since wages rise proportionately to the money supply and to all other prices, they can 'purchase no greater quantity of products after the addition than before it', and therefore 'no greater stimulus can in reality exist, and therefore no greater effect is likely to be produced by the deception...'. A heroic conclusion, no doubt, and surely true in the long run; but such blithely dogmatic statements omit the whole point of monetary inflation and its short-run stimulus: e.g. making prices rise faster than wage rates.

Moreover, since Wheatley had an exclusively long-run, and therefore monetary, theory of exchange rates under inconvertibility, he again blithely assumed that the value of any given money was always and everywhere equal, i.e. in the long-run equilibrium, and that fiat money exchange rates always trade at precisely their purchasing-power-parities to their respective monetary purchasing powers. Hence, for Wheatley, not only was a depreciated exchange rate and a premium on specie bullion, an 'unmistakable system' of currency depreciation; it also provided an exact 'measure' of that depreciation. In contrast, King and Boyd, let alone Thornton, only saw currency depreciation when such phenomena existed for 'any considerable time' (Boyd) or were 'long continued' (King). And neither of the latter claimed that such premia or discounted exchange rates provide a precise measure of depreciation.

While John Wheatley did not enjoy anything like the prominence of his fellow debaters on bullionism, he was by no means an insignificant figure. He was born in Kent to a prominent landed and military family of the county. His father William was a high sheriff and deputy lieutenant of Kent; an older brother, William, served as a major-general in the French wars; and a younger brother, Sir Henry Wheatley, was attached for many years to the royal court. Wheatley received a BA from the aristocratic Christ Church, Oxford in 1793, and was then admitted to the bar. His wife, Georgiana, was the daughter of William Lushington, prominent London merchant and an MP for the City of London, and brother of Sir Stephen Lushington, formerly president of the great East India Company. Oddly enough, William Lushington, as chairman of the committee of the merchants of London, had petitioned the Bank of England in March 1797 to be more expansionist in its discount policy.

Wheatley's *Remarks* were attacked in the *Edinburgh Review* by the prominent Whig leader Henry Brougham, on familiar Thorntonian grounds. But while Wheatley followed up his pamphlet with the first volume of *An Essay on the Theory of Money and Principles of Commerce* (1807), his timing was poor, since there was little interest in the bullionist controversy at that time. Wheatley compounded his tactical problems by writing nothing on money for the next nine years, during a time when the bullionist controversy was at its height. For all these reasons, Wheatley's stance was largely overlooked, until in 1809 David Ricardo assumed the leadership of the mechanistic bullionist camp. Wheatley's influence, furthermore, was scarcely helped by his being in chronic financial difficulties virtually all his life. He acted from time to time as agent for the Lushington family in their West India dealings, but financial troubles sent him wandering abroad, and the publication of the second volume of his *Essay* in 1822 was followed promptly by migration to India, where he continued in financial distress, and thence to South Africa with similar problems. But throughout these problems and wanderings, he continued to publish pamphlets calling ardently for freedom of trade.

John Wheatley's exclusive emphasis on the money supply and unitary price levels foreshadowed the modern severe monetarist and macroeconomic split between the monetary and real realms. More pointedly, his mechanistic emphasis on the price level also foreshadowed the unfortunate Fisherine, Chicagoite and later monetarist preoccupation with stabilizing the 'price level' and with fanatically opposing any and all changes in such 'levels'. Even in his early books of 1803 and 1807, Wheatley denounced the alleged evils of falling prices as well as of inflation, and indeed claimed that falling prices were even more damaging. Indeed, the influence of Wheatley's early tracts was gravely weakened by his being soft-core and timid in drawing any policy conclusions from his hard-core analysis. Instead of returning to the gold standard, Wheatley could only suggest the withdrawal of note issue powers from the country banks and the redemption of all small bank notes under £5.

In his 1807 work, he urged that long-term contracts be made in accordance with an index number of price levels and, in his later works, when this plea went unheeded, he began to grow hysterical about the alleged evils of price declines and their injury to the poor. By his 1822 volume Wheatley had gone so far as to urge the postponement of resumption of specie payments until more supplies might enter the country to prevent prices from falling. Indeed, by this point, Wheatley was ready to abandon the gold standard, in his frenzied opposition to falling prices. Yearning for fiat paper stabilized in value by the government, Wheatley wrote: 'if paper were kept without increase or decrease it would be a better measure of value and medium of exchange than gold.' And by the time of his last work, in 1828, written in South Africa, Wheatley called only for fiat paper expansion of the money supply, else 'irremediable poverty is fixed upon as our eternal fate'.

In this way, as in the case of all too many monetarists and mechanistic quantity theorists, Wheatley began as an ardent hard-money bullionist, and was driven over the years by his frenetic hatred of deflation to wind up as a fiat money inflationist.

5.9 Notes

1. During the seventeenth and eighteenth centuries, England had been on a bimetallic standard, but the official rate consistently overvalued gold and undervalued silver in relation to the world market price. As a result, Britain had long been on a *de facto* gold standard. The discussion during the restriction period was complicated by the fact that during those two centuries, it was illegal for Britons to export British gold or silver coins, or bullion melted from such coin. It was legal to export foreign coin or bullion, but more important is the fact that substantial smuggling habitually nullified the export prohibition.
2. Norman J. Silberling, 'Financial and Monetary Policy of Great Britain during the Napoleonic Wars', *Quarterly Journal of Economics* 38 (1924), p. 420; quoted in Joseph Salerno, 'The Doctrinal Antecedents of the Monetary Approach to the Balance of Payments' (doctoral dissertation, Rutgers University, 1980), pp. 283–4.
3. In his pamphlet, *An Investigation of the Cause of the Present High Price of Provisions* (1800).
4. Salerno, op. cit., note 2, p. 294.
5. Ibid., pp. 299–300.
6. Heightening the impact of the *Letter* was Boyd's ability to point out in the Preface that in the few months since the writing of the body of the text, depreciation of the pound at Hamburg had risen from 9 to 14 per cent, and the premium on gold bullion over the pound had increased to 10½ per cent. He further noted that in the same interval, the bank had at last been forced to disclose to Parliament statistics on the amount of its notes in circulation, confirming Boyd's strong hunch of a huge increase in Bank of England notes (from £8.6 million outstanding in February 1798 to £15.45 million in December 1800).
7. See the enlightening historiographical discussion of the bullionist controversy by Salerno, op. cit. note 2, pp. 266–82.
8. Quoted in F.A. von Hayek, 'Introduction', in Henry Thornton, *An Enquiry into the Nature and Effects of the Paper Credit of Great Britain* (1802) (New York: Rinehart & Co. 1939), p. 36n.
9. Thornton's biographer is surely right in rejecting von Hayek's claim that Thornton had been working on *Paper Credit* since 1796. Thornton himself, as von Hayek concedes, states the opposite in his introduction: 'The first intention of the writer of the following pages was merely to expose some popular errors which related chiefly to the suspension of the cash payments of the Bank of England, and to the influence of our paper currency on the price of provisions'. Von Hayek also admits that the book 'was intended partly as a reply to Boyd'. See von Hayek, op. cit., note 8, pp. 42–6; Thornton, op. cit., note 8, p. 67; Standish Meacham, *Henry Thornton of Clapham, 1760–1815* (Cambridge: Harvard University Press, 1964), p. 186.
10. Salerno, op. cit., note 2, pp. 364–5.
11. For a thorough critique of Thornton, see Salerno, op. cit., note 2, pp. 357–400.
12. Jacob Hollander, 'The Development of the Theory of Money from Adam Smith to David Ricardo', *Quarterly Journal of Economics*, 25 (May 1911), p. 456.

6 Monetary and banking thought, II: the bullion *Report* and the return to gold

6.1 Ricardo enters the fray

The bullionist controversy sank into oblivion for five years after 1804, largely because a cautious policy on the part of the Banks of England and Ireland temporarily abated the monetary inflation and its unwelcome consequences. Then, during 1809, the heating up of the war with Napoleon rekindled the inflation, bank note circulation increasing from £17.5 million in November 1808 to £19.8 million the following August. Consequently, the pound rapidly depreciated by the Summer, to a discount of 20 per cent on foreign exchange at Hamburg, and to a 20 per cent rise in the market price of gold (at 93 shillings/ounce) over the official mint par of 77s. 10½d. per ounce. It was time for the bullionist controversy to heat up again.

David Ricardo was first and foremost a monetary economist, and, as Professor Peake has reminded us, his focus on money remained a key to the entire body of his economic thought.[1] Ricardo had come upon *The Wealth of Nations* in 1799, and had steeped himself in political economy ever since, his practical life as a wealthy young stock- and bond-broker naturally leading him to emphasize monetary affairs. The rapidly growing depreciation of the pound in 1809 led Ricardo to his first published works on economics, beginning with a letter on the 'Price of Gold' in the *Morning Chronicle* (29 August).

Ricardo's letter made a great impact, particularly by his unique blend of hard-core theorizing and impressive command of the empirical and institutional facts of the monetary scene. His first letter to the *Morning Chronicle* was followed by two more, with the letters being shortly expanded into a renowned and highly influential work – Ricardo's first book – *The High Price of Bullion, a Proof of the Depreciation of Banknotes* (the point is summarized in the title), published at the beginning of 1810. The *High Price* went into no less than four editions by the following year.

The various positions in the bullionist controversy had been set during the first phase of the debate (1800–4). It was Ricardo's intention to revive and establish the bullionist position, not only against the anti-bullionists, but more importantly against the more respected and influential moderate anti-bullionist doctrine of Henry Thornton. Thornton was the most important theoretical opponent of bullionism, and so Ricardo set out to take up the cudgels for Lord King, although, in doing so, he unfortunately – as we shall see – reverted to and elaborated the rigid and mechanistic approach of John Wheatley.

It was Thornton, however, who was his leading opponent, and Ricardo set out to convert him; as he wrote in *High Price*:

> Mr. Thornton must, therefore, according to his own principles, attribute it [the premium on gold bullion] to some more permanent cause than an unfavourable balance of trade, and will, I doubt not, whatever his opinion may formerly have

> been, now agree that it is to be accounted for only by the depreciation of the circulating medium.

In the course of the *High Price*, Ricardo set forth clearly the important point that there is no such thing as a shortage of specie or a great need for more of it: that, in effect, *any* level of the money supply is optimal:

> If the quantity of gold or silver in the world employed as money were exceedingly small, or abundantly great...the variation in their quantity would have produced no other effect than to make the commodities for which they were exchanged comparatively dear or cheap. The smaller quantity of money would perform the functions of circulating medium as well as the larger.

As soon as the *High Price* was published in January 1810, Ricardo, hitting on the right tactic to spread his views, sent a copy to that leading moderate and influential MP, on monetary questions, Francis Horner. The effect on Horner was electric, and he was moved, the following month, to introduce – and get passed – a resolution in the House of Commons setting up a select committee to enquire into the cause of the high price of bullion. The justly famed 'bullion committee' of 22 illustrious MPs, chaired by Horner, issued its report in June 1810, recommending the bullionist policy of a return to the gold standard in two years' time. The bullion committee *Report* touched off an intense controversy, within Parliament and in the general pamphlet literature over the following year.

David Ricardo had partially accomplished his objective of converting Henry Thornton, who was perhaps the most influential member of the bullion committee and who co-wrote its *Report*, along with Horner and William Huskisson. Characteristically, it was not Ricardo's bullionist *theory* that had swayed Thornton, but the impressive marshalling of evidence that convinced him at long last that this particular inflation and depreciation were being caused by over-issue of Bank of England notes. Thornton, in short, had joined his disciple Horner before him in remaining a moderate, but in being converted from anti-bullionist to bullionist on empirical grounds.[2] In the parliamentary debate on the bullion *Report* in May 1811, Thornton conceded that the idea of poor harvests and subsidies to foreigners being the cause of the depreciation 'was an error to which he himself had once inclined, but he stood corrected after a fuller consideration of the subject'.

Thornton's conversion was all the more remarkable because his own bank was financially tied to the fiat expansion of bank credit; and the mere issuance of the *Report*, even though it did not carry the day in Parliament, was enough to cause a minor run on Thornton's bank. Furthermore, a period of difficulties that were never fully overcome now set in for the bank until it finally failed in 1825, ten years after Thornton's death.

Thornton's conversion, however, was only empirical. Thus, in the course of the debates on the bullion *Report*, he still brought up the bogy of deflation, and suggested that the pound be devalued to its existing market levels in order to ward off a deflation when resumption finally arrived.

Since Ricardo's main focus was combating the views of Henry Thornton, it is not surprising that he overreacted, and, instead of adopting the complete, sophisticated bullionism of Lord King, went on to the rigid and mechanistic doctrines of John Wheatley. In particular, in order to rebut Thornton completely, Ricardo believed that the dispute had to be elevated totally to the theoretical plane, so that he felt forced to maintain that *only* monetary factors, even in the short run, could ever have any influence whatever on prices or exchange rates. Money, Ricardo felt obliged to maintain, is ever and always, even in the short run, totally neutral to the rest of the economy, to everything, that is, except overall prices. As Professor Peake puts it:

> In large part, Ricardo's early works represented a reaction to Henry Thornton's non-neutral monetary economics, and in challenging Thornton's views, Ricardo committed himself to an explanation of output, value, and distribution in real terms consistent with neutral money.[3]

To accomplish his impressive if unbalanced task, David Ricardo had to concentrate exclusively on long-run equilibrium states, and to ignore the market processes towards them. In that way, Ricardo set the stage for his later approach to all economic questions.[4] Ricardo summarized his methodology in the course of his famous correspondence with Thomas Robert Malthus on monetary questions from 1811 to 1813: 'You always have in mind the immediate and temporary effects...[I] fix my whole attention on the permanent state of things which will result from them'.[5]

For money to be strictly neutral to everything except a general level of prices, Ricardo had to assert a strict, radical dichotomization between the monetary and the real worlds, with values, relative prices, production and incomes determined only in the 'real' sphere, while overall prices were set exclusively in the monetary sphere. And never the two spheres could meet. And here began the fateful and all-pervasive modern fallacy of a severe split between two hermetically sealed worlds: the 'micro' and the 'macro', each with its own determinants and laws. Furthermore, as Salerno writes, 'it was Ricardo's strong affirmation of the neutral-money doctrine in his bullionist writings that was to serve as the source of the classical conception of money as merely a "veil" hiding the "real" phenomena and processes of the economy'.[6] In particular, if money is neutral, then value, or relative prices, had to have only 'real' determinants, which Ricardo discovered in embodied quantities of labour.

In the macro area, in contrast, Ricardo set forth a mechanistic, strictly proportional causal relation between the quantity of money and the level of prices, a strictly proportionate 'quantity theory of money'. Again, Peake summed it up very well:

> Theoretically, Ricardo challenged Thornton by developing a strict quantity-theory, neutral-money analysis which resulted in his well-known dichotomization of the economy into goods and money sectors, with no role for money other than to determine the general level of prices. Analytically, this required him to convert Thornton's model into a dichotimized model...by demonstrating real-market equilibrium independent of the money market. A fundamental theme linking all of Ricardo's later works is the continuing search for neutral money.[7]

Thus Ricardo writes that

> The value of the circulating medium of every country bears some proportion to the value of the commodities which it circulates...No increase or decrease of its quantity, whether consisting of gold, silver, of paper-money, can increase or decrease its value above or below this proportion. If the mines cease to supply the annual consumption of the precious metals, money will become more valuable, and a smaller quantity will be employed as a circulating medium. The diminution in the quantity will be proportioned to the increase of its value.

The value of inconvertible paper money, declared Ricardo, becomes determined in the same way. Hence, under any restriction of specie payment,

> any excess of [Bank]...notes would depreciate the value of the circulating medium in proportion to the excess. If twenty millions had been the circulation of England before the restriction...and if the bank were successively to increase it to fifty, or a hundred millions, the increased quantity would be all absorbed in the circulation of England, but would be in all cases, depreciated to the value of the twenty millions.

Under inconvertible currency, furthermore, strict proportionality then gets carried over to the determination of exchange rates. Like Wheatley, Ricardo concluded that only monetary factors ever determine the exchange rate and hence that the depreciation of the exchange rate must precisely measure the extent of monetary inflation and of the over-issue of paper money. In the same way, and to the same precise proportion, the rise in the price of bullion, and the rise in prices of commodities, will also reflect the selfsame over-issue and depreciation.

David Ricardo's arrival on the monetary scene brought him into the first rank of bullionist champions, not because of anything original he had to say, but because of his empirical knowledge of money, his grasp of the literature, and his willingness to refute in detail the arguments of the numerous distinguished men of the anti-bullionist Establishment ranks. Thus, in the course of the storm over the bullion *Report* (see below), Charles Bosanquet (1769–1850), a London merchant governor of the South Seas Company, as well as a son of a former governor of the Bank of England, wrote a pamphlet attacking the *Report*, sneering at it from the point of view of a 'practical man' scoffing at wild and irrelevant theorists (in his *Practical Observations on the Report of the Bullion Committee*, two editions in 1810). Bosanquet's pamphlet drew a famous *Reply to Mr. Bosanquet's Practical Observations* (1811) by Ricardo the following year. Ricardo's pamphlet was a brilliant and effective polemic, in which he marshalled an impressive array of empirical data in the course of a lofty defence of high (and mechanistic) theory as against the dim-wittedness of self-proclaimed 'practical men'. The *Reply* was particularly effective because Ricardo could match Bosanquet in realistic, practical knowledge, a ploy which led many people to overlook the strident unrealism of his theoretical apparatus.

In sum, Jacob Hollander rightly explained Ricardo's influence on behalf of bullionism, not as the result of any original contributions, but

> because, not content with restating a positive theory, Ricardo set up in succession and demolished in turn, sometimes completely, always plausibly, every opposed argument in a written criticism or current opinion...A theory which had a dignified parentage was refurbished, defended from doctrinal attacks, justified by contemporary events, vitalized by urgent timeliness, and vindicated against current criticism. A standard was planted, the field cleared, and an alert and resourceful champion held the lists.[8]

But even at this early date, the hard-money champion was beginning to buckle and if not abandon at least to flounder in the cause. For in his reply to Malthus's review of *The High Price* in the *Edinburgh Review*, reprinted as an appendix to the fourth edition, Ricardo advanced a plan for ending the restriction that abandoned the heart of the gold standard. Specifically, he proposed that the pound sterling be redeemable in gold bullion rather than in coin. But a gold bullion standard means that the average person cannot redeem paper money in a commodity medium of payment, and that gold redemption is confined to a handful of wealthy international financiers. Ricardo's desertion of the gold coin standard was motivated, first, by a Smithian desire to 'economize' on the gold metal, and more prominently, by a fear of deflation that was conspicuously inconsistent with his dismissal of all non-price-level effects of changes in the supply of money. In this phobia about deflation, and in this inconsistency, Ricardo followed his mentor in mechanistic bullionism, John Wheatley.

In addition to Francis Horner, another person inspired by Ricardo's reawakening of the bullion controversy was Robert Mushet (1782–1818). A

Scotsman born near Edinburgh, young Mushet had entered the service of the Royal Mint in 1804, and by the time of the new controversy, had risen to the post of first clerk to the master of the Mint. Mushet's *An Enquiry into the Effects Produced on the National Currency and Rates of Exchange, by the Bank Restriction Bill*, came out early in 1810, before the appointment of the bullion committee, and went quickly into three editions. Mushet was able to add his expertise at the Royal Mint to the hard-core bullionist cause.

6.2 The storm over the bullion *Report*

Although Francis Horner, who formed and chaired the famed bullion committee, was a Whig, the committee itself was scarcely stacked against the Tory government. On the contrary, the committee's 22 members included seven Whigs, seven clear-cut Tories, including even the prime minister and chancellor of the exchequer Spencer Perceval,[9] and eight, including Thornton and Alexander Baring of the renowned banking family, who were independents friendly to the Tory administration. Of the co-authors of the *Report*, Thornton was still considered at the time of appointment of the committee perhaps the leading defender of bank restriction, and William Huskisson (1770–1830) was a leading Tory MP of the Canning wing of the party, who had been a member of the Tory government for several years until 1809.[10] The modal committee member may be summed up as a thoughtful Tory, a supporter of the restriction now troubled by the developing inflation and depreciation of the pound. While David Ricardo was acquainted with Thornton – both had been co-founders of the London Institution and its library in 1805 – his only close friend on the bullion committee was another London Institution co-founder Richard Sharp (1759–1835), a Whig and West Indies merchant.[11] The only member of the committee who shared Ricardo's bullionist hostility to the Bank of England was Henry Brooke Parnell. Indeed, Thornton's presence on the committee and support for the *Report* in Parliament shocked the anti-bullionists and led his wife to offer embarrassed explanations to their friends.[12] Frank W. Fetter summed it up clearly when he wrote that

> The position of Thornton and Huskisson in the Bullion Committee and in their subsequent defence of its Report was taken more in sorrow than in partisanship. It was the outgrowth of their increasing concern over the apathy of the Government and the Bank about the condition of the foreign exchanges and the bullion market, and over the support by the Bank and the Government spokesmen for the 'real bills' doctrine in its most extreme form, i.e., that as long as the Bank's advances were made only on sound commercial assets the amount of the advances could have no effect on prices or the foreign exchanges.[13]

Most important, the bullion *Report* itself was neither Kingian nor Ricardian, but squarely in the Thornton–Horner moderate bullionist camp. Its support for bullionism, in short, was empirical rather than theoretical, concluding reluctantly but firmly that the facts were such that the bank restriction and the bank's monetary inflation had played a large role in the existing inflation and depreciation of the pound sterling. Thornton himself only supported the committee's call for resumption of specie payment in protest at the failure of the bank and government to be chastised and to agree to restricting further issuance of money. As for Ricardo, he only became the leading champion of the committee after the policy conclusions of its *Report* supported his call for resumption of payment in specie.[14] Indeed, Malthus, in his defence of the *Report*, hailed the committee for taking his own moderate stance rather than adopting the Ricardian 'error' of holding a solely monetary explanation of the depreciation.[15]

The *Report* was approved in the full bullion committee by a vote of 13 to 6, and was submitted to Parliament on 8 June 1810.[16] While Prime Minister Perceval was one of the six voting nay – along with his paymaster-general and deputy governor of the bank – there was at first no indication of deep hostility on the part of the administration. Indeed, the Tory press commented favourably on the *Report* when it was first issued. In a few months, however, the administration reversed its course. The best evidence suggests that a command decision was made by the government and the Bank of England in late August or early September to launch an all-out assault upon the bullion *Report*. Leading the battle in Parliament for the government was Nicholas Vansittart (1766–1851), many times secretary to the treasury and soon to be chancellor of the exchequer.[17] In the 1809 debate on resumption of specie payment, Vansittart had coined the patriotic if irrelevant and absurd argument that the 'national resources' of the country sufficed for backing the currency so that there was no need for gold. In the bullion *Report* debate, Vansittart pushed a spectrum of anti-bullionist arguments: first, that immediate resumption was, as usual, inexpedient: second, that the restriction had nothing whatsoever to do with the depreciation of the pound; and third, that Bank of England notes were esteemed every bit as highly as gold coin – an assertion so preposterous and so out of tune with the facts as to bring down upon him open ridicule by George Canning, the leader of a Tory faction out of power.

Masterminding and orchestrating the campaign against the bullion *Report* for Perceval and Vansittart were four shadowy aides and advisers. One was John Charles Herries (1778–1855), son of a London merchant and long-time treasury official, at this time private secretary to the chancellor of the exchequer, and a past and future top financial adviser of Tory leaders. He was himself to be a chancellor of the exchequer in later years. A second figure was Henry Beeke, professor of modern history at Oxford, friend of Vansittart, and prominent advisor of Tory politicians. A particularly mysterious but influential colleague was Jasper Atkinson (1761–1844), about whom little is known except that he was for a quarter-century an official adviser to the government and to the bank, and wrote 13 pamphlets from 1802 to the late 1820s in support of governmental and bank policy. It seems that he was a country banker and active in trade with Holland. He of course published a pamphlet in opposition to the bullion *Report*. Atkinson prepared the pamphlet at the instigation of Herries, and was assisted by his old friend and advisor Henry Beeke.

Perhaps even more curious was the leading role of a Genevan refugee, Sir Francis D'Ivernois, friend of Vansittart, who had been a British secret agent in Europe, and had been a confidential advisor to the British government on relations with France. It was D'Ivernois who first waved the bloody shirt against the bullion *Report* by dragging into the debate the palpably false charge that the *Report* had given aid and comfort to the Napoleonic enemy, had stimulated Napoleon to strengthen his embargo measures against Great Britain, and had emboldened the United States to take a nasty turn toward England. This effective if mendacious red herring was taken up in Parliament by Vansittart and by a leader of the Anglo-Irish Establishment, Robert Stewart, Viscount Castlereagh, the marquis of Londonderry (1769–1822).

Indeed, the major parliamentary motif of the critics of the *Report* was that the restriction was vital for pursuing the war effort against France. Prime Minister Perceval charged that adopting the *Report* 'would be tantamount to a declaration that they would no longer continue those foreign exertions which they had hitherto considered indispensable to the security of the country...'. If Parliament should adopt the *Report* and its policies, Perceval thundered, they 'would disgrace themselves forever, by becoming the voluntary instruments of their country's ruin'. Ringing changes on this wartime necessity, stab-in-the-back theme were Viscount Castlereagh; the High Tory foreign secretary and war secretary Robert Banks Jenkinson, the earl of Liverpool (1770–1828); and the treasurer of the navy and former secretary to the treasury, George Rose (1744–1818), who also contributed two pamphlets to the controversy. Rose was the highest of High Tories, a friend of King George III, an opponent of parliamentary reform, an extreme pro-war advocate, a supporter of the Corn Laws, and an adversary of the abolition of slavery.

In late 1810 and early 1811, a host of pamphlets were published attacking the bullion *Report*, and many of them, both signed and anonymous, were products of the behind-the-scenes campaign of the governmental and bank circles. In addition to Atkinson's pamphlet, Herries weighed in with an anonymous tract, *A Review of the Controversy Respecting the High Price of Bullion, and the State of our Currency.* Charles Bosanquet's *Practical Observations*, rebutted by Ricardo, was another product of this campaign. Particularly important in this effort was the publication of a speech by a prominent attorney, Randle Jackson (1757–1837), which purported to be the views of a concerned bank stockholder.[18] In reality, Jackson was apparently hired by the bank to present its case *sub rosa* against the *Report*. Jackson presented the state-of-the-art critiques by the government: the *Report* had greatly injured commercial credit, the committee was dominated by chronic oppositionists to the government, and it is impossible for bank notes ever to be excessive or to have higher prices than par because they were issued only against 'value received' – a *non sequitur* if there ever was one.

Indeed, the main economic arguments of bank spokesman before the bullion committee and in the parliamentary debates, by men such as Governor John Whitmore and Deputy Governor John Pearse, were an extreme, almost absurd, version of the real bills doctrine: namely, that if bank loans were issued on short-term 'bills of real value, representing real transactions', then bank note issue can never be excessive, and never have any inflationary or depreciating effect on the pound. Walter Bagehot was later to call these arguments 'almost classical by their nonsense'.

Perhaps the acme of this nonsense was the pamphlet of the Tory commissioner of audit, Francis Perceval Eliot (c. 1756–1818), who went so far as to maintain that the problem with Huskisson's argument was that he considered the gold guinea to be the standard of value, whereas it is actually the pound sterling. According to Eliot, the pound, precisely because it is fiat money, is the ideal money of account *because* it is by definition 'invariable' in value. On the other hand, Eliot opined, gold or silver, being made of a substantial commodity, must be variable in value.

Meanwhile, a different kind of critic of the *Report* appeared prominently in the pamphlet literature and in Parliament. The eccentric Sir John Sinclair (1754–1835), first and also current president of the board of agriculture, was born to a Scottish noble family and was educated at the universities of Edinburgh and Glasgow, graduating from Trinity College, Oxford in 1775. An MP from 1780 until 1811, Sinclair was a man of great energy and enthusiasm, and a prolific writer in the causes he held dear. In his lifetime, Sinclair published no less than 367 tracts and pamphlets. An advocate of parliamentary reform, Sinclair championed the cause of peace and wrote several pamphlets attacking Pitt's war policy, and calling for peace with England's enemies. He even went so far as to publish a booklet calling for Britain's surrender of Gibraltar to Spain during the American revolutionary war. Sinclair's prime enthusiasm was for agriculture, an art he learned from managing his Scottish estates. Not only was he the first president of the board of agriculture, but he also founded the British Wool Society.

Sinclair was also engrossed in statistical and monetary and fiscal questions. An indefatigable collector of statistics, Sinclair actually introduced the words 'statistics' and 'statistical' into the English language, and during the decade of the 1790s, he collected and published, in 21 volumes, a *Statistical Account of Scotland*. More relevant to our concerns, Sinclair had published, from 1785–90, a three-volume *History of the Public Revenues of the British Empire*. In this work, Sinclair had displayed a determined and all-out zeal for monetary inflation and government spending. As soon as the bullion *Report* was issued, Sinclair wrote to Prime Minister Perceval, asking help for reprinting his work, as part of the task of rebutting the bullion committee. 'You know my sentiments regarding the importance of paper Circulation', he wrote to Perceval, 'which is in fact the basis of our prosperity'. In fact, Sinclair's *Observations on the Report of the Bullion Committee*, published in September 1810, was the very first of many pamphlet attacks on the bullion *Report*.

A storm of pamphlets raged over the bullion *Report*, hoping to influence the parliamentary decision as well as the tides of public opinion. David Ricardo was a host unto himself; in the month of September 1810 alone Ricardo, in the *Morning Chronicle*, defended the conclusions of the *Report*, taking of course the hard-core Ricardian line, attacked the pamphlet of Sir John Sinclair, and also denounced the speech of Randle Jackson, which Ricardo, as a bank stockholder, had heard delivered in person. Malthus wrote two effective articles in the *Edinburgh Review* the following year, taking the Thornton–Horner moderate bullionist position.

Particularly effective defending the *Report* was the Canning–Huskisson faction of Tories, centred in their journal the *Quarterly Review*. As firm Tories, the support of this faction shielded the bullion committee from charges of Whig partisanship. The most widely circulated and one of the most influential pamphlets supporting the *Report* was written by its eminent co-author, William Huskisson. Huskisson's *The Question Concerning the Depreciation of our Currency Stated and Examined* was published in late October 1810 and went into no less than eight editions in rapid succession – the ninth appearing in 1819. The *Quarterly Review* carried on a coordinated campaign on behalf of the *Report*, with contributions by high Tory George Ellis (1753–1815)[19], Huskisson, and even the great George Canning himself. It is not without charm that William Huskisson contributed some passages to Ellis's laudatory review of Huskisson's own pamphlet in the *Quarterly Review*.

All in all, about 90 pamphlets were published in a short period on both sides of the great Bullion controversy. The climax came in May 1811, when Parliament finally got around to debating the *Report*. After four days of debate, all Francis Horner's resolutions incorporating the essence of the *Report* went down to a ringing defeat. The most important resolutions were his first and his last. The first outlined the responsibility of the bank's over-issue for the price inflation and the depreciation of the pound; this resolution was defeated by a vote of 151–75. Horner's final resolution, providing for resumption of the gold standard in two years, lost by a far wider margin, 180–45. Nicholas Vansittart then rubbed it in for the government, getting Parliament to pass resolutions defending the government's and the bank's view of the controversy. Most characteristic was Vansittart's third resolution, restating the 'classic nonsense' in a declaration almost as fatuous as King Canute's command to the tides or a state legislature's redefinition of *pi.* Parliament declared that 'the promissory notes of the said Company [the Bank of England] have hitherto been, and are at this time held in public estimation to be equivalent to the legal coin of the realm and generally accepted as such in all pecuniary transactions...'.

Even though the inflation and the depreciation proceeded apace, the monetary controversy died out for the duration of the Napoleonic wars. In despair, and perhaps to reveal the absurdity of Vansittart's case, the great Peter Lord King now decided to take direct, personal action in protest against the depreciating paper pound. While the pound was not officially legal tender, it was treated as such by government and public alike. To dramatize the true situation, Lord King, in 1811, proclaimed that henceforth he would only accept rent from his tenants either in gold coin, or in bank notes at their market discount – in short, he would insist on the gold equivalent in pounds. King's heroic action forced the government to impose legal tender for payment of rent, at the official par of 21 shillings to the gold guinea. And the following year, Parliament completed the coup by extending legal tender coercion to all payments of every type.

6.3 Deflation and the return to gold

Needless to say, the selfsame Establishment politicians who had used war as their supreme excuse for continuing the restriction, failed to jump with alacrity to go back to the gold standard when the war finally ended in 1815. And yet, conditions were certainly ripe. In a pattern that would set the tone for over a century, the inflationary credit boom of wartime was quickly succeeded by a postwar deflation of money, credit and prices. The wartime inflation was succeeded by a postwar deflationary recession. There is no evidence whatever that the Bank of England deliberately contracted the money supply to pave the way for a return to gold at the prewar par. It was simply the beginning of the classic pattern of fractional-reserve banking powered by a central bank: the creation of boom and bust. Total Bank of England credit fell from £44.9 million on 31 August 1815 to £34.4 million a year later, a drop of 24 per cent. Bank deposits fell by about 15 per cent in the same period, while bank notes fell by 11 per cent.

The bank contraction exerted a powerful leverage effect on the country banks; many country banks failed from 1814 to 1816 and country bank note circulation fell from £22.7 million in 1814 to £19.0 million in 1815 and then to £15.1 million in 1816. In short, country bank notes outstanding fell by 33.5 per cent over the two-year period, and by 20.5 per cent from 1815 to 1816. We may now arrive at a rough estimate of the total contraction of the money supply from August 1815 to August 1816. Total money supply (bank notes + bank deposits + country bank notes) amounted to approximately £60.7 million in 1815; it fell to £50.4 million the following year, a drop of 17 per cent in one year.

The monetary contraction, combined with general public expectations of a return to gold, drove the market gold premium over the official par down nearly to the par price. The monetary inflation had driven the market gold price up to £5.10 at the end of 1813, which was 145 per cent of the old official pre-restriction par of £3 17s. 10½d. After Napoleon's retirement to Elba, the gold price fell to £4 5s. 0d., a premium of only 8 per cent; then, on Napoleon's return to France, the gold price of the pound shot up nearly to its 1813 peak. After Waterloo, once again, the gold price fell sharply and steadily, reaching £3 18s. 6d. in October 1816, a premium of less than 1 per cent. Similarly the market price of silver fell from a peak premium of 38 per cent in 1813 to a premium of only a little over 2 per cent in the first postwar year of 1816. And the price of foreign exchange at Hamburg fell from a premium of 44 per cent in 1813 down to par in 1816. Price deflation accompanied the monetary contraction, British prices falling from a peak of 198 in 1814 (1790 being equal to 100), to 135 in 1816.

Conditions were now perfect to return to gold, and immediate resumption could have been achieved with no further transition problems. But the British Establishment dithered, its only constructive step in 1816 being Parliament's dropping of the formal bimetallic standard, which had only resulted in a *de facto* gold standard in the eighteenth century, and the adoption of a formal gold standard. Silver, from then on, would only be subsidiary coin. But apart from stating that when Britain *did* go back to a specie standard it would be going back to gold, nothing else was done.

The problem was a pervasive desire in the Establishment to resume cheap credit and inflation, as well as an even more widespread phobia about deflation that marred the analysis and policy conclusions of even the most influential champions of a return to gold payments. The bulk of anti-bullionists displayed their hypocrisy and intellectual bankruptcy by reversing their supposed analytical stance. In short, those who stoutly denied, all during the era of inflation, that over-issue of bank notes had any impact on domestic prices or foreign exchange rates, now reversed their course and blamed the fall in prices, as well as the postwar depression, squarely on the contraction of the money supply and the eventual resumption of specie payments. What they wanted, therefore, was easy money and inflation, and they were willing to use any arguments at hand, however inconsistent, to achieve their goal. What they seemed unwilling to realize is that any inflationary boom, especially that of a lengthy and major war, will collapse at war's end into depression and deflation. Much of the deflation was the result of the postwar depression and bankruptcies, for the initial postwar deflation occurred years before the actual return to gold or even the passage of the Resumption Act. The postwar depression was the market's way of readjusting the economy to the enormous distortions of production and investment brought about by the skewed demands of wartime and the inflationary credit boom. In short, the postwar depression was the painful but necessary process of liquidating the distortions of the wartime inflation and of returning to a healthy peacetime economy efficiently serving the consumers.

Another cause of the deflation was industrial and economic progress. The end of the war liberated England to launch one of the greatest periods of economic growth in its history. The Industrial Revolution could at last develop freely and raise the standard of living of the mass of Englishmen – something it could not do when the industrial engine had been diverted to the unproductive waste of war. As a result of the great increase of production, prices kept falling in Britain throughout the 1820s – long past the time when this welcome drop in the cost of living, this 'deflation', could plausibly be blamed on the return to gold in 1821.

The anti-deflation hysteria and the desire to keep inflating delayed the return to gold for five years after 1816. When it became clear that there would be no immediate resumption, the pound began to depreciate again, the price of silver bullion rising from 2 per cent above par in 1816 to 12 per cent premium on 1818. Similarly, the foreign exchange rate at Hamburg rose from par to 5 per cent above. And domestic prices rose from 135 in 1816 to 150 two years later. The weakening of the pound by disappointed expectations of immediate resumption was also greatly compounded by an expansion of bank advances and note issues.

When the restriction came up for one of its periodic renewals in the Spring of 1816, Chancellor of the Exchequer Vansittart pleaded for two more years of renewal so that business could acquire more needed cheap credit. Vansittart was easily able to defeat Francis Horner's resolution for resumption of specie payment in two years. Agriculturists, as usual, had overexpanded and went heavily into debt during the wartime inflation, and then complained heavily when the bubble burst and turned to the government to inflate or expand spending on their behalf. The *Quarterly Review*, reflecting Tory devotion to the interests of aristocratic large landlords, shifted gears from favouring the bullion *Report* to bitterly denouncing deflation.

The most extreme of the inflationists now emerged in the form of two banker brothers from Birmingham, Thomas (1783–1856) and Matthias Attwood (1779–1851), who also served as the spokesmen for the iron and brass industry of the city. Birmingham, as the centre of armaments manufacture, had been a major beneficiary of the war boom. Thomas Robert Malthus, as we have seen, for a few years urged the government to increase deficits to cure the alleged ills of underconsumption, but abandoned this line of thought as soon as the postwar agricultural and economic depression was over. But the prolific Attwoods were to make inflation and permanent incovertible fiat paper money a lifelong crusade. Nothing, for example, could be more starkly opposed to Say's crucial law of markets than the unabashed assertion of Thomas Attwood, in an 1817 open letter to Vansittart, that 'It is the chief purpose of this letter to show that the issue of money will create markets, and that it is upon the abundance or scarcity of money that the extent of all markets principally depends...'.

Along with fiat money and monetary inflation, the Attwoods and their counterparts in the northern industrial city of Liverpool were able to persuade the government to embark on a large-scale programme of deficits, relief and public works to try to generate another inflationary boom. James Mill warned Ricardo in the Autumn of 1816 that 'some villainous schemes of finance' were afoot, and sure enough, the government proposed a deficit bond issue to finance public works, and also loaned out three-quarters of a million pounds during 1817. The temporary resurgence of inflation and prosperity in 1818 was the result, according to the fiery, erratic hard-money radical journalist William Cobbett, of the prodding by Matthias Attwood upon Vansittart, who 'caused bales of paper money to be poured out...', via Bank of England loans to the government.

Indeed, it was undoubtedly the weakening of the pound in 1817–18 that tipped the scales and led to Parliament's passing the act of resuming payments in gold in May, 1819. Resumption in gold coin was supposed to begin four years hence, but actually gold coin payments were launched on the banner day of 8 May 1821. Even though the resultant gold coin standard served as the cornerstone of Britain's economic growth and prosperity for nearly a century, the fierce opposition, confusion, and vacillating of the government made arriving at the proper result seem almost a miracle. The bank opposed resumption down to the very passage of the law in 1819, and it was the government's temporarily cooling relations with the bank that allowed room for the resumption law. Yet, even though a determined effort was launched by men such as Alexander Baring (1774–1848), the Attwoods and the Birmingham manufacturing interests, and the landed aristocrats to overturn resumption, the gold standard held and was even resumed earlier than scheduled, in 1821.[20] Thus the earl of Carnarvon, in mid-1821, denouncing the resumption act for lowering agricultural prices, and calling for monetary expansion and greater government expenditures, openly raised the standard of the landed aristocracy as against the cosmopolitan money men and financiers:

> He called upon the House to consider the consequences...of destroying by its means the aristocracy of the country – the gentlemen and the yeomanry of England, on whose existence our institutions alone could rest. The monied interest had been formed by the calls of our finances; they could be removed: they were inhabitants of this or of any other country; but the stability of our institutions, and the safety of the throne itself, depended on our agricultural population...

And yet the gold coin standard held. It held even though two of the most influential champions of resumption were weak reeds when it came to resisting the anti-deflation hysteria. At the end of the war, Ricardo, in his *Proposals for an Economical and Secure Currency* (1816), reverted to his 1811 gold bullion proposal, in which resumption would take place not in coin but in large ingots or gold bars, thereby limiting the gold standard to a few wealthy traders. Gold would not then be the true standard currency of the realm, and would be but a flimsy check against the propensity of government and the banking system to inflate money and credit.

After the publication of his *Principles of Political Economy* in 1817, David Ricardo was the most celebrated economist in England, and his views on currency as well as other economic problems carried great weight. At the urging of his mentor James Mill, Ricardo then entered Parliament in 1819 to battle for his economic views until his death in 1823. He particularly lent his great prestige to urging resumption of gold payments, and somehow his bullion plan lost out rapidly to the more consistent and thoroughgoing gold coin standard.

The most important single politician responsible for the return to gold was the remarkable Tory statesman Robert Peel the Younger (1788–1859), who gave his name ('Peel's Act') to the resumption law. Peel was later, as prime minister, to be responsible, during the mid-1840s, for the repeal of the notorious Corn Laws, as well as the attempt to establish the currency principle into law in Peel's Act of 1844. Peel's accomplishments were particularly remarkable for being bred to the political purple by his distinguished High Tory father. Peel was the eldest son of Sir Robert Peel the Elder, a leading Lancashire cotton manufacturer, whose own father had established the first calico-cotton factory in Lancashire. Sir Robert was a dyed-in-the-wool Tory statist, a fervent supporter of William Pitt, who had written a pamphlet in 1780 praising the *National Debt Productive of National Prosperity*. As an MP the elder Peel had ardently backed the war against France, had put through the first Factory Act, and had opposed the bullion *Report* in 1811.

When young Robert was born, Sir Robert dedicated his first-born son to the world of politics. The brilliant youth went to Harrow, where he was a friend and classmate of Lord Byron, and entered Christ Church College in Oxford, in 1805. In 1808, Peel graduated with high honours, and his doting father promptly purchased him a seat in Parliament the following year. The precocious 21-year-old MP soon became under secretary for war and the colonies, whose ministry conducted the war against France, and in 1812 he became for six years the chief secretary for Ireland. There he followed his father's High Tory principles by fiercely repressing the Irish and taking the lead in opposing the emancipation of Catholics in Great Britain. In 1811, young Peel joined his father in bitter opposition to the bullion *Report.*

In 1819, when the House of Commons named a committee to study the resumption of specie payments, young Robert Peel was chosen chairman over far more experienced members such as Huskisson, Canning, and the ardent bullionist and member of the bullion committee, the Whig George Tierney. Yet Robert Peel orchestrated the report favourable to resumption, and it was Peel who shepherded the resumption law through Parliament. Peel thereby displayed the beginning of his memorable life-long series of shifts away from High Tory statism and towards classical liberalism. Towards, in short, hard money, free trade, and emancipation of the Roman Catholics of Britain. George Canning was in awe at Peel's achievement in attaining the gold coin standard, calling this feat 'the greatest wonder he had witnessed in the political world'. It was particularly piquant that, in effecting this notable change of heart, the younger Peel had to break with his father, who not only opposed resumption, but also signed the petition of several hundred 'Merchants, Bankers, Traders and others' of the City of London, warning of great distress should the committee's recommendation ever become law.

A crucial question, then, is how Robert Peel came to change his mind. Professor Rashid has performed the service of unearthing as the likely instrument of Peel's conversion his former tutor at Oriel College, Oxford, the Rev. Edward Copleston (1776–1849).[21] Copleston was the son of a rector in Devonshire, and was descended from an ancient landed Devon family. Graduating from Corpus Christi College, Oxford in 1795, Copleston became a fellow at Oriel College, getting his MA from there in 1797, and becoming a tutor at Oriel, and professor of poetry at Oxford. Copleston later became dean at Oriel, and by 1814 had risen to provost of Oriel College. He was highly influential at Oxford, and one of the main persons responsible for the raising of academic standards and the subsequent rise of Oxford to its once high estate. Although a staunch Tory and an influential clerical counsellor to the Tory leadership, Copleston was a moderate liberal in the Anglican church and an advocate of Catholic emancipation.

As early as 1811, Copleston had become a determined opponent of inflation and depreciation, especially criticizing its destructive effect on creditors and holders of fixed incomes. In 1819, he decided to intervene in the new bullionist struggle by publishing two pamphlets directed to his former pupil. The first *Letter to the Rt. Hon. Robert Peel...On the Pernicious Effects of a Variable Standard of Value* was published on 19 January 1819, and it was quickly recommended on the floor of the House of Commons by the fiery Whig and proponent of immediate resumption, George Tierney. The pamphlet was also praised in an editorial in the *Times.* The first edition of the *Letter* was sold out immediately, and within a month, three editions had been printed. In March, Copleston published a *Second Letter...* elaborating on the arguments of the first, particularly on the ill effects that inflation and a depreciating pound had on the poor. The large printing of the *Second Letter* was quickly sold out, and a second edition was issued in May.

Evidence of Copleston's influence on Peel comes from the latter's correspondence with his favourite tutor at Oxford, his close friend, the Rev. Charles Lloyd. Lloyd, who was indeed a rival Anglo-Catholic force to Copleston at Oxford, wrote to Peel recommending Copleston's *Letter* at the same time that Peel was recommending it to him. Peel notes that the pamphlet 'has made a great impression' in Parliament, including among its admirers Canning and Huskisson. In fact, it seems likely from Peel's remarks that Copleston's clear-cut restatement of bullionist principle was the first pamphlet he had ever read on the subject.

Matthias Attwood, indeed, went so far as to claim that Peel and Huskisson were followers of Copleston's ideas. If Copleston was crucially influential, then his violent attack in the pamphlet on what Peel referred to as the 'imbecility' of Nicholas Vansittart might have played a large role in reducing Vansittart's influence and getting government policy on resumption changed.

Yet, in the post-resumption debate, even Copleston floundered, claiming in the *Quarterly Review* in 1821 that, while he had upheld the principle of specie payments, he had been opposed to immediate resumption. Complaining about the agricultural distress, he blamed the immediate resumption on the influence of Ricardo, ignoring the latter's own phobia about deflation. Thus the two most influential writers pushing Parliament into resumption, Ricardo and Edward Copelston, each was uncertain about the gold coin standard in the face of deflation. Robert Peel's achievement appears, then, all the more miraculous.

Of particular interest is Copleston's brilliance and possible originality in his challenge to Ricardo by reviving, perhaps unwittingly, the 'complete bullionist' or 'pre-Austrian' monetary tradition of Cantillon and Lord King. Copleston, in the first place, attacked Ricardo's mechanistic assertion that exchange rates *measure* the degree of depreciation, this doctrine resting on the equally mechanistic view that 'a variation in price caused by an altered value of money is common *at once* to all commodities'. (Emphasis Ricardo's.) Copleston countered that it was precisely because prices do *not* adjust smoothly, instantly, and uniformly to inflation that the inflation process is so painful and destructive:

> The fact undoubtedly is, that the altered value of money does not affect all prices at the same time: but that wide intervals occur, during which one class is compelled to buy dear while they sell cheap, and others have no prospect whatever of indemnity, or of regaining the relative position they once occupied.

In short, Copleston pointed out the profound truth that in a transition period to a new monetary equilibrium there are always gains by those whose selling prices rise faster than their buying prices, and losses by those whose costs rise faster than selling prices, and who are late in receiving the new money. But, even further, Copleston points out that some of these changes in relative income and wealth will be permanent. In short, changes in the money supply are never neutral to the economy, and their effects are never confined to the 'level' of prices.

Taking issue with David Hume's famous assertion that an increase of the quantity of money in a country generates prosperity, Copleston pointed to the impoverishment of the Spanish and English peasantry from the monetary and price inflation of the sixteenth century. He noted shrewdly, in a lesson that could well be heeded today, that while 'pure theory inculcates the neutral and necessary tendency towards an equitable adjustment', it also 'leaves the intermediate difficulties and delays out of the question, as frictions in a mechanical problem...'.

On the other hand, Copleston was perceptive enough to point out that the path toward equilibrium is faster in monetary than in real matters. In monetary affairs, he noted,

> the level is found *almost immediately*. Other commodities require some time to produce them – and the fortunate holder of large quantities may make great profits before an adequate competition can grow up: but in these [money] the time and labour required for the production count for nothing. The commodity is always afloat, waiting only the impulse of profit to determine its direction to the best market.

6.4 Questioning fractional-reserve banking: Britain and the US

Great Britain had now experienced the pain and deprivation of what would become a classic 'business cycle', i.e. the expansion of money, the rise in prices, the euphoric boom, all fuelled by the monetary inflation of a fractional-reserve banking system, succeeded by a monetary contraction, with attendant depression, fall in prices, bankruptcies, unemployment and dislocations. And behind this boom and bust, guiding, organizing, centralizing, and directing the monetary expansion and contraction, was the powerful central bank created and privileged by the central government. In short, it was forcefully impressed upon the public that fractional-reserve banks, especially when organized under a central bank, can and do create and then destroy money, distorting and impoverishing the public and the economy in their wake. It is no wonder that severe critics of fractional-reserve banking quickly arose, indicting the banks' actions and the system itself, and noting their responsibility for the boom–bust cycle.

Professor Frank W. Fetter notes the 'groundswell of criticism of all banks', but he describes the 'invective' against banks as 'exploiters' of the common people with an air of bemusement at the public's irrationality. But surely this 'populist' invective was well justified: the banks were indeed privileged by the government, enabled to inflate, and thus to set in motion a two-fold great injury upon the public: an inflationary boom dislocating production and investment and wiping out the savings of the thrifty, followed by a painful contractionary bust necessary to correcting the distortions of the boom. All of this could properly be laid to the door of the privileged, central bank-run, fractional-reserve banking system. Looked at in that light, the radical denunciations of banks 'without benefit of economic analysis' look more like a deeper level of analysis than Fetter realizes. Fetter describes these opponents of banking as follows:

> The idea appeared increasingly that banks deprived the public of its natural metallic money and had created paper money as an instrument of oppression...Men who were far apart on most points were in agreement that somebody was making too much money from the paper money system: the restrained criticism of Ricardo, under James Mill's urgings, of the Bank's profits; the strictures of obscure pamphleteers that bankers 'appear to be infinitely more mischievous than the coiners of base money [i.e. counterfeiters of coin]', and that both the Bank of England and the country banks had made 'unfair gains from the restriction measure'; the wholesale invective of Cobbett against bankers as a class; and the denunciations in Jonathan Wooler's *Black Dwarf*, in Leigh Hunt's *Examiner*, and in *Sherwin's Political Register*, where without benefit of economic analysis these radical journals reiterated that the paper money system was one of the oppressors of the people. In 1819, when Parliament was considering resumption, *Sherwin's Political Register* offered this advice: 'Let our tyrants turn their infamous paper into coin of the same weight and fineness, as that of which the people have been deprived...'.[22]

Fetter indicts the radical hard-money journalist William Cobbett[23] for alleged inconsistency in bitterly denouncing the restriction and the bank's inflation, and then attacking the bank for deflating after the war and causing further distress. Yet there is no real inconsistency in attacking the central bank and the fractional-reserve banks for first inflating and then contracting, for that is precisely what they had done, and the entire distress of the boom-bust cycle can thus be laid at their doors.

Knowingly or not, these radical critics of fractional-reserve banking were simply revising and applying the great tradition of hostility to fractional-reserve banking and devotion to 100 per cent reserve in eighteenth century Britain (e.g. Hume, Harris, Vanderlint), a tradition that had been unfortunately derailed by Adam Smith's apologetics for bank paper. In France, the

100 per cent reserve anti-bank tradition had already been revived, as we have seen, by J.B. Say and Destutt de Tracy.

In the United States, meanwhile, similar conditions were bringing about similar results. The United States, too, had entered the Napoleonic Wars in 1812, and subsequently experienced wartime boom, inconvertible bank notes, and comparable grievous inflation. The difference was that the United States had managed to get rid of its central bank (the First Bank of the United States) in 1811, so it achieved inflationary results by the federal government's permitting the private banks to suspend specie payments in August 1814, allowing them to continue in operation and expand credit without having to redeem their notes or deposits. This intolerable situation was allowed to continue for two years after the end of the war, until February 1817, at which point the Madison administration made an inflationary compact with the nation's banks. The compact provided that the US would re-establish a privileged Second Bank of the United States, which would then proceed to inflate credit by at least an agreed-upon amount, in return for the banks graciously consenting to resume meeting their contractual obligations to pay their debts in specie. An inflationary boom, fuelled by an expanding Second Bank ensued, to be followed by the catastrophic panic of 1819, in which the Second Bank was forced to contract suddenly in order to save itself.

The panic of 1819 confirmed Thomas Jefferson's hostility to fractional-reserve banking, and we have seen how he and his friend and old opponent John Adams both declared their enthusiasm for Destutt de Tracy's ultra hard-money treatise on economics. Jefferson was moved by the panic to draw up a remedial 'Plan for Reducing the Circulating Medium', which he asked his friend William Cabell Rives to introduce into the Virginia legislature without disclosing his authorship. The goal of the plan was bluntly stated as 'the eternal suppression of bank paper'. The method was to reduce the circulating medium to the level of specie proportionately over a five-year period, until paper money was withdrawn completely and totally redeemed in specie. After that, the money in circulation would consist solely of specie.

John Adams agreed wholeheartedly. In a letter to his old opponent, the great libertarian Jeffersonian anti-bank and anti-tariff theoretician John Taylor of Caroline, Adams blamed the banks for the 1819–20 depression. He attacked any issue of paper money beyond specie in the bank as 'theft', a position he had elaborated years earlier: 'Every dollar of a bank bill that is issued beyond the quantity of gold and silver in the vaults represents nothing, and is therefore a cheat upon somebody.'[24]

Jefferson's close friend and son-in-law, Governor Thomas Randolph of Virginia, summed up in his inaugural address of December 1820 the predominant Virginia attitude towards banks. Randolph pointed out that specie, in universal demand, had a relatively stable value, whereas banks caused great fluctuations in the supply and value of paper money, with attendant distress. Randolph endorsed not only the collection of all taxes in specie (which later, on the federal level, became the 'Independent Treasury' plan) but also envisioned a currency backed 100 per cent in specie.

But the most important impact of the panic of 1819 on American thought was not simply to reconfirm the hard-money advocates of the older generation. It was to generate and stimulate a new, mighty ultra-hard-money movement, which would later become the Jacksonian movement of the 1830s and 1840s. The goal of the great Jacksonian movement was a monetary system consisting wholly of gold or of 100 per cent gold-backed notes or deposits. Its first goal, achieved after great struggle in the 1830s, was to eliminate the Second Bank of the United States; its second, largely achieved a decade later, was to separate the federal government totally from the banking system by confining its receipts and monetary transactions solely to specie (the 'Independent Treasury'). Its final goal, only partially achieved, was to outlaw fractional-reserve banking altogether, a goal that might well have succeeded if the Democratic Party had not been fatally sundered by the slavery issue.[25]

A remarkably large number of future Jacksonian leaders learned their anti-bank hard-money views from experiencing the panic of 1819. General Andrew Jackson (1767–1845) himself, a wealthy Nashville, Tennessee cotton planter, adopted his lifelong anti-bank views as a result of the panic: indeed, he quickly became the fervent leader of the opposition to inconvertible state paper in Tennessee, as well as to laws for relief of debtors. Top Jacksonian Senator Thomas Hart Benton (1782–1858) of Missouri, affectionately termed 'Old Bullion' for his devotion to gold and hard money, and who was slated to be Martin van Buren's Jacksonian successor in the presidency, was converted from his previous inflationist views by the panic of 1819.[26] And young future Jacksonian and eventual president, James K. Polk (1795–1849), a wealthy cotton planter, began his political career in the Tennessee legislature in 1820 by advocating a speedy return to specie payments.

Historians have had great difficulty interpreting the essential nature of the Jacksonian movement, or for that matter, the economic views of Thomas Jefferson and the Jeffersonians. Jefferson, for example, has been generally perceived as a devoted 'agrarian', opposed to commerce and manufacturing, and Jeffersonian John Taylor of Caroline has been labelled in the same way. In reality, it is hard to see how any 'agrarian' can be opposed to a commerce essential to exporting farm products as well as importing manufactured and other goods to the farmers. It is true that Jefferson, Taylor and others were devoted farmers and personally disliked cities. But they were not opposed to either commerce or industry. What they were opposed to was governmental subsidy and artificial force-feeding of industrial or urban growth. The Jeffersonians favoured *laissez-faire*, private property rights, and the free market, and were therefore opposed to governmental subsidies, protective tariffs, and cheap, inflationary bank credit.

The Jacksonians, too, had strict *laissez-faire* views, except that there were naturally proportionately more who lived in cities or worked in industry. Jacksonians have been variously and even chaotically interpreted by historians as being (a) wild-eyed agrarian hillbillies opposed to commerce and capitalism (historians at the turn of the twentieth century); (b) pre-New Dealers interested in forging a worker-farmer uprising against National Republican-Whig capitalism (Arthur Schlesinger, Jr): and (c) spokesmen for rising entrepreneurs and private, state-chartered banks, trying to throw off central bank shackles upon state bank inflation (Bray Hammond). The wild inconsistencies of these interpretations stem from most historians conflating the free market and state capitalism. The Jeffersonians and Jacksonians were not anti-capitalist but ardently in favour, but to them, in contrast to their enemies the federalists and Whigs, genuine capitalism occurs only when commerce and manufacturing are free, free of both subsidies and constricting controls. Whereas federalists and Whigs were mercantilists who favoured state capitalism, cheap credit, protective tariff, a national debt, and Big Government, the Jeffersonians and Jacksonians were free market or *laissez-faire* capitalists who wanted capitalism and economic growth to develop only under freedom and free markets, i.e. under a system of free trade, free enterprise, ultra-minimal government, and ultra-hard money.

Neither was Jefferson or Jacksonian leadership in any way ignorant or hillbilly. Jefferson himself, as well as most of the other leaders, was thoroughly familiar with the literature of the bullionist controversy, as well as the economic classics. And most of the younger generation of bright economic thinkers and writers were in the Jacksonian camp.

Thus Amos Kendall, influential editor of the *Frankfort (Ky) Argus*, and later to be one of the leading brain-trusters in President Jackson's kitchen cabinet, and his main adviser in the bank war, became a bitter opponent of the banking system as a result of the panic of 1819. The very thought of banks he now found 'disgusting'. The best method of rendering them harmless, he concluded, was simply to prohibit them by constitutional amendment. If this were not feasible, then the banks should be required to post security with the courts enabling them to redeem all their paper.

One of America's first economists, Condy Raguet (1784–1842), found his economic outlook totally transformed by the Panic of 1819. A Philadelphia merchant and attorney of French descent, Raguet had published, in 1815, an inflationist and protectionist tract, an *Inquiry into the Causes of the Present State of the Circulating Medium*. But, in the midst of the panic, Raguet, as state senator from Philadelphia, headed a committee in 1820–21 that looked closely into the causes of and possible remedies for the unprecedented economic depression. Raguet concluded that the depression had been caused by bank credit expansion in the boom, followed by a subsequent contraction when the boom caused specie to drain out of the bank vaults. As a result, Raguet emerged from the depression a dedicated opponent of fractional-reserve banking, and a convinced partisan of free trade. He was impressed that, out of the leading citizens and legislators of 19 counties to whom the Raguet committee sent a questionnaire, 16 counties replied flatly that 'the advantages of the banking system' did not 'outweigh its evils'. From then on, Raguet favoured 100 per cent reserve banking to specie, and, while not a Jacksonian politically, staunchly supported the Jacksonian 'Independent Treasury' plan that divorced the treasury from banks or bank paper. Raguet later expanded his views in his *Of the Principles of Banking* (1830), *A Treatise on Currency and Banking* (1839, 1840), *Principles of Free Trade* (1835), and in a series of journals which he launched in the late 1830s, which included a documentary history of the current commercial crisis as well as reprints of Ricardo and other monetary theorists, and of the bullion *Report.*

Raguet explained, in his *Treatise on Money and Banking*, how expansion of bank credit brought about a boom, higher prices, a demand to export specie and a consequent call upon the banks for specie contraction and crisis. Remarkably, he also anticipated James Wilson of *The Economist* by almost a decade in demonstrating, in a pre-Austrian treatment of the business cycle, how the boom brought about overinvestment in fixed capital goods. Thus Raguet wrote:

> At the winding up of the catastrophe, it is discovered that during the whole of this operation *consumption* has been increasing faster than *production* – that the community is poorer in the end than when it began – that instead of food and clothing it has railroads and canals adequate for the transportation of double the quantity of produce and merchandise than there is to be transported – and that the whole of the appearance of prosperity which was exhibited while the currency was gradually increasing in quantity was like the appearance of wealth and affluence which the spendthrift exhibits while running through his estate, and like it, destined to be followed by a period of distress and inactivity.[27]

The difference is that the more celebrated Wilson, a leader of the so-called banking school of Britain, never realized that the overinvestment was caused by monetary and credit expansion. In short, he never caught up with Raguet and the Jacksonians in the US.

The panic of 1819 also inspired the publication of the first systematic treatise on political economy in the United States, *Thoughts on Political Economy* (1820), by the Baltimore lawyer, Daniel Raymond (1786–1849).[28] Raymond was born into a conservative Connecticut federalist family, and his book was a paean to protective tariffs, and to the nationalist Alexander

Hamilton, whom Raymond considered the only truly sound political economist. But even Hamilton nodded, according to Raymond, on the bank question, and Raymond, too, came out in opposition to bank credit expansion and in favour of 100 per cent specie banking. Criticizing Hamilton's, and Adam Smith's, assertion that bank notes add to the national capital by economizing on specie, Raymond cited David Hume's statement that 'in proportion as money is increased in quantity, it must be depreciated in value'. Bank credit also promotes extravagant speculation, raises prices of domestic goods in export markets, and brings about a deficit in the balance of trade. To Raymond, the issuing of any bank notes beyond specie was, quite simply, a 'stupendous fraud'. Ideally, he believed that the federal government should eliminate bank paper entirely, and supply the country with a national paper backed 100 per cent by specie.

As can be seen from the case of Raymond, it was not only the Jacksonians who came to a staunch anti-fractional-reserve bank position during the 1819–21 depression. Young frontier state representative from western Tennessee, Davy Crockett (1786–1836), future Whig leader and enemy of the Jacksonians, stated that he 'considered the whole Banking system a species of swindling on a large scale'. Protectionist and future Whig president, General William Henry Harrison (1773–1841), ran successfully for the Ohio state senate in the Autumn of 1819. When attacked at a local pre-election citizens' meeting for being a director of a local branch of the Bank of the United States, Harrison, in a lengthy reply, insisted that he was a sworn enemy of all banks, and especially of the Bank of the United States, and that he was unalterably opposed to its establishment and continuation. And, finally, at least at this time, secretary of state and future president John Quincy Adams fully shared his father's hostility to all fractional-reserve banking. To a Frenchman who had sent him a plan for federal government paper money, Adams commended the famous Bank of Amsterdam, where paper 'was always a representative and nothing more', of specie in its vaults.

6.5 Monetary and banking thought on the Continent

Monetary thought on the European continent often paralleled the richer and more developed controversy in Great Britain. In Sweden, notably enough, a 'bullionist' controversy developed a half-century before the more famous one in Great Britain. Since few Britons were versed in the Swedish language, the controversy and its significance went unremarked outside Sweden.

In the mid-eighteenth century, Sweden experienced four decades (specifically, 1739–72) of roughly democratic government, with political power in the hands of the parliament, or Riksdag, and with representatives chosen from four estates (nobility, clergy, middle class and peasants). Two political parties battling for power in this era, in the nomenclature reminiscent of

Gulliver's Travels, were the 'Hats' and the 'Caps'. The Hats, who were in power from the beginning of the grandiloquently named 'Age of Freedom' until 1765, were mercantilists who believed in using inflation for economic development. Export subsidies, direct subsidies, cheap loans, and high protective tariffs were all used to build internal improvements and to foster favoured industries, especially textile manufacturing (a favourite motto of the Hats was 'Swedish men in Swedish clothing').

The choice method of financing these lavish expenditures was inflationary credit expansion by the central Bank of Sweden. The convenient proto-Keynesian Hat theory was that an increased money supply would all go into increased development and output rather than higher prices. As for the nagging thought that deficits might ensue in the balance of payments, there was no need to worry, since imports would be held down by direct government controls, while increased national income would, in some odd way, promote increased exports.

After several years of inflationary bank credit expansion, the Swedish government went off the silver standard in 1745, and from then on was free to inflate, ad libitum. Thus, total inconvertible bank notes in circulation in 1745 were 6.9 million *daler*, doubling until 1754, when total circulation was 13.7 million *daler*. Monetary inflation accelerated after that, more than doubling in the next four years, reaching 33.1 million *daler* in 1758. Finally, the supply of bank notes reached a peak in 1762 at 44.5 million *daler*, a 545 per cent increase over 1745, or an average of 32.1 per cent per year.

In response to the monetary expansion, prices remained stable for a few years and then rose from 1749 to 1756, the general price index rising 23 per cent in the seven years. After that, as usually happens, the price rise accelerated, doubling in the next eight years, and reaching a peak in 1764. The biggest concern was the foreign exchange rate, which rose even more precipitately. Thus, after remaining only 5 or 6 per cent above par from 1752 to 1755, the rate of Hamburg *mark bancos* in terms of *dalers* rose to 247 per cent above par in 1765.

The fall in the foreign exchange value of the *daler* led the Hat government to attempt direct control of foreign exchange rates. A foreign exchange office was established in 1747 to try to push rates down, using massive French government subsidies to prop up *dalers* in the foreign exchange market. The exchange office succeeded for a few years, bringing the price of Hamburg *mark bancos* down, for example, from 24 per cent above par in 1748 to 5 or 6 per cent above par from 1752 to 1755. But an artificially falling foreign exchange rate combined with rising domestic prices amounted to an enormous subsidy of imports into Sweden. The resulting huge deficit in the balance of payments raised the increasing problem of how a country on inconvertible paper is going to finance the deficits. Finally, loans and subsidies from abroad ceased, the house of cards collapsed, and foreign exchange rates spiralled upward.

It is interesting to see how the Hat theoreticians, led by one Edward Runeberg, explained the mounting crisis. Like the anti-bullionists and the later banking school theorists in Britain, they – even more starkly – reversed the causal chain. The problem, the Hats declared, originated in the deficit in the balance of payments. Where the deficit came from was far more murky; presumably it was a wilful act of greedy consumers and importers. The deficit then caused the price of foreign exchange to rise, which in turn raised the prices of domestic goods in export markets, which in turn pulled up all the prices of domestic goods. Hence the entire domestic inflation was *really* due to the mysterious deficit in the balance of payments. The policy conclusion was clear to the Hats: restrict imports by coercion.

Not once did the Hat theoreticians admit that there could be a causal chain running from increased bank note issue to prices and exchange rates. On the contrary, the Hats advocated further issues in bank money to raise domestic production, which would in turn somehow increase exports, and thereby increase foreign exchange earnings and, along with a coerced restriction of imports, cure the deficit.

In addition to massive private credits, the inflation of money and credit by the Bank of Sweden financed government deficits, many of which were used for heavy Swedish military expenses to fight in the multinational Seven Years' War (1756–63).

As the inflation began to accelerate in 1756, Cap political strength grew steadily, in reaction not only to the inflationary spiral, but also to participation in a widely unpopular war. The Caps, who found their constituency among small merchants and civil servants injured by inflation, were in favour of free trade and *laissez-faire*, and opposed to mercantilism and government controls. As the inflation proceeded, the Caps were able to show how the government-engineered inflation aided privileged manufacturers with cheap bank loans. They also demonstrated how Hat privileges and subsidies aided certain privileged commercial capitalists, especially iron exporters. Smaller industrialists, merchants, and importers opposed to special privilege, were the backbone of the Cap party.

Worried by rising Cap power, the Hats finally stopped the monetary inflation in 1762, but prices and exchange rates continued to rise as expectations of further inflation still held sway. Finally, the Caps toppled the Hats in 1765, and promptly ended the inflation by a heroic policy of monetary deflation, lowering the total supply of bank notes to 33.5 million *daler* in 1768, or a 25 per cent drop in seven years, most of it since 1765. The result was, of course, a sharp deflation in prices and foreign exchange, the *marc banco* rate falling from 247 per cent of par in 1765 to 117 per cent of par three years later. Output and unemployment declined sharply as well.

Throughout this boom–bust cycle, the Caps firmly took what would later be called the bullionist position. The excess issue of bank notes, especially with an inconvertible currency, brought about rises in price and in foreign exchange rates. As we have indicated, the Caps were wisely not content with simply pointing out the economic flaws in the Hats' reasoning. They also attacked the special privileges enjoyed by the Hats, and showed how the Hat constituency benefited by inflation and mercantilism.

The deflationary course taken by the Caps in power may be economically justified by pointing out that drastic measures were necessary to reverse inflationary expectations. But the Caps stressed another attractive political argument: retribution. Why shouldn't the wealthy Hat merchants and industrialist profiteers from inflation pay the major price for a return to the silver standard and sound money? In this way, deflation would reward those who had suffered from inflation, and the profiteers from the previous inflation would, in a sense, pay reparations to compensate the previous victims of inflation. This was far from an absurd programme. And so the Caps set out, quite frankly, to deflate prices and exchange rates down to the pre-1745 Hat inflation and to the old silver par with the *daler*.

Economically, too, the Caps had an important argument: since bank notes received their true value from their silver reserves, the *daler* should always designate the same quantity, or weight, of specie.

Two of the leading Cap economists, however, argued against the deflation and instead suggested going back to silver at the existing rate of twice the old par. One was the Rev. Anders Chydenius (1729–1803), a Lutheran pastor from a small city on the western coast of Finland. Coming from a coastal city in a Finland colonized by Sweden (the Kingdom of Sweden and Finland), and whose trade suffered from state privileges to Stockholm and other Swedish interests, Chydenius early spoke and wrote numerous pamphlets against mercantilism and in favour of free trade. He also propounded a philosophy of natural law and natural rights of every individual. In 1766, as a representative of the Finnish clergy in the *Riksdag*, Chydenius was censured and removed from Parliament for the flagrant crime (in the 'Age of Freedom') of writing a tract, *The Succour of the Realm by a Natural Finance System*, attacking the policy of deflation to the old par after he had voted for it. Apparently changing one's mind after a vote was not permissible. In the pamphlet, Chydenius, without benefit of having read or heard of Adam Smith, worked out some 'real bills' notions of permissible banking in a convertible monetary system.

The other Cap opponent of deflation was a teacher of economics at the University of Uppsala, Pehr Niclas Christiernin. Chirstiernin began at Uppsala as an adjunct in law and economics in 1761, then rose to professor in the same field, then held a chair in philosophy, and finally ended as chancellor of the university. In contrast to the poorly read Chydenius, Chistiernin was steeped in such foreign economic literature as Cantillon, Hume, Justi, Locke and Malynes. In a pamphlet published in 1761 (*Summary of Lectures on the High Price of Foreign Exchange in Sweden*), Christiernin presented a theory of flexible exchange rates as an equilibrating mechanism in inconvertible currency that anticipated the bullionists and was superior to anything written up to that time. Unfortunately, Christiernin remained untranslated into English, and therefore unread there, until 1971. Christiernin pointed out that the continuing increase in the supply of bank notes led to the fall in value of the *daler*, both in raising foreign exchange rates as well as prices of goods at home. The increase in the issue of bank notes, in turn, stemmed from the bank's more liberal lending policy, which lowered the rate of interest sharply by the mid-1750s, and also increased inflation by creating money to redeem all extant government bonds.

Christiernin, however, was far from a hard-core hard-money man. He defended bank notes as useful, increasing activity and employment, and opposed deflation because, he pointed out, prices and wages were sticky downward. It is doubtful, however, that downward stickiness could last for long in the eighteenth century. But Christiernin's main objection to deflation was that his ideal was not sound, metallic money but a pre-Friedmanite desire to stabilize the value of the *daler* and make the price level constant. In pursuit of that goal, he urged open market operations by the central bank. Furthermore, again in anticipation of the monetarists, he admittedly preferred inflation to deflation, if that was the choice.

Unfortunately, the heroic deflationary measures led to temporary Cap reverses. The Hats came back to power in 1769, but although they promptly reinflated, they began to prepare seriously for restoration of the silver standard. When the Caps returned in 1772, however, the powerful merchant capitalists of the Hat party collaborated with the Crown and the nobility to seize power; in a *coup d'état*, overthrowing parliamentary democracy, and installing King Gustav III as absolute monarch. King Gustav returned Sweden to the silver standard in 1777 at the existing market price.

Later, British bullionist views spread to more intellectually accessible parts of the Continent. Thus, in 1816, Johann Georg Busch (1728–1800), a mathematics teacher at the Hamburg Gymnasium, economist and founder of the Academy of Commerce at Hamburg, denounced inflationary banking propelled by government. Busch noted that, as a result,

> The customary abuse has been that too many paper symbols have been produced measured against the needs of the citizens. As a consequence there are too many who want to change back their paper money into the commodity which is and can

> be the true symbol of value. Since the bank cannot produce this commodity [gold or silver] out of nature like the paper with letters and figures on it, and since she must then confess that she cannot fulfill her promise [to convert to specie], the deceived citizen must become reluctant to take one [the paper] for the other [specie] money.[29]

Busch identified the financing of war as the main reason for the emergency of governmental bank credit inflation since the beginning of the eighteenth century.

Meanwhile, in Russia, the Baltic German professor of political economy, the Smithian Heinrich Friedrich Freiherr von Storch, denounced government instigation of bank credit and paper money in a lengthy monetary appendix to the 1823 edition of his *Cours d'économie politique.* Storch, like Busch, zeroed in on war as the main reason for continuing inflation:

> the principal motive for introducing this calamitous invention [of paper money] in nearly all states of Europe, have been [sic] the financial disorders caused by wars, which have been sometimes just and necessary but mostly useless... How many wars could have been prevented without this unhappy expedient? How many tears and how much blood could have been saved.

The best remedy for this evil, declared Storch, would be return to a pure, 100 per cent gold or silver standard in all nations. Failing that, however, Storch was willing to settle for free private, competing banks which, he was perhaps the first to point out, would be much less inflationary than governmentally privileged banking. As Storch put it:

> private banks are those presenting most advantages and least dangers... Great Britain is the only country in Europe where private banks exist; in all other states banking business is concentrated in one institution, if not founded then at least approved and privileged by government. Nevertheless, public banks are much more prone to degenerate than are private banks. As long as banking companies exist in isolation their operations seem to be insignificant: as soon as they form one sole and great institution they excite the attention of the government, their profits being more considerable; and because of this the special protection they enjoy or the privileges which they solicit have to be bought by favours which change their nature and subtly undermine their credit.[30]

6.6 Notes

1. Charles F. Peake, 'Henry Thornton and the Development of Ricardo's Economic Thought', *History of Political Economy*, 10 (Summer 1978), pp. 193–212.
2. Horner's starting point, as we have seen, was a bit different: he had been converted from a moderate neutral to moderate bullionist by Lord King's booklet in 1804.
3. Peake, op. cit., note 1, p. 193.
4. As Peake writes, 'Ricardo's total productive output was dominated by monetary questions, and a full understanding of Ricardo requires an interpretation that includes his monetary works'. Ibid.

5. Malthus, formerly a moderate anti-bullionist, had now become a Thorntonian, and expressed his views in two articles on the bullion controversy in 1811 in the *Edinburgh Review*. See the critique of Malthus in Frank W. Fetter, *Development of British Monetary Orthodoxy, 1797–1875* (Cambridge, Mass.: Harvard University Press, 1965), p. 48.

   On Ricardo's exclusive emphasis on long-run equilibrium in his monetary analysis, see J.A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), pp. 494–5, and Jacob Viner, *Studies in the Theory of International Trade* (New York: Harper & Bros, 1937), pp. 139–40.
6. Joseph Salerno, 'The Doctrinal Antecedents of the Monetary Approach to the Balance of Payments' (doctoral dissertation, Rutgers University, 1980), p. 447. Salerno goes on to point out that Ricardo's strict, mechanistic split between the money and the real, leading to the doctrine that money is a 'veil', led also to the seeming paradox of Ricardo, in his *Principles*, flip-flopping to a highly misleading purely real, non-monetary, 'barter' analysis of the balance of payments. The paradox is only seeming, for a severe split enables someone to leap back and forth between the purely monetary and the purely real. It was the barter analysis of Ricardo's *Principles*, Salerno notes, 'which served as the foundation for the classical theory of the balance of payments'. Ibid., p. 449.
7. Peake, op. cit., note 1, p. 203.
8. Jacob H. Hollander, 'The Development of the Theory of Money from Adam Smith to David Ricardo', *Quarterly Journal of Economics*, 25 (May 1911), p. 470.
9. Spencer Perceval (1762–1812), the son of the earl of Egmont, received an MA from Trinity College, Cambridge in 1781, then became an attorney and king's counsel. An MP from 1796 on, Perceval was an ardent war hawk, and a defender of Pitt's repressive crackdown on anti-war dissidents at home. Rising to solicitor-general and attorney-general, Perceval, as a leading follower of Pitt, became chancellor of the exchequer in 1807, and then added the post of prime minister in 1809. He was assassinated in 1812.
10. Huskisson, though a respected and leading Tory, was all his life a classical liberal and devoted to freedom of trade. Raised by a great-uncle who was a well-known physician to the British embassy at Paris, Huskisson lived with leading French liberals as a youth, and knew Franklin and Jefferson. After the fall of the Bastille, at which he was present, Huskisson joined the Club of 1789 (a group of eminent constitutional monarchist classical liberals). At the age of 20, Huskisson read before the club in 1790, and then printed, a much applauded discourse on the currency.

    Huskisson became a close friend and private secretary to the British ambassador, Lord Gower, and returned with him to England when recalled in 1792. Three years later, he gained a key post as Secretary to the administration in 1795, and became an MP the following year. As a young Pittite, Huskisson rose as secretary to the treasury from 1804 until 1809, and in 1808 played a large share in arranging relations between the Treasury and the Bank of England.
11. Sharp, a great conversationalist known as 'Conversation Sharp', was the son of an English officer, born in Newfoundland, who rose to become a leading West Indies merchant in London as well as head of the hat manufacturing firm of Richard Sharp & Co. This wealthy businessman became a leading Whig, devoted to parliamentary and other liberal reforms. Sharp was a member of many leading London clubs, and was a friend of John Adams, Ricardo and James Mill. He long wanted to write a history of the attainment of American independence. Sharp was also a poet very interested in literature, and a friend of Byron, Coleridge and Wordsworth. He was an MP intermittently from 1806 to 1827.
12. A decade later, Huskisson, during a parliamentary debate on monetary policy, mentioned his 'misfortune' in 1810, 'to differ from some distinguished members of this House to whom I was personally attached, and in whose political views I had generally concurred'. See Frank W. Fetter, 'The Politics of the Bullion Report', *Economica*, n.s. 26 (May 1959), pp. 106–7.
13. Ibid., p. 106.
14. As Frank W. Fetter put it, 'Only after the Bullion Committee had issued a Report...that differed substantially from Ricardo in its analysis of the causes of depreciation but agreed in part with Ricardo's criticisms of the Bank of England and with his view that the

Restriction should stop, regardless of the war, did Ricardo become the champion of the doctrines of the Bullion Report. Its conclusions as to policy were close enough to his so that he, as a pamphleteer and a propagandist, became their defender, thereby achieving a wide reputation'. Frank W. Fetter, 'The Bullion Report Reexamined', (1942) in T.S. Ashton and R.S. Sayers (eds.), *Papers in English Monetary History* (Oxford: The Clarendon Press, 1953), p. 67.

15. Ibid., p. 67.
16. Here we should note the courage of Pascoe Grenfell (1761–1838), Whig merchant and mine promoter, who voted for the bullion *Report* even though a large stockholder in the Bank of England, as well as the timorousness of Alexander Baring, who spoke for the doctrines of the *Report*, but who voted against out of reluctance to return to the gold standard during the war. Grenfell was a Cornishman, whose father was a leading London merchant, and large dealer in tin and copper. Grenfell joined his father's firm, and then became principal managing partner of firms connected with Thomas Williams, the largest manufacturer in Cornwall and Anglesey. Grenfell was an MP from 1802 to 1826.
17. Vansittart, son of Henry Vansittart, a governor of Bengal, received a BA from Christ Church, Oxford, in 1781 and an MA four years later. Vansittart became an attorney and frequent pamphleteer, dedicated to the pro-war and the pro-restriction policies of William Pitt. An MP from 1796 on, Vansittart became a co-secretary to the treasury, the secretary for Ireland, and again secretary to the treasury in various Tory governments. In 1809, Vansittart had led the debate for extending the restriction. He became chancellor of the exchequer in 1812, and remained in that post for ten years.
18. Jackson, who had received an MA from Exeter College, Oxford, in 1793, was a prominent parliamentary counsel, also parliamentary counsel to the East India Co., and counsel to the Corporation of London.
19. George Ellis, whose father was a member of the House of Assembly of St George in the West Indies, had briefly been an MP in the 1790s, but was even more a poet, historian and *littérateur*. A clever poet, who edited and published an anthology of poetry, and the author of a history of the Dutch Revolution of the mid-1780s, George Ellis had been a diplomat, and then became a frequent contributor to the *Anti-Jacobin Review*. He was a close friend of George Canning and of the Scottish Tory writer Sir Walter Scott.
20. Alexander Baring, son of Sir Francis of the great banking family, had been a member of the bullion committee of 1810 who voted against the *Report*. Trained from early life to work in his father's banking house, he married the daughter of the wealthy federalist associate of Robert Morris of Philadelphia, US Senator William Bingham. Baring became head of his family bank in 1810, and was an MP for 30 years from 1806 on.
21. Salim Rashid, 'Edward Copleston. Robert Peel, and Cash Payments', *History of Political Economy*, 15 (Summer 1983), pp. 249–59.
22. Frank W. Fetter, *Development of British Monetary Orthodoxy 1797–1875* (Cambridge, Mass.: Harvard University Press, 1965), pp. 69–70.
23. Cobbett (1762–1835) was one of the few political writers to come from a lower-class background. Son of a peasant family in Surrey, Cobbett became a copying clerk to a lawyer in London, enlisted in the ranks of the army, becoming an NCO in Nova Scotia in 1791, and married a soldier's daughter. Wandering to France and thence to the United States, Cobbett became an English teacher to French refugees and a translator in Philadelphia, where he made his mark in the mid-1790s as a virulently pro-English Tory and federalist and opponent of Jacobinism. He became a newspaper writer, editor, and publisher in Philadelphia in the late 1790s.

    Returning to England in 1800, Cobbett began his highly influential *Cobbett's Weekly Political Register* in 1802, continuing its publication until his death. He also published the parliamentary debates and a multi-volume parliamentary history of England. In 1804, Cobbett shifted sharply and permanently to an all-out radical position, praising parliamentary reform, denouncing paper money, and repeatedly being charged with sedition.
24. Cited in Mark Skousen, *The 100% Gold Standard: Economics of a Pure Money Commodity* (Washington, DC: University Press of America, 1977), p. 45.
25. The corollary goals of the Jacksonian movement were all consistent with the aim of

achieving a free market, *laissez-faire* economy and polity: free trade (accomplished in the 1840s), repayment of the entire national debt (achieved in the 1830s), no federal and precious little state 'internal improvements' (public works), and generally, an ultra-minimal budget or governmental power, certainly on the federal and even on the state and local levels.

26. The plan was two terms of Benton as president, to follow two terms of Van Buren, Jackson's selected heir. But Van Buren never gained his second term, the great split amongst the Jacksonians, symbolically including a split between Van Buren and Jackson himself, coming in 1844 over the crucial question of whether or not the Republic of Texas should be admitted to the Union as a slave state.
27. Condy Raguet, *Treatise on Money and Banking* (1839), p. 137, quoted in Vera Smith, *The Rationale of Central Banking* (1936, Indianapolis, Ind.: Liberty Press, 1990), p. 84.
28. The second, more widely known, edition of this book was published as *The Elements of Political Economy* (2 vols, 1823, 1836, 1840).
29. Quoted in Peter Bernholz, 'Inflation and Monetary Constitutions in Historical Perspective', *Kyklos*, 36, no. 3 (1983), pp. 407–8.
30. Ibid., pp. 408–9.

7 Monetary and banking thought, III: the struggle over the currency school

7.1 The trauma of 1825

In 1823, the British economy finally recovered from the post-Napoleonic War and post-1819 agricultural depression. In fact, an expansionary boom got under way, so much so as to quieten the vociferous agricultural advocates of higher prices and the opponents of the return to gold. Unsurprisingly, Bank of England credit expansion led the way in this new inflationary boom, its total credit rising from £17.5 million in August 1823 to £25.1 million two years later, a huge increase of 43 per cent or 21.7 per cent uncompounded per annum. Much of the monetary and credit boom came through investment in highly speculative Latin American mining stocks. The great hard-money radical William Cobbett kept up a drumfire of attack on this inflation but, significantly, he was also joined, if more privately, by such moderate hard-money men as William Huskisson, who worried that 'this universal Jobbery in Foreign Stock will turn out the most tremendous Bubble ever known'.

By late 1824, the exchanges turned unfavourable, and gold began to flow abroad; by the following year, Britons began to demand gold from the banks in increasing numbers. Huskisson repeatedly warned the Cabinet in the Spring of 1825 that 'the Bank, in its greedy folly, was playing over again the game of 1817'. In late June, a bank in Bristol refused outright to give gold to a noteholder who spurned payments in Bank of England notes, and this ominous incident was widely publicized by Cobbett. Bank of England cash reserves were at their lowest in five years at the end of February, at £8.86 million; and from that low point they fell alarmingly to no more than £3.0 million at the end of October. Bank runs and a bank panic ensued and at the height of that panic, in mid-December, a noteholder of the recalcitrant Bristol bank distributed a leaflet warning the citizens of the city: 'As there is no knowing what may happen, get Gold, for if Restriction come it will be too late'. During the panic, the late Henry Thornton's important bank, Pole, Thornton & Co. went under, despite last-minute borrowing from the Bank of England and despite the fact that Sir Peter Pole, head of the bank, was connected by marriage with the governor of the Bank of England, Cornelius Buller.

After a week of hysteria in mid-December, the Bank of England, pursuing a highly risky policy of massive loans to the banks and rediscounting of bills, managed to stem the run, even though its cash reserves had been reduced to £1.0 million by the end of the year.

The country was saved by a hair's breadth from another suspension of specie payments by the Bank of England. The bank pleaded with the government to order such a suspension, but the Tory government, largely due to the ardent pressure of Huskisson and Canning, resisted the bank's demands. The prime minister, Robert Banks Jenkinson, the earl of Liverpool, much to the disgust of his fellow High Tories of the duke of Wellington faction, agreed with Huskisson that, in the words of one prominent Wellington man, 'if the

[Bank] stopped payment, it would be a good opportunity of taking their Charter from them,...for letting the Bank break'.

The boom and crisis of 1825 dealt a traumatic lesson to thoughtful analysts of the monetary and economic scene. For these dramatic events demonstrated that the gold standard, important as it was as a check on monetary and banking inflation, *was not enough*;: bank failures, and boom and bust cycles, could and would still occur. Something further, then, was needed to fulfil the promise of the bullionists; something more than the gold standard was needed to counter the ills of boom-and-bust and of fractional-reserve banking.

The most concrete and immediate response to the panic of 1825 was a decision of the government to outlaw small denomination (under £5) bank notes, a measure that even the pro-bank credit Adam Smith had favoured. In that way, at least for these popular and widely used small denominations, the public would be using only specie as money. On 22 March 1826, Parliament forbade banks in England and Wales to issue new small notes, or to reissue any old ones after April 1829. After June 1826, the Bank of England continued to obey this edict for a little over a century. In another banking reform, Parliament ended the system that had prevailed since the turn of the eighteenth century: the Bank of England had a monopoly of all commercial banking except for partnerships of less than six persons. This monopoly was now shaken. Corporate and large partnership banks were now permitted in England, by an act of 26 May 1826. Unfortunately, this liberalization was greatly weakened by the act's preserving the bank's monopoly of corporate and large-scale banking inside a 65-mile radius of London. In short, corporate or joint-stock banking was permitted only to the 'country' banks.

Political pressure by Scottish Tories gained an exemption from these reforms for Scotland. In the first place, Scotland already had joint-stock banking and, more importantly, Scotland had long been a swamp of small-bank note inflationism. Even after resumption of the gold standard in 1821, Scotland did not have a gold standard in practice. Frank Fetter discloses the solution as follows:

> Even after the resumption of payments in 1821 little coin had circulated; and to a large degree there was a tradition, almost with the force of law, that banks should not be required to redeem their notes in coin. Redemption in London drafts was the usual form of paying noteholders. There was a core of truth in the remark of an anonymous pamphleteer (1826): Any southern fool who had the temerity to ask for a hundred sovereigns [gold coins], might, if his nerves supported him through the cross examination at the bank counter, think himself in luck to be hunted to the border.[1]

To work, a gold standard must, of course, be truly in effect – in practice as well as in the official statutes.

The Scottish Tories, led by the eminent novelist Sir Walter Scott, successfully blocked application of the anti-small-note reform to Scotland. The mouthpiece for Scottish High Toryism, *Blackwood's Edinburgh Magazine*, after hailing Scott's campaign, published two articles on 'The Country Banks and the Bank of England', in 1827–28, in which it wove together two major strains of ultra-inflationism: going off the gold standard, and praising the country banks. *Blackwood's* also attacked the Bank of England as overly restrictionist, thus helping to launch the legend that the bank was too restrictive instead of being itself the main engine of inflation. In contrast, the *Westminster Review*, mouthpiece for the philosophical radicals, scoffed at the Scots for threatening 'a civil war in defence of the privilege of being plundered' by the bank credit system.

It was also in this period in 1827, that Henry Burgess founded the powerful committee of country bankers, and edited for over 20 years the committee's influential periodical, *Circular to Bankers*. For that entire period, Burgess kept up a drumfire of inflationist vilification of the gold standard, of 'those ignorant, vain, and obstinate, projectors – Huskisson, Peel, and Ricardo', and of the Bank of England for being too restrictive of bank credit. He also denounced the 'Political Economists' as being 'the curse of the country' because of their generally hard-money views. For its part, *Blackwood's Edinburgh Magazine* pursued a similar unwavering line for nearly three decades, denouncing the return to gold in 1819 as having given 'the Jews, stockbrokers, and attorneys of the country, an enormous advantage, at the expense of classes connected with land...'.

On the other hand, William Cobbett continued his hard-hitting anti-bank paper stance, proclaiming in 1828 that 'Ever since that hellish compound Paper-money was understood by me, I have wished for the destruction of the accursed thing: I have applauded every measure that tended to produce its destruction, and censured every measure having a tendency to preserve it'. Blasting the inflationist and privileged Scottish country banks as 'the Scottish monopolists', Cobbett also denounced the Scotsman John Ramsay McCulloch for defending bank paper – 'this Scotch stupidity, conceit, pertinacity and impudence'. Cobbett escalated the attack by asserting that 'these ravenous Rooks of Scotland have been a pestilence to England for more than two hundred years'. It might be commented, of course, that one simple way for England to cast off that 'pestilence' was for England to give Scotland back its independence, a solution that Cobbett and the other nationalist English radicals somehow failed to consider.

Despite the continuing inflationism of the High Tories and of the Birmingham Attwoods, and despite the imminent clash of economic opinion over banking reform, the bulk of economists stood foursquare, from the mid-1820s on, in defence of the gold standard. That much had been agreed upon, and accomplished. Their differences on banking did not prevent unity on this fundamental monetary question. John Ramsay McCulloch, James Mill and Nassau W. Senior, stood solidly in favour of gold. Even the alleged radical, and for a time, pre-Keynesian Malthus expressed complete support for return to the gold standard in 1823 and thereafter. Archbishop Whately, Mountifort Longfield, Thomas Perronet Thompson, even the arch inductivist and historicist Richard Jones of Cambridge, were all staunch supporters of gold. Even the often confused and irenic John Stuart Mill was hard-hitting in defence of gold. The younger Mill, upon reading the testimony, in 1821, of Thomas Attwood in favour of a combined silver and inconvertible fiat paper standard, denounced the idea of depreciating the standard as a 'gigantic plan of confiscation'. Mill thundered 'that men who are not knaves in their private dealings should understand what the word "depreciation" means, and yet support it, speaks but ill for the existing state of morality on such subjects'.[2]

7.2 The emergence of the currency principle

The prohibition of small notes, however, scarcely tackled the main problem. The first to go beyond this minor aspect of banking and go straight to the heart of the matter was a brilliant and influential thinker who has remained as little known to historians as he was obscure in his own day. It is with justice that Lionel Robbins has wittily referred to James Pennington (1777–1862) as the 'Mycroft Holmes' of the later monetary controversy of the classical period.[3]

James Pennington was born into a prominent Quaker family in the town of Kendal, in Westmorland; his father, William, was a bookseller, printer and architect, who eventually became mayor of Kendal. Graduating from a first-rate Quaker school at Kendal, Pennington moved to London. Little is known of his personal life thereafter, except that he lived in Clapham, and that he and his large family of seven children were parishioners, and James a trustee, of the famous Clapham Anglican parish church, obviously abandoning the Quakerism of his youth. Apart from that, we know that he was a merchant, 'gentleman' and accountant, and briefly became a member of the board of control for India in 1832. From then on, retired from commerce, he would be consulted repeatedly in technical financial matters by the government.

In the wake of the great banking crisis of December 1825, London was agog with discussions of money and banking, the august Political Economy Club dealing with this topic in its meetings of 9 January and 6 February, 1826. At the latter occasion, Pennington was present as a guest and, stimulated by the discussion, he sat down to write a memorandum on the subject to the powerful president of the board of trade, the liberal Tory William Huskisson. Huskisson did not request the memo, but he was known to be receptive to intelligent memoranda on crucial topics, and this method of promoting his views may have been suggested to Pennington by his long-time friend, and one of the original founders of the Political Economy Club, the merchant and economist Thomas Tooke. In this first memo to Huskisson on 13 February 'On the Private Banking Establishments of the Metropolis', Pennington outlined with crystal clarity how private banks, by expanding loans, create demand deposits which function as part of the money supply. Walter Boyd and others had pointed this out, but Pennington's exposition was unmatched in its lucidity and, when published as an appendix to Tooke's *Letter to Grenville* (1829), greatly influenced the banking controversies of the era. Unfortunately, the *Letter* did not sufficiently influence Pennington's own camp, the currency school, who stubbornly and tragically failed to realize that bank demand deposits formed part of the supply of money, equivalent to bank notes.

Without any encouragement from Huskisson, Pennington followed up his first memorandum with another, a year later (16 May 1827) on 'Observations on the Coinage'. After explaining the technical procedures of the gold standard, Pennington detailed the dangers to gold of the existence of a paper currency, and then added a tantalizing hint: 'It is possible to regulate an extensive paper circulation...to render its contraction and expansion...subject to the same Law as that which determines the expansion and contraction of a currency wholly and exclusively metallic'. Here was the first indication in Great Britain of the 'Currency Principle': that more than simple gold redeemability was needed to transform bank money into a mere surrogate of gold.

William Huskisson finally sat up and took notice, writing to Pennington that:

> I perceive that towards the end of your Paper on Coinage, you state an opinion that means may be found of preventing those alternations of excitement and depression which have been attended with such alarming consequences to this Country. This, for a long time, has appeared to me to be one of the most important matters which can engage the attention...[T]he too great facility of expansion at one time, and the too rapid contraction of paper credit...at another, is unquestionably an evil of the greatest magnitude.

In short, bank credit and paper money were perceived by Huskisson as responsible for the business cycle; what, then, could be done about it? He urged Pennington to elaborate on his tantalizing suggestion.

The upshot was an ironic one: while James Pennington's third memorandum, in reply, 'On the management of the Bank of England', 23 June, was the first fateful elaboration of the justly famous currency principle, it was scarcely action-oriented enough to suit the minister. At any rate, monetary matters faded temporarily, and Huskisson himself resigned his post the following year, to die three years later. But Pennington's memorandum, nevertheless, was very important, for it declared that to make bank paper currency stable and tied to gold, it must be regulated to conform to the movements of the gold supply. If the Bank of England were the monopoly issuer of notes, Pennington prophetically counselled, it would be easy for it to control the total supply; in lieu of that, the private banks, London and country, could in some way be totally and immediately controlled by the bank. In either case, the bank could then be compelled to keep its securities (i.e. its earning assets) fixed in total amount; if so, its note issues would move in the same direction, and to the same extent, as its stock of gold. While the bank would not have 100 per cent gold reserves to its notes, the legally fixed gap between them would mean that bank notes (and by extension, the total money supply) would move in the same way and to the same extent as the gold supply – thus arriving at the equivalent of 100 per cent specie money for all *further* operations of the bank. Here was the seed of Peel's great Act of 1844, the embodiment of the currency principle.

But Huskisson could not seize on this point, because of Pennington's hesitations and qualifications; in particular, Pennington, of all people, knew full well that bank deposits are just as much creatures of bank credit as bank notes, and that to 'regulate them [deposits] properly will be no easy task'.

It becomes a mystery that Pennington, the founder of the currency principle, should have been so alert to bank deposits' role as money, while the currency school concentrated with such fierce insistence on bank notes alone. They applied this variant of 100 per cent gold money to notes exclusively, leaving deposits to go unchecked and unregulated on their own. Some historians speculate that the currency school made the conscious decision to avoid applying their principle to deposits, because of an alleged difficulty in practical application, and because they believed that note-holders – presumably being a broader or less wealthy section of the population – were more likely to cash in for gold than deposit-holders.[4] If so, then this 'practical' decision to forget about deposits proved, in the long run, to be the height of *im*practicality – indeed, fatal to the currency, or 100 per cent gold, cause. For Peel's Act's prohibitions on further fractional-reserve note issue simply induced the banking system, led by the Bank of England, to shift their inflationary and expansionary attentions to deposits alone – a condition that still prevails throughout the world.

Currency school myopia on demand deposits scarcely extended to their cousins in the United States. On the contrary, such 100 per cent gold leaders and Jacksonian theorists as Condy Raguet, Amos Kendall and the magnificent Jacksonian William M. Gouge of Philadelphia (1796–1863), were perfectly aware of deposits' equivalent role to notes in the issue of bank money. A Philadelphia editor, Gouge became a treasury official in the 1830s, and remained there from that point on. Gouge held firmly that deposits are in all cases equal to notes, that they may be created by bank lending, and that they have the same inflationary effect on prices as bank notes. He called for a return to the 100 per cent gold reserves backing the deposits of the original banks of Hamburg and Amsterdam. Gouge was also the main theoretician of the Van Buren–Polk independent treasury system, in which the federal government would separate itself totally from banking, first by keeping no deposits in any banks, spending its funds directly in specie, and second, by accepting in taxes only specie and no bank notes or deposits. In that way, the American banking system would be free, not only of a central bank (as ensured by President Jackson in the early 1830s), but also of any link to or support by the federal government.[5]

Other influential expressions of the currency principle emerged from the panic of 1825. The highly influential Sir Henry Drummond (1786–1860)[6], banker and MP, in the fourth edition (1826) of his *Elementary Propositions on the Currency*, was driven by the crisis to the realization that mere specie convertibility was not enough to avoid boom–bust crises in money and in prices. He therefore concluded that the quantity of paper money should be kept constant, so that variations in the money supply would only reflect changes in the stock of specie. In the same year, Richard Page, writing as 'Daniel Hardcastle', state the currency principle in crystal-clear form: 'That only is a sound and well-regulated state of things, when no greater numerical amount of paper is in circulation than would have circulated of the precious metals if no paper had existed'.[7]

After the crisis of 1825, then, a consensus began to form, beginning with James Pennington and spreading through knowledgeable circles in Britain, that the gold standard is not enough; and that bank credit must not be allowed to expand unduly. At the ultimate pole were the currency school, who believed that commercial banks must be restricted to 100 per cent of gold, at least for any further note issues. Most of the school unfortunately left demand deposits out of their reckoning as not part of the money supply. Other established leaders, such as bank governor John Horsley Palmer, developed the far more qualified view advocating more control by the Bank of England: bank money should pyramid on top of a fixed ratio of reserves to liabilities maintained by the Bank of England.

But if bank credit was to be confined to movements of gold, and thereby to end the threat of inflation and the business cycle, *by what mechanism* was this to be accomplished? In most cases, and certainly among virtually all adherents of the currency school, the answer was to be the Bank of England itself: the very institution which bullionists and their successors had long seen to be the central agent of inflation and credit expansion. The idea was that the bank would either ride herd over the private banks, or, in the developing consensus, to assume a monopoly over all issue of bank notes –

leaving banks to issue demand deposits in a way that tied them inexorably to the Bank of England. In short, the modern banking system, with all its deep inflationary flaws, was what was envisioned and brought forth by the currency school. In the name of ultra-hard money, they unwittingly imposed upon Great Britain, and later the world, the modern, centralized inflationary, fractional-reserve and central bank-dominated banking system. The theory was that the bank would control the private banks through monopoly of note issue and other measures, while the government would rigidly control the bank itself.

The other main instrument of bank control over private banks was to centralize gold in the hands of the bank, and to make Bank of England notes legal tender for all citizens and banks. In that way, the banks would be induced to surrender their gold to the Bank, and to happily pyramid their loans and deposits on top of their bank reserves. Their demand deposits at the bank could always be cashed in for legal tender currency. In short, as this proposed structure came to be established in Britain and then elsewhere, the world was saddled with the modern banking system.

It is still a mystery how men so keenly aware and critical of the cartellizing and inflationary role of the Bank of England should have proposed centralizing control into the hands of the very same bank, and all in the name of stopping inflation and tying the monetary system closely and one-to-one to gold. It was truly putting the fox in charge of the proverbial chicken coop. A minority of currency men, it is true, favoured another variant, first recommended by the spiritual father of the currency school, David Ricardo himself. Already, at the end of his 1816 pamphlet on *Economical and Scarce Currency*, Ricardo had hinted at this solution, influenced by an unpublished proposal of J.B. Say in 1814. In his last, posthumous work, published in 1824, *The Plan for the Establishment of a National Bank*, Ricardo put forward and elaborated the new plan: the appointment of a government board to be in charge of a national note issue monopoly, with the Bank of England essentially confined to credit and deposit banking. The idea was that since the bank could not be trusted to be in charge of monopoly note issue, that function should be trusted to the central government. But, surely, here was even more of a fox, if not a wolf, to be placed in command. Government is just as much, if not more, inclined toward monetary and credit inflation as any private central bank. Government can always use inflation to finance the deficits it desires and to subsidize credit to its political allies.

There were other far more effective ways to restrict bank credit expansion. During the Jackson–Van Buren era in the United States (approximately 1828–40s), which roughly coincided with the period of the currency–banking school controversies in Britain, the programme of the hard-money Jacksonian movement was far more thoroughgoing, and ultimately far more realistic, than their spiritual cousins of the currency school. Both groups aimed at achieving hard money, tied very closely to specie, in order to end inflation and the boom–bust cycle. But, instead of maintaining and strengthening the central bank, the Jacksonians, far more logically, made it their first order of business to destroy it. The next step, for Gouge, Kendall, Raguet and their followers, who included Presidents Jackson and Van Buren, was to separate the federal government totally from money, by establishing an independent treasury system, passed by the Van Buren administration in 1840, repealed by the Whigs, and then permanently re-established by the Jacksonian Polk administration in 1846. The idea of the independent treasury was, first for the treasury to keep its own funds, without depositing them in any banks; and second, for the treasury to accept in taxes and other fees only *specie*, and not even notes of specie-redeeming banks. In that way, the federal government would give no encouragement whatever to the circulation of bank notes or deposits. Another plank in the Van Buren programme, considered but never passed, as being too hard-hitting, was a federal bankruptcy law which would have forced any bank to close its doors whenever it failed to meet its contractual obligations to redeem its notes or deposits in specie on demand. Other parts of the Jacksonian programme were state enforcement of bankruptcy the moment a bank should fail to pay in specie, and even the outlawing of all fractional-reserve banking as inherently fraudulent, as promising something that could not possibly be fulfilled: instantaneous redemption of all demand liabilities in specie.[8]

Less thoroughgoing than the Jacksonian proposals but better than the currency school's reliance on the central bank were the proposals of a free banking group that arose after 1825, calling for elimination of the Bank of England. The free banking proponents, however, were scarcely united in their theoretical outlook or in their goals; some wanted free banking in order to eliminate what they considered to be Bank of England restraint on bank credit expansion; while others wanted it for the opposite reason: to approach the currency school goal of pure specie money.

In the former category, for example, was the veteran inflationist and anti-bullionist, Sir John Sinclair. On the other hand, a particularly important example of the latter, hard-money, category was the long-time bullionist and clerk at the Royal Mint, Robert Mushet. In his substantial book, *An Attempt to Explain from Facts the Effect of the Issues of the Bank of England...* (1826), Mushet set forth a currency principle type of business cycle theory. The Bank of England, he pointed out, set into motion an expansionary policy that created an inflationary boom, and that later had to be reversed into a contractionary depression. Like the later currency school, Mushet's aim was to arrive at a purely metallic currency or its equivalent, but he saw that free banking rather than central banking was a better way to achieve it. Thus, Mushet hailed the act of 1826, allowing joint-stock banking outside of the environs of London, as an improvement on the previous system, but still leaving intact the 'main evil', 'because they do not take the power from the Bank of England of adding extensively to the currency'. But 'when the monopoly of the Bank expires [in 1833], and the trade in money is perfectly free, a better order of things may arise'. The better order included stability, a currency not suffering from over-expansion, and an end to the boom–bust cycle.[9]

But by far the most important hard-money free banking advocate was the veteran bullionist Sir Henry Brooke Parnell, a leading MP who had taken the bullionist side in the Irish money question in 1804, was a prominent member of the bullion committee, and had supported resumption in 1819. As early as 1824, Parnell had moved in Parliament for an investigation of the Bank of England's charter. In 1826, he denounced the bank's 'exclusive and mischievous privilege'. In 1826 and again the following year, Parnell organized a discussion at the Political Economy Club, on the theme, 'Might not a proper Currency be secured by leaving the business of Banking wholly free from legislative interference?' He left no doubt that his own answer was, Yes.

Parnell set forth his free banking views in his 1827 tract *Observations on Paper Money, Banking, and Overtrading* (1827, 2nd ed., 1829). He began, following Mushet, by placing the blame for the panic of 1825 on the Bank of England's over-issues of 1824–25. The problem was that the law had taken away from the bank 'the great check over abuses in issuing paper money, namely, the competition of rival banks'. Going beyond Mushet, Parnell was not willing to wait for the bank's charter to expire in six years; no, the power of the bank over money, and thereby over prices and the general state of business, was 'so entirely repugnant...that it ought not be tolerated any longer'. Parnell concluded that the remedy was 'a free system of banking', and, overlooking a few pages at the end of Mushet's work, proclaimed that he himself was the first man in England to raise the banner of free banking.[10]

It is hardly surprising, on the other hand, that George Poulett Scrope, the inveterate underconsumptionist, should also have been an inflationist advocate of free banking in this period. In several books and in an article in the *Quarterly Review*, heralded by articles of other like-minded men in that leading Tory journal, Scrope called for the legalizing of small bank notes and an end to the London note issue monopoly of the Bank of England. His programme was designed to fit inflationist ends. Thus the competing banks would be able to redeem their notes in bullion rather than coin. The proclaimed goal of this banking programme was, in Scrope's words, to 'everywhere lower the values of the metals, and with them that of money'.[11]

7.3 Rechartering the Bank of England

The Bank of England's charter expired in 1833, and this seemed to offer critics of the existing system a golden opportunity to effect a fundamental reform. A bank charter committee was selected by the House of Commons in 1832 to engage in a detailed enquiry into the banking system, focusing on the question of the bank's existing monopoly of bank note issue in London and environs. The committee's hearings and inquiry was the most thorough examination of British banking to date, but Parnell, the only member of the committee to vote against rechartering the bank, complained with some justice that the roster of witnesses was stacked against the proponents of free banking by the manoeuvres of the chancellor of the exchequer in Lord Grey's Whig government, the Viscount Althorp.[12]

It was clear that a consensus of witnesses was building towards centralizing note issue in the hands of a strengthened Bank of England, a policy both the currency school, in its misguided way, and the moderately inflationist Establishment, could support. Only a few witnesses favoured bank competition in note issue in London, and only one, the Manchester merchant and joint-stock banker Joseph Chesborough Dyer, opposed the fateful proposal to invest Bank of England notes with legal tender power.

Based on the committee inquiry, Viscount Althorp presented Parliament in 1833 with his legislative programme: to keep the status quo of bank charter and bank note-issue monopoly in London and a 65-mile radius, and to centralize banking further by granting bank notes legal tender power. This meant that, from then on, private and joint-stock banks need not keep any of their reserves in gold, since depositors and note-holders would be compelled by law to accept bank notes in payment; and that only the Bank of England itself would have to meet its contractual obligations to redeem its notes or deposits in gold. This measure of 1833 went a long way to reduce the role of gold coin in everyday life, and to encourage its replacement by bank notes and bank deposits. In presenting his programme, Althorp noted that since the committee hearings, 'the public have been more inclined to look favourably on the management of the Bank of England...'. In short, the loaded committee had done its work well. He further provided a harbinger of the future by stating that his goal was to have all bank notes issued by the Bank of England – which of course is the modern centralized banking system.

The powerful country banking lobby, however, rose up in high dudgeon at this threat to its note-issue privileges, and the Cabinet was forced to back down on its goal of note-issue monopoly for the Bank of England. Lord Althorp was so chagrined at this successful pressure that he almost resigned from the government.

Although there was only one witness against it, the legal tender provision for Bank of England notes only carried in Commons by virtue of support from arch-inflationists opposed to the gold standard; the vote for legal tender was 214 to 156, with hard-money stalwarts Sir Henry Parnell and Sir Robert Peel, the leader of the Tory opposition, voting against.

Outrage against the legal tender law among the public was led, as might be expected, by the country bankers. The committee of country bankers, led by Henry William Hobhouse, pointed out that the law would 'violate private rights, and secure to the Bank of England an unjust and perpetual monopoly'. The committee's memorial justly pointed out that the government had taken measures against the expansionary tendencies of the country banks, but had ignored the 'operation of the same principle' at work in the Bank of England, in its case unchecked by the competition of other banks.

Leading the public reaction against legal tender was the prolific free banking advocate, the Scottish attorney Alexander Mundell. Mundell warned that the 1833 law would lead to the centralization of specie reserves in the country into the hands of the Bank of England. He charged that 'Your [English] industry, which has been already taxed by the exclusive privileges of the Bank of England as it now exists, is thus to be taxed still more by extension of it'.[13]

7.4 The crisis of 1837 and the currency school controversy

For the first time, the law of 1826 had allowed joint-stock banking (except for the Bank of England) to exist in England. But various remaining restrictions had held the number of joint-stock banks down to 14; the act of 1833 had removed these restrictions, and the result was a veritable orgy of joint-stock banks formed in England. Forty-four new banks were added from 1831 to 1835, topped by no less than 59 in 1836 alone, 15 of them established between 1 May and 15 June of that year. A powerful joint-stock bank, the London and Westminster Bank, was even established in London itself in 1834, although of course it was banned from issuing notes.

Along with the increase in the number of banks came an expansion in bank money. Thus the circulation of country bank notes rose from £10 million at the end of 1833 to over £12 million in mid-1836. Of this growth, almost all came from the issue of the new joint-stock banks: from £1.3 million to £3.6 million in the same period.

Although the Bank of England and the private country banks complained at the new competition, the expansion of credit by the bank fuelled this new burgeoning of banks and bank notes. Discounts of the bank expanded from £1.0 million in April 1833 to £3.4 million in July 1835, and rose to over £11 million by the end of the latter year. Total bank credit, in turn, rose from £24 million in 1833 to over £35 million at the beginning of 1837. This expansion took place in the teeth of the bank's loss of specie reserves from £11 million in 1822 to less than £4 million at the end of 1836. So much for the currency principle, and for its modified 'Palmer rule', which the bank's governor, John Horsley Palmer, had explained to the bank charter committee in 1832 that the Bank of England had been following. There is no way that such a practice – of expanding credit while specie reserves were falling – could be tortured into even an approximation of the currency ideal that the money supply should move as if it were the stock of specie in the country.

To top it off, the bank credit expansion led, in what was becoming the usual way, to a financial crisis and panic at the end of 1836 and the beginning of 1837, replete with bank runs, especially in Ireland. There followed the typical signs of recession: contraction of bank credit, decline of production, collapse of stock prices, numerous bankruptcies of banks and other businesses, and a swelling of unemployment.

It is not surprising that the new boom–bust cycle gave rise to parliamentary inquiries – by committees on joint-stock banks in 1836, 1837, and 1838, and even more so to vigorous debates on the banking situation in pamphlets and in the press. Indeed, more than 40 pamphlets were published on the banking system in 1837 alone, and a large number continued the following year.

The pamphlet war was touched off by a remarkable pamphlet by Colonel Robert Torrens,[14] remarkable not only for being the best presentation of the currency school, but also because it signified a sudden conversion of Torrens into the currency ranks. For Torrens, though a distinguished political economist, a friend of Ricardo, and a founder and leading member of the Political Economy Club, had been an ardent, almost wild, inflationist and anti-bullionist during the bullion *Report* struggles. Indeed, Torrens's inflationism had continued at least into 1830.

Then, in the course of confused and bewildering speeches in Parliament in the critical year of 1833, Torrens continued his old bitter anti-deflationist attacks on the resumption act of 1819, but in the midst of them, also inconsistently enunciated the currency principle in clear form:

> Extensive and calamitous experience had established the fact, that a currency, consisting of precious metals, and of paper convertible into these metals on demand, was liable to sudden and very considerable fluctuation, between the extremes of excess and of deficiency...A mixed currency...would suffer a much more considerable contraction...than a purely metallic...Unless our present system of currency were amended by the timely interference of the Legislature, it would go on to occasion periodical and aggravated distress, until, in a national bankruptcy it would find its euthanasia.[15]

In another speech on rechartering the Bank of England, Torrens warned that 'the adoption of the measures proposed by Government for continuing and increasing the exclusive privileges of the Bank of England would inflict upon the country a periodic recurrence in aggravated forms of revulsions of trade, and of panics in the money market...'.

In his notable *Letter to Lord Melbourne*, all hesitation finally fell away, and Colonel Torrens joined the leadership of the currency school ranks. He began by pointing out, in contrast to most of his currency colleagues, that bank deposits were money equally with bank notes, paying tribute to James Pennington for pointing this out. Torrens explained the nature of deposits as money very clearly, showing that a shift of bank liabilities from notes to deposits or vice versa would not change the amount of bank money by which merchants and others can make purchases. He also noted that while most people have learned how an increase in coin and bank notes raises prices and depreciates foreign exchanges, neither the government nor the directors of the Bank of England understand how loans and deposits do the same thing. But tragically, Torrens then inconsistently dismissed deposits as unimportant, apparently on the ground that the bank, not the public, decides whether to keep its liabilities in notes or deposits, and on the further erroneous assumption that country and joint-stock banks pyramid at a fixed ratio upon bank notes as their reserves but not upon bank deposits. From then on, Torrens wrote and acted as if deposits were irrelevant to the money supply.

Torrens also unfortunately conceded that the bank must function as a lender of last resort to banks in distress, but then confined his attack on the bank to its stoking the fires of inflationary credit and not conforming to the currency principle from the beginning. In order to force the currency principle upon the bank, Torrens, for the first time in print, urged that Parliament rigidly separate the bank into an issue department and a banking department. The issue department would be forced to limit its note issues to its actual supply of gold, so that bank notes could only fluctuate to the extent that the bank's stock of gold increases or decreases. In that way, wrote Torrens, 'the circulation [of bank notes] would always remain in the same state, both with respect to amount and to value, in which it would exist were it wholly metallic'.

The problem is that the banking department, in Torrens's and hence the currency plan, would be left totally free and unregulated, on the assumption that the bank could issue credits and deposits, and that those loans and demand deposits would be totally irrelevant to the money supply. The neglect of deposits was the tragic flaw in the currency plan.

Colonel Torrens's assault on the bank was in effect, though not by name, answered in a pamphlet by bank director and former governor John Horsley Palmer.[16] As in the case of bank apologists for decades, Palmer put the blame for the inflation and recession on every institution *but* the bank: on shipments of funds abroad, on bank runs, and on reckless credit expansion by private and joint-stock English and Irish banks. He concluded that the solution – a particular favourite of the bank – was that the bank must have a monopoly of all note issue. Ironically, the currency school, so hostile to the bank, proposed the same plan for different reasons: so that the government could have but one central bank to regulate.

In his *Letter to Lord Melbourne*, Torrens had given credit to the banker Samuel Jones Loyd for originating the idea of the separation of the Bank of England into issue and banking departments. Loyd now weighed in with a pamphlet attack on Palmer, in which he assumed the leadership of the currency camp.[17] Far more simplistic than Torrens, Loyd dogmatically but fatally asserted that notes and deposits are forever absolutely different and therefore can and must be treated totally differently. Professor Fetter offers an amusing and accurate explanation of the triumph of Loyd's simple-minded stance:

> He [Loyd] stated as a fundamental that no man in his right mind could question that note issuing and deposit business were completely separate and that a mixed circulation of coin and notes should fluctuate exactly as would an all-metallic circulation. Despite its theoretical vacuity, there was no denying the effectiveness of Loyd's argument...Loyd's prestige as a successful banker undoubtedly made his words carry conviction to many who...felt that something ought to be done about the Bank of England and that a man who made money in banking must understand banking.[18]

Throughout 1837 and 1838, the currency principle was advocated in highly influential pamphlets – again by Loyd, by David Ricardo's brother Samson, and – in a particularly important pronouncement – by long-time Bank of England director George Warde Norman. Like Loyd, Torrens and Pennington, Norman was a member of the Political Economy Club. His pamphlet of 1838 was a revision of a pamphlet that he had privately printed five years earlier.[19] Norman agreed with Loyd that notes and deposits are totally different, and also suggested granting to the Bank of England a monopoly of all bank notes. Since Norman was a powerful bank director, it would seem that his adoption of the allegedly 'anti-bank' currency principle was akin to B'rer Rabbit urging not to be thrown into the briar patch!

Another economist lending his prestige as one of the last of the Ricardians to the currency principle was the prolific John Ramsay McCulloch, both in a review of some of the year's pamphlets in the *Edinburgh Review* for April 1837, and again in a new edition of Smith's *Wealth of Nations*, which he published the following year. In 1840, at the next stage of the debate, another leading economist joined the fray on behalf of the currency principle: S. Mountifort Longfield, in a notable four-part article, 'Banking and Currency', in *Dublin University Magazine*, an article influenced heavily by McCulloch's writings.

7.5 The crisis of 1839 and the escalation of the currency school controversy

A mild boom in 1837 and 1838 was followed by another economic crisis towards the end of 1838 and during 1839. Bankruptcies and bank runs ensued, and the Bank of England's gold reserve fell from £9.8 million in December 1838 to an extremely low £2.4 million by September 1839. Not only that; but in the teeth of shrinking reserves, the bank, instead of following anything like its own Palmer rule, let alone the more rigorous currency principle, expanded credit still further, thus precipitating an even greater drain of gold from the bank. By July and August 1839, the chancellor of the Exchequer was beginning to contemplate another restriction, another suspension of specie payment on behalf of the bank. The bank was saved only by massive credits from the Bank of France and from Hamburg.

Clearly, the banking situation was becoming intolerable, and something had to be done. Parliament appointed a select committee on banks of issue on 1840 and again in 1841, and massive hearings were held on the question. Disputes in parliamentary testimony and pamphlet controversy were redoubled, and were made more urgent by Horsley Palmer's concession that the bank was finding it almost impossible to adhere to his rule.

Several other groups now arose to challenge the growing currency school consensus. The free banking adherents took a lead from the currency school in lashing out at the Bank of England's responsibility for inflation and for the business cycle. But the force of their opposition to the bank was vitiated by their uniform apologia for the country and joint-stock banks. While it is true that those banks were largely governed by the actions of the bank, it was egregious for them to claim that the private banks were totally passive and blameless in the entire process. The free banking school was particularly discredited by the fact that virtually all of its spokesmen – with the exception of Sir Henry Parnell, who died in 1842, in the middle of the controversy – were themselves joint-stock or country bankers, so that the special pleading in their stance was all too evident. If this group had confined their advocacy of free banking to the largely *political* point that the bank would inevitably be *more* inflationary and dangerous than competitive banking, they would have been far more persuasive. But such restraint is not the usual practice of special pleaders.

The only distinguished economist to take up the free banking cause was Samuel Bailey, the subjective value theorist. But Bailey had founded and was now chairman of the Sheffield Banking Company, and his fervent apologia was all too suspect. Bailey, indeed, was one of the worst offenders in insisting on the passivity of the country and joint-stock banks, and in attacking the very idea that there is something wrong with worrying about changes in the quantity of the money supply. By assuring his readers that competitive banking would always provide 'nice adjustment of the currency to the wants of the people', Bailey overlooked the fundamental Ricardian truth that there is never any social value to increasing the money supply, once the commodity is established, and that inflationary increases in bank credit take place as a process of fraudulent issue of fake warehouse receipts to standard money.

Another school of thought arising in this period was the banking school, at this early point consisting solely of one prominent man, Thomas Tooke. Tooke (1774–1858) was by now an elderly merchant in the Russian trade who, born the son of a chaplain, had started working in St Petersburg at the age of 15, and had become a partner in a mercantile firm in London. Long interested in economic matters, Tooke had been one of the founders of the Political Economy Club, and continued to attend meetings of the club until his death. In the bullion controversy, Tooke was a staunch bullionist, and he strongly supported the resumption of specie payments in 1819. At best, however, Tooke was a confused and inchoate thinker, and whatever theoretical acumen he had was apparently warped beyond repair by decades of immersion in his life-work, a four-volume *History of Prices and of the State of the Circulation from 1792*, published from 1838 to 1848.[20] Inductive play with his statistics was able to convince Tooke, for example, as early as his 1838 volumes, first that high and rising prices during the Napoleonic periods were solely due to bad harvests, lowering the supply of farm products, as well as obstructions of foreign trade, while, second, *falling* prices after the war were caused by better harvests and the resumption of trade. Having concluded that, Tooke was able to press on, in his third volume of the *History of Prices* in 1840, and in his parliamentary testimony the same year, to launch the banking school with the absurd proposition – to quote from a crystal-clear formulation of Tooke four years later – that: 'the prices of commodities do not depend upon the quantity of money indicated by the amount of bank notes, nor upon the amount of the whole of the circulating medium: but that, on the contrary, the amount of the circulating medium is the consequence of prices'.

To be fair to Tooke and his banking school colleagues, they did not mean – or profess to mean – to apply this old fallacy to *inconvertible* currency, as their anti-bullionist forbears had done, but only to convertible currency. But this did not make their analysis or conclusion one whit less absurd. The masterful critique by Torrens deserves to be quoted at some length: Torrens first points out that Tooke has 'the deserved reputation, which even he himself cannot destroy' of having shown by 'an extensive induction from existing and from historical facts...that the value of everything declines as its quantity is increased in relation to the demand'. But then, Torrens notes, Tooke 'turns his back upon himself by affirming that the value of money does not decline, as its quantity is increased in relation to the demand'. Or at least he affirms this for a convertible money standard. But Torrens concludes incisively that the effects of an increase are the same, for convertible or inconvertible currency. The only difference is that there are limits to increases imposed by a convertible currency. Thus: 'Mr. Tooke falls into the misconception of imagining that the limitation to a further decline of value which convertibility imposes, prevents the previous existence of the decline which it subsequently arrests.' Like Adam Smith, the banking school was blithely assuming that the adjustments and restraints of redeemability were instantaneous, and therefore that no problems would be created in the actual processes of the real world.

A particular rapier thrust against Tooke by Torrens four years later cannot be resisted: 'Throughout interminable pages of inconsistent affirmation [in the multi-volume *History of Prices*], he reiterates the inference, that the value of commodities has fluctuated in relation to money and that, therefore, the value of money has not fluctuated in relation to commodities'.

The corollary proposition of the banking school, taken from the anti-bullionists and now brought again to the fore by Tooke, is that the Bank of England *cannot* increase the supply of money (as Tooke put it starkly, 'The Bank of England has not the Power to add to the Circulation'). Even applying this claim only to convertible currency, as the banking school did, it is difficult to hold such a manifest absurdity at length. In practice, therefore, Tooke and the other banking school adherents usually modified this blunt statement to apply only to bank notes issued in loans to private borrowers, and not to purchases of government securities. To the question: what's the difference?, the main contribution to Tooke's doctrine was made in 1844 by John Fullarton: namely, that notes issued in purchase of government securities are 'paid away' and remain permanently in circulation, thus adding to the quantity of money, whereas bank notes 'are only *lent* and *are returnable to the issuers*',[21] and presumably therefore do not add to the money supply. This was what Fullarton dubbed the 'principle of reflux' of notes returning to the banks. Once again, the incisive refutation came from Colonel Torrens, who pointed out that to carry any weight, the 'vaunted principle of reflux' requires *instantaneous* repayment of all loans: 'Allow any interval to elapse between the loan and the repayment and no regularity of reflux can prevent redundancy from being increased to any conceivable extent.'[22]

The same, as well as many other, strictures apply to a variant of Fullarton's and others in the banking school, which, again stemming from the anti-bullionists, held that banks can never over-issue notes provided that their notes are only issued in the course of making short-term, self-liquidating loans matched by inventories of goods in process – the so-called 'real bills' doctrine.

Torrens's role in the currency *vs* banking controversy has a fascinating reverse symmetry with the path taken by Tooke. Whereas Torrens began as an anti-bullionist and apologist for the Bank of England, and now ended as a currency schoolman and opponent of bank credit inflation, Tooke began as a solid bullionist yet ended his days as a pro-bank, anti-bullionist.

Among the various grave inconsistencies in the banking school approach, one particularly stands out: if it is true that banks can do no wrong (at least in a convertible currency), that they cannot over-issue notes or over-expand credit, and that even if they did it could have no effect in raising prices or causing a business cycle, then why not adopt free banking? Why have a privileged monopoly like the Bank of England? Yet the banking school remained a determined enemy of free banking and devoted apologists for the bank. Thomas Tooke's most famous *dictum* was the striking: 'Free trade in banking is synonymous with free trade in swindling.' Fair enough. But, if we analyse this pronouncement logically and we find that banking is synonymous with swindling, then what is the rationale for placing the power of state privilege behind a monopoly 'swindler'? Even if banking is swindling, isn't 'competitive swindling' better than a state-privileged and dominant monopoly swindler? And yet Tooke fiercely fought to preserve the bank and its exclusive privileges in London and environs; his only proposed reform was to induce the bank to hold a higher reserve of specie to liabilities.

The one contribution of the banking school was to continue to emphasize – what Torrens knew but Loyd and Norman did not – that bank notes and bank demand deposits were equal and coordinate parts of the supply of money. Because of their grave error on this point (in Torrens's case to dismiss deposits as always in a fixed ratio to notes), the currency school, and its embodiment in Peel's Act, left deposits as the big hole in their attempt to make the money supply conform to movements in gold. As we have noted, the currency school counterparts in the United States did not make that error.

Free trade and *laissez-faire* thought was growing in dominance in Great Britain during this era, led by the intrepid merchants, manufacturers and publicists from Manchester. But where to stand on the vexed question of banking? Should banking be free or is fractional-reserve banking really 'swindling' and therefore different from normal honest enterprise? Was Chancellor of the Exchequer Thomas Spring Rice correct when he stated in Parliament in 1839 'I deny the applicability of the general principle of freedom of trade to the question of making money?'

Of one thing the men of Manchester were certain: there was no quarter to be given the Bank of England. Thus, John Benjamin Smith, the powerful president of the Manchester Chamber of Commerce, reported to the chamber in 1840 that the crisis of 1839 was caused by the Bank of England's contraction, following inexorably from its own earlier 'undue expansion of the currency'. Smith denounced the 'undue privileges' of the bank as the source of its control over the nation's economic life. Testifying before Parliament that year, Smith endorsed the currency school by criticizing the fluctuations of note issues by all the banks as well as the Bank of England, and went on to state: 'it is desirable in any change in our existing system to approximate as nearly as possible to the operation of a metallic currency; it is desirable also to divest the plan of all mystery, and to make it so plain and simple that it may be easily understood by all.' Not only did he thus endorse the currency principle; he went further to endorse Ricardo's scheme of creating a governmental national bank for the purpose of issuing bank notes.[23]

A similar course was taken by Richard Cobden, the shining prince of the Manchester *laissez-faire* movement. Attacking the Bank of England, and any idea of discretionary control over the currency, Cobden fervently declared:

> I hold all idea of regulating the currency to be an absurdity; the very terms of regulating the currency and managing the currency I look upon to be an absurdity; the currency should regulate itself; it must be regulated by the trade and commerce of the world; I would neither allow the Bank of England nor any private banks to have what is called the management of the currency...I should never contemplate any remedial measure, which left it to the discretion of individuals to regulate the amount of currency by any principle or standard whatever...

Rejecting both private and central bank management, Cobden was perceptive enough to see that the goal was not free banking *per se*, but to have a currency that mirrors genuine market forces of supply and demand: i.e. the fortunes of gold or silver money. He saw that the currency principle aimed to do just that, and hence his endorsement. And while his support for a government national bank of issue was too much like leaping out of the frying pan into the fire, it was understandable in the light of his refusal to trust the Bank of England to cleave to the currency path: 'I should be sorry to trust the Bank of England again, having violated their principle [the Palmer rule]; for I never trust the same parties twice on an affair of such magnitude.'

7.6 The renewed threat to the gold standard

Thus a consensus was building rapidly after the crisis of 1839 on behalf of the currency principle. But perhaps the precipitating factor in bringing Sir Robert Peel and the Establishment to enact the principle was a renewed threat to the gold standard. The gold standard had been the agreed-upon consensus of all parties since the 1820s and since the return to gold the assaults of inveterate statists and inflationists like Birmingham's Attwood brothers had faded away. But now, under the stimulus of economic crisis, fiat paper agitation and other inflationist threats to the gold standard surfaced once again.

If Manchester was the home of *laissez-faire* and sound money, Birmingham, its sister manufacturing town in the North, had long been the home of state-sponsored inflationism. Economic recession struck the Birmingham area in 1841, and Birmingham moved once more to a powerful attack upon gold. Thomas Attwood himself had retired from Parliament two years before, but Birmingham's representatives were more than willing to take up the old cause. Attwood had been replaced by merchant and manufacturer George Frederick Muntz, who agreed with the former's currency views; and Richard Spooner, the Tory whom Muntz had defeated for the seat, was an inflationist and a banking partner of Attwood's.

The following year, the Birmingham Chamber of Commerce, presided over by Richard Spooner, launched a furious campaign pressuring the prime minister, Sir Robert Peel, into going off gold. Muntz put out a new edition of an old anti-gold tract and, roaring back to the wars, Thomas Attwood, as might be expected, published articles and wrote numerous letters on his currency nostrums.

The most influential of this outpouring of Birmingham inflationism was the *Gemini Letters*, published anonymously by Thomas B. Wright and John Harlow of Birmingham, first as 35 letters in a country newspaper during 1843, and then in book form the following year as *The Currency Question: The Gemini Letters*. The *Gemini* plea was straight, proto-Keynesian, inflationism: inconvertible paper money should be issued by the government, in sufficient amount to stimulate consumer purchasing power and ensure full employment. In addition, the public debt should be inflated away. Thus, as Wright and Harlow put it:

> The proper plan, it appears to us, is to raise the capacity of the consumer, by securing high wages and ample profits, and by these means making light the fixed national obligations of the people...The only limit they would affix to the issue of paper money would be the degrees of prosperity which the different amount of issues would produce...

There is every reason to believe that the *Gemini Letters* and the Birmingham agitation were influential throughout the country. Henry Burgess and his committee of country bankers used the interchanges between the Birmingham Chamber and Robert Peel to denounce the gold standard. Both the *Times* and the new weekly *Economist* were forced to expend a great deal of energy in defending the gold standard from its 'unsound' enemies. At any rate, it is known that Peel owned a copy of *The Currency Question* and marked key passages in the book.

The threat to gold was reinforced by a renewed agitation to dump gold for a bimetallic gold–silver standard. Heedless of the fact that bimetallism never works in practice (since Gresham's law pushes the undervalued metal out of circulation and encourages the overvalued), the pro-silver forces found in bimetallism a way to support monetary inflation while remaining respectably in favour of precious metals as money. Silver supporters therefore began with a core from the fiat paper group, including Spooner, Matthias Attwood, George Muntz and Henry Burgess, and added numerous bankers and businessmen, such as Richard Page, Henry W. Hobhouse, chairman of the committee of country bankers, William D. Haggard, and the eminent banker Alexander Baring, now Lord Ashburton.

7.7 Triumph of the currency school: Peel's Act of 1844

At the heart of the triumph of the currency principle in Peel's Act of 1844 was one man: the statesman and political genius Sir Robert Peel.[24] Peel has been habitually derided by historians as a confused middle-of-the-roader, a 'flexible' political opportunist, at best a transitional figure unwittingly performing the historical function of ushering in the Conservative and Liberal party system in England. But, as Professor Boyd Hilton has helped to point out, Peel was a far different figure: a statesman in the best sense, a Tory liberal who was consistent and even unyielding in principle and purpose, and flexible and 'entrepreneurial' only in attaining the best tactics to arrive at his fixed ideological goals. As Hilton has demonstrated, in every important sense, economic, financial and moral, Robert Peel was the John the Baptist, the founder, the 'progenitor of Gladstonian liberalism'.[25]

During the 1820s, Peel was for most years head of the Home Office in Tory governments. He had long been opposed to Catholic emancipation, and had even resigned his Cabinet post in 1827 in protest at the accession to the prime ministry of George Canning, head of Tory liberalism and champion of Catholic rights. Two years later, however, after the death of Canning, Peel, back as home secretary, was converted to Catholic emancipation as part of his ever-increasing devotion to the classical liberal, *laissez-faire* cause. At his conversion, Peel had the good grace to honour the prophets and warriors for Catholic emancipation whom he had opposed for so long: Fox, Grattan and Canning himself.

From 1831 on, Peel headed the Tory, now Conservative party, and also was the heart and soul of the liberal faction of the party. Peel's great prime ministry took place in 1841–46. Here he fought vigorously for a peaceful foreign policy, battling against the pro-war, imperialist Palmerston wing of the Liberal party, and managed to conclude peace with the United States in the menacing Oregon boundary controversy. Peel also managed to lower tariffs, but lost in his fight for all-out free trade. His great accomplishment on that front was victory over the furious opposition of the Tory agriculturalists led by Benjamin Disraeli, in the complete repeal of the infamous Corn Laws which had for decades established an enormous import tariff on wheat. In this fight against the artificially high price of food, Peel was spurred by the growing famine in Ireland. Again gracious in victory, Peel hailed his political opponent, the *laissez-faire* Liberal Richard Cobden, as the true architect of the repeal of the Corn Laws. For his success, Peel's government was toppled by Disraeli, and he died in a hunting accident four years later, in 1850.

Robert Peel's proudest achievement, however, was his banking reform, his Act of 1844. The Bank Charter Act of 1833 had provided for possible change in the charter during 1844, so that was the year of potential banking reform. As recent research has revealed, Peel's Act did not originate as a hostile 'strait-jacket, fastened on a reluctant (though subsequently complacent) Bank by the efforts of the Currency School'. Rather the Act came from within the bank itself, 'as an attempt by the Bank to find for itself a short-cut to currency management', as well as a means of obtaining its long-sought monopoly over bank note issue.[26] First, the ardent currency school leader, George Warde Norman, had, as a bank director, been promoting the plan since 1838. Although Norman lost within the bank on his currency proposal in 1840, he persisted, and the following year he became part of a five-man standing committee of the bank to discuss the scheme. By January 1844, William Cotton, the governor of the Bank of England, and a member of the standing committee, had been converted to the currency plan, and when, in early January, Peel asked Cotton and the deputy governor, J.B. Heath (also a member of the standing committee) to confer with him and Chancellor of the Exchequer Henry Coulburn about fundamental banking reform, Cotton was ready.[27] In response to these discussions, Cotton and Heath, on 2 February, submitted to Peel the complete outline of what was soon to become Peel's Act.

In essence, Peel's Act established the currency principle. It divided the Bank of England into an issue department, issuing bank notes, and a banking department, lending and issuing demand deposits. True to the rigid currency school separation of notes and deposits, deposits would be totally free and unregulated, while notes would be limited to a ceiling of £14 million matched by assets of government securities (roughly the extent of existing note issue). Any further notes could only be issued on the basis of 100 per cent reserve in gold. The second main provision was to grant the Bank of England its long-sought monopoly of the note issue. This was not done immediately, but to be phased in over a period of time. Specifically: no new banks were to issue any bank notes, existing banks were to issue no further notes, and the Bank of England might contract with bankers to buy out their existing notes and replace them with the bank's own. In this way, private bank notes were 'grandfathered' in, and the private (that is, joint-stock plus country) banks were neatly cartellized, under the direction of the bank, with the private banks able to keep out all further competition. This 'grandfather' cartel clause was not only designed to make the transition to the new order gradual; its main effect, and presumably its intent as well, was to bring the private banks – which might be expected to be the chief opponents of the new bill – around to become enthusiastic supporters.

In his manoeuvring within the Cabinet before publicly presenting Peel's Act, the prime minister made it clear that 'if we were about to establish in a new state of society a new system of currency', he would have preferred the Ricardian plan of government notes, with no Bank of England or any other bank notes allowed; but that this plan would be impracticable in the existing state of the real world, where a coalition must be built among such contending forces as the bank itself, Ricardians, free bankers and country bankers. The desideratum, Peel shrewdly advised, was to 'determine to propose the course which they may conscientiously believe to reconcile in the greatest degree the qualities of being consistent with sound principle and suited to the present condition of society'.

News of Peel's coming bank charter bill had spread by the end of February, and the country banks, as expected, vigorously protested the bill during March and April. Finally, Peel introduced the bill to Parliament on 6 May. Shrewdly splitting his opposition, he applied the bill fully only to England. The ban on new banks issuing notes was extended to Scotland and Ireland, but the limitations on existing banks were applied to England alone. For the rest, Scotland and Ireland were left alone for the time being.

The introduction of Peel's bill touched off a flurry of controversy, including a pamphlet war over the Act. In particular, the new controversy gave rise to the banking school, which beforehand had been represented only by Tooke. Tooke weighed in with an *Inquiry into the Currency Principle*, and John Fullarton entered the fray with his aforementioned pamphlet, *On the Regulation of Currencies*, a widely circulated and influential tract even though it was published in August 1844, after the passage of Peel's Act. S.J. Loyd published a defence of the bill, while the formidable Colonel Torrens blasted Tooke in another pamphlet.

The new banking school was noteworthy for being more royalist than the king, more favourable to the Bank of England than the bank itself. In short, the banking school, along with most of the London bankers, favoured the vesting of a monopoly of bank note issue in the Bank of England. Its quarrel was solely with currency principle restrictions on the bank's issue of notes. This was surely the kind of opposition that the Bank of England could live with. While the banking school correctly spotted the main weakness of the currency school in not treating notes and deposits alike, this objection was scarcely directed to extending any sort of reserve requirements to bank deposits as well as notes. On the contrary, they would have been all the more outraged by, say, a consistent Peel's Act that would have placed a 100 per cent reserve requirement on all further bank liabilities, deposits as well as notes.

One bit of *curiosa* about the emergence of the banking school is the lateness of its arrival; coming as it did almost when the fight over Peel's Act was over, and flourishing for a while after, its importance was more for raising theoretical issues and for raising the interest of historians of economic thought than in actually influencing the political battle.

Another noteworthy aspect of the fray was the advent of a new and important star in the economic firmament: John Stuart Mill (1806–73), who joined the banking school side of the debate in an anonymous article, 'The Currency Question', in the radical *Westminster Review*. Actually, Mill had foreshadowed the banking school in an article written at the age of 20, 'Paper Currency and Commercial Distress', in the short-lived radical *Parliamentary Review*. Like so many others, Mill was first moved to turn his attention to banking and business cycles by the economic and financial crisis of 1825–26. But in contrast to many others, he abandoned instead of extending his basic Ricardianism in this area.[28] Instead of seeing the new phenomenon of business cycles as created by monetary disturbances, he saw them as caused by waves of 'speculation', presumably generated by over-optimism. Money and banks were purely passive respondents to fluctuations in the economy. From this there followed his conclusion that movements in the money supply, at least under a gold standard, had no effect on prices or trade. Within the framework of a gold standard, prices rose first, dragging the money supply upwards, and later fell, pulling the money supply down.

How could Mill square this odd doctrine with his overall Ricardianism and its thesis of the influence of the supply of money upon its value? He did so by an ingenious, though bizarre and fallacious, theory of what constitutes the supply of money. The money supply was made up, not only of coin, notes and demand deposits, Mill opined, but also of the 'credit-worthiness' of every member of the public. When a bank made loans to some member of the public, then, it might increase notes or deposits outstanding, but that increase is exactly compensated by a decrease in the 'credit-worthiness' of the borrowing citizens. Therefore, when banks lend money to individuals and businesses, the money supply does not increase at all. On the contrary, when banks purchase government securities or finance its deficit, they add directly to the total money supply by the same amount. In fact, they even add to the money supply when they lend to private citizens beyond the degree of their genuine credit-worthiness. How is such 'credit-worthiness' to be determined? By banks confining their loans to sound borrowers, and to the discounting of 'real bills', that are short-term, matched by inventories of goods in process, and are therefore self-liquidating in a short period of time. Bank credit then happily follows the 'needs of trade' upwards or downwards, and cannot raise prices. While completely fallacious, Mill's theory at least had the merit of providing *some* plausible, logical explanation for the banking school creed – one that was scarcely matched by any of his colleagues.

Furthermore, Mill's doctrine provided a good reason for his devotion to the gold standard, and for his bullionist denunciation of inconvertible fiat money.

Within his theory, if government or the central bank issues inconvertible fiat paper, that paper adds directly to the money supply and to inflation rather than being neutralized by subtracting from credit-worthiness. And devoted to the gold standard he remained. We have already seen Mill's denunciation of Thomas Attwood's inflationary fiat paper scheme in 1833.

And what of the alleged free banking school, which Professor White has put forward as equally strong and vibrant to, and strictly separate from, the rival currency and banking schools? As White himself ruefully admits, they were nowhere to be found, their alleged devotion to free banking failing the most acid of all tests, when Peel's Act was about to bring all commercial banks under Bank of England control. For not only would the bank now have a virtual monopoly of note issue, but in order to obtain notes in exchange for cashed-in deposits, the other banks would now be obliged to keep the great bulk of their reserves at the Bank of England. White tries to explain away the defection of the free bankers as having been bought out by Peel's cartellization-'grandfather' clause: for the banks could continue to issue at their current level and no new competing banks would be permitted. But while this explanation is true enough, it raises the crucial question: how devoted were Professor White's heroes to free banking to begin with? Wasn't the free banking school simply a group devoted to the economic interests of the private commercial banks?

Take, for example, the newly founded *The Bankers' Magazine*, which had supposedly been a leading mouthpiece for free banking for the previous year. A writer in the June 1844 issue, while critical of the currency principle and the move towards monopoly issues for the bank, frankly approved the Peel Act as a whole for aiding profits of existing banks by prohibiting all new banks of issue.

And let us take in particular James William Gilbart (1794–1863), leading spokesman for the country bankers, manager of the London & Westminster Bank, and, according to Professor White, one of the main theoreticians of the free banking school. Gilbart, born in London and descended from a Cornish family, had worked all his life as a bank official and had written works on banking since the late 1820s. Since 1834, he had been manager of the London & Westminster Bank, continually clashing with the Bank of England. Despite Professor White's assurance that the free banking school men were even more fervent than the currency men in attributing the cause of the business cycle to monetary inflation, Gilbart held, typically of the banking school, that bank notes simply expand and contract according to the 'wants of trade', and therefore such notes, being matched by the production of goods, could not raise prices. Furthermore, the active factor goes from 'trade' to prices to the 'requirement' for more bank notes to flow in the economy. Thus Gilbart: 'if there is an increase of trade without an increase of prices, I consider that more notes will be required to circulate that increased quantity of commodities; if there is an increase of commodities and an increase of prices also, of course you would require a still greater amount of notes.' In short, whether prices rise or not, the supply of money must always increase! One wonders who the 'you' is who would have such requirements. On the free market, on the contrary, if there is an increase in the production of commodities, prices will tend to fall and *not* rise; furthermore, increased production of trade does not 'require' or call forth an increase in bank money. The causal chain is the other way round: increased bank note issue raises the money supply and prices, and *also* the nominal money value of the goods being produced.

All historians of economic thought except for Professor White have placed Gilbart squarely in the banking school camp as one of its leaders. Since White seems to agree with Gilbart's fallacious 'wants of trade' analysis, and since he admits that this creed is similar to that of the banking school, his creation of an important new school of 'free banking', challenging both of the others, appears all the more tenuous and artificial. The main difference seems to be marginal and political: while *all* the banking school hailed the banking system as useful and harmless, *most* of them laid special honours on the Bank of England, while Gilbart, as a joint-stock banker himself, placed most approval upon the commercial banks.[29]

When it came to the test, then, Gilbart, like his colleagues on *The Bankers' Magazine*, caved in on what Professor White alleges to be his free banking principles. Thus White concedes:

> He [Gilbart] was relieved that the act did not extinguish the joint-stock banks' right of issue and was frankly pleased with its cartellizing provisions: 'Our rights are acknowledged – our privileges are extended – our circulation guaranteed – and we are saved from conflicts with reckless competitors'.[30]

James Gilbart's open status as a banking school inflationist and Robert Peel's staunch devotion to hard money were both revealed in Peel's questioning of Gilbart when the latter testified that country bank notes are only issued in response to the wants of trade, and therefore that they could never be over-issued. He *also* claimed that the Bank of England could never over-issue so long as it only discounted commercial loans and did not buy government bonds.[31] At this point, Sir Robert Peel unerringly zeroed in and drew forth Gilbart's apologia for the banking system. Peel: 'Do you think, then that the legitimate demands of commerce may always be trusted to, as a safe test of the amount of circulation under all circumstances?' To which Gilbart admitted: 'I think they may.' (Nothing about exempting the Bank of England from that trust.) Peel then asked the critical question. The banking school all claimed to be devoted to the gold standard, so that the 'needs of trade' justification for bank credit did *not* apply to inconvertible currency. Peel, suspicious of that devotion to gold, then asked: in the bank restriction days, 'do you think that the legitimate demands of commerce constituted a test that might be safely relied upon?' To which Gilbert evasively replied: 'That is a period of which I have no personal knowledge.' This was a particularly disingenuous point coming from the author of *The History and Principles of Banking* (1834). Moreover, the issue is of course a theoretical one, and no 'personal knowledge' is necessary to make a reply – a point made immediately by Peel. At which point Gilbart threw in the towel on the gold standard: 'I think the legitimate demands of commerce, even then, would be a sufficient guide to go by…'. When Peel pressed Gilbart on the point, Gilbart began to vacillate, changing his views, returning to them, and then again falling back on his lack of personal experience.[32]

Peel was right in being suspicious of the strength of the banking school's devotion to gold. Apart from Gilbart's damaging revelations, his colleague at the London & Westminster Bank, J.W. Bosanquet, kept urging bank suspensions of specie payment whenever times became difficult. And while Thomas Tooke often proclaimed his abhorrence of the Birmingham school, he wrote in 1844 that a crucial limit on any over-issue of bank notes was the needs of trade *in addition to* gold convertibility. The opening was sufficient to allow Robert Torrens to score a palpable hit:

> After a careful examination of Mr. Tooke's recent publication, [1844] I cannot discover any very essential or practical difference between his principles and those of the Birmingham economists. Once deviate from the gold rule of causing the fluctuations of our mixed circulation to conform to what would be the fluctuations of a purely metallic currency and the flood-gates are opened, and the landmarks removed. Between the abandonment of a metallic standard as recommended by the Birmingham economists, and the adoption of arrangements hazarding the maintenance of a metallic standard recommended by Mr. Tooke, the difference in the practicable result might ultimately be nothing.[33]

John Fullarton's admission was even more damaging than Tooke's, avowing, in his popular 1844 tract, that he wholeheartedly agreed with the 'decried doctrine of the old Bank Directors of 1810' – namely, the anti-bullionist position that so long as any bank sticks to short-term real bills 'It cannot go wrong in issuing as many [notes] as the public will receive from it'. And of course 1810 was a year of inconvertible money. It is no wonder that Robert Peel considered all opponents of the currency principle as essentially Birmingham men.

Thus the opposition to Peel's Act, while theoretically important, was politically scattered and ineffective. The bill sailed through overwhelmingly, and became law on 19 July. A second Peel bill, designed to make it more difficult to establish new joint-stock banks, sailed through in September. The result of this tightening of bank control and monopoly as well as cartel privileges to existing banks, was, indeed, the creation of virtually no new joint-stock banks in England for the next eight years.

At this point, Peel completed his currency task by extending its sway to Scotland and Ireland in two bills that became law on 21 July 1845. Cautious in the face of regional traditions, Peel was not as tough on the Scottish and Irish banks as he had been on the English. Whereas the English commercial banks could issue no more bank notes period, the Scottish and Irish banks were treated as Peel's Act of 1844 treated the Bank of England: their *further* bank note issues were limited to 100 per cent gold reserves. Scotland had never had its banking restricted, having been free to establish joint-stock banks and issue notes and deposits throughout Scotland. The Scottish bankers, however, like Gilbart and the English bankers, were easily bought off by cartel privileges even more lucrative than in England. As White admits, 'Peel in essence bought the support of all existing banks by suppressing potential entrants and competition for market shares'.[34] In addition, Peel shrewdly permitted the Scottish banks to keep the privilege, denied to English banks (including the Bank of England) since the 1820s, of continuing to issue their cherished small (£1) notes.

The only important development in the year between the two Peel's Acts was the highly belated entry into the great debate of a new leader of the banking school, James Wilson, founder and editor of the notable new journal, *The Economist*. Wilson (1805–60)[35] had founded *The Economist* for the express purpose of battling for free trade and *laissez-faire*. He criticized Peel's Act when it came up in 1844, but devoted most of his energies to free trade. Finally, in the Spring of 1845, Wilson wrote a famous series of nine articles on 'Currency and Banking' in *The Economist*, attacking the extension of Peel's Act to Scotland and Ireland. Wilson took an orthodox banking school approach, except that each of his positions was so emphatic that the inner inconsistencies and contradictions of the banking school were brought out particularly starkly. Thus Wilson was far more emphatic and militant than Tooke or Fullarton about the importance of preserving the gold standard, so much so that Torrens was later to call Wilson 'the most able of the opponents of the act of 1844'.[36] And yet, of the Big Four of the banking school (Tooke, Fullarton, Mill and Wilson), Wilson was the only one who stated flatly and clearly that short-term, self-liquidating real bills would be sufficient to protect the banks from over-issue, even *without* specie convertibility. Thus, Wilson declared that

> inconvertible paper notes might be issued to any extent that legitimate transactions required them, provided such issues were confined to the discount of good

> bills of exchange, and to loans for short periods, without any risk of depreciation, because a larger quantity never could be so issued than was again shortly returnable to the bank in payment of such loans.[37]

In addition, of all the Big Four Wilson was the friendliest to free banking and desirous of saving the alleged free banking system in Scotland.[38] And yet he also claimed that the Bank of England could never over-issue in a convertible money system, which was quite the opposite of the free banking approach.

7.8 Tragedy in triumph for the currency school: the aftermath

As the Jacksonians and other currency counterparts in the US might have predicted, the currency school harboured a tragic flaw, an Achilles' heel that laid them low and turned their triumph into ashes: the neglect of bank deposits as a coordinate part of the money supply. And so, no sooner had Peel's Act been passed, when the Bank of England, happily ensconced in its briar patch of monopoly, central control, and note restriction but deposit freedom, began to expand its loans and deposits ad libitum. At the end of 1844, bank discounts had been £2.1 million and total bank credit £21.8 million. By the end of February 1846, however, bank credit expansion had been so intense that its discounts totalled £13.1 million and total credits £35.8 million. In short, in only a little over a year, total bank credits had risen by 64 per cent, and discounts by a phenomenal 424 per cent. This expansion was aided by the bank's drastically reducing its discount rate from 4 per cent to $2^1/2$ per cent, not only a huge quantitative reduction, but also a lowering of the rate from its traditional 'penalty rate' above the market, to the market interest rate, thereby greatly stimulating borrowing from the bank by banks and other debtors.

Notes of the Bank of England increased only mildly during this period; the huge rise, as we might expect, took place in bank deposits. In September, 1844, bank deposits totalled £12.2 million; by the end of February, 1846, they had doubled to £24.9 million. In the course of this enormous expansion, bank gold reserves fell sharply.

Most of this expanded bank credit poured into a speculative mania of investing in questionable new domestic railroads. In the years 1845 and 1846, over £180 million of new railroad construction was authorized, about double the total of the entire previous decade. Looking back on the period a few years later, *The Economist* referred to the 'mad scenes' of 1845 and 1846, and to

> the folly, the avarice, the insufferable arrogance, the headlong, desperate, and unprincipled gambling and jobbing, which disgraced nobility and aristocracy, polluted senators and senate houses, contaminated merchants, manufacturers, and

traders of all kinds, and threw a chilling blight for a time over honest plod and fair industry.

The bank tried feebly to stem the tide during the first half of 1846, but no sooner did bank reserves increase, than the bank, which had raised its discount rate to $3^1/_2$ per cent in November 1845, dropped it back to 3 per cent the following August. Bank reserves then resumed their steep decline, falling from £10 million in August 1846, a ratio of specie to notes and bank deposits of 58 per cent, to only £3.0 million in April 1847, a ratio of only 20 per cent.

Again, the bank tried to check the tide it had created and continued to generate, but too little and too late. Interest rates rose with the inflationary boom, so that an increase of the bank discount rate to 4 per cent in January 1847 left the rate still under the market, and between 9 January and 10 April, total bank credits rose by £4.5 million and discounts by £3.8 million.

By April 1847, the Bank of England, as well as the entire financial and economic system, was in deep crisis: it increased its rate to 5 per cent, but market rates were now up to 7 per cent. Rejecting efforts by a minority of bank directors to raise the rate to 7 per cent, or even to 6, the bank made things much worse by keeping its rate at 5 and then rationing credit, suddenly cutting off discounts, calling in loans, and refusing to increase loans regardless of the credit quality of the borrower. The bank's refusal to raise rates and instead discriminate in favour of certain borrowers did not, however, save the commercial bank owned by the bank's own governor, W.R. Robinson, from stopping payments in July, or the bank of two other directors from going under in September.

The bank's sudden contraction, cessation of loans and credit rationing caused a severe business and financial panic in April and May of 1847. This drastic therapy finally eased the bank's own condition by the end of May, with the gold outflow temporarily reversing. By the beginning of July, the bank's reserves had doubled from £3.0 million to £6.0 million, a reserve ratio to deposits of 32 per cent. But no sooner had the pressure eased than the bank began to expand again, in the meanwhile making things worse by keeping its discount rate below the market and indulging in selective credit rationing. In September, the second great crisis of 1847 broke, and mercantile failures spread throughout September and October. Thomas Tooke lamented that 'These *mercantile* failures, in number and in the amount of property involved in them, were unprecedented in the commercial history of this country'. In October, the banks began to break, and bank runs began to spread through the provinces. As a result, the frightened banks began to contract their credit and deposits drastically, in order to increase greatly their percentage of reserves. The reserves of the Bank of England were down sharply once again, to less than 14 per cent of deposits. At that point, the Bank of England threw in the towel, and, for the first of many crises, requested the government to suspend the 100 per cent gold reserve restriction on notes imposed by Peel's Act. Delegations from Liverpool and the North, London private bankers, and members from Scotland also pressed hard for suspension of Peel's Act. The country bank organ, *Circular to Bankers*, charged that the London bankers were considering breaking the Bank of England by redeeming all their deposits. One wonders, in that case, how the commercial banks themselves could have avoided being broken in turn. At that point, the government predictably, and, for the first of many crises, itself threw in the towel by suspending the Peel Act provision of 100 per cent gold reserve restrictions on the issue of Bank of England notes.

The government saved the fractional-reserve system by obediently suspending Peel's Act on 25 October, thereby of course saving the day for the banks and alleviating the immediate crisis – at the expense of, in effect, giving up the currency principle and any attempt to tie the monetary and banking system directly to, and to the same extent as, the behaviour of gold. From then on, Great Britain, and eventually the rest of the world, was stuck with a fractional-reserve banking system issuing demand deposits, pyramiding on top of a central bank monopolizing the issue of notes and centralizing the nation's gold, and generating an endless round of boom–bust cycles of inflation and recession. Furthermore, with gold essentially centralized into the reserves of the central banks, it became easy for all these nations, even though allegedly committed to the gold standard, to go off that standard and on to fiat paper whenever any crisis – such as World War I – presented an alleged need for the rapid inflation of money to finance the war effort.

The heart and soul of the currency principle was a rigid tie of Bank of England note issue to 100 per cent gold reserve; but if this restriction was to be suspended whenever banks or businesses got into trouble, then the currency principle lay in shambles. As the prominent London banker George Carr Glynn correctly prophesied after the 1847 suspension, the public would expect another suspension in every future crisis. And sure enough, that is precisely what happened. In response to the 1847 crisis, there were committees of parliamentary inquiry in 1847 and 1848. The suspension of Peel's Act during the crisis of 1857 was easier, and while there were parliamentary committees in 1857 and 1858, there was, in contrast to the 1847 crisis, no debate on the floor of Parliament. And the suspension of Peel's Act in 1866 was considered so routine that there was not even the bother of a parliamentary committee of inquiry.

It is therefore remarkable that, from the time of the first suspension in 1847, the currency school, without exception, defended the suspension of Peel's Act, giving no sign of realizing that they were thereby abandoning their entire doctrine.[39] For not only did suspension in crises weaken the point of the Act, but also the knowledge that suspension would come to the rescue in any crisis emboldened the bank and banking system to expand credit as if the restrictions of Peel's Act did not exist at all. As a result, all that was left of the currency principle was the monopolization of notes by the Bank of England.

7.9 *De facto* victory for the banking school

It is a cliché that people are often appalled at the consequences of achieving their long-cherished goals. Because of the neglect of deposits, the enactment of the currency principle in Peel's Act in no way moderated bank credit expansion or the boom–bust cycle. Given the dashing of their dreams, the currency school, as in the case of all ideologues whose god has failed, could take several alternative courses of action. The most courageous would have been to admit that their principle was deeply flawed, to concede defeat, and to go back to the drawing board. Unfortunately, human beings are so constituted that they rarely opt for this noble course. Certainly none of the currency school distinguished themselves in this crisis. Instead, they took the route that all too many schools of thought, including the Marxists, have travelled: stoutly proclaiming that their theory is in excellent shape, while subtly but vitally redefining what the theory is all about.

For example, before 1844, the currency school, especially Colonel Torrens, adopted a monetary theory of the business cycle. Economic fluctuations were generated by bank credit expansion, led by the Bank of England, which led to inflation and booms, after which the inevitable contraction brought about bankruptcies and recessions. No sooner did the cycle of 1844–47 occur, however, when the currency men backtracked, virtually joining their old enemies of the banking school. The banking school had always proclaimed that banks and the money supply were merely passive respondents to boom–bust cycles generated by non-monetary forces in the 'real' economy. Usually the culprit was mysterious waves of 'speculation', presumably driven by waves of over-optimism and over-pessimism. Now, the currency school, even Colonel Torrens, proclaimed that they had never, ever promised an end to the business cycle, which is, after all, governed by such non-monetary forces as speculation and over-optimism and pessimism. The most that regulation of the currency could do, the currency school now opined, is to eliminate whatever part of the business fluctuations were caused by movements of the money supply. And this, they staunchly affirmed, Peel's Act had indeed accomplished. The business cycle of 1844–47 might have been severe, but it would have been far worse if Peel's Act and the currency principle had not been in effect.

Thus Colonel Torrens, in numerous apologies for Peel's Act, put the blame for the boom of 1844–46 on 'overtrading' and railway speculation, as if this speculation had come out of the blue and was not the consequence of cheap, expanding bank credit. He also mentioned that one aspect of the inflationary boom was 'rapid conversion of floating to fixed capital', that is, a sinking of liquid capital into an excessive amount of fixed, long-range investment. Again, there was no hint that it was excessive bank credit that had generated this over-investment.

It is revealing to compare two critiques by Torrens of Mill's contention that the currency school claimed to be able to cure all business cycles and 'commercial revulsions'. In 1844, in reply to Mill's essay in *Westminster Review*, Torrens pointed out that the currency school claimed to eliminate *not* all revulsions but only those originating 'in a currency fluctuating alternately above and below the level to which a purely metallic currency would perform'. But in his point-by-point 1857 critique of the banking chapter in Mill's *Principles*, Torrens shifted the emphasis. Instead of paring down monetary-based fluctuations to gold currency, Torrens now claimed that most fluctuations began, not in over-issue by banks, but in disturbances not caused by money, which left the money supply out of harmony with the gold supply. Furthermore, Torrens was now easily able to cite Loyd and Norman in support. Loyd, too, now focused on the alleged non-monetary causes of fluctuations. Focusing, as the banking school had long done, on optimism and speculation, Loyd declared that 'So long as human nature remains what it is, and hope springs eternal in the human breast, speculations will occasionally occur, and bring their attendant train of alternate periods of excitement and depression'.

Thus, with the currency school coming to agree with the banking school on the primacy of non-monetary, and the passive dependence of monetary, causes of the cycle, the way was paved for a *de facto* consensus between the two schools. Since the currency school seemed content with the existing system so long as it enjoyed the *label* of the currency principle, the money supply was now deemed passive enough. At the same time, the Bank of England had enough real discretion and flexibility to satisfy the banking school and reconcile it rather easily to the *status quo*. Thus James Wilson, a leading banking school critic of Peel's Act, was readily able to vote for its continuance in the parliamentary committee of 1857–58. The banking school was content, in the British banking system of 1844–1914, to achieve the *substance* of their own creed while allowing the proud currency men to bask in the *name*. For their part, the currency men enjoyed the laurels of an empty victory: Norman, Torrens and Loyd (after 1850 made Baron Overstone), enjoyed great prestige while proclaiming the *status quo* a triumphant embodiment of their principles. The Bank of England's directors were happy to embrace the supposedly restrictive currency creed, and new currency epigones relayed what had become standard doctrine: misinterpreting the existing system as currency-like, and ignoring the entrenching of the boom–bust cycle in economic life.[40]

With the currency school now committed to the banking school's non-monetary, 'overtrading' theory of the business cycle, and with such hard-money and free-banking writers as Robert Mushet and Henry Parnell gone from the scene, the currency analysis of the business cycle disappeared by default. Of the banking school analysts, the most important elaboration of the non-monetary cycle theory was that of James Wilson, in his *Capital, Currency, and Banking* (1847).[41] Wilson developed what might be called a non-monetary over-investment theory, which foreshadowed the later Austrian cycle theory but lacked the crucial monetary causal element. He focused on railroad over-investment as the cause of the 1844–47 cycle, and persistently predicted a crisis based on his analysis from 1845 until the time of the crash.

In Wilson's brilliant analysis, the boom begins with the excessive investment of savings in fixed capital. Savings are 'floating' or circulating capital, the wages fund that goes into the hiring of workers and buying of raw materials. But because of a sometime propensity to overtrade, businesses may invest in fixed capital beyond the annual supply of savings. Too many money savings are poured into the production of fixed capital, whereas too few are used to produce consumer goods. In short, the boom is characterized by an undue shift of resources from consumption goods to capital goods. The increased expenditure on fixed investment of capital – in the 1845 case heavy railroad investment – on the other hand, increases wages in the hands of consumers. But as the consumers come to spend their wages on a lower supply of consumer goods, the price of consumer goods will inevitably rise. In short, consumption and investment have become excessive in relation to the savings available. In response to the rising prices of consumer goods, consumer goods producers will attempt to expand output and thereby increase their demand for capital, i.e. their demand for loans. But the dearth of savings in relation to the demand for capital will bring about a rise in the rate of interest, and the sharp rise in interest rates will precipitate a recession. In short, the fixed investment-boom producers, in this case, the railways and suppliers of railway material, would be forced into a sharp scramble with the producers of consumer goods for suddenly scarce capital, and the resulting crisis and depression causes the abandonment or indefinite postponement of the excessive fixed investments. During the depression, excessive investment is abandoned, resulting eventually in recovery to a sound and normal condition.

Thus Wilson, in addition to seeing the unwise and excessive investment as well as the overconsumption and undersavings of the boom, demonstrated how the boom is the economic distortion that necessarily generates the unhappy but curative depression that finally restores a sound economy. He also saw how a rise in interest rates, as a signal of overconsumption and undersaving, brings about the restorative recession. In addition, he realized that a lack of savings was a key to the recession and concluded that greater savings would help speed the recovery.

While there is surely over-investment in the higher orders of capital goods during a boom, Wilson misfired when making his sharp distinction between floating and fixed capital. To Wilson, money savings going into fixed capital are somehow lost or 'sunk', and thus disappear from the payment of wages. The problem is not in fixed *vs* floating capital, however, but consumption as against over-investment of all types in the higher orders of capital – whether in fixed plant or greater inventory of raw materials.

But the greatest problem in Wilson's discussion was his neglect of money. Money, he believed, was merely a device for facilitating exchanges, and therefore could never be a cause of economic fluctuations, but only an effect. And yet, if money was not involved, where do the railway firms *get* the new money to spend, even though savings have not risen? The only answer, which Wilson neglects, is an increase in money and bank credit loaned to those firms. And, if the money supply has not increased, why are the increases of wage payments by railway firms and other capital producers not offset by *declines* of wage payments in consumer industries? In short, why does the general level of prices increase from the beginning of the boom? Why don't consumer prices at least initially fall? The answer, once again, is the increase in the supply of money and credit that generates and fuels the boom. And finally, why can't the general run of businessmen, including the railway magnates, realize that their investments are outrunning savings, and why does the eventual critical rise in interest rates come as a shock? The answer, once more, is that the expansion of bank credit artificially lowers the interest rate, and lures business firms into the fatal over-investment.

Despite the fact that Wilson insisted that a quantity of money must not be confused with capital, he yet fell into the old Smithian trap of considering the supply of gold as 'idle and unproductive' capital, and so he believed that capital could be increased, and the depression greatly eased, by government issue of £20 million of small, £1 notes, which would replace the 'idle and unproductive' £20 million of gold in circulation. This huge issue, Wilson assured his readers, would not be inflationary because it would simply add to capital; and besides, he added smugly, no inflation could exist since the paper notes would continue to be convertible into gold. But what sort of gold convertibility, what sort of gold standard, exists when gold is supposed to disappear from circulation? The lesson is that, regardless how much devotion is professed to *laissez-faire* or the gold standard, at the heart of every banking school man, including those professing a free banking position, lies an unreconstructed inflationist.

In his *Principles of Political Economy* (1848), John Stuart Mill set forth a cycle theory that blended Wilson's analysis with a Tookean emphasis on commodity speculation, and unfortunately brought in the Ricardian gloom about the alleged inevitable tendency toward a falling rate of profit as agriculture yields ever lower returns. Mill, in short, fused the standard Tooke–banking school emphasis on speculation, over-optimism, and overtrading with Wilson's analysis of the conversion of circulating into fixed capital. Once again, the doctrine was *non*-monetary, with money playing a passive, non-essential, and at best secondary role. Thus Mill adopted Wilson's railroad investment theory of the cause of the recent 1845–47 cycle. The Ricardian motif led Mill to anticipate Schumpeter and hail the inflationary boom as necessary and vital to the achievement of economic growth, by enabling a periodic escape from the falling rate of profit. As a result, Mill was among the first to develop the idea that business fluctuations tend to repeat as recurring cycles, a process which he considered beneficial. He was not worried about recessions, since the contraction and Say's law ensured a rapid return to full employment and prosperity.

There was another important reason for the effective fusion of the currency and banking schools after the enactment of Peel's Act. Both these groups, after all, were dedicated to retention of the gold standard as their top monetary priority, even though the banking school version tended to be highly attenuated. But as soon as the great crisis of 1847 occurred and brought monetary and banking controversy back to Britain, the ultra-inflationist opponents of the gold standard came on the attack, calling either for fiat money inflation or, at best, a bimetallic gold/silver standard. In the face of this onslaught, the currency and banking schools closed ranks, which largely accounts, for example, for James Wilson's voting to retain Peel's Act in 1858.

In fact, it took no more than the crisis of 1847 to encourage the men of Birmingham to resume their assault on gold. Matthias Attwood's old fiat money pamphlet was promptly reprinted, a Birmingham delegation headed by George Frederick Muntz called upon the prime minister, and the Birmingham Currency Reform Association sent a memorial to the queen. The *Times* felt called upon to denounce the Birmingham men in an editorial and T. Perronet Thompson warned a friend of an increasing flow of 'half-mad pamphlets from Birmingham'. And other sectors in the north of Britain joined in the cry. The Liverpool Currency Reform Association was active enough to be denounced in two issues of *The Economist*, and Scotland revealed its inflationist bent by an anti-gold article in the Tory *Blackwood's Edinburgh Magazine*. Furthermore, an organizing convention of the National Anti-Gold Law League was held in Glasgow and was attended by 3 000 people.

The threat of silver bimetallism also surfaced during the crisis of 1847. Particularly important was the powerful banker, Alexander Baring, now Lord Ashburton, always ready to ride his hobby horse of bimetallism, and a petition of a number of influential 'Merchants, Bankers, and Traders of London against the Bank Act'. Wilson denounced the bimetallist doctrine of Ashburton and the London petitioners as 'extraordinary', and 'most inexplicable and unreasonable'. So serious was the bimetallic threat considered that the two stalwarts of the currency school, Loyd and Torrens, collaborated in writing an anonymous pamphlet in a point-by-point rebuttal of the London petition.[42] The telling thrust in the Torrens–Loyd polemic was to show that the logic of the bimetallist position pointed straight to the far more consistent, though far more dangerous, policy of Birmingham fiat money:

> The Birmingham philosophers are consistent reasoners, and have the sagacity to perceive that an arbitrary extension of the paper circulation is incompatible with the maintenance of a metallic standard. The inferior logicians who have signed the London petition, while demanding the establishment of a double metallic standard, are unable to perceive that an extension of paper money through the exercise...of the relaxing power for which they pray would render impracticable the maintenance of any metallic standard.[43]

The high-water mark of the assault on gold came in votes in Parliament in 1848. In the Commons committee, the veteran radical leader Joseph Hume's motion denouncing Peel's Act for aggravating the crisis of 1847 was defeated by a vote of 13 to 11. The 11 supporters included a coalition of free banking remnants like Hume, inflationists and protectionists like the Birmingham Tory Richard Spooner, and bimetallists like Thomas Baring and Lord Bentinck. Furthermore, the report of the House of Lords committee criticized Peel's Act and recommended watering down the restrictive provisions on bank notes. While the committees were deliberating, the veteran anti-bullionist John Charles Herries moved to repeal the limitations on bank notes of the Act of 1844 and all the Acts of 1845. Here was a rallying-point for all soft currency men of whatever stripe – Birmingham men, bimetallists, or soft gold men. Herries's motion lost rather narrowly, by a vote of 163 to 142. The major speeches for the motion came not from the moderates, but from Birmingham men like Richard Spooner. In answer to Spooner, the great Robert Peel rose and pointed out that although Birmingham doctrine was in 'a small minority' within the House of Commons, outside the House 'of those who talk about the currency, and write about the currency, the vast majority', indeed 'nine tenths', agree with Spooner, that is, want 'issues of paper without the check of convertibility'.

Whether Peel was over-reacting to what he considered expressions of evil, or whether his raising the spectre of Birmingham was a ploy to rally the troops, that tactic was successful, and Herries's motion to consider the reports of the Lords and Commons committees, was defeated without even coming to a formal vote. From then on, for a decade, the spectre of Birmingham was enough to win the moderate gold men and the banking school to an all-out defence of the Peel Act *status quo*. During the mid-1850s, Wilson's *Economist* followed this path, and the veteran currency man James Pennington wrote a worried letter to a friend that 'There is just now a widespread clamour calling for repeal of that Act [the Bank Act of 1844] which clamour, if it prevails, will I think, be followed by a clamour, equally loud, for doing away altogether with the obligation of specie payments'.[44]

We may fittingly close our discussion of the aftermath of Peel's Act by focusing on two important contributions, after the passage of the Act, by the wisest of the currency school, Colonel Robert Torrens. In the course of his critique in 1857 of the banking school chapter of Mill's *Principles*, Torrens added another vital point in criticizing the view that banks, being passive, can have no power to increase their liabilities, and hence have no power to raise prices. Torrens trenchantly pointed out that Mill

> excludes from his consideration the important fact, that banks possess in themselves the power of increasing and diminishing the demand for banking accommodation when they raise the rate of discount, the demand for accommodation contracts, and when they lower the rate it expands...and unless he is prepared to disprove the fact that banks can lower the rate of discount, he cannot consistently maintain that their power of increasing the issue is limited...

Amidst all the assaults on the Peel's Act system, by Birmingham fiat money men, bimetallists, remnants of free bankers, and banking school adherents, it is remarkable that apparently not a single writer, parliamentarian, or man of affairs called for a tougher policy of plugging up the enormous hole in the currency system by extending the 100 per cent reserve principle to deposits as well as notes. Not a single currency man admitted any flaw in his previous position, nor advocated, like Jacksonians in the United States, pressing on to a full 100 per cent reserve position on all bank demand liabilities, including deposits. The closest that anyone came to this view was Colonel Torrens. In a poignant moment in the history of economic thought, in his last published work at the age of 77, Torrens wrote a review in the January 1858 issue of *Edinburgh Review*, of the collected *Tracts and Other Publications on Metallic and Paper Currency* by his old friend and ally Samuel Loyd, Lord Overstone, edited by John R. McCulloch. After eulogizing the contributions of Lord Overstone, and once again defending Peel's Act, Torrens went on to try to explain the business cycle culminating in the recent crisis of 1857. In sharp contrast to his surrender a decade earlier to the banking school in blaming 'overtrading' for the crisis of 1847, Torrens now strongly affirmed that 'Were there no overbanking, there could not be (except for brief periods) overtrading and excessive speculation'. And the overbanking, since Peel's Act, clearly meant deposits. For Torrens could scarcely ignore the fluctuations that were occurring in the amount of bank deposits. Discussing deposit banking, Torrens emphasized that by creating new demand deposits through loans, the banks exerted 'the same influence upon the markets as an increase in the numerical amount of the circulation [of notes]'. Torrens had always been the only currency man to understand the true monetary importance of deposits; now he pressed on to a vigorous condemnation of the commercial bankers and their expansion of deposits in the recent boom as well as their contraction and bankruptcy during the crisis. Thus, Torrens bitterly inquired:

> Are the scales of justice held even, when a petty thief, or the forger of a five-pound note, is treated as a felon, and when the speculating banker...obtains from the Court of Bankruptcy a full liquidation of his debts, and receives from sympathising friends and half-ruined creditors the means of recommencing his disreputable and mischievous career?

Torrens went on to show how additional loans 'from deposits produce effects upon prices, upon commercial credit and upon the exchanges, results analogous to those produced by additional issues of bank notes'. Virtually conceding that Peel's Act suffered from not being applied to deposits, Robert Torrens now conceded that 'even under a currency exclusively metallic [i.e. coins without notes] overbanking and the insolvency of discount-houses may occasion disasters as formidable as those which can result from an unrestricted use of bank notes and a suspension of cash payments'.

In his conclusion, Torrens expressed strong doubt whether 'the advantages of discount [deposit] banking, even when conducted under a metallic currency, balance the evils it inflicts'. It seems that Torrens was on the brink of advocating the extension of the currency system to deposits, and perhaps if he had lived to write more on money and banking, he would have done so.

7.10 Currency and banking school thought on the Continent

The flowering of the currency and banking school debates in Britain, coupled with the later burgeoning of central banking on the Continent, led to similar controversies in France and Germany in the 1850s and 1860s. Generally, the results were the same: pseudo-currency triumph in the sense that the central bank acquired a monopoly of note issue, and *de facto* banking school victory in elastic, fractional-reserve banking and repeated increases and declines in the supply of money.

In France, *laissez-faire* thought flowered among economists, who proved themselves the true heirs of J.B. Say. Professors, journalists, the long-lasting Société d'Économie Politique, the Société's *Journal des Économistes*, both launched in 1842, and several other scholarly and popular periodicals were dedicated to the free trade and *laissez-faire* cause. In that atmosphere, the French economists naturally plumped for free rather than central banking.

Most of them, unfortunately, felt constrained to adopt banking school doctrine so as to maintain that freely competitive banking, like banks in general, can never issue excessive notes or bring about a business cycle. They were a far more genuine free banking group than the British who, as we have seen, were special pleaders for commercial banking interests rather than consistent advocates of free banking. Indeed, in this as in other areas, the French, in contrast to the hesitant, muddled and pragmatic British, were not afraid to be consistent, rigorous, militant, and therefore 'extremist' advocates of individual liberty and free exchange.

One of the leading, and one of the most interesting, of the French free banking theorists was Jean Gustave Courcelle-Seneuil (1813–92). Courcelle, as one historian writes: 'was in favour of absolute freedom and unlimited competition and was the most uncompromising of all free bankers in France. The sole permissible regulation, in his view, was one aimed simply at the prevention of fraud'.[45]

I. Edward Horn (1825–75) was another notable French free banking theorist. In his *La Liberté des Banques* (1866), Horn went so far as to challenge the idea that the state must have a monopoly on coinage. He pointed out that private investment bankers could easily gain as much public confidence in the circulation of their coins as has the state. Horn noted that the state is far more likely to suspend the obligation of a central bank to redeem in specie than grant such a boon to the smaller, individual banks. In the paraphrase of Vera Smith:

> Horn called attention to the greater possibility that the liability of such a [Central] bank to pay out specie on demand would be revoked with its consequence of pure paper money in place of notes convertible into coin. A bank under State patronage always counted on the Government to relieve of its obligation to pay when nearing insolvency, and its bankruptcy became legalised instead of its having to go into liquidation and suffer the usual penalties of insolvency. This history of privileged banks had undeniably been full of bankruptcies.

Horn went on to insist that, under free banking, any refusal whatever to pay in specie on demand must mean instant liquidation for the errant bank. Only then could a free banking system work. Horn notes: 'If banks of issue were given to understand, however, that they were positively and irremediably responsible for their acts, and had themselves to bear the consequences, they would be as prudent in their policy as any other business concern'.[46] The problem is how could government be trusted to enforce prompt specie payment on the banks, especially if many or most banks get into trouble at the same time?

Courcelle and Horn were both heavily influenced by James Wilson's circulation into fixed capital analysis of the boom. But both men, while stressing with the banking school that banks cannot over-issue their notes, did admit, in contrast to Wilson, that banks could and did err in fuelling over-investment in fixed capital during the boom. Interestingly enough, Horn, Courcelle, and many of the French free bankers felt they had to deny, by legalistic quibbles, that even bank notes were 'money', since money, in the legalistic though not economic sense, must be strictly confined to the standard specie in which notes were convertible.

But the most fascinating theorists were the tiny intrepid band of Frenchmen who believed in free banking and at the same time were rigorous currency school *ultras*, who despised as fraudulent and inflationary all fiduciary media, all bank liabilities beyond 100 per cent specie reserve. They believed, quite plausibly, that neither a monopoly privileged bank, nor the government that backed it, could be long trusted to maintain 100 per cent gold reserve banking. The leader of this little band was Henri Cernuschi, who, writing two tracts in 1865, declared that the important question was not monopoly note issue *vs* plural or free banking, but whether bank notes should be issued at all. His answer was no, since 'they had the effect of despoiling the holders of metallic money by depreciating its value'. If they were at all useful, they should no more than represent metallic money by 100 per cent; any uncovered notes, any fiduciary media, should be ended totally. Cernuschi favoured free banking because he held that, lacking any special privilege, encouragement, or acceptance by the state, and forced to close the minute banks refused any payment of liabilities, nobody would wish to hold bank notes. As Ludwig von Mises approvingly quoted from Cernuschi: 'I want to give everybody the right to issue banknotes so that nobody should take banknotes any longer'.[47]

A follower of Cernuschi was Victor Modeste, whose policy conclusions were rather different, and brought him close to the hard-core Jacksonians in the United States. Modeste was a dedicated libertarian, who believed that the state is 'the master..., the obstacle, the enemy', and whose announced goal was to replace government by 'self-government'. Modeste agreed with Courcelle and the banking school free bankers that commerce and trade must remain free. He also agreed with them that central monopoly banking was far worse and more damaging than freely competitive banking, and was also opposed to administrative control or regulation of banks. On the other hand, what is to be done about bank notes? In this category, Modeste explicitly included demand deposits, which he saw to be illicit, fraudulent, inflationary, generators of the business cycle, and bearers of 'false money'. His answer was to point out that 'false' demand liabilities which pretend to but cannot be converted into gold, since they go beyond the value of the gold stock, are in reality equivalent to fraud and theft. Modeste concluded that false titles and values are at all times 'equivalent to theft; that theft in all its forms everywhere deserves its penalties..., that every bank administrator...must be warned that to pass as value where there is no value,...to subscribe to an engagement that cannot be accomplished...are criminal acts which should be relieved under the criminal law'. The answer, then, is not administrative regulation but prohibition of tort and fraud under general law.[48]

In Germany, there were few writers influenced by the banking school; most were currency men. In the rigorous currency tradition was Philip Joseph Geyer. Writing in his tract *Banken und Krisen* (Banks and Crises) in 1865, and in another book two years later, Geyer declared that ideally the amount of money in circulation should always remain constant. The money supply is not in fact constant largely because continuing issues of bank notes are not covered by specie. At this point, Geyer contributed one of the first outlines of the Austrian theory of the business cycle, as he pointed out that uncovered bank note issues inject an 'artificial capital' (*kunstliches Kapital*) into the economy, and when this artificial capital exceeds the amount of available 'real' (*naturliches*) capital, over-investment and over-production bring about a crisis. However, Geyer then blundered into an inconsistent underconsumption theory while trying to develop his analysis.

An academic hard-line currency man in Germany was Johann Louis Tellkampf (1808–76). A young Prussian with a doctorate from the University of Göttingen, Tellkampf emigrated to the United States, where he taught first at Union College in law and political economy, as well as history, German language and literature. Then, in 1843, he moved to Columbia College as professor of German language and literature. Three years later, Tellkampf returned to Prussia and became professor of political economy at the University of Breslau. He was later elected to the Prussian senate, where he took a leading part in bank legislation.

Tellkampf's observations on the problems of decentralized banking in the United States led him to argue for strict 100 per cent specie reserves to bank notes, and for one monopoly central bank to put this plan into effect. Tellkampf aided in disseminating the currency principle by co-translating McCulloch's defence of the principle into German in 1859. On the other hand, failing the adoption of his 100 per cent specie plan, Tellkampf was very willing to consider free banking as a second best.

The free bankers in Germany tended to be smaller in number than in France, and currency school rather than banking school men. A notable writer in this camp was Otto Hübner, a leader of the German Free Trade Party. His multi-volume work, *Die Banken* (1854), was largely an empirical survey of banks throughout the world, and argued that banks were soundest and least in danger where they were freest and least controlled. Privileged central banks tend to be wildly run and are in danger of insolvency, as note the suspension of specie payment of the Austrian national Bank, which had financed large deficits of the Austrian government. Hübner's goal, like Cernuschi's in France and like that of Geyer and Tellkampf in Germany, was 100 per cent specie reserve to bank notes. His ideal preference would have been for a state-run monopoly 100 per cent reserve in the bank, like the old banks of Amsterdam and Hamburg, but he recognized the problem of inherent mistrust of state banking. As Vera Smith paraphrases Hübner:

> If it were true that the State could be trusted always only to issue notes to the amount of its specie holdings, a State-controlled note issue would be the best system, but as things were, a far nearer approach to the ideal system was to be expected from free banks, who for reasons of self-interest would aim at the fulfillment of their obligations.[49]

7.11 Notes

1. Frank W. Fetter, *Development of British Monetary Orthodoxy 1797–1875* (Cambridge, Mass.: Harvard University Press, 1965), p. 122.
2. In 'Currency Juggle', *Tait's Edinburgh Magazine* (Jan. 1833). See Fetter, op. cit., note 1, pp. 140–41.
3. Lionel Robbins, *Robert Torrens and the Evolution of Classical Economics* (London: Macmillan, 1958), pp. 245–6.
4. As we shall see below, the currency school was split on the issue of deposits as money: the simplistic insistence on notes as the only bank money being held by the majority led by George Warde Norman and Samuel J. Loyd (Lord Overstone), while the contrary and correct position was held by Sir William Clay and Colonel Robert Torrens.
5. William Gouge's main work was first published as *A Short History of Paper Money and Banking* (1833) in two separate parts, theoretical and historical. Most of the latter was reprinted in England, under the title *The Curse of Paper Money and Banking*, with an introduction, appropriately enough, by the great anti-bank radical, William Cobbett. Both parts were reprinted, virtually intact, in Gouge's own *Journal of Banking* (1841–42).
6. Henry Drummond was the eldest son of the banker Henry Drummond, and was born in Hampshire. He was raised by his maternal grandfather, Henry Dudas, Viscount Melville, and, during his childhood, became a favourite of William Pitt. Educated at Harrow and at Christ Church, Oxford, Drummond left college to become a partner at his father's bank in London. The aristocratic Drummond was a Member of Parliament from 1810 until he retired for ill health three years later. In the meanwhile, Drummond was able to put through Parliament an act outlawing the embezzlement by bankers of securities kept in their safe-keeping. Drummond founded the chair of political economy as Oxford in 1825, and at about the same time became the main leader, prophet and evangelist of the rising movement of pre-millennial millenarianism in Protestant Christianity. Drummond returned to Parliament from 1847 until the end of his life, there serving as a highly independent Tory, favouring war, government, and the ecclesiastical establishment. Drummond wrote many pamphlets on financial and on evangelical themes.
7. In his *Letters to the Editor of the Times' Journal on the Affairs and Conduct of the Bank of England* (1826), cited in Elmer Wood, *English Theories of Central Banking Control 1819–1858* (Cambridge Mass.: Harvard University Press, 1939), p. 110. Another hard-money writer in 1826 was the pseudonymous 'Benjamin Bullion', *Letters on the Currency Question*.
8. For an excellent discussion of the independent treasury programme and its two crucial parts, as well as of the Van Buren bankruptcy proposal, see Major L. Wilson, *The Presidency of Martin Van Buren* (Lawrence, Kan.: The University Press of Kansas, 1984), p. 73 and passim.

9. For Mushet, see Lawrence H. White, *Free Banking in Britain: Theory, Experience, and Debate, 1800–1845* (Cambridge: Cambridge University Press, 1984), p. 62.
10. On Parnell, who has ben neglected by most historians, see ibid., pp. 62–3, and Jacob Viner, *Studies in the Theory of International Trade* (New York: Harper & Bros., 1937), pp. 24–241.
11. George Poulett Scrope, *An Examination of the Bank Charter Question* (1833), p. 456. Also see Scrope, *The Currency Question Freed from Money* (1830), *On Credit Currency* (1830). The other articles in 1830 in the *Quarterly Review* were by Edward Edwards and H.A. Nilan. On Scrope, see Fetter, op. cit., note 1, pp. 137–8. White characteristically neglects the vital difference between Scrope's inflationism and hard-money writers in the free banking camp. White, op. cit., note 9, passim.
12. John Charles Spencer, Viscount Althorp (1782–1845), was born in London to an aristocratic family, the son of Earl Spencer. After studying at Harrow and Trinity College, Cambridge, Althorp received an MA from Trinity in 1802. Althorp was an MP for 30 years after 1804. First a supporter of Pitt, Althorp took a generally radical position in Parliament, battling against the leather tax and in favour of Catholic emancipation, and took his stand with the Whig opposition after 1815 in favour of reform, lower taxation, and cutting the budget. In 1830, Althorp refused the prime ministership, and took his place in the Grey ministry as chancellor of the Exchequer and leader of the House of Commons.

    After his father's death in 1833, Althorp succeeded to his father's earldom as Lord Spencer, and withdrew from direct politics in the House of Commons. He continued to be influential, however, in favour of peace with France and repeal of the Corn Laws in the 1840s.

    A Yorkshire landowner and cattleman, Althorp loved agriculture and hunting. He founded or helped to found the Yorkshire Agriculture Society, and the English Agricultural Society (1828), which later became the Royal Agricultural Society.
13. In Alexander Mundell, *The Danger of the Resolutions Relative to the Bank Charter...* (London, 1833). Cited in White, op. cit., note 9, pp. 67–8.
14. Robert Torrens, *A Letter to the Right Honourable Lord Viscount Melbourne on the Causes of the Recent Derangement in the Money Market and on Bank Reform* (London, 1837).
15. Cited in Lionel Robbins, *Robert Torrens and the Evolution of Classical Economics* (London: Macmillan, 1958), p. 89. Robbins, Torrens's biographer, admits his inability to explain Torrens's complete about-face on money and inflationism. Ibid., pp. 73–4.
16. *The Causes and Consequences of the Pressure upon the Money-Market* (London, 1837). Palmer (1779–1858), was the son of William Palmer of Essex, a London merchant, and mayor and high sheriff of Essex. An East India merchant and shipowner, John Horsley Palmer went into partnership with his brother in 1802. He was a director of the Bank of England from 1811 on.
17. In his *Reflections Suggested by a Perusal of Mr. J. Horsley Palmer's Pamphlet* (London, 1837). Loyd (1796–1883), later the first Baron Overstone, was the only son of a dissenting Welsh minister, the Rev. Lewis Loyd. Loyd's mother was a daughter of a Manchester banker, John Jones. Educated at Eton, and then receiving a BA at Trinity College, Cambridge, at the top of the list, in 1818, Loyd gained an MA from Trinity in 1822. By this time, the Rev. Loyd had left the ministry to become a partner in his father-in-law's bank, and then proceeded to found the London branch of Jones, Loyd & Co. In 1834, the bank merged into the new London & Westminster Bank. A successful banker, Samuel Loyd succeeded to his father's leadership in London & Westminster in 1844. Loyd died one of the richest men in England. He was made Lord Overstone in 1850.
18. Fetter, op. cit., note 1, p. 171.
19. Norman, *Remarks Upon Some Prevalent Errors with Respect to Currency and Banking* (London, 1838). Norman (1793–1882) was born in Kent; his father, George Norman, was a merchant in the Norway timber trade, and a sheriff of Kent. George Warde was educated at Eton, and joined his father in the Norway trade, spending many years in Norway. After his father's retirement in 1824, George Warde became sole owner of the business, until it was merged with another mercantile firm in 1830. George Warde Norman was a director

of the Bank of England from 1821 until 1872, and was a member of the bank's treasury committee during the 1840s. Norman was founding member of the Political Economy Club, and was its last surviving original member.

Norman was a liberal devoted to free trade, and a close friend of the great philosophical radical, banker, and classicist George Grote. Norman was widely read in English, continental, Latin, and Norwegian literature.

20. The first two volumes were published in 1838, the third in 1840, and the fourth in 1848. Two later volumes appeared in 1857, near the end of Tooke's life, but they were largely written by his co-author William Newmarch.
21. John Fullarton, *On the Regulation of Currencies* (1844). Fullarton (1780–1849), son of a physician, went to India as a medical officer for the East India Company, and rose to become an assistant surgeon in Bengal for over a decade. While in India, he became a partner in the Calcutta banking house of Alexander and Co., and amassed a huge fortune, returning to London in the early 1820s. A founder of the Carlton Club, and author of several pro-Tory articles in the early 1830s, Fullarton, retired, now entered the fray on behalf of the banking school.
22. For Torrens's role in this and other economic discussions, including a full annotation of each one of his writings, see the delightful work by Lionel Robbins, *Robert Torrens and the Evolution of Classical Economics* (London: Macmillan, 1958), esp. Chapters IV, V, and the bibliographical appendix.
23. Oddly, Professor White chides Marion Daugherty for putting Smith in the ranks of the currency school rather than of the free bankers, even though White himself concedes four pages later that 'The testimony of Manchesterites J.B. Smith and Richard Cobden [1840] revealed the developing tendency for adherents of laissez-faire, who wished to free the currency school from discretionary management, to look not to free banking but to restricting the right of issue to a rigidly rule-bound state bank as the solution'. White, op. cit., note 9, pp. 71, 75. See Marion R. Daugherty, 'The Currency–Banking Controversy, Part I', *Southern Economic Journal*, 9 (October 1942), p. 147. In particular, see Fetter, op. cit., note 1, pp. 175–6.
24. Years later, S.J. Loyd, the leader of the currency school, testified that he had never had any personal or political connection with Robert Peel. 'I knew nothing whatever of the provisions of the Act until they were laid before the public. The Act is entirely so far as I know the Act of Sir Robert Peel.' Torrens had no contact with Peel either, and indeed Peel turned down Torrens's request for office based on his leadership in the currency school. Only after Peel's death did Torrens receive a government pension 'in consideration of his valuable contributions to the Science of Political Economy'. As for the veteran adviser James Pennington, his advice was only sought for technical details after the main provisions of Peel's Act had already been determined. Fetter, op. cit., note 1, p. 182n.
25. Boyd Hilton, 'Peel: A Reappraisal', *Historical Journal*, 22 (Sept. 1979), p. 614. Not that Hilton is sympathetic to Peel's determined role on the behalf of *laissez-faire* and hard money. On the contrary, he is appalled at Peel's 'doctrinaire' stance, an assessment unfortunately echoed by Professor White in his reference to Peel's 'little-recognized dogmatism'. White, op. cit., note 9, p. 77n.
26. J.K. Horsefield, 'The Origins of the Bank Charter Act, 1844', in T.S. Ashton and R.S. Sayers (eds.), *Papers in English Monetary History* (Oxford: The Clarendon Press, 1953), pp. 110–11.
27. William Cotton (1786–1866) was the son of a naval captain, merchant, and director of the East India Company. At the age of 15, young William entered the counting house of his father's friend. By 1807, he had become partner in a London mercantile firm, and become general manager in that firm's cordage manufacturing plant. Cotton was a director of the Bank of England for 45 years, from 1821 until his death, and eventually became known as 'the father of the Bank of England'. Cotton was governor of the bank from 1843 to 1845, and was succeeded by Heath. Cotton also invented a successful automatic machine for weighing gold sovereigns, and was a distinguished philanthropist in the Church of England. Cotton was born, and lived most of his life, in the county of Essex, where he became justice of the peace, judge and sheriff.

28. Morris Perlman has pointed out that James Mill, in a book review in 1808, developed an extreme version of the real bills banking school doctrine. In that case, James Mill was never a Ricardian in this area, and John Stuart may have been exercising his filio-pietism in bringing back his father's monetary views, as well as Ricardianism in the rest of economics. Morris Perlman, 'Adam Smith and the Paternity of the Real Bills Doctrine', *History of Political Economy*, 21 (Spring 1989), pp. 88–90.
29. See White, op. cit., note 9, pp. 122–6.
30. Ibid., p. 79.
31. So much for James Gilbart's alleged devotion to free banking, years before his surrender to Peel's Act.
32. See the interchange in Hilton, op. cit., note 25, pp. 593–4. It is characteristic of Professor Hilton's lack of insight into economic theory that he brands Peel's questioning as 'inept' and faults him for scoffing at the importance of Gilbart's 'personal knowledge' when judging inconvertible fiat money.
33. Cited in Fetter, op. cit., note 1, p. 193.
34. White, op. cit., note 9, p. 80. Thus the Scottish devotion to their vaunted free banking system turned out to be mainly special pleading. Much of White's book is devoted to the thesis (a) that until Peel's Act of 1845, Scotland enjoyed a regime of free banking uncontrolled by the Bank of England, with liabilities convertible into gold; and (b) that this free system worked far better than England's central bank-dominated one.

    But both parts of this thesis are deeply flawed. On (b) White confines his evidence of superiority to the lower bank failure rate in Scotland. But bank failure is a minor way to gauge the workings of a banking system. White presents no data whatever on whether Scotland suffered any less economic inflation or recession than England. One suspects, then, in the absence of data, that the economic record was about the same for the two parts of the United Kingdom. On (a), the problem is that Scottish banking was scarcely 'free'. Most Scottish bank reserves were kept, not in gold, but in deposits at the Bank of England, or in its surrogate, bills on London. Scottish banks, then, far from being free and independent of the Bank of England, pyramided on top of bank liabilities. Furthermore, the bank habitually bailed Scottish banks out in time of trouble. To top off the argument, the realities were that it was very difficult, both socially and legally, for anyone to actually obtain gold from the Scottish banks in exchange for their liabilities – especially in times of trouble when the gold, of course, was in particularly great demand.

    On Scottish banking in this era, see in particular the definitive work of Sydney G. Checkland, *Scottish Banking: A History, 1695–1973* (Glasgow: Collins, 1975). Checkland writes that 'Requests for specie met with disapproval and almost with charges of disloyalty', and 'the Scottish system was one of continuous partial suspension of specie payments. No one really expected to be able to enter a Scots bank...with a large holding of notes and receive the equivalent immediately in gold or silver. They expected, rather, an argument, or even a rebuff. At best they would get a little specie and perhaps bills on London. If they made serious trouble, the matter would be noted and they would find the obtaining of credit more difficult in the future'. And finally, 'This legally impermissible limitation of convertibility, though never mentioned in public inquiries, contributed greatly to Scottish banking success'. Ibid., pp. 184–6. Also: 'the principal and ultimate source of liquidity lay in London, and in particular in the Bank of England'. Ibid., p. 432. Also see Charles W. Munn, *The Scottish Provincial Banking Companies 1747–1864* (Edinburgh: John Donald, 1981), and Charles A. Malcolm, *The Bank of Scotland, 1695–1945* (Edinburgh: R. & R. Clark, n.d.). On the Scottish free banking question, see Murray N. Rothbard, 'The Myth of Free Banking in Scotland', *The Review of Austrian Economics*, 2 (1988), pp. 229–45; Larry J. Sechrest, 'White's Free-Banking Thesis: A Case of Mistaken Identity', Ibid., pp. 247–57.
35. Wilson, son of William Wilson, a prosperous woollen manufacturer, was educated in a Friends' school and, at the age of 16, was apprenticed to a hat manufacturer. Soon, his father bought the firm for James and his brother. In 1824, Wilson came to London, and became a partner in a mercantile firm which, after 1831, became James Wilson & Co. After losing a great deal of money in indigo speculation, Wilson retired from business in

1844. In the meanwhile, he had become interested in economics and free trade, and had published several tracts on commerce and the Corn Laws. Wilson's writings strongly influenced such later free trade stalwarts as Peel and Gladstone. Finally, Wilson founded *The Economist* in 1843, writing almost all of the copy himself, and forged it rapidly into a highly influential journal. Wilson became an MP from 1847 to 1859, and was also financial secretary to the Treasury during the 1850s. Under the Palmerston regime in 1859, Wilson became vice-president of the Board of Trade, paymaster-general, and a Privy Councillor, and then, just before his death, was sent to India as finance minister, where he proceeded, ironically enough, to increase taxes and to issue a great quantity of government paper.

36. Fetter asserts that Torrens 'never could have said of Wilson's ideas, as he did of Tooke's, 'that the flood-gates are opened, and the landmarks removed'.' Fetter, op. cit., note 1, p. 200.
37. See Lloyd Mints, *A History of Banking Theory in Great Britain and the United States* (Chicago: University of Chicago Press, 1945), p. 90.
38. A few years later, in his *Principles of Political Economy*, Mill became sympathetic to freedom of bank note issue, but on general *laissez-faire* rather than specific monetary and banking grounds.
39. William Cotton, of the Bank of England, thought that the suspension came too soon, and John R. McCulloch thought it of doubtful value, but no currency man attacked the suspension, or even gave any sign of comprehending the significance of the suspension question.
40. These epigones included Charles Neate, a professor at Cambridge who published his lectures, *Two Lectures on the Currency* (1850); R.H. Mills, a professor at Trinity College, Dublin, in his *The Principles of Currency and Banking*, in the mid-1850s; John Inchbald's *The Price of Money* (1862), and the popular tract by George Combe, *The Currency Question Considered* (1856), which was hailed by the London *Times* and went through six editions within one year.
41. The book consisted of the nine 1845 articles on Peel's Act, plus later essays.
42. *The Petition of the Merchants, Bankers and Traders of London Against the Bank Charter Act: with Comments on Each Clause* (London, 1847).
43. Quoted in Fetter, op. cit., note 1, p. 208.
44. Ibid., p. 216. Fetter wittily describes the feelings of the Banking School and the other anti-Peel Act gold men *vis-á-vis* the threat from the Birmingham school: 'The situation is suggestive of the attitude that tradition associates with the Duke of Wellington – he had no fear of the enemy, but the very thought of his allies filled him with terror'. Ibid.
45. Vera C. Smith, *The Rationale of Central Banking* (1936, Indianapolis: Liberty Press, 1990), p. 94.
46. Ibid., p. 108.
47. From Henri Cernuschi, *Contre le Billet de Banque* (1866), Cernuschi's testimony before the massive French government's bank inquiry of 1865–66. Translated by Ludwig von Mises, *Human Action* (New Haven: Yale University Press, 1949), p. 443.
48. Victor Modeste, 'Le Billet Des Banques D'Émission Est-Il Fausse Monnaie?' ('Are Bank Notes False Money?'), *Journal des Économistes*, 4 (Oct. 1866), pp. 77–8. (Translation mine.)
49. Smith, op. cit., note 45, pp. 115–16.

8 John Stuart Mill and the reimposition of Ricardian economics

8.1 Mill's importance

The Mills, father and son, had a fateful impact upon the history of economic thought. If James Mill played a crucial and neglected role in developing Ricardian economics and its philosophical ally, Benthamite utilitarianism, and in foisting them upon the British intellectual world, his son John was by far the most important force in reimposing Ricardian dominance two decades after it had fallen into decline. It is ironic that the fate of British intellectual life in the nineteenth century should depend so closely on the psychological interplay between famous father and son, ironic since both purported to be austere 'scientists' above all. The two men could not have been more different in character and quality of intellect. James Mill, as we have seen, was a hard-nosed, hard-hitting, self-confident hard-core 'cadre' type, in intellect and action, original in carving out an architectonic system of economics, philosophy and political theory, and then supremely energetic in organizing people and institutions around him to try to put them into effect. James tried to educate John Stuart (1806–73) to follow him in leadership of this philosophic radical cadre, but the education didn't take. After John's famous nervous breakdown at the age of 20, the younger Mill emerged as almost the opposite to his father in temperament and quality of intellect. Instead of possessing a hard-nosed cadre intellect, John Stuart was the quintessence of soft rather than hardcore, a woolly minded man of mush in striking contrast to his steel-edged father. John Stuart Mill was the sort of man who, hearing or reading some view seemingly at utter variance with his own, would say, 'Yes, there is something in that', and proceed to incorporate this new inconsistent strand into his capacious and muddled world-view. Hence Mill's ever-expanding intellectual 'synthesis' was rather a vast kitchen midden of diverse and contradictory positions. As a result, Mill has ever since provided a field day for young Ph.D's caught in the game of publish or perish. Dispute over 'what Mill *really* believed' has become an unending cottage industry. Was Mill a *laissez-faire* liberal? A socialist? A romantic? A classicist? A civil libertarian? A believer in state-coerced morality? The answer is yes, every time. There is endless fodder for dispute because, in his long and prolific life, Mill was all of these and none, an ever-changing kaleidoscope of alteration, transformation and contradiction.

John Mill's enormous popularity and stature in the British intellectual world was partially due to his very mush-headedness. Here was this person of undoubted intellectual parts, an erudite man growing up in a circle of distinguished scholars and political activists, and yet here is this eminent man who sees good in all conceivable positions, even the reader's, whoever he may be. Add to this another unusual note: Mill's felicitous style. For in the history of thought, the style very much reflects the quality of mind; clear-headed thinkers are usually lucid writers, and confused and inchoate thinkers usually write in the same way. Ricardo's crabbed and tortured style reflected the muddled complexities of his doctrine. But Mill was unusual in possessing a graceful and lucid style that served to mask the vast muddle of his intellectual furniture. Ricardo won at least brief popularity for his very obscurity, though he had the invaluable aid in spreading his doctrine of such clear writers as James Mill and John McCulloch. But John Mill won fame and influence partly through the grace of his writing.

If he had known the full extent of his son's defection of character and intellect, the elder Mill would surely have despaired. But he never really found out, for John learned early to dissemble, playing a double game throughout his 20s while his father was still alive. Thus he was perfectly capable of publishing an article praising his father's philosophical favourite, Jeremy Bentham, while at the same time writing an anonymous article elsewhere highly critical of Bentham. Mill's intellectual duplicity proved a sharp contrast to his father's candour.

Oddly enough, however, and weighing the totality of John's career, James might in a sense have been truly pleased. For through all the mush, through all the flabby and soggy 'moderation' that marked the adult John Mill and still attracts moderate liberals of every generation, in the last analysis filiopietism triumphed. When push at long last came to shove in the mind of John Stuart Mill, he came down, albeit of course 'moderately', on the side of his father's two idols, Bentham and Ricardo. In philosophy, he abandoned hardcore cadre Benthamism, for soft-core 'moderate' Benthamite utilitarianism. And in economics, he not only was basically and proclaimedly a Ricardian; he also gladdened his father's ghost by re-establishing Ricardianism on the throne of British economics, a feat he accomplished through the enormous popularity and dominance of his *Principles of Political Economy* (1848). So even though John Stuart substituted moderate for full-fledged democracy, and, still more disturbingly, moderate statism and socialism for his father's *laissez-faire*, James Mill might have been gladdened by his son's ability to reimpose Ricardianism upon the world of economics. Indeed, the great advances of the anti-Ricardians of the 1820s, 1830s, and 1840s were truly forgotten in Mill's re-establishment of the cost, and indeed the labour, theory of value, the Ricardian rent theory, Malthusian wage and population theory and the remainder of the Ricardian apparatus. For not the first or last time in the history of economic and social thought, error displaced truth from the post of dominance in the intellectual world. In placing Ricardo back upon the throne of economics, John Stuart was fulfilling perhaps the most cherished, although one of the most fallacious, of his father's goals and principles.

It should be realized that John Stuart's life in the shadow of his father was not only psychological or organizational. At the age of 16, John entered his father's office in the East India Company, and assisted him for many years, succeeding to his father's high position on James's death in 1836. Mill, indeed, worked full-time at the East India Company until the liquidation of that company in 1858 bestowed upon Mill a handsome pension for the remaining 15 years of his life.

8.2 Mill's strategy and the success of the *Principles*

The proximate reason for the enormous success and influence of the *Principles* was the remarkable best-selling triumph of Mill's first book, *A System of Logic* (1843), which caught on with intellectuals and general readers of the age in a way that no tome on logic and epistemology has done before or since.[1] Mill's *Principles* was shrewdly designed as a comprehensive, massive two-volume treatise in the *Wealth of Nations* mould, accessible to economists and laymen alike. It went through no less than seven editions in Mill's lifetime, as well as a cheap 'people's' edition, and an abridged version for the American market. The *Principles* continued to serve as the standard British text in economics through the early twentieth century.

In a fascinating article, Professor de Marchi contends that much of the seeming confusion, muddle and moderation permeating Mill's *Principles* was a deliberate strategy designed to soften up and conciliate the numerous enemies of Ricardianism and thereby to win their support for a covert re-establishment of Ricardian dominance. To put it far more bluntly than does Professor de Marchi, Mill engaged in a strategy of duplicity to confuse the enemy and to win their support for at least the essentials of the true Ricardian doctrine. If de Marchi is correct, there is far more Machiavelli in Mill's dithering 'openness' to all points of view than has been supposed.[2] De Marchi notes that Mill had consciously adopted, since 1829, what Mill called the strategy of 'practical eclecticism', which amounts to lulling and disarming the opposition and, by seeming conciliation, to manipulate them into believing that they had 'spontaneously' arrived at what Mill held to be the truth – in short, a strategy of deception and duplicity.[3]

It is impossible to estimate how much of John Stuart Mill's inveterate and eternal contradictions, qualifications and alterations were due to honest muddle-headedness and how much to devious and evasive intellectual broken-field running. Did Mill himself always know? At any rate, the tactic seems to have worked, as enemies from all sides of economic theory in general and of Ricardianism in particular, were charmed by Mill's middle-of-the-road benevolence to all and sundry. They might not have been converted to hard- or even soft-core Ricardianism, but they were virtually all impressed by Mill's conceding one point after another to themselves or others. (All, of course, except Marx, who, as a pre-eminent cadre type, poured out a proper vial of scorn upon Mill's 'shallow syncretism' and 'attempt to reconcile the irreconcilable.') One by one, Tories, romantics, socialists and 'practical men' warmed up to Mill himself and to his alleged achievements.

Thus we have seen how Mill introduced into economics, and managed to make dominant, the unfortunate hypothetical methodology of positivism, as contrasted to the praxeological system of deduction from true and complete axioms advocated and employed by Say and Senior. (Ricardo had expressed no methodological views, although his method in practice was deduction from a few unreal and deeply flawed axioms.) In the course of pursuing this method, Mill introduced the disastrous and fallacious hypothesis of the 'economic man', which left economics deservedly open to ridicule as false to the nature of man. But Mill's substitution of hypothetical, of at least professedly tentative and humble, positivism, charmed the enemies of deductive praxeology.

For example, there had grown up at Cambridge University a group of militant Baconian inductivists, men who angrily rejected as 'unscientific' any sort of abstract theory in the social sciences. These belligerent anti-theorists, who held that proper theory can only be a patient enumeration and collection of countless empirical 'facts', were the ancestors of American institutionalism and of the German historical school. The Cambridge group of four, who were originally friends as undergraduates, was headed by William Whewell (1794–1866), who became a fellow and then master of Trinity College, an eminent mathematician, a professor of mineralogy and then of moral philosophy at Trinity, and twice vice-chancellor of the University. Another powerful figure in this group was Richard Jones (1790–1855), who succeeded Nassau Senior as professor of political economy at King's College, London, and then succeeded Malthus as professor of political economy and history at Haileybury.[4] Author of a three-volume *History of the Inductive Sciences* (1837) and the *Philosophy of the Inductive Sciences* (1840), Whewell had gushed over Bacon as 'the supreme Legislator of the modern Republic of Science', and 'the Hercules' and 'Hero of the revolution' in scientific method.

In the end, however, Whewell was forced to admit that the inductivist method in economics did not seem able to go beyond destructive criticism to the constructing of any sort of body of economic law. Perhaps that is why Whewell, at least, ended by toying with mathematical Ricardian models, flirting with the kind of abstract economics he had long professed to despise.[5]

William Whewell was not converted from inductivism to positivism by Mill, but he was moved to express approval of Mill's *Principles* as a whole. Others whom Mill charmed were Tory writers long hostile to political economy and to its free trade conclusions. Thus *Blackwood's Magazine* gave the *Principles* a generally favourable review for its author's 'perpetual, earnest, never-forgotten interest,...in the great questions at present mooted with respect to the social condition of man'. And G.F. Young, in the course of a virulent protectionist attack on economics in the Tory *Quarterly Review*, hailed Mill as 'one of the most philosophical and candid of the modern school of economists' – specifically for Mill's positivist admission that political economy was grounded not on correct but only on *partially* true assumptions.

Mill's most conspicuous defection from classical political economy in general, and from Ricardianism in particular, was his numerous concessions to socialism and his apostasy from *laissez-faire*. In general, the British classical economists had not exactly been consistent *laissez-faire* stalwarts, in contrast to J.B. Say and his school in France, including such people as Charles Comte, Charles Dunoyer, Frederic Bastiat, Gustave de Molinari, and their numerous followers. In Britain, consistent *laissez-faire* advocates were to be found rather among writers, intellectuals, and businessmen in Manchester, such as Richard Cobden, John Bright and the recently successful Anti-Corn Law League. They were also to be found in *The Economist*, edited by James Wilson, particularly in its editorial staff writers, Thomas Hodgskin (1787–1869) and young Herbert Spencer (1820–1903). But while the classical economists were not hard-core free market men, they at least tended strongly in that direction; if not a principle, *laissez-faire* was for them at least a guide or tendency to which they could at least partially orient their position. But Mill sharply broke with all that. Steeped in a high moral tone at all times, Mill originated the unfortunate intellectual tradition of conceding that socialism and indeed communism was the 'ideal' social system, and then drawing back by lamenting that it probably could not be attained in this cruel practical world. Pro-capitalists who begin by conceding the moral ground to their opponents are bound to lose the long-run war, if not the short-run battle, to socialism.

Small wonder, then, that various wings of socialists hailed Mill's *Principles*. The Owenite socialists, then the leading socialist group in Great Britain, were highly approving. In addition to words of commendation from Robert Owen (1771–1858) himself, the Owenite writer and lecturer George Jacob Holyoake (1817–1906) was particularly enchanted. The editor of *The Reasoner*, Holyoake hailed Mill's *Principles* with enthusiasm. 'It had been held', he proclaimed, 'that the people were made for political economy' but now, with Mill's *Principles*, 'at length political economy [is] being made for the people'. Holyoake also praised Mill for having spoken of communism 'with more geniality than any political economist had done before', and he gave his working-class readers the benefit of much of that high-priced tome by printing lengthy extracts in the *Reasoner*. No doubt Holyoake was also happy with Mill's proclaimed ideal of a commonwealth of cooperatives, Holyoake being one of the founders and long-term agitators for the cooperative movement in Britain.

Also delighted with the *Principles* was the socialist Thornton Hunt (1810–73), editor of the weekly *Leader*, the main socialist paper in England after

1850. Hunt, a believer in communal ownership and control, particularly welcomed Mill's claim that communism was the ideal state.

But even more important a boost to statism and socialism in Mill's *Principles* was his most un-Ricardian proclamation that while the processes of production were subject to the iron laws of political economy, distribution, on the other hand, was up for grabs, subject to human will and man-made arrangements. Ricardo, whose system rested on allegedly iron laws of distribution, must have turned over rapidly in his grave at that remark. This separation between 'production' and 'distribution' was wholly artificial and totally invalid, since people earn incomes on the market precisely for participating in production, and the two are intimately intertwined. But in making this distinction, Mill gave birth to the calamitous and still prevalent notion that distribution can be changed virtually at will through tax, subsidy or other statist schemes, while the market would still continue to function and produce undisturbed.

It is certainly not surprising that Mill's moral obeisances to cooperatives and communism met warm applause at the hands of the newly burgeoning Christian socialist movement. Of the *troika* of young Anglicans who led the Christian socialists, the Rev. Charles Kingsley (1819–1875) hailed the *Principles*, as did another of the leaders, the attorney John Malcolm Ludlow, in *Fraser's Magazine*.[6] *Fraser's* had been purchased in 1847 by John William Parker, who became its *de facto* editor; Parker was a friend of Kingsley and a Christian socialist sympathizer. The fact that he also happened to be the publisher of Mill's *Principles* scarcely made the paean of *Fraser's* reviewer any less lavish.

8.3 The theory of value and distribution

Mill's handling of the theory of value was characteristic of the man: a hard core of filio-pietism wrapped in layers of enigma and muddle. And so the labour theory/cost-of-production theory of value was restored to a dominant place in classical economics, but hedged about with Mill's usual string of evasive and self-protective qualifications. Thus Mill accepted Bailey's demolition of Ricardo's search for an impossible invariable measure of value. But, on the other hand, Mill displayed his contempt for even the idea that consumption and utility could have any influence upon value by removing consumption from its traditional niche as a basic part of the economics text. Instead, Mill's *Principles* was divided into 'Production', 'Distribution', 'Exchange' and 'Government', with nary a mention of consumption.

Yet, despite Mill's inconsistency and muddle, his stance of humility suddenly dissolved into his astonishingly arrogant claim that his pronouncements would be the last word for all time on the theory of value. In a famous *faux pas*, Mill proclaimed that 'happily, there is nothing in the laws of value which remains for the present or any future writer to clear up: the theory of the subject is complete'. Now, it is true that Mill had the bad luck to be writing these words only two decades before the 'marginalist revolution' completely overturned value theory. But, even so, it was inexcusable for anyone as knowledgeable as Mill was supposed to be in scientific method and the history of science to be caught writing this sort of statement. And Schumpeter tells us that the same sort of *hubris* had marked Mill's *System of Logic*.[7] It is an odd paradox indeed to see a thinker habitually changing course and qualifying every thought and deed, and *yet* insisting that his is the last conceivable word on any particular subject!

Upholding and restoring the dominance of Ricardo's theory of profit, Mill insisted on returning to the Ricardian *dictum* that profits are dependent on, and inversely proportionate to, wages. Cleverly paying obeisance to his friend Nassau Senior's concept of 'abstinence', and agreeing with Senior that profits (interest) were 'the remuneration of abstinence', Mill managed to weaken the concept and to return somehow to insisting on labour as the sole *cause* of profits.[8]

On wages, too, Mill returned squarely to Malthus, differing only by holding out the hope of ameliorating the alleged problem of population growth by enthusiastic and determined use of birth control. The change over the half-century was the difference between the stern preacher and the 'progressive' feminist. Alexander Gray's comment on Mill's passion against what he considered to be excessive births is both witty and apposite:

> In writing on the population question, his [Mill's] voice quivers with a righteous indignation which leads him to a violence of language nowhere to be found in Malthus. Excessive procreation is for Mill on the same level as drunkenness or any other physical excess, and those who are guilty should be discountenanced and despised accordingly.[9]

One of John Stuart Mill's most famous moves in economic theory was his typically dramatic, emotional, and yet carefully hedged 'recantation' of the wages fund doctrine. In company with other classical economists, having explained the supply of labour by the quantity of population, Mill then went on to explain the demand for labour, rather sensibly, as the sum of gross savings, or circulating capital, available for paying workers until the product was produced and sold: this available amount he called the 'wages fund'. This concept was used, again quite intelligently, to demonstrate that should labour unions be able to raise wages for one part of the labour force, this rise could only be at the expense of lowering wages somewhere else.

The wages fund analysis of the demand for labour was, in one important sense, a retreat from Say and others who emphasized that the demand for and prices of factors of production are determined by their productivity in producing consumer goods desired and demanded by the public. For Mill, this retreat was part and parcel of his orchestrated shift back to Ricardo. On the other hand, the wages fund doctrine was correct as far as it went: at any given time, there is a certain amount of gross savings to be invested in paying factors of production. Therefore, paying more in one place because of pressure by suppliers of labour will necessarily reduce demand and payment elsewhere. On the other hand, the wages fund is clearly only a first approximation: for the fund of circulating capital at any given time is not only used to pay wages, but also to pay rent to landlords and interest (profit) to capitalists.

In 1869, Mill's friend and fellow high official at the East India Company, William Thomas Thornton (1813–80), wrote a book entitled *On Labour* critical of Mill's wages fund doctrine. Partly this came as a needed attempt to bring consumer demand, and notably *expected* consumer demand, back into the analysis. But Thornton's main thrust was that the capital fund was not only a fund for wages but also a fund out of which to pay profits to capitalists (and, he might have added, rents on land).

Mill's review of Thornton's book in the *Fortnightly Review* was overly dramatic enough to be seized upon as a 'recantation', and as an indication that unions could indeed raise the average level of wages for workers. Actually Mill, as Schumpeter points out, was simply explaining the doctrine more carefully, and pointing out what should have been obvious: that yes, wages could conceivably increase at the expense of driving profits to zero, but that in the not too long run the result would be failure to maintain as well as to expand capital, and hence the impoverishment of everyone, not least of all the working class. There is nothing here contradictory to the wages fund doctrine. It should be added that Colonel Robert Torrens had made the very same 'concession' on the wages fund 35 years before, and had received none of the attention and noise.[10] The essence of the misnamed 'wages fund' theory was simply a fundamental part of the solidly grounded and established Turgot–Smith theory of capital.[11] How little real significance Mill attached to his 'recantation' is demonstrated by his failure to alter any of his discussion of the wages fund in the seventh and last edition of the *Principles* published during his lifetime (1871), explaining in his new preface that the discussion had not ripened sufficiently to make such a change.

As Professor Hutt has pointed out in his classic work, the prevalent idea that modifying the wages fund theory led straight to economists justifying unionism and collective bargaining was a canard and a red herring created for the occasion by Mill. Adam Smith and McCulloch had justified collective bargaining on the vague notion of labour's alleged 'disadvantage' in bargaining in the labour market. Indeed, Mill himself in the *Principles*, while continuing to hold his original wages fund view, offered the same justification, plus the Ricardian theme that without such collective bargaining wages would be driven down to subsistence level (the iron law of wages once more!). And indeed, Henry Fawcett (1833–84), professor of political economy at Cambridge and a devoted Millian, continued to cling to the original version of the wages fund theory as well as labour's 'disadvantage' argument for trade unions. On the other hand, for example, Mountifort Longfield, a proto-marginal productivity theorist, took the hard line in opposing unions as never being able to effect a general wage increase.[12]

Mill's persistent adherence to the Turgot–Smith–Ricardo theory of savings and capital is demonstrated by one of his famous 'fundamental propositions' on capital, that 'the demand for commodities is not the demand for labour'. Mill was correct on the fundamental nature of this proposition, on the failure of most economists to grasp it, and in hailing Ricardo and Say as two of the economists to stress it particularly. It is no wonder that modern economists, steeped in the fallacies of Keynes, find the proposition 'puzzling'. What it means is that at least the proximate demand for labour is supplied by savings, even though the ultimate demand may be supplied by consumers. More than that: Mill here had hold of the basic Turgot discovery of the time-structure of capital, the fact that savings pays for the factors ahead of production and sale, and that the consumers are last down the line of production. Furthermore, savings builds up a capital structure and increases funds paid to wages and other factors, which cannot get paid unless savings are first taken out of income previously supplied to producers by consumers. This theory of capital provided the building-block for the developed Austrian theory of the time-structure of capital.

It is then not surprising that Mill also supported Say's law, to which his father had contributed so much.[13] In monetary theory, Mill stood squarely in the Ricardian tradition in fervent opposition to irredeemable paper money. However, he deserted that tradition, as we have seen, in favour of the banking school. And while from his banking school mentor, James Wilson, Mill learned of the malinvestments, especially in fixed capital, that occur in business cycle booms, he also adopted the disastrous Wilsonian belief that money plays a passive and unimportant role in these cyclical booms and busts. In this belief, significantly, he harked back to his father's only difference from Ricardo. Indeed, he also adopted a pre-Schumpeterian view that these over-investment booms, followed by corrective recessions, were necessary to economic growth.

8.4 The shift to imperialism

Classical liberalism, whether natural rights or utilitarian, whether English, French or German, was devoted to a foreign policy of peace. Its firm opposition to war and imperialism was the libertarian, minimal-government corollary in foreign affairs to its minimal-government stance at home. Opposition to big government, high taxes and interventionism abroad was the corollary of the same opposition at home. Even when the classical liberals were not totally consistent exponents of *laissez-faire* in either domestic or foreign affairs, their basic thrust was in that direction. Peace and free trade were twin policies – reaching the acme of consistency on both counts in the policy positions and agitation of Richard Cobden, John Bright, the Manchester school, and the Anti-Corn Law League.

Among the British classical liberals, non-intervention and anti-imperialism were the dominant tradition. Colonialism and special privileges to investment abroad were properly seen as part of the monopoly privileges and controls imposed by mercantilism, none of which confers advantage – in fact, imposes considerable disadvantage – on the home population. Jeremy Bentham, James Mill and the others were generally solidly anti-imperialist, and advocated that Britain give up its colonies and grant them independence. Bentham originally included India in this emancipation, but was talked out of it by James Mill, a high official in the governing organization of India, the British East India Company. The James Mill exception for India was based on a utilitarian 'white man's burden' argument that, even though England was losing economically from governing India, it must continue doing so for the sake of the Indians, who were too savage to be able to govern themselves. In that way, James Mill was able to cast an altruist–utilitarian patina over England's often bloody repression in India and over his own role in that oppression.

Mill also was able to propound his own Ricardian assault on the landlord class. Following the Ricardian doctrine that landlords were useless and non-productive Mill advocated special taxes on ground rent; being a high official in India, he believed that he was more likely to influence the tax and legal system there. Hence he advocated British nationalization of Indian land, with the state then renting out the land to Indian peasants as long-term tenants; thus, in a pre-George Georgism, the state would absorb all revenues from land rent. In his turn, John Stuart Mill was happy to advocate the same scheme.

Bentham and James Mill also made an exception to their overall anti-imperialism for Ireland, here not indulging in attacks on 'savagery' but simply asserting that freeing Ireland would be politically impossible. A strange position to take by two theorists usually fearless in advocating unpopular policies! We may speculate, however, an alternative explanation: the English liberal and radical masses, throughout the late eighteenth and nineteenth centuries, were generally *laissez-faire*-oriented, *until* the Tories were able to stir up the rabid anti-Catholicism of these dissenter and non-conformist Protestant evangelicals, and thereby split the liberal ranks. Anti-Catholicism long served as the scourge of British liberalism.

But John Stuart Mill, in this crucial area not very filio-pietistic, was able to help change the face of nineteenth century British liberalism. He was able to take a liberal doctrine generally anti-war and anti-imperialist, though with a few glaring exceptions, and transform it into an apologia for imperialism and foreign conquest. Rather than abandon the empire, as his father and other liberals had urged, John Stuart Mill called for its expansion. Indeed, Mill became the leading force in destroying the philosophic radical party in Parliament in 1838, by splitting their ranks and supporting the violent suppression of the Canadian rebellion of that year.

The younger Mill continued the altruistic argument of his father on India, and expanded it to all other peoples of the Third World. They were all barbarous and needed to be subject to a 'benevolent' despotism. He also expanded this hard line to Ireland, lamenting that Ireland could not be entirely crushed under heel because it was legally a part of the United Kingdom. 'I myself have always been for a good stout despotism, for governing Ireland alike India', Mill proclaimed. Himself a high official of the East India Company, John Stuart Mill argued that rule over barbarous colonies like India was best entrusted to autonomous public/private bodies of 'experts' such as the East India Company, rather than to the vagaries of Parliament and the English public. After the dissolution of the company in 1854, however, Mill saw no problem in Parliament appointing commissions of experts such as himself and delegating rule over India to them.

While John Mill grudgingly agreed that the advanced, white settler colonies had to be allowed their independence, he hoped that they would continue to be governed by Great Britain. For, in contrast to his father and other liberals, Mill believed that colonies conferred positive economic advantages on the home country. For a while, Bentham had succumbed to worries about 'surplus' capital at home, to be relieved by imperial expansion, but James Mill had succeeded in persuading Bentham otherwise. As an adherent and virtual co-founder of Say's law, the elder Mill had realized that Say's law meant that there would be no 'gluts' from overproduction or excess capital; therefore, no colonial or imperial safety valve was necessary. John Stuart Mill, however, was converted to the idea of surplus capital by his old friend Edward Gibbon Wakefield (1796–1862), son of Edward Wakefield, a philosophical radical friend of Bentham and James Mill.

Young Wakefield began the heretical pro-imperialist movement with his *Letter from Sydney* (1829), written not from Australia, but from an English prison, where he had been convicted for the fraudulent kidnapping of a young heiress. With this tract, Wakefield launched the 'colonial reformer' movement, and John Mill proudly proclaimed himself Wakefield's first convert. Mill was much too committed to Say's law to buy the idea of surplus production desperately needing foreign markets, but he was committed enough to the Ricardian fears of a falling rate of profit to advocate postponing this day by subsidizing the investment of British capital abroad. The worry about 'surplus capital' that could not be invested at home, should have been put to rest if Mill had been truly committed to Say's law. As for the falling rate of profit, Mill couldn't transcend the Ricardian framework to realize, first, that there is nothing inevitable about a falling rate of profit (i.e. interest), since wages do not inevitably press upon profits; and second, to the extent that profit rates fall over time it is due to falling time-preference rates, and then it is scarcely a tragedy, nor does it cause a depression or stagnation, since this interest or profit rate only reflects the desires and values of the participants in the market. And also, since interest rates are not determined by nor are they inverse to, the stock of capital, there is no guarantee that these rates will be higher abroad than in home countries such as England.

Thus, by being converted to Wakefield's fallacy of the inevitable accumulation of surplus capital in advanced capitalist countries, John Stuart Mill lent his great prestige to the notion that capitalism economically requires empire in order to invest, to get rid of, allegedly surplus savings or capital. In short, Mill was one of the ultimate founders of the Leninist theory of imperialism.

8.5 The Millians

If Mill was able to disarm much of the opposition from the original enemies of Ricardian economics, he was able to establish the dominance of his own muddled version by converting the youth – always the first group to adopt an important new trend or system of thought, for good or ill. At Cambridge the powerful secret Society of Apostles immediately took up the *Principles* for extensive study and discussion. The Apostles of 1848 included: James Fitzjames Stephen (1829–94), later an eminent journalist and attorney; E.H. Stanley (later Lord Derby) (1826–93), a conservative who would twice become foreign secretary; and Vernon Harcourt (1827–1904), later a Liberal MP and Whewell professor of international law at Cambridge. A little later in the early 1850s there came to Cambridge such young Millians as Stephen's brother Leslie (1832–1904), who would later teach at Cambridge and then retire to write works of history and philosophy, including his three volume masterwork, *The English Utilitarians* (1900). This Millian group also included Henry Fawcett who, although blinded in a hunting accident in his mid-20s, went on to become professor of political economy at Cambridge, and to write his *Manual of Political Economy* (1856) as a way of making Mill's *Principles* easier for students and laymen. Fawcett's *Manual* was used as a textbook in British and American Colleges for many years, and went through six editions. Fawcett later became an MP and postmaster general.

While Mill did not have quite the impact on Oxford as he did on Cambridge, we are assured that by the early 1850s, Mill was already 'a classic, both as a logician and as a political economist'.[14]

Two young economists who hailed the *Principles* in book reviews, became strongly influenced by Mill. One was insurance executive William Newmarch (1820–82), who collaborated in the last volume of Thomas Tooke's *History of Prices*; and the other was Walter Bagehot (1826–77), who would become an extremely influential journalist and financial economist. Bagehot was particularly happy to see Mill weaken the *laissez-faire* precepts of political economy by making his mischievous distinction between 'production' and 'distribution'. It is particularly unfortunate that this cynical semi-statist, an attorney who joined the business of his banker-father, became the son-in-law of James Wilson, and succeeded Wilson as editor of *The Economist* shortly before he died in 1860. This change meant a fateful shift from a militant *laissez-faire* policy to a statist advocacy of, among other things, the aggrandizement of the Bank of England over the monetary system. Along with the abandonment of *laissez-faire* by Bagehot came an increasing abandonment on his part of even Millian economic theory, and a shift toward a nihilistic and historicist institutionalism.

Unfortunately, Millianism came to hold sway, not only over Cambridge and Oxford, but even over Trinity College, Dublin. For almost two decades the Whately chair at Trinity had been the great stronghold of utility theory as against Ricardianism. But first, succeeding William N. Hancock in the five-year Whately chair, in 1851, was Richard Hussey Walsh (1825–62), who returned to a cost-of-production theory of value while pursuing his interest in monetary problems. Walsh had graduated from Trinity in 1846, and his lectures were published as *An Elementary Treatise on Metallic Currency* (1853). Being a Roman Catholic, Walsh was legally barred from a permanent academic career at home, and so after his term as Whately professor was over, he went to the colony of Mauritius as an administrative and census official.

The important successor to Walsh was John Elliott Cairnes (1824–75), who became by far the most important Millian in academia. Born in Ireland, Cairnes studied at Trinity College, and, after graduation, was admitted to the bar. He acceded to the Whately chair in 1856, and the following year Cairns won his spurs by publishing his most important work in economics, *The Character and Logical Method of Political Economy*. So far he followed the pattern of Whately chair-holders, but then he broke the mould by being the first of the Whately professors to follow with a lifelong career in university teaching. In 1859, Cairnes was appointed professor of political economy and jurisprudence at Queen's College, Galway; seven years later, he moved to University College, London until forced to resign by ill health in 1872.

J.E. Cairnes has been known as 'the last of the classical economists'; after Mill's death he assumed the mantle of outstanding British economist in the minds of the public, and in 1874 he lashed out in incomprehension at the revolutionary marginal utility theory of William Stanley Jevons (in Cairnes's *Some Leading Principles of Political Economy*). Cairnes was a determined cost-of-production theorist, granting his only significant exception in his well-known 'theory of non-competing groups'. This theory recognized that where factors of production, in particular labour, did not immediately and fully compete with each other, the prices of the factors are determined by demand rather than by cost. Unfortunately, Cairnes lifted the theory from Longfield's *Lectures on Political Economy* without giving him credit; we know that this was not a case of ignorance of a distinguished predecessor, since Cairnes assigned Longfield's work in his own classes.[15]

Cairnes's work of most lasting value, his *Character and Logical Method*, while including some Millian positivism, was essentially a methodological work in the great Nassau Senior–praxeological tradition. Thus Cairnes, after agreeing with Mill that there can be no controlled experiments in the social sciences, adds the important point that the social sciences, nevertheless, have a crucial advantage over the physical sciences. For, in the latter, '*mankind have no direct knowledge of ultimate physical principles*'. The laws of physics are not themselves evident to our consciousness nor are they directly apparent; their truth rests on the fact that they account for natural phenomena. But, in contrast, Cairnes goes on, '*The economist starts with a knowledge of ultimate causes*'. How? Because the economist realizes that the 'ultimate principles governing economic phenomena' are 'certain mental feelings and certain animal propensities in human beings; [and] the physical conditions under which production takes place'. To arrive at these premises of economics 'no elaborate process of induction is needed'. For all we need to do is 'to turn our attention to the subject', and we obtain 'direct knowledge of these causes in our consciousness of what passes in our own minds, and in the information which our senses convey...to us of external facts'. Such broad and basic knowledge of motives for action includes the desire for wealth; and everyone knows 'that, according to his lights, he will proceed toward his end in the shortest way open to him...'.[16]

Cairnes also demonstrates that the economist uses mental experiments as replacements for laboratory experiments of the physical scientist. He shows too, that deduced economic laws are 'tendency', or 'if–then', laws, and furthermore that they are necessarily qualitative and not quantitative, and therefore cannot admit of mathematical or statistical expression. Thus the extent of a rise in price due to a drop in supply cannot be determined, since subjective values and preferences cannot be precisely measured. In his preface to the second edition of the *Character*, written two decades later in 1875, Cairnes warns against the growing use of the mathematical method of economics, in this case levelling a just criticism at writers like Jevons. For mathematics, in contrast to its use in the physical sciences, cannot yield new truths in economics; and, further, 'unless it can be shown either that mental feelings admit of being expressed in precise quantitative forms, or, on the other hand, that economic phenomena do not depend upon mental feelings, I am unable to see how this conclusion can be avoided'. In the course of his methodological inquiries, and in his battles against Jevons, John Cairnes moved closer to subjective value theory and further from Mill than perhaps he realized.

8.6 Cairnes and the gold discoveries

Cairnes's main contribution to positive economic analysis has been neglected by recent historians, though it was once considered a particularly 'admirable illustration of economic thought and inquiry'. The sudden gold discoveries in California in the late 1840s, followed rapidly by Australia in 1851, and the consequent enormous increase in gold production, raised important questions on their economic consequences in Britain, as well as whether or not the gold pound would depreciate in terms of commodities. Politically, gold standard anti-inflationists tried to minimize the impact of this increased supply on prices, while the inflationists chortled that at least prices would rise greatly. Among economists, men such as Mill and Torrens, previously in the forefront of currency and banking school struggles, displayed remarkably little interest in the entire process. Most of the interested economists took a primitive, proto-Keynesian position that the new gold money would increase capital and employment and therefore would have little effect on prices. If was as if monetary theory had never been discovered!

Perhaps the most banal and absurd paean to the new gold discoveries was emitted by William Newmarch, the disciple of Thomas Tooke. In an address delivered to the British Association for the Advancement of Science in 1853, Newmarch exulted that in Australia 'the effect of the new gold has been to add the stimulus of a very low rate of interest, and of an abundance of capital, to the other great and manifold causes of rapid development'.

Newmarch concluded that

> generally, we are justified in describing the effects of the new gold as almost wholly beneficial. It has led to the development of new branches of enterprise, to new discoveries...In our own country it has already elevated the condition of the working and poorer classes; it has quickened and extended trade; and exerted an influence which thus far is beneficial wherever it has been felt.[17]

Newmarch's inflationist (i.e. monetary inflationist) twaddle was echoed in the Tory *Blackwood's Magazine* by Sir Archibald Alison (1792–1867), a leading Scottish attorney, protectionist and arch-inflationist. Even Professor Henry Fawcett continued the same line, managing to use the wages fund theory for inflationist conclusions. Blithely assuming that the new gold constitutes new capital, Fawcett concluded that therefore the wages fund will increase, raising wages. In fact, it was Fawcett's paper on this question in 1859, his biographer Leslie Stephen tells us, that led 'to the discovery of Fawcett'. From his own perspective, Marx agreed with Fawcett's article, lamenting that the new gold discoveries in California and Australia had lengthened the viability of capitalism, and delayed its revolutionary crisis. Also excited about Fawcett's 'discovery' was the now Bagehot-run *Economist*, which extravagantly hailed the paper as one of those 'very rare occasions' when 'an absolutely new truth can be propounded to such a body'.[18]

On the other hand, there was still a corps of economists pointing out the home truths of the 'quantity theory', namely that the effect of the new gold discoveries would be a rise in prices roughly proportionate to the increase in gold production, accompanied by unfortunate distribution effects, as well as a waste of resources in mining an increased amount of gold.[19] The most important voice, warning of the price-inflationary consequences of the gold discoveries, was the prominent French economist and free trader Michel Chevalier (1806–79). Chevalier raised his voice on the issue throughout the 1850s, his book *On the Probable Fall in the Value of Gold* being translated by Richard Cobden and published in 1859. The veteran and devoted Ricardian essayist and poet, Thomas De Quincey (1785–1859) denounced 'California and the Gold-Digging Mania', in 1852, charging that 'every ounce of Australian gold...should locally be so much more than is wanted'. Bonamy Price, a banking school theorist who had succeeded Senior to the chair of political economy at Oxford, denounced 'The Great City Apostasy on Gold', in 1863, noting that the dominant financial opinion hailing the gold discoveries constituted an aberrant reversion to mercantilist–inflationist fallacy.

The most important response to the gold discoveries was that of John Cairnes, whose interest in the problem was piqued in 1856 by the 'ignorant and preposterous assertion(s)' by William Newmarch and other inflationists. In a series of articles published between 1857 and 1863, Cairnes set forth the quantity analysis, but he also brilliantly went beyond it to resurrect the scholastic–Cantillon process analysis, realizing that the 'distribution' effects of the monetary change process were important parts of the picture that should not be swept under the rug. Cairnes pointed out that the country with new gold mines will be the first to feel their bad effects – the price increases and the waste of resources – after which, as the new gold flows abroad in return for goods, these bad effects become gradually 'exported' to the other countries of the world. In contrast to the gushing of the inflationists, Cairnes showed that the first country to suffer waste of resources from the new gold was Australia, where previously flourishing agriculture was virtually ruined.

The British public and press, however, lost interest in the entire issue by the end of the 1850s. The reason was that prices, after the financial panic of 1857, fell back to being only a little bit higher than ten years earlier. Cairnes pointed out quite correctly, however, that this slight rise in prices masked what amounted to a considerable depreciation of the gold pound, perhaps 20 or 25 per cent. For he noted that 'considering the propitiousness of the seasons, the action of free trade, the absence of war, the contraction of credit [after the crisis of 1857], and the general tendencies to a reduction of cost proceeding from the progress of knowledge, were there no other causes in operation', there would have been a 'very considerable fall of prices at the present time, as compared with, say eight or ten years ago'. In short, without the gold inflation, there would have ben a substantial *fall* in prices, and the slight rise reflected instead a substantial inflationary depreciation of the gold pound. Profound and correct, indeed; but far too theoretical a consideration for the British public, who were content to let the problem go, so long as the effects of depreciation were not starkly visible.

8.7 The Millian supremacy

Thus, by the intellectual authority derived from decades of personal and family prominence and by his work on logic, by force of personality, and by clever strategems employed in his book, John Stuart Mill was able to make his *Principles of Political Economy* the dominant force in British economics from the time of initial publication in 1848. For three decades, Mill and his *Principles* bestrode British economics like a colossus, and, as we shall see in a later volume, England managed to repulse the marginalist Jevonian revolution in the 1870s, at least in its original, undiluted form. Mill had managed to fasten upon Great Britain: a watered-down labour or at least cost-of-production theory of value; a muddled positivist method that gave hostage to inductivist or even organicist critics; a devotion to the gold standard offset by an inflationist, banking school theory of crises and cycles and of gold production, and an adherence to the *status quo* of inflationist Bank of England control and manipulation of the British monetary system. In fact, in every area, John Stuart Mill reimposed the system of Ricardo and his father, but in a far more muddled and diluted manner. In public policy, too, the old Ricardian devotion to *laissez-faire* was replaced by a vague free market presumption to which Mill and his followers were always willing to make extensive exceptions, so free were they of the earlier classical and Ricardian 'dogmatism'. Intellectually, however wrong-headed most of the Ricardianism had been, its positions were at least consistent and clear – even if the reasoning supporting those conclusions was generally tangled and incoherent. But the new Millian neo-Ricardianism had no such virtues; instead, this system was essentially an elusive and self-contradictory jumble. There were no clear-cut positions, only vague tendencies, hedged around by backsliding and qualifications. But British economics was now slowly becoming more centred in academics rather than in businessmen, bankers, or eccentric army officers, and academics and their constituencies all too often confuse contradictory wavering with complexity, wisdom, and judiciousness of mind.

8.8 Notes

1. Schumpeter writes that Mill's *Logic* was 'one of the great books of the century, representative of one of the leading components of its *Zeitgeist*, influential with the general reading public as no other Logic has ever been'. It was due to the *Logic* even more than the *Principles*, adds Schumpeter, that 'one speaks of Mill's sway over the generation of English intellectuals that entered upon their careers in the 1850s and 1860s'. Schumpeter adds that even abroad enthusiasm for Mill's logic was intense. 'The book was found in the house of a peasant in Ireland. It was called the "book of books" by an accomplished Viennese woman (a Fabian and suffragist) who felt herself to be progress incarnate.' Schumpeter adds, with characteristic wit, that these instances show not only the great influence of Mill's *Logic* in the nineteenth century, but also 'that the correlation between individuals' enthusiasm for it, and their competence to judge it was not quite satisfactory'. Schumpeter, *The History of Economic Analysis* (New York: Oxford University Press, 1954), pp. 449, 449n.
2. Cf. Neil B. de Marchi, 'The Success of Mill's *Principles*', *History of Political Economy*, 6 (Summer 1974), pp. 119–57.
3. Ibid., pp. 122, 143.
4. The other two influential inductivists were John Herschel (1792–1871), a distinguished mathematician and astronomer, who gained a knighthood; and Charles Babbage (1792–1871), professor of mathematics at Cambridge, and renowned father of the computer. Another inductivist associated with the Cambridge group was John Cazenove (1788–1879), of a stockbroking family. A long-time member of the Political Economy Club, Cazenove had joined in Malthus's assault on Say's law.
5. See S.G. Checkland, 'The Advent of Academic Economics in England', *The Manchester School of Economic and Social Studies*, 19 (Jan. 1951), pp. 59–66.
6. The third kingpin of the Christian socialists was the Rev. John Frederick Denison Maurice (1805–72).
7. Schumpeter, op. cit., note 1, pp. 451, 530. These strictures of Schumpeter's carry all the more weight coming from a book that is, oddly, highly sympathetic towards Mill.
8. Marx, who seems to have had Mill's number, notes that trying to combine Ricardo's theory of profit and Senior' abstinence theory, Mill is obviously 'at home in absurd contradictions'. Bela Balassa, trying to save the day for Mill, sternly counters that Mill's is a 'synthesis' of the two theories. Bela Balassa, 'Karl Marx and John Stuart Mill', *Weltwirschaftliches Archiv*, 82 (1959, no. 2), pp. 149ff.
9. Alexander Gray, *The Development of Economic Doctrine* (London: Longmans, Green, 1931), p. 283. For confirmation, note Mill: 'Who meets with the smallest condemnation, or rather, who does not meet with sympathy and benevolence, for any amount of evil which he may have brought upon himself and those dependent upon him, by this species of incontinence? While a man who is intemperate in drink, is discountenanced and despised by all who profess to be moral people, it is one of the chief grounds made use of in appeals to the benevolent, that the applicant has a large family...Little improvement can be expected in morality until the producing of large families is regarded with the same feelings as drunkenness or any other physical excess. But while the aristocracy and clergy are foremost to set the example of this kind of incontinence, what can be expected from

the poor?' John Stuart Mill, *Principles of Political Economy* (5th ed., New York: D. Appleton & Co., 1901), I, 459, 459n.

10. In Torrens, *On Wages and Combinations* (1834).
11. Cf. Schumpeter, op. cit., note 1, pp. 667–71.
12. See W.H. Hutt, *The Theory of Collective Bargaining, 1930–1975* (San Francisco: Cato Institute, 1980), pp. 1–6.
13. On the other hand, Mill's depiction of Say's Law in the *Principles* was relatively weak, and left room for Keynes's calamitous misinterpretation a century later. See W.H. Hutt, *A Rehabilitation of Say's Law* (Athens, Ohio: Ohio University Press, 1974), pp. 24–6.
14. Cf. de Marchi, op. cit., note 2, p. 154.
15. Cairnes's successor to the Whately chair in 1861, and the last holder of that chair in the archbishop's lifetime, was Arthur Houston (1833–1914), who continued in the new Mill–Cairnes cost of production tradition. In his *Principles of Value in Exchange* (1864), Houston held that the 'net cost of production' was the dominent causal force in determining value, and even tried to arrive at a mathematically expressed 'unit of sacrifice' that could measure that cost. 'Criticism' of this theory, as Black noted, 'would be superfluous'. R.D.C. Black, 'Trinity College, Dublin, and the Theory of Value, 1832–1863', *Economica*, n.s. 12 (August 1945), p. 148. Houston wrote other books on comparative law and the English drama. J.G. Smith, 'Some Nineteenth Century Irish Economists', *Economica* n.s. 2 (Feb. 1935), pp. 30–31.
16. J.E. Cairnes, *The Character and Logical Method of Political Economy* (2nd ed., London: Macmillan, 1875) pp. 83–7, 88.
17. Quoted in Crauford D. Goodwin, 'British Economists and Australian Gold', *Journal of Economic History*, 30 (June 1970), p. 412.
18. Cited in ibid., p. 414, 414n.
19. There is no 'waste', however, from the *non*-monetary viewpoint of increasing the supply of gold for industrial and consumption uses, a point which should not be overlooked. Also, there is no 'waste' within the overall framework of maintaining the most useful commodity standard (gold) as a money produced by the market instead of the state.

9 Roots of Marxism: messianic communism

9.1 Early communism

For centuries the alleged ideal of communism had come to the world as a messianic and millennial creed. Various seers, notably Joachim of Fiore, had prophesied the final state of mankind as one of perfect harmony and equality, one where all things are owned in common, where there is no necessity for work or need for the division of labour. In the case of Joachim, of course, problems of production and property, indeed of scarcity in general, were 'solved' by man no longer possessing a physical body. As pure spirits, men as equal and harmonious psychic entities spending all their time chanting praise to God, might make a certain amount of sense. But the communist idea applied to a physical mankind still needing to produce and consume is a very different matter. In any case, the communist ideal continued to be put forward as a religious, millennial doctrine. We have seen in Volume I its enormous influence on the Anabaptist wing of the Reformation in the sixteenth century. Millennial and communist dreams also inspired various fringe Protestant sects during the English Civil War of the mid-seventeenth century, particularly the Diggers, the Ranters, and the Fifth Monarchy Men.

The most important forerunner of Marxian communism among these Civil War Protestant sectarians was Gerrard Winstanley (1609–60), the founder of the Digger movement and a man much admired by Marxist historians. Winstanley's father was a textile merchant, and young Gerrard became an apprentice in the cloth trade, rising up to become a cloth merchant in his own right. Winstanley's business failed, however, and he found himself downwardly mobile, an employed agricultural labourer from 1643 to 1648. As the Protestant Revolution escalated in the late 1640s, Winstanley turned to writing pamphlets espousing mystical messianism. By the end of 1648, Winstanley had expanded his chiliastic doctrine to embrace egalitarian world communism, in which all goods are owned in common. His theological groundwork was the heretical, pantheistic view that God is within every man and woman, and is not a personal deity external to man. This pantheistic God has decreed 'cooperation', which for Winstanley meant compulsory communism rather than the market economy, whereas the antithetical creed of the Devil glorified individual selfishness. In Winstanley's schema, God, meaning Reason, created the earth, but the Devil later originated selfishness and the institution of private property. Winstanley added the absurd view that England enjoyed communist property before the Norman Conquest in 1066, and that this conquest created the institution of private property. His call, then, was to return to the supposedly original communist system.[1]

In the final, most fully developed version of his system, *The Law of Freedom in a Platform, or True Magistracy Restored* (1652), Winstanley envisioned a largely agrarian society, in which all goods would be communally owned, and where all wage labour and all commerce or trade would be outlawed. In fact, all sale or purchase of goods would be punishable by death as treasonous to the communist system. Money would be clearly unnecessary since there would be no trade, and presumably it would be outlawed as well. The government would establish storehouses to collect and distribute all goods, and severe penalties would be levied on 'idlers'. By this time, Winstanley's pantheism had begun to shade into atheism, for all professional clergy would be outlawed, there would be no Sabbath observation, and 'ministers' would be elected by the voters to give what would be essentially secular sermons, teaching everyone the virtues of the communist system. Education would be free and compulsory, and most of the children would be channelled into useful crafts – a foreshadowing of the progressive educational creed. Book-learning, which the uneducated Winstanley felt to be far inferior to practical vocational skill, would be discouraged.

Winstanley's strategic recipe for communist victory was for various groups of his followers, or Diggers, to move peacefully into waste or common lands, and to set up communist societies upon them. The first Digger group, led by Winstanley, moved on to waste lands near south London in April 1649, and ten Digger settlements were thereby established over the next year. Only 30 Diggers moved into the first commune, and only a few hundred set up communes across the country. The notion was that these egalitarian communist settlements would so inspire the masses that they would abandon wage work or private property and move on to Digger settlements, thus bringing about the withering away of the market and of private property. In reality, the masses treated the Digger communes with great hostility, causing their suppression in a short period of time. By the time of his *magnum opus* in 1652, Winstanley was vainly appealing to the dictator, Oliver Cromwell, to impose his cherished system from above. The idea of mass direct action to establish his system was rapidly abandoned in the face of reality.

Another more mystical communist sect during the English Civil War was the half-crazed Ranters. The Ranters were classic antinomians, that is, they believed that all human beings were automatically saved by the existence of Jesus, and that therefore all men are free to disobey all laws and to flout all moral rules. Indeed, it was supposed to be good and desirable to commit as many sins as possible in order to demonstrate one's automatic freedom from sin, and to purge oneself of false guilt about committing sins. To the pure at heart, the Ranters opined, all things are pure. The Ranters, like Joachim of Fiore and the Anabaptists of the Reformation, proclaimed the coming age of the Holy Spirit, which moved in every man. The key difference from orthodox Calvinism or Puritanism is that in those more orthodox creeds, the workings of the Holy Spirit were closely tied to the Holy Word – that is, the Bible. For the Ranters and other Inner Light Groups, however, all deuces were literally wild. The Ranters pursued this path, too, to pantheism: as one of their leaders declared: 'The essence of God was as much in the Ivie leaf as in the most glorious Angel.'

The Ranters, then, combined their belief in communism with total sexual licence, including the practice of communism of women, and communal homosexual and heterosexual orgies.[2]

9.2 Secularized millennial communism: Mably and Morelly

During the havoc and upheaval of the French Revolution, the communist creed, as well as millennial prophecies, again popped up as a glorious goal for mankind, but this time the major emphasis was a secular context. But the new secular communist prophets were faced with a grave problem: what will be the agency for this social change? In short, religious chiliasts never had problems about agency, i.e. how this mighty change would come about. The agent would be the hand of Providence, specifically either the Second Advent of Jesus Christ (for pre-millennialists), or designated prophets or vanguard groups who would establish the millennium in anticipation of Jesus's eventual return (for post-millennialists). King Bockelson and Thomas Müntzer were examples of the latter. But if the Christian millennialists possessed the assurance of the hand of Divine Providence inevitably achieving their goal, how could secularists command the same certainty and self-confidence? It looked as if they would have to fall back on mere education and exhortation.

The secularist task was made more difficult by the fact that religious millennialists looked to the end of history and the achievement of their goal by means of a bloody Apocalypse. The final reign of millennial peace and harmony could only be achieved in the course of a period known as 'the tribulation', the final war of good against evil, the final triumph over the Antichrist.[3] All of which meant that if the secular communists wished to emulate their Christian forbears, they would have to achieve their goal by bloody revolution – always difficult at best. It is no accident, therefore, that the heady days of the French Revolution would give rise to such revolutionary hopes and aspirations.

The first secularized communists appeared in the shape of two isolated individuals in mid-eighteenth century France. The works of these two men would later burgeon into an activist revolutionary movement amidst the hothouse atmosphere and the sudden upheavals of the French Revolution. One was the aristocrat Gabriel Bonnot de Mably (1709–85), the elder brother of the *laissez-faire* liberal philosopher Etienne Bonnot de Condillac. In contrast to his brother the distinguished philosopher, Mably devoted himself to being a lifelong writer on a large variety of subjects.[4] A man whose works, as Alexander Gray wittily writes, 'are deplorably numerous and extensive'. Mably's prolix and confused writings were astoundingly popular in his day, his entire collected works, ranging from 12 to 26 volumes, being published in four different editions within a few years of his death.

Mably's main focus was to insist that all men are 'perfectly' equal and uniform, that all men are one and the same everywhere. He professed to discern this alleged truth in the laws of nature. Thus, in his chief work *Doutes proposés* (1786), an attack on the libertarian natural rights theory of Mercier de la Rivière, Mably presumes to interpret the voice of Nature: 'Nature says to us...I love you equally'.[5]

As in the case of most communists after him, Mably found himself confronted with one of the great problems of communism: if all property is owned in common and each person is equal, then the incentive to work is negative, since only the common store will benefit and not the individual worker in question. Mably in particular had to confront this problem, since he also maintained that man's natural and original state was communism, and that private property arose to spoil matters precisely because of the indolence of some who wished to live at the expense of others.[6]

Mably's proposed solutions to this grave problem were scarcely adequate. One was to urge everyone to tighten their belts, to want less, to be content with Spartan austerity. His other answer was to come up with what Che Guevara and Mao tse-Tung would later call 'moral incentives': to substitute for crass monetary rewards the recognition of one's merits by one's brothers – in the form of ribbons, medals, etc. Alexander Gray notes that Mably makes use of such 'distinctions' or 'Birthday Honours Lists', to stimulate everyone to work. He goes on to point out that the more 'distinctions' are handed out as incentives, the less they will truly distinguish, and the less influence they will therefore exert. Furthermore, Mably 'does not say how or by whom his distinctions are to be conferred'.

Gray adds that in a communist society in reality, many people who *don't* receive honours may and probably will be disgruntled and resentful at the supposed injustice involved, yet their 'zeal doesn't flag'.[7]

Thus, in his two proffered solutions, Gabriel de Mably was resting his hope on a miraculous transformation of human nature, what the Marxists would later see as the advent of the New Socialist Man, willing to bend his desires and his incentives to the requirements of, and baubles conferred by, the collective. But for all his devotion to communism, Mably was at bottom a realist, and so he held out no hope for its triumph. On the contrary, man is so steeped in the sin of selfishness and private property that only the palliatives of coerced redistribution and prohibitions of trade are even possible. It is no wonder that Mably was not equipped to inspire and stimulate the birth and growth of a revolutionary communist movement.

If Gabriel de Mably was a pessimist, the same cannot be said of the highly influential work of the unknown Morelly, author of *Le Code de la Nature* (*The Code of Nature*), published in 1755, and going into five further editions by 1773. Morelly had no doubts of the workability of communism: for him there was no problem of laziness or negative incentives. There was no need, in short, for any change in human nature or the creation of a New Socialist Man. In a vulgarization of Rousseau, man is everywhere good, altruistic, and dedicated to work: it is only institutions that are degrading and corrupt, specifically the institution of private property. Abolish that, and man's natural goodness would easily triumph. (Query: where did these corrupt institutions come from, if not from man?) Banish property, and crime would disappear.

For Morelly, the administration of the communist utopia would also be easy. Assigning every person his task in life, and also deciding what material goods and services would fulfil his needs, would apparently be a trivial problem for the ministry of labour or of consumption. For Morelly, all this was merely a matter of trivial enumeration, of listing things and persons. Here is the ancestor of Marx and Lenin's dismissal of the gigantic problems of socialist administration and allocation as merely a question of book-keeping.

But things, after all, are not going to be that easy. Mably, the pessimist on human nature, was apparently willing to leave matters to voluntary actions of individuals. But Morelly, the alleged optimist, was cheerfully prepared to employ brutally coercive methods to keep all the 'good' citizens in line. Once again, as in Mably, the edicts of the proposed state would be written clearly by Nature, as revealed to the founder Morelly. Morelly worked out an intricate design for his proposed government and society, all allegedly based on the clear dictates of natural law, and most of which were to be changeless and eternal – to Morelly, a vital part of the scheme.

In particular, there is to be no private property, except for daily needs: every person is to be maintained and employed by the collective, every man is to be forced to work, to contribute to the communal storehouse according to his talents, and will then be assigned goods from these stores according to his needs, to be brought up communally, and absolutely identically in food, clothing and training. Philosophic and religious doctrines are to be absolutely prescribed; no differences are to be tolerated; and children are not to be corrupted by any 'fable, story, or ridiculous fictions'. All buildings must be the same, and grouped in equal blocks; all clothing is to be made out of the same fabric. Occupations are to be limited and strictly assigned by the state.

Finally, these laws are to be sacred and inviolable, and anyone attempting to change them is to be isolated and incarcerated for life.

As in all the communist utopias, Mably's and Morelly's, as Alexander Gray makes clear, are ones under which 'no sane man would on any conditions consent to live, if he could possibly escape'. The reason, apart from the grave lack of incentives in utopias to produce or innovate, is that 'life has reached a static state...Nothing happens, nothing can happen in any of them'.[8]

It should be added that these utopias were debased, secularized versions of the visions of the Christian millennialists. In the Christian millennium, Jesus

Christ (or, alternatively, his surrogates and predecessors) comes back to earth to put an end to history; and presumably, there will be enough enchantment in glorifying God without worrying about the absence of earthly change. And, as we have seen, this is particularly true in Joachim of Fiore's envisioned millennium of people without earthly bodies. But in the secularized utopias there reigns, at best, gray gloom and stasis totally contrary to man's nature on earth.

Meanwhile, however, Christian millennialism was also revived in these stormy times. Thus, the Swabian German pietist Johann Christoph Otinger, during the mid-eighteenth century, prophesied a coming theocratic world kingdom of saints, living communally, without rank or property, as members of a millennial Christian commonwealth. Particularly influential among later German pietists was the French mystic and theosophist Louis Claude de Saint-Martin (1743–1803), who in his influential *Des Erreurs et la Verité* (*Errors and Truth*) (1773), portrayed an 'inner church of the elect' allegedly existing since the dawn of history, which would take power in the coming age. This 'Martinist' theme was developed by the Rosicrucian movement, concentrated in Bavaria. Originally alchemist mystics during the seventeenth and eighteenth centuries, the Bavarian Rosicrucians began to stress the coming takeover of world power by the inner church of the elect during the dawning millennial age. The most influential Bavarian Rosicrucian author, Carl von Eckartshausen, expounded on this theme in two widely read works, *Information on Magic* (1788–92) and *On Perfectibility* (1797). In the latter work, he developed the idea that the inner church of the elect had existed backwards in time to Abraham and then forwards to a world government to be ruled by these keepers of the divine light. This third and final age of history, the age of the Holy Spirit, was now at hand. The illuminated elect destined to rule the new communal world were, fairly obviously, the Rosicrucian Order itself, since their major evidence for the dawn of the third age was the rapid spread of Martinism and Rosicrucianism itself.

And these movements were indeed spreading during the 1780s and 1790s. The Prussian King Frederick William II and a large portion of his court were converted to Rosicrucianism in the late 1780s, as was the Russian Czar Paul I a decade later, based on his reading of Saint-Martin and Eckartshausen, both of whom he considered to be transmitters of divine revelation. Saint-Martin was also influential through his leadership of Scottish Rite Masonry in Lyons, and was the main figure in what might be called the apocalyptic-Christian wing of the Masonic movement.[9]

9.3 The conspiracy of the Equals

Inspired by the works of Mably and especially Morelly, a young journalist from Picardy decided, amidst the turmoil of the French Revolution, to found a conspiratorial revolutionary organization to establish communism. Strategically, this was an advance on the two founders, who had had no idea but simple education of how to achieve their goal. François Noël ('Caius Gracchus') Babeuf (1764–97), a journalist and commissioner of land deeds in Picardy, came to Paris in 1790, and imbibed the heady revolutionary atmosphere. By 1793, Babeuf was committed to economic equality and communism. Two years later, he founded the secret Conspiracy of the Equals, organizing around his new journal, *The Tribune of the People*. The *Tribune*, like Lenin's *Iskra* a century later, was used to set a coherent line for his cadre as well as for his public followers. As James Billington writes, Babeuf's *Tribune* 'was the first journal in history to be the legal arm of an extralegal revolutionary conspiracy'.[10]

The ultimate ideal of Babeuf and his Conspiracy was absolute equality. Nature, they claimed, calls for perfect equality; all inequality is injustice: therefore community of property was to be established. As the Conspiracy proclaimed emphatically in its *Manifesto of Equals* – written by one of Babeuf's top aides, Sylvain Maréchal – 'We demand real equality, or Death; that is what we must have'. 'For its sake', the *Manifesto* went on, 'we are ready for anything; we are willing to sweep everything away. Let all the arts vanish, if necessary, as long as genuine equality remains for us'.

In the ideal communist society sought by the Conspiracy, private property would be abolished, and all property would be communal, and stored in communal storehouses. From these storehouses, the goods would be distributed 'equitably' by the superiors – apparently, there was to be a cadre of 'superiors' in this oh so 'equal' world! There was to be universal compulsory labour, 'serving the fatherland...by useful labour'. Teachers or scientists 'must submit certifications of loyalty' to the superiors. The *Manifesto* acknowledged that there would be an enormous expansion of government officials and bureaucrats in the communist world, inevitable where 'the fatherland takes control of an individual from his birth till his death'. There would be severe punishments consisting of forced labour against 'persons of either sex who set society a bad example by absence of civic-mindedness, by idleness, a luxurious way of life, licentiousness'. These punishments, described, as one historian notes 'lovingly and in great detail',[11] consisted of deportation to prison islands.

Freedom of speech and the press are treated as one might expect. The press would not be allowed to 'endanger the justice of equality' or to subject the Republic 'to interminable and fatal discussions'. Moreover, 'No one will be allowed to utter views that are in direct contradiction to the sacred principles of equality and the sovereignty of the people'. In point of fact, a work would only be allowed to appear in print 'if the guardians of the will of the nation consider that its publication may benefit the Republic'.

All meals would be eaten in public in every commune, and there would, of course, be compulsory attendance for all community members. Furthermore, everyone could only obtain 'his daily ration' in the district in which he lives: the only exception would be 'when he is traveling with the permission of the administration'. All private entertainment would be 'strictly forbidden', lest 'imagination, released from the supervision of a strict judge should engender abominable vices contrary to the commonweal'. And, as for religion, 'all so-called revelation ought to be banned by law'.

Not only was Babeuf's egalitarian communist goal an important influence on later Marxism–Leninism, but so too was his strategic theory and practice in the concrete organization of revolutionary activity. The unequal, the Babeuvists proclaimed, must be despoiled, the poor must rise up and sack the rich. Above all, the French Revolution must be 'completed' and redone; there must be total upheaval (*bouleversement total*), total destruction of existing institutions so that a new and perfect world can be built from the rubble. As Babeuf called out, at the conclusion of his own *Plebeian Manifesto*: 'May everything return to chaos, and out of chaos may there emerge a new and regenerated world.'[12] Indeed, the *Plebeian Manifesto*, published slightly earlier than the *Manifesto of Equals*, in November 1795, was the first in a line of revolutionary manifestos that would reach a climax in Marx's *Communist Manifesto* a half-century later.

The two manifestos revealed an important difference between Babeuf and Maréchal which might have caused a split had not the Equals been crushed soon afterwards by police repression. For in his *Plebeian Manifesto*, Babeuf had begun to move toward Christian messianism, not only paying tribute to Moses and Joshua, but also particularly to Jesus as his, Babeuf's, 'co-athlete', and in prison Babeuf had written *A New History of the Life of Jesus Christ*. Most of the Equals, however, were militant atheists, spearheaded by Maréchal, who liked to refer to himself with the grandiose acronym l'HSD, *l'homme sans Dieu* (the man without God).

In addition to the idea of a conspiratorial revolution, Babeuf, fascinated by military matters, began to develop the idea of people's guerilla warfare: of a revolution being formed in separate 'phalanxes' by people whose permanent occupation would be making revolution – what Lenin would later call 'professional revolutionaries'. He also toyed with the idea of military phalanxes securing a geographical base, and then working outwards from there: 'advancing by degree, consolidating to the extent that we gain territory, we should be able to organize'.

A secret, conspiratorial inner circle, a phalanx of professional revolutionaries – inevitably this meant that Babeuf's strategic perspective for his revolution involved some fascinating paradoxes. For in the name of a goal of harmony and perfect equality, the revolutionaries were to be led by a hierarchy commanding total obedience; the inner cadre would work its will over the mass. An absolute leader, heading an all-powerful cadre, would, at the proper moment, give the signal to usher in a society of perfect equality. Revolution would be made to end all further revolutions; an all-powerful hierarchy would be necessary allegedly to put an end to hierarchy forever.

But of course, as we have seen, there was no real paradox here, no intention to eliminate hierarchy. The paeans to 'equality' were a flimsy camouflage for the real objective, a permanently entrenched and absolute dictatorship, in Orwell's striking image, 'a boot stamping on a human face – forever'.

After suffering police repression at the end of February 1796, the Conspiracy of the Equals went further underground, and, a month later, constituted themselves as the Secret Directory of Public Safety. The seven secret directors, meeting every evening, reached collective and anonymous decisions, and then each member of this central committee radiated activity outwards to 12 'instructors' each of whom mobilized a broader insurrectionary group in one of the 12 districts of Paris. In this way, the Conspiracy managed to mobilize 17 000 Parisians, but the group was betrayed by the eagerness of the secret directorate to recruit within the army. An informer led to the arrest of Babeuf on 10 May 1796, followed by the destruction of the Conspiracy of the Equals. Babeuf was executed the following year.

Police repression, however, almost always leaves pockets of dissidents to rise again, and the carrier of the torch of revolutionary communism was a Babeuvist arrested with the leader but who managed to avoid execution. Filippo Giuseppe Maria Lodovico Buonarroti (1761–1837) was the eldest son of an aristocratic but impoverished Florentine family, and a direct descendant of the great Michelangelo. Studying law at the University of Pisa in the early 1780s, Buonarroti was converted by disciples of Morelly on the faculty. As a radical journalist and editor, Buonarroti then participated in battles for the French Revolution against Italian troops. In the Spring of 1794, he was put in charge of the French occupation in the Italian town of Oneglia, where he announced to the people that all men must be equal, and that any distinction whatever among men is a violation of natural law. Back in Paris, Buonarroti successfully defended himself in a trial against his use of terror in Oneglia, and finally plunged into Babeuf's Conspiracy of Equals. His friendship with Napoleon allowed him to escape execution, and eventually to be shipped from a prison camp to exile in Geneva.

For the rest of his life, Buonarroti became what his modern biographer calls 'The First Professional Revolutionist', trying to set up revolutions and conspiratorial organizations throughout Europe. Before the execution of Babeuf and others, Buonarroti had pledged his comrades to write their full story, and he fulfilled that pledge when, at the age of 67, he published in Belgium *The*

Conspiracy for Equality of Babeuf (1828). Babeuf and his comrades had been long forgotten, and this massive work now told the first and most thoroughgoing story of the Babeuvist saga. The book proved to be an inspiration to revolutionary and communist groupings, and it sold extremely well, the English translation of 1836 selling 50 000 copies in a short space of time. For the next decade of his life, the previously obscure Buonarroti was lionized throughout the European ultra-left.

Brooding over previous revolutionary failures, Buonarroti counselled the need for iron élite rule immediately after the coming to power of the revolutionary forces. In short, the power of the revolution must be immediately given over to a 'strong, constant, enlightened immovable will', which will 'direct all the force of the nation against internal and external enemies', and very gradually prepare the people for their sovereignty. The point, for Buonarroti, was that 'the people are incapable either of regeneration by themselves or of designating the people who should direct the regeneration'.

9.4 The burgeoning of communism

The 1830s and 1840s saw the burgeoning of messianic and chiliastic communist and socialist groups throughout Europe; notably in France, Belgium, Germany and England. Owenites, Cabetists, Fourierites, Saint Simonians, and many others sprouted and interacted, and we need not examine them or their nuanced variations in detail.[13] While the Welshman Robert Owen (1771–1858) was the first one to use the word 'socialist' in print in 1827, and also toyed with the word 'communionst', the word 'communist' finally caught on as the most popular label for the new system. It was first used in a popular printed work, Étienne Cabet's utopian novel, *Voyage in Icaria* (1839),[14] and from there the word spread like wildfire across Europe, spurred by the recent development of regular steamboat mail service and the first telegraphy. When Marx and Engels, in the famous opening sentence of their culminating *Communist Manifesto* of 1848, wrote that 'A spectre is haunting Europe – the spectre of Communism', this was a bit of hyperbolic rhetoric, but was still not far off the mark. As Billington writes, the talismanic word 'communism' 'spread throughout the continent with a speed altogether unprecedented in the history of such verbal epidemics'.[15]

In this welter of individuals and groups, there are some interesting ones to focus on. The earliest German exile group of revolutionaries was the League of Outlaws, founded in Paris by Theodore Schuster, under the inspiration of the writings of Buonarroti. Schuster's pamphlet, *Confession of Faith of an Outlaw* (1834) was perhaps the first projection of the coming revolution as a creation of the outlaws and marginal outcasts of society, the ones outside the circuit of production whom Marx would understandably dismiss brusquely as the '*Lumpenproletariat.*' The *Lumpen* were later emphasized in the 1840s by the leading anarcho-communist, the Russian Mikhail Bakunin (1814–76), and by various strains of the New Left of the late 1960s and early 1970s.

The Outlaws was the first international organization of communist revolutionaries, comprised of about 100 members in Paris and nearly 80 in Frankfurt am Main. The League of Outlaws, however, disintegrated about 1838, many, including Schuster, going off into nationalist agitation. But it was succeeded quickly by the larger group of German exiles, the League of the Just, also headquartered in Paris. The German communist groups always tended to be more Christian than the others. Thus, Karl Schapper, leader of the Paris headquarters section of the League of the Just, addressed his followers as 'Brothers in Christ' and hailed the coming social revolution as 'the great resurrection day of the people'. Intensifying the religious tone of the League of the Just was the prominent German communist, the tailor Wilhelm Weitling (1808–71). In his secretly printed manifesto that he wrote for the League of the Just, *Humanity, as it is and as it ought to be* (1838), which though secret was widely disseminated and discussed, Weitling proclaimed himself as a 'social Luther', and denounced money as the source of all corruption and exploitation. All private property and all money was to be abolished and the value of all products to be calculated in 'labour-hours' – the labour theory of value taken all too seriously. For work in public utilities and heavy industry, Weitling proposed to mobilize a centralized 'industrial army', fuelled by the conscription of every man and woman between the ages of 15 and 18.

Expelled from France after revolutionary troubles in 1839, the League of the Just moved to London, where it also established a broader front group, the Educational Society for German Workingmen, in 1840. The three top leaders of the society, Karl Schapper, Bruno Bauer, and Joseph Moll, managed to enlarge the total to over 1 000 members by 1847, including 250 members in other countries in Europe and Latin America.

A fascinating contrast is presented in the persons of two young communists, both leaders of the movement during the 1840s, and both totally forgotten by later generations – even by most historians. Each represented a different side of the communist perspective, and together two different strands in the movement.

One was the English Christian visionary and fantast, John Goodwyn Barmby (1820–?). At the age of 20, Barmby, then an Owenite, arrived in Paris with a proposal to set up an international association of socialists throughout the world; a provisional committee was actually formed, headed by the French Owenite Jules Gay, but nothing came of the scheme. The proposal, however, did prefigure the First International. More importantly, in Paris, Barmby discovered the word 'communist', and adopted and spread it with enormous fervour. To Barmby, 'communist' and 'communitarian' were interchangeable terms, and he helped organize throughout France what he reported to the English Owenites as 'social banquet(s) of the Communist or Communitarian school'. Back in England, Barmby's fervour was undiminished. He founded a communist propaganda society, soon to be called the Universal Communitarian Society, and established a journal, *The Promethean or Communitarian Apostle*, soon renamed *The Communist Chronicle.* Communism, to Barmby, was both the 'societarian science' and the final religion of humanity. His *Credo*, propounded in the first issue of *The Promethean*, avowed that 'the divine is communism, that the demoniac is individualism...'. After that flying start, Barmby wrote communist hymns and prayers, called for the building of communitariums, all directed by a supreme communarchy headed by an elected communarch and communarchess. Barmby repeatedly proclaimed 'the religion of Communism', and made sure to begin things right by naming himself 'Pontifarch of the Communist Church'.

The subtitle of *The Communist Chronicle* revealed its neo-Christian messianism: 'The Apostle of the Communist Church and the Communitive Life: Communion with God, Communion of the Saints. Communion of Suffrages, Communion of Works and Communion of Goods.' The struggle for communism, declared Barmby, was apocalyptic, bound to end with the mystical reunion of Satan into God: 'in the holy Communist Church, the devil will be converted into God...And in this conversion of Satan doth God call people...in the communion of suffrages, of works, and of goods both spiritual and material...for these latter days.'[16] The arrival in London of Wilhelm Weitling in 1844 led him and Barmby to collaborate on promoting Christian communism, but by the end of 1847, they had lost out and the communist movement was shifting decisively toward atheism.

The crucial turn came in June 1847, when the two most atheistical communist groups: the League of the Just in London, and the small 15-man Communist Correspondence Committee of Brussels, led by Karl Marx, merged to form the Communist League. In its second congress in December, ideological struggles within the league were resolved when Marx was asked to write the statement for the new party, to become the famed *Communist Manifesto.*

In any case, Cabet and Weitling each left permanently for the United States in 1848, to try to establish communism there. Both attempts foundered ignominiously amid America's expanding and highly individualistic society. Cabet's Icarians settled in Texas and then in Nauvoo, Illinois, then split and split again, until Cabet, ejected by his former followers in Nauvoo, left for St Louis and died, spurned by nearly everyone, in 1856. As for Weitling, he gave up more rapidly. In New York, he became a follower of Josiah Warren's individualistic though left-Ricardian labour-money scheme, and in 1854 he deviated further to become a bureaucrat with the US immigration service, spending most of his remaining 17 years trying to promote his various inventions. Apparently, Weitling, willy-nilly, had at last 'voted with his feet' to join the capitalist order.

Meanwhile, Goodwyn Barmby sequestered himself in one after another of the Channel Islands to try to found a utopian community, and denounced a former follower for setting up a more practical *Communist Journal* as 'an infringement of his copyright' on the word 'communism'. Gradually, however, Barmby abandoned his universalism and began to call himself a 'National Communist', and, in 1848, he went to France, became a unitarian minister and friend of Mazzini and abandoned communism for revolutionary nationalism.

On the other hand, a leading young French communist Théodore Dézamy (1808–50), represented a competing strain of militant atheism and a tough, cadre approach. In his youth the personal secretary of Cabet, Dézamy led the sudden communist boom launched in 1839 and 1840. By the following year, Dézamy became perhaps the founder of the Marxist–Leninist tradition of ideologically and politically excommunicating all deviationists from the correct line. In fact, in 1842, Dézamy, a highly prolific pamphleteer, turned bitterly on his old mentor Cabet, and denounced him, in his *Slanders and Politics of Mr. Cabet*, for chronic vacillations. In *Slanders*, Dézamy, for the first time, argued that ideological as well as political discipline was requisite for the communist movement.

More importantly, Dézamy wanted to purge French communism of the influence of the quasi-religious poetic and moralistic communist code propounded by Cabet in his *Voyage in Icaria* and especially in his *Communist Credo* of 1841. Dézamy attempted to be severely 'scientific' and claimed that communist revolution was both rational and inevitable. It is no wonder that Dézamy was greatly admired by Marx.

Furthermore, pacific or gradual measures must be rejected. Dézamy insisted that a communist revolution must confiscate all private property and all money immediately. Half-measures will satisfy no one, he claimed, and furthermore, as Billington paraphrases it, 'Swift and total change would be less bloody than a slow process, since communism releases the natural goodness of man...'.[17]

Not only would revolutionary communism be immediate and total: it would also be global and universal. In the future communist world, there will be one global 'congress of humanity', a single language, and a single labour service called 'industrial athletes', who perform work in the form of communal youth festivals. Moreover, the new 'universal country' would abolish not only 'narrow' nationalism, but also such divisive loyalties as the family. In stark practical contrast to his own career as ideological excommunicator, Dézamy proclaimed that under communism conflict would be logically impossible: 'there can be no splits among Communists; our struggles among ourselves can only be struggles of harmony, or reasoning...', since 'communitarian principles' constitute 'the solution to all problems'.

Amidst this militant atheism there was, however, a kind of religious fervour and even faith. For Dézamy spoke of 'this sublime devotion which constitutes socialism', and he urged proletarians to re-enter 'the egalitarian church, *outside of which there can be no salvation*'.

Dézamy's arrest and trial in 1844 inspired German communists in Paris such as Arnold Ruge, Moses Hess and Karl Marx, and Hess began to work on a German translation of Dézamy's code, under the encouragement of Marx, who proclaimed the code 'scientific socialist, materialist, and real humanist'.[18]

9.5 Notes

1. Most of the Protestant groups, on the other hand, held the very different, and essentially correct, view that the Norman Conquest imposed state-created feudal-type landed estates on an England which had been much closer to being an idyll of genuine private property.
   Engels and other historians and anthropologists also saw original early communism, or a Golden Age, in primitive, pre-market tribal societies. Modern anthropological research, however, has demonstrated that most primitive and tribal societies were based on private property, money, and market economies. Thus, see Bruce Benson, 'Enforcement of Private Property Rights in Primitive Societies: Law Without Government'. *Journal of Libertarian Studies*, 9 (Winter 1989), pp. 1–26.
2. Something should be said here about the most prominent of these radical groups, the Fifth Monarchists. While not necessarily communists, they were akin to the Anabaptists of the Reformation in that they were post-millennialists who believed that only they, the elect, would be saved. Further, they believed that it was their historical mission to destroy everyone else in the world, so as to liberate the world from sin, and usher in the imminent Second Coming of Jesus and the establishment of the Kingdom of God on earth.
3. We are simplifying here from the often daunting complexities of millennial thought. For example, in the highly developed pre-millennial doctrines of twentieth century 'fundamentalism', the period of the tribulation will be a very hectic seven years, the 'seventieth week' of the *Book of Daniel*, in which not only the Anti-Christ ('The Beast'), but also 'The Dragon" (the Anti-God), the 'False Prophet' (the Anti-Spirit), 'The Scarlet Woman', and many other evil beings will be overcome. Thus, see George M. Marsden, *Fundamentalism and American Culture: The Shaping of Twentieth-Century Evangelicalism: 1870–1925* (New York: Oxford University Press, 1980), pp. 58–9.
4. In his day and later, Mably was often referred to as an 'abbé', but he had left the clergy early in life.
5. Quoted and translated in Alexander Gray, *The Socialist Tradition* (London: Longmans Green, 1946), p. 87.
6. Ibid., p. 88.
7. Ibid., pp. 90–91.
8. Ibid., pp. 62–3.
9. On Saint-Martin, Eckartshausen and their influence, see the revealing article by Paul Gottfried, 'Utopianism of the Right: Maistre and Schlegel', *Modern Age*, 24 (Spring 1980), pp. 150–60.
10. James H. Billington, *Fire in the Minds of Men: Origins of the Revolutionary Faith* (New York: Basic Books, 1980), p. 73.
11. For this phrase and other translated quotes from the *Manifesto*, see Igor Shafarevich, *The Socialist Phenomenon* (New York: Harper & Row, 1980), pp. 121–4. Also see Gray, op. cit., note 5, p. 107.
12. Billington, op. cit., note 10, p. 75. Also see Gray, op. cit., note 5, p. 105n. As Gray comments, 'what is desired is the annihilation of all things, trusting that out of the dust of

destruction a fair city may arise. And buoyed by such a hope, how blithely would Babeuf bide the stour', Ibid. p. 105.

13. Except that the important 'class struggle' contributions of the Saint Simonians will be dealt with below.
14. Cabet (1788–1856) had been a distinguished French lawyer and attorney-general of Corsica, but was ousted for radical attitudes toward the French government. After founding a radical journal, Cabet fled into exile in London during the 1830s and virtually became an Owenite. Despite Cabet's nationality, the book was originally written and published in English, and a French translation was published the following year. A peaceful communist rather than a revolutionary, Cabet tried to establish utopian communes in various failed projects in the United States, from 1848 until his death.
15. Billington, op. cit., note 10, p. 243.
16. Billington, op. cit., note 10, p. 257.
17. Billington, op. cit., note 10, p. 251.
18. See J.L. Talmon, *Political Messianism: the Romantic Phase* (New York: Praeger, 1960), p. 157.

10 Marx's vision of communism

10.1 Millennial communism

The key to the intricate and massive system of thought created by Karl Marx (1818–83) is at bottom a simple one: *Karl Marx was a communist.* A seemingly banal or trite statement set alongside Marxism's myriad of jargon-ridden concepts in philosophy, economics, history, culture et al. Yet Marx's devotion to communism was his crucial point, far more central than the dialectic, the class struggle, the theory of surplus value, and all the rest. Communism was the goal, the great end, the desideratum, the ultimate end that would make the sufferings of mankind throughout history worthwhile. History is the history of suffering, of class struggle, of the exploitation of man by man. In the same way as the return of the Messiah, in Christian theology, would put an end to history and establish a new Heaven and a new Earth, so the establishment of communism would put an end to human history. And just as for post-millennial Christians, man, led by God's prophets and saints, would establish a Kingdom of God on Earth (and, for pre-millennials, Jesus would have many human assistants in establishing such a Kingdom), so for Marx and other schools of communists, mankind, led by a vanguard of secular saints, would establish a secularized kingdom of heaven on earth.

In messianic religious movements, the millennium is invariably established by a mighty, violent upheaval, an Armageddon, a great apocalyptic war between good and evil. After this titanic conflict, a millennium, a new age, of peace and harmony, a reign of justice, would be established upon the earth.

Marx emphatically rejected those utopians who aimed to arrive at communism through a gradual and evolutionary process, through a steady advancement of the good. No, Marx harked back to the apocalyptics, the post-millennial coercive German and Dutch Anabaptists of the sixteenth century, to the millennial sects during the English Civil War, and to the various groups of pre-millennial Christians who foresaw a bloody Armageddon at the Last Days, before the millennium could be established. Indeed, since the immediatist post-mils refused to wait for gradual goodness and sainthood to permeate among men, they joined the pre-mils in believing that only a violent apocalyptic final struggle between good and evil, between saints and sinners, could establish the millennium. Violent, worldwide revolution, in Marx's version made by the oppressed proletariat, would be the instrument of the advent of his millennium, communism.

In fact, Marx, like the pre-mils (or 'millenarians') went further to hold that the reign of evil on earth would reach a peak just before the apocalypse. For Marx as for the millenarians, writes Ernest Tuveson,

> The evil of the world must proceed to its height before, in one great complete root-and-branch upheaval, it would be swept away...

> Millenarian pessimism about the perfectibility of the existing world is crossed by a supreme optimism. History, the millenarian believes, so operates that, when evil has reached its height, the hopeless situation will be reversed. The original, the true harmonious state of society, in some kind of egalitarian order, will be re-established.[1]

In contrast to the various groups of utopian socialists, and in common with religious messianists, Karl Marx did not sketch the features of his future communism in any detail. Not for Marx, for example, to spell out the number of people in his utopia, and the shape and location of their houses, the pattern of their cities. In the first place, there is a quintessentially crazy air to utopias that are mapped by their creators in precise detail. But more importantly, spelling out the details of one's ideal society removes the crucial element of awe and mystery from the allegedly inevitable world of the future. In the same way, science fiction movies lose their glamour and excitement when, in the second half of the film, the mysterious, powerful and previously invisible monsters become concretized into slow-moving green blob-like creatures that have lost their mysterious aura and have become almost commonplace.

But certain features are broadly alike in all visions of communism. Private property is eliminated, individualism goes by the board, individuality is flattened, all property is owned and controlled communally, and the individual units of the new collective organism are in some vague way equal to one another.

This millennialist emphasis on the collective is a long way from the orthodox Christian, Augustinian, stress on the individual soul and his salvation. In orthodox, a-millennial Christianity, the individual does or does not achieve salvation, until Jesus returns and puts an end to history, and ushers in the Day of Judgement. There is no millennium on earth; the Kingdom of God remains safely, and appropriately, in heaven. But millennialism's emphasis on achieving a Kingdom of God *on earth* inevitably stressed – especially in the required human agency of the post-millennialists – the inevitable collective march toward the Kingdom in and through history. In what we may call the 'immediatist' version of post-mil doctrine, as we have seen in Volume I in the Brethren of the Free Spirit, the coercive Anabaptists of the Reformation, in Christian communists and in a secularized version in Marxism, the object is to seize immediate power in a violent revolution, and to purge the world of sinners and heretics, i.e. all who are not followers of the sect in question, so as to establish the millennium, the precondition of Jesus's Second Advent. In contrast, the *gradualist* post-mils, in less violent and precipitate fashion, who would seize control of most of the Protestant churches in the northern United States during the nineteenth century, wanted to use state power to coerce morality and virtue and then establish the Kingdom of God, not only in the US, but throughout the world. As one historian penetratingly concludes about one of the most prominent post-mil economists and social scientists of the late nineteenth century – a passage that could apply to the entire movement:

> In [Richard T.] Ely's eyes, government was the God-given instrument through which we had to work. Its preeminence as a divine instrument was based on the post-Reformation abolition of the division between the sacred and the secular and on the State's power to implement ethical solutions to public problems. The same identification of sacred and secular...enabled Ely to both divinize the state and socialize Christianity: he thought of government as God's major instrument of redemption...[2]

Gradualists or immediatists, all millennialists have caused grave social and political trouble by 'immanentizing the eschaton' – in the political philosopher Eric Voegelin's infelicitously worded but highly perceptive phrase. As an orthodox Christian, Voegelin believed that 'the eschaton' – the Final Days, the Kingdom of God – must be kept strictly out of earthly matters and be confined to the other-worldly realms of Heaven and Hell. But to take the 'eschaton' out of Heaven and bring it down into the processes of human history, is to create grave problems and consequences: consequences which Voegelin saw embodied in such immanent and messianic movements as Marxism and Nazism.

In common with other utopian socialists and communists, Marx sought in communism the apotheosis of the collective species – mankind as one new super-being, in which the only meaning possessed by the individual is as a negligible particle of that collective organism. One incisive portrayal of Marxian collective organicism – what amounts to a celebration of the New Socialist Man to be created during the communizing process – was that of a top Bolshevik theoretician of the early twentieth century, Alexander Alexandrovich Bogdanov (1873–1928). Bogdanov, like Joachim of Fiore, spoke of 'three ages' of human history: first was a religious, authoritarian society and a self-sufficient economy. Next came the 'second age', an exchange economy, marked by diversity and the emergence of 'autonomy' of the 'individual human personality'. But this individualism, at first progressive, later becomes an obstacle to progress as it hampers and 'contradicts the unifying tendencies of the machine age'. But then there will arise the third age, the final stage of history, communism, though not as with Joachim, an age of the Holy Spirit. This last stage will be marked by a collective self-sufficient economy, and by

> the fusion of personal lives into one colossal whole, harmonious in the relations of its parts, systematically grouping all elements for one common struggle – struggle against the endless spontaneity of nature...An enormous mass of creative activity...is necessary in order to solve this task. It demands the forces not of man but of mankind – and only in working at this task does mankind as such emerge.[3]

The acme of messianic communism appears in the frenzied three-volume phantasmagoria by the notable German blend of Christian messianist and Marxist–Leninist–Stalinist, Ernst Bloch (1885–1977). Bloch held that the 'inner truth' of things could only be discovered after 'a complete transformation of the universe, a grand apocalypse, the descent of the Messiah, a new heaven, and a new earth'. As J.P. Stern writes in his review of Bloch's three-volume *Principle of Hope*, the book contains such remarkable declamations as '*Ubi Lenin, ibi Jerusalem*' ('Where Lenin is, there is Jerusalem'), and that 'the Bolshevist fulfillment of Communism' is part and parcel of 'the age-old fight for God'. There is also more than a hint, in Bloch, that disease, nay even death itself, will be abolished upon the advent of communism.[4]

In contrast, there is no more eloquent championing of orthodox Christian individualism and revulsion against collectivism, than G.K. Chesterton's critique of the views of a leading Fabian socialist, Mrs Annie Besant – in which Chesterton swats Mrs Besant's pantheistic Buddhism:

> According to Mrs Besant the universal Church is simply the universal Self. It is the doctrine that we are really all one person; that there are no real walls of individuality between man and man... She does not tell us to love our neighbor; she tells us to be our neighbors...the intellectual abyss between Buddhism and Christianity is that, for the Buddhist or theosophist, personality is the fall of man, for the Christian it is the purpose of God, the whole point of his cosmic idea.[5]

Let us turn to some of the main features of communism. In the typical communal millennial future, an epoch of bliss and harmony, *work*, the necessity to labour, becomes de-emphasized or disappears altogether. Labour, at least labour in order to maintain and advance one's living standards, does not ring true with very many people as a feature of utopia. Thus, in the vision of Joachim of Fiore, perhaps the first medieval millennialist, no work would be required to disturb the endless round of celebration and prayer, because mankind would have achieved the status of immaterial objects. If man were pure spirit, it is true that the economic problem – the problem of production and living standards – would necessarily disappear. Unfortunately, however, Marx, being an atheist and materialist, could not exactly fall back on a Fiore-like communism of pure spirit. How could solidly material human beings solve the problem of production and of maintaining and expanding their living standards?

There was method in Marx's refusal to treat the communist stage in any detail. His utopia was shadowy. On the one hand, Marx assumed and asserted that goods in the future communist society would be superabundant. If so, there would of course be no need to refer to the universal economic problem of scarcity of means and resources as applied to ends. But by assuming away the problem, Marx bequeathed the puzzle to future generations, and Marxists have been split on the question: will communism itself bring about this magical state of superabundance, or should we wait *until* capitalism brings superabundance before we establish communism? Generally, Marxist groups have solved this problem, not in theory but in practice (or 'praxis') by cleaving to whatever path would allow them either to conquer or to maintain their power. Thus Marxist vanguards or parties, on seeing an opportunity to seize power, have been invariably willing to skip the 'stages of history' preordained by their Master and exercise their revolutionary will. On the other hand, Marxist élites already entrenched in power have prudentially put off the ultimate goal of communism ever further into a receding future. And so the Soviets were quick to stress hard work and gradualism in persevering toward the ultimate goal.[6]

There are several other probable reasons for Marx's failure to detail the features of ultimate communism, or, indeed, of the necessary stages to achieve it. First is that Marx had no interest in the economic features of his utopia; a simple question-begging assumption of unlimited abundance was enough. His main interest, as we shall see, was in the philosophic, indeed religious, aspects of communism. Second, communism for Marx was an inverted form of Hegel and his philosophy of history; it was the revolutionary end to Marx's neo-Hegelian version of 'alienation' and of the 'dialectic' process by which the *aufhebung* (transcendence) and negation of one historical stage is replaced by another and opposing one. In this case: the negation of the evil condition of private property and the division of labour, and the establishment of communism, in which man's unity with man and nature is achieved. To Marx, as to Hegel, history necessarily proceeds by this magical dialectic, in which one stage gives rise inevitably to a later and opposing stage. Except that to Marx, the 'dialectic' is material rather than spiritual.[7] Marx never published his neo-Hegelian *Economic and Philosophic Manuscripts of 1844*, in which the philosophic basis of Marxism was set forth, and one essay of which, 'Private Property and Communism', contained Marx's fullest exposition of the communist society. One reason for his refusal to publish was that, in later decades, Hegelian philosophy had gone out of fashion, even in Germany, and Marx's followers were interested more in the economic and revolutionary aspects of Marxism.

10.2 Raw communism

Another important reason for Marx's failure to publish was his candid depiction of the communist society in the essay 'Private Property and Communism'. In addition to its being philosophic and not economic, he portrayed a horrifying but allegedly necessary stage of society immediately *after* the necessary violent world revolution of the proletariat, and before ultimate communism is to be finally achieved. Marx's post-revolutionary society, that of 'unthinking' or 'raw' communism, was not such as to spur the revolutionary energies of the Marxian faithful.

For Marx took to heart two bitter critiques of communism that had become prominent in Europe. One was by the French mutualist anarchist Pierre-Joseph Proudhon, who denounced communism as 'oppression and slavery', and to whom Marx explicitly referred in his essay. The other was a fascinating book by the conservative Hegelian monarchist Lorenz von Stein (1815–1890), who had been assigned by the Prussian government in 1840 to study the unsettling new doctrines of socialism and communism becoming rampant in France. Not only did Marx show a 'minute textual familiarity' with Stein's subsequent book of 1842, but he actually based his concept of the proletariat as the foundation and the engine of the world revolution on Stein's insights into the new revolutionary doctrines as rationalizations of the class interests of the proletariat.[8]

Most remarkably, Marx admittedly agreed with Proudhon's, and particularly Stein's, portrayal of the first stage of the post-revolutionary society, which he agreed with Stein to call 'raw communism'. Stein forecast that raw communism would be an attempt to enforce egalitarianism by wildly and ferociously expropriating and destroying property, confiscating it, and coercively communizing women as well as material wealth. Indeed, Marx's evaluation of raw communism, the stage of the dictatorship of the proletariat, was even more negative than Stein's: 'In the same way as woman is to abandon marriage for general [i.e. universal] prostitution, so the whole world of wealth, that is, the objective being of man, is to abandon the relation of exclusive marriage with the private property owner for the relation of general prostitution with the community.' Not only that, but as Professor Tucker puts it, Marx concedes that 'raw communism is not the real transcendence of private property but only the universalizing of it, not the overcoming of greed but only the generalizing of it, and not the abolition of labour but only its extension to all men. It is merely a new form in which the vileness of private property comes to the surface'. In short, in the stage of communalization of private property, what Marx himself considers the worst features of private property will be maximized. Not only that: but Marx concedes the truth of the charge of anti-communists then and now that communism and communization is but the expression in Marx's words, of 'envy and a desire to reduce all to a common level'. Far from leading to a flowering of human personality as Marx is supposed to claim, he admits that communism will negate it totally. Thus Marx:

> In completely negating the *personality* of men, this type of communism is really nothing but the logical expression of private property. General *envy*, constituting itself as power, is the disguise in which *greed* re-establishes itself and satisfies

> itself, only in *another* way ...In the approach to *woman* as the spoil and handmaid of communal lust is pressed the infinite degradation in which man exists for himself.[9]

All in all, Marx's portrayal of raw communism is very like the monstrous regimes imposed by the coercive Anabaptists of the sixteenth century.[10]

Professor Tucker adds, perhaps underlining the obvious, that 'These vivid indications from the Paris manuscripts of the way in which Marx envisaged and evaluated the immediate post-revolutionary period very probably explain the extreme reticence that he always later showed on this topic in his published writings.'[11]

But if this communism is admittedly so monstrous, a regime of 'infinite degradation', why should anyone favour it, much less dedicate one's life and fight a bloody revolution to establish it? Here, as so often in Marx's thought and writings, he falls back on the mystique of the 'dialectic' – that wondrous magic word by which one social system inevitably gives rise to its victorious transcendence and negation. And, in this case, by which total evil – which interestingly enough, turns out to be the post-revolutionary dictatorship of the proletariat and not preceding capitalism – becomes transformed into total good.

To say the least, Marx cannot and does not attempt to explain how a system of total greed becomes transformed into total greedlessness. He leaves it all to the wizardry of the dialectic, now a dialectic fatally shorn of the alleged motor of the class struggle, which yet somehow transforms the monstrosity of raw communism into the paradise of communism's 'higher stage'.

10.3 Higher communism and the eradication of the division of labour

The Hell of the first, or lower, stage of communism has been vividly expressed by Marx. What of the Heaven of the higher stage, of the 'positive humanism' of ultimate communism? Unfortunately, Heaven's features are vague and murky indeed, perhaps too insubstantial, if Marx had published his *Manuscripts*, to overcome the all too palpable horrors of raw communism. The key is that man is supposedly freed from the necessity of labour. The elimination of private property frees him from greed, succeeding the orgiastic culmination of greed achieved during raw communism. In particular, man is freed from the division of labour, from specialization, which prevents him from developing 'all' his faculties for the sheer joy of it, and 'forces' him to work for others – either in the market, or under the despotic power of feudalism, or oriental despotism, or under the dictatorship of the proletariat in the first stage of communism. Without the division of labour, and with the evil of exchange of goods and services at last eliminated, man is now freed from the 'alienation' of not consuming his own product. This alienation is not, as many Marxists seem to believe, the result of the capitalists' alleged extraction of the 'surplus' produced by the workers. More deeply, this alienation is the product of the division of labour and of specialization itself. That division eliminated, man, in the neo-Hegelian mystique of Marx, will return 'to himself', will be united with 'himself', and alienation will then be ended.

All this makes a kind of sense only if one realizes that, for Marx as for Hegel, 'man' is a collective and not an individual organic entity. For Hegel and for Marx, the history of 'man' is the history, the ups and downs, of what amounts to a single collective organism. If, for Marx, there is a division of labour, specialization and exchange, this means that 'man' is tragically split within 'himself', so that the process of achieving the higher stage of communism, the end of human history in the same way that the Kingdom of God on earth had been an end, is a process by which man is no longer alienated from his collective 'self' and achieves unity with himself. At the same time, 'he' also achieves unity with 'nature', for in the Marxian system the only 'nature' is that which has been created by centuries of man's labour and activity. Thus, as Robert Tucker points out, Friedrich Engels's famous statement about communism has been misinterpreted widely, not least by Marxists unfamiliar with the philosophical nature of their own system. Friedrich Engels (1820–95) wrote, in his *Anti-Dühring*:

> The whole sphere of the conditions of life which environ man, and which have hitherto ruled man, now comes under the dominion and control of man, who for the first time becomes the real, conscious lord of Nature, because he has now become master of his own social organization...Man's own social organisation, hitherto confronting him as a necessity imposed by Nature and history, now becomes the result of his own free action. The extraneous objective forces that have hitherto governed history pass under the control of man himself... It is the ascent of man from the kingdom of necessity to the kingdom of freedom.[12]

As Tucker points out, to the reader unfamiliar with Marxian philosophy, this passage might well be construed as referring to man's mastery of nature via technology. However,

> in actuality, it refers to the mastery of technology as man's own nature outside himself. The kingdom of necessity is the alienated world of history, the realm of object-bondage. The 'extraneous objective forces' over which man is to become lord in the kingdom of freedom are understood as the externalized forces of the species-self. The nature to which man will no longer be subservient is his own nature.[13]

In short, as in many other places in Marx, a passage which at least superficially seems to contain at least a modicum of sense – although fallacious – turns out on deeper study to be but a part of the mumbo-jumbo of Marx's neo-Hegelian philosophy.

Particularly important for Marx is that communism does away with the division of labour. By being free of specialization, the division of labour, and working for others (including the consumers) man as labourer is freed from all limits. Thus liberated, 'man produces in order to realize his nature as a being with manifold creative capacities requiring free outlet in a "totality of human life-activities"'.[14] Or, as Engels put it in his *Anti-Dühring*, the disappearance of the division of labour will mean that productive labour will give 'each individual the opportunity to develop all his faculties, physical and mental, in all directions and exercise them to the full'.

The idea of everyone developing all of their faculties 'in all directions' is mind-boggling, and conjures up the absurd picture of a world of autistic dilettantes, each heedless of social demand for their services or products, and each dabbling whimsically and sporadically in every activity. This image is confirmed by Marx's most famous passage describing the communist system in Part I of his 'The German Ideology', an unpublished essay written in 1845–46. There he writes that communism 'corresponds to the development of individuals into complete individuals and the casting off of all natural limitations'. How are 'all natural limitations' cast off? – a tall order indeed. Let Marx explain. As soon as the division

> of labour comes into being, each man has a particular, exclusive sphere of activity, which is forced upon him...He is a hunter, a fisherman, a shepherd, or a critical critic, and must remain so if he does not want to lose his means of livelihood; while in communist society, where nobody has one exclusive sphere of activity but each can become accomplished in any branch he wishes, society regulates the general production and thus makes it possible for me to do one thing today and another tomorrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticize after dinner, just as I have a mind, without ever becoming hunter, fisherman, shepherd or critic.[15]

One of the most apt comments on this passage is the witty *mot* of Alexander Gray. 'A short weekend on a farm might have convinced Marx that the cattle themselves might have some objection to being reared in this casual manner, in the evening.' More broadly, Gray remarks 'that each individual should have the opportunity of developing *all* his faculties, physical *and* mental in all directions, is a dream which will cheer the vision only of the simple-minded, oblivious of the restrictions imposed by the narrow limits of human life'. 'For life', Gray points out, 'is a series of acts of choice, and each choice is at the same time a renunciation...'. The necessity of choice, Gray perceptively reminds us, will exist even under communism:

> Even the inhabitant of Engels' future fairyland will have to decide sooner or later whether he wishes to be Archbishop of Canterbury or First Sea Lord, whether he

should seek to excel as a violinist or as a pugilist, whether he should elect to know all about Chinese literature or about the hidden pages in the life of the mackerel.[16]

The abolition of the division of labour meant also that all differences – and hence 'opposition' – between town and country had to be eliminated, with industry somehow equally diffused throughout the country (the world?). As a result, all large cities would have to be destroyed. As Engels said in *Anti-Dühring*: 'it is true that in the huge towns civilization has bequeathed to us a heritage which it will take much time and trouble to get rid of. But it must and will be got rid of, however protracted a process it may be.'[17]

It is not surprising that the Soviet authorities did not take a very favourable view of Marxian communism. Marxian pieties can go just so far. Thus, the Soviet Communist Party's theoretical journal *Kommunist* referred favourably to the unpublished work of a Soviet economist, V.M. Kriukov, who wrote that

> An unintelligent person and philistine might form his own picture of communism approximately as follows: you rise in the morning and ask yourself, where shall I go to work today – shall I be chief engineer at the factory or go and head the fishing brigade? Or shall I run down to Moscow and hold an urgent meeting of the presidium of the Academy of Science?

Kommunist adds the warning: 'It will not be so.' No doubt, and quite sensibly. But of course the Soviet authorities did not acknowledge the fact that by repudiating this 'unintelligent' notion they were renouncing the key to the whole Marxian system, the point and goal of the entire struggle.[18]

More importantly, the Soviet authorities jettisoned the basic goal of Marxism by abandoning the idea that communism will eliminate the division of labour. The revision began with Stalin's last work in 1952, shortly before his death, and intensified after that. Evading and sometimes falsifying the writings of the Founders, the Soviet revisionists were relatively sound in realism and economics but weak on the Marxian heritage. Sometimes, the Soviet experts simply and sharply stated the facts: 'A man cannot do literally everything'; 'In the system of Communist production relations, the division and specialization of labour will remain essential'; and 'It is absolutely obvious that Communist society would be unthinkable without a constantly developing and intensifying division of labour'. Substitute the words 'modern' or 'industrial' for 'communist' and the Soviet economists were right on the mark. But in what sense is this 'communism' any longer?[19]

Six years before *Anti-Dühring*, moreover, Engels betrayed the entire Marxian vision in the course of a bitter polemic against the anarchists. In defending the idea of authoritarianism under communism, Engels reminded the self-styled anti-authoritarian anarchists that 'a revolution is certainly the most authoritarian thing there is; it is the act whereby one part of the population imposes its will upon the other part by means of rifles, bayonets, and cannon– authoritarian means...'. But more importantly, Engels jeered at the idea that there will be no authoritarianism, and hence no division of labour, in a communist factory. Engels pointed out that factory production requires both, and also demands that the workers subordinate themselves to technological necessity. Thus: 'keeping the machines going requires an engineer to look after the steam engine, mechanics to make the current repairs, and many other labourers whose business it is to transfer the products...'. Moreover, he pointed out, technology and the forces of nature subject man 'to a veritable despotism independent of all social organization'. 'Wanting to abolish authority in large-scale industry', Engels warned, 'is tantamount to wanting to abolish industry itself, to destroy the power loom in order to return to the spinning wheel'.[20]

Refreshingly sober words, no doubt, but totally alien to the spirit of Marxism and certainly to all that Marx said or wrote on the topic, as well as most other writings of Engels. To Marx, all labour in future communism is not economic, but *artistic*, the free and spontaneous creativity allegedly typical of the artist. For Marx in his economic *magnum opus*, *Capital*, communist man has been transformed from an alienated man into an aesthetic man who regards everything in artistic terms. Thus, on the factory, industrial production under communism will have no authoritarian direction but rather unity will be achieved as with musicians in a symphony orchestra.

Engels, however, was an interesting case. A bit more of an economist than Marx, and the man who introduced his friend and partner to British classical economics, Engels was capable of alternating the wildest utopian fantasies of communism with a suddenly perceptive insight into its economic difficulties. Thus, even in *Anti-Dühring* Engels at one point admits that 'the task of economic science', as capitalism moves forward rapidly and inexorably to its collapse, is 'to uncover amid the changes of the economic transition the elements of the future new organisation of production and exchange which will remove the previous malfunctioning (of the capitalist economy)'. It was never a task, however, that either Engels or Marx would ever bother to take up.

Furthermore, in 'The Principles of Communism', an essay written in late 1847 that became the first draft for the *Communist Manifesto*, Engels laid bare one of the crucial, usually implicit, assumptions of the communist society – that superabundance will have eliminated the problem of scarcity:

> Private property can be abolished only when the economy is capable of producing the volume of goods needed to satisfy everyone's requirements...The new rate of industrial growth will produce enough goods to satisfy all the demands of society...Society will achieve an output sufficient for the needs of all members,

This superabundant production somehow will have been achieved by a wondrous technological progress that would eliminate the need for any division of labour.

Engels, however, in the midst of this bold assumption, felt compelled to waffle, and to admit that this communist millennium could not be achieved 'immediately', or 'at one blow'. For 'it would not be possible immediately to expand the existing forces of production to such an extent that enough goods could be made to satisfy all the needs of the community'. During the transition period, at least, says Engels, 'industry will have to be run by society as a whole for everybody's benefit. It must be operated by all members of society in accordance with a common plan...Private property will also have to be abolished and it must be replaced by the sharing of all products in accordance with an agreed plan'.[21]

Any believer in the labour theory of value who tried to set forth a scheme of economic calculation under socialism would likely fasten on the idea of setting prices, and paying wages, in accordance with the labour time expended on production. The issue of labour-time tickets was precisely the plan proposed by Robert Owen, by the Ricardian individualist-anarchist Josiah Warren, and by the German Ricardian socialist Johann Karl Rodbertus (1805–75). One of Friedrich Engels's most penetrating economic insights came in the course of demolishing the labour-ticket money utopian socialism of Rodbertus, a beloved figure in Germany at that time.[22]

Engels denounced the Rodbertus doctrine in a preface to the first German edition of Marx's *The Poverty of Philosophy*, the year after Marx's death (1884). Here Engels had the impudence to condemn Rodbertus's labour money as 'childishly naive', and to press on to scorn Rodbertus for overlooking economic law and the competitive market process:

> To desire in a society of producers who exchange their commodities, to establish the determination of value by labour time, by forbidding competition to establish this determination of value through pressure on prices in the only way in which it can be established, is therefore merely to prove that...one has adopted the usual Utopian disdain of economic laws.

Engels goes on to assert that competition, by 'bringing into operation the laws of value of commodity production in a society of producers who exchange their commodities', creates the only possible organization of social production 'in the circumstances'. Engels goes on to engage in a scornful and perceptive critique of socialist attempts at calculation (at the very least of the Rodbertus variety):

> Only through the undervaluation and overvaluation of products is it forcibly brought home to the individual commodity producers what things and what quan-

> tity of them society requires or does not require. But it is just this sole regulator that the Utopia in which Rodbertus also shares would abolish. And if we have to ask what guarantee we have that the necessary quantity and not more of each product will be produced, that we shall not go hungry in regard to corn and meat, while we are choked in beet sugar and drowned in potato spirit, that we shall not lack trousers to cover our nakedness while trouser buttons flood us in millions – Rodbertus triumphantly shows us his famous calculation, according to which the correct certificate has been handed out for every superfluous pound of sugar, for every unsold barrel of spirit, for every unusable trouser button, a calculation which 'works out' exactly, and according to which 'all claims will be satisfied and the liquidation correctly brought about'.[23]

Engels adds that 'If now competition is to be forbidden to make the individual producers aware, by the rise or fall of prices, how the world market stands, then their eyes are completely blinded'.

Professor Hutchison's comment on this performance by Engels is all too *à propos*:

> Mises and Hayek could hardly have made the point more forcefully. What is most extraordinary is the combination of penetrating critical insight regarding the vital function of the competitive price mechanism as applied to the Utopian notions of Rodbertus together with the totally uncritical, purblind complacency regarding his own and Marx's Utopian assumptions (as he himself had earlier revealed them in his 'Principles of Communism' in such irresponsible vacuities as 'the joint and planned exploitation of the forces of production by society as a whole')....The hordes of infallible Prussian officials and 'the Prussian State Socialism', for relying on which Engels so castigates Rodbertus, would inevitably be required (and, of course, have been deployed) many times over for Engels's and Marx's own Utopian 'planning'.[24]

But such few perceptions on the part of Engels come under the category of what he himself once called 'howlers'. Apart from them, ultimate communism was naively to achieve the transcendence of both work and the division of labour. But that is not all. Along with the transcendence and negation of private property will come the negation of virtually all aspects of modern civilization, which Marx also considered 'subsidiary modes of production' alienating man from his supposed true nature. Thus:

> Religion, the family, the state, law, morality, science, art, etc., are only *particular* modes of production, and fall under its general law. The positive transcendence of *private property*, as the appropriation of *human* living, is, therefore the positive transcendence of all alienation and thus the return of man from religion, the family, the state, etc., to his *human*, i.e. *social* existence. (Italics are Marx's)[25]

But if all these cherished institutions are to be rudely stripped from man, what then remains to this poor, 'liberated' creature? For make no mistake, these post-Marxian creatures would be deprived of all human interrelations that make up a society. These 'complete' individuals would be deprived of law, family, custom, religion, and, of course, of all exchange of goods and services, i.e. they would be complete, hermetically sealed creatures each isolated from everyone else. Ironically, then, leftists who habitually though falsely denounce individualist thinkers for advocating a world of isolated 'atomistic', hermetically sealed individuals, themselves worship a theorist whose vision of the ideal future is precisely of such a monstrous world. At the same time, of course, each will have the consolation of knowing that they are all trivial particles in a mighty collective organism now united with 'itself' – and that any vagueness or inconsistency in this picture will be resolved by the sorcery of the 'dialectic', in which all contradictions transcend their negations into a higher unity.[26]

What will allegedly be left to man under communism is a new and bizarre form of art or aesthetics. Man will be stripped of wealth and possessions, but he will be far 'richer' in another sense: unalienated, and fulfilling himself in all directions, he will approach his own creations rich in the appreciation of beauty. He will be, in the words of Marx in 'Private Property and Communism', a '*rich man profoundly endowed with all the senses*', he will realize his natural tendency to arrange all things 'according to the laws of beauty'. Until communism man's appreciation of beauty had been sullied by greed and possession. But, for Marx, *having*, possessing, implies the 'simple alienation of all the [physical and spiritual] human senses...'.

Professor Tucker, who has done much to explicate Marx's vision of communism, concludes that 'economic activity will turn into artistic activity...and the planet itself will become the new man's work of art. The alienated world will give way to the aesthetic world'. But, if ultimate communism abandons and eliminates all sense of having, of ownership, in order to liberate man for purely aesthetic creation and contemplation, then communism *itself* must be transcended, since even communism implies some form of having or possessing. As Tucker points out, 'Consequently, the final condition of man will be beyond all ownership, beyond the property principle, and in this sense *beyond communism*'.[27] Hence Marx ends his fullest discussion of communism (in 'Private Property and Communism') with these faintly ominous sentences:

> Communism is the position as the negation of the negation, and hence the *actual* phase necessary for the next stage of historical development in the process of human emancipation and recovery. *Communism* is the necessary pattern and the dynamic principle of the immediate future, but communism as such is not the goal of human development – the structure of human society.[28]

So what is the final stage *even beyond* communism, the final-final *Aufhebung*, the great transcendence, the ultimate negation? It is a world beyond all ownership and all possession, a world fully liberated for the spontaneous flowering of all faculties in all directions and for the unsullied, totally sensate appreciation of pure beauty. We may be pardoned for concluding that, wittingly or unwittingly – and with Marx it is difficult to know which – the final-final stage is the stage of the graveyard for the human race. After the turmoil and upheaval of all the *Aufhebungs* will come the 'peace' of a universal cemetery. For no possession, no use of resources, means rapid and universal starvation. Deprived of all labour for productive goals and of all possessions, mankind will have precious little time left for the appreciation of pure beauty.

Whether or not they saw the full horror of Marx's ultimate 'positive humanism', there is no doubt that the Soviets were always uneasy at the thought of this abyss. The Soviet editor of a Russian translation of Marx's manuscripts, published in 1956, on analysing the above passage, asserts that by 'communism as such' Marx meant raw communism of the initial stage. But this is almost a wilful misinterpretation of Marx's final words on beyond the ultimate stage. The Soviets had trouble enough with the 'withering away of the State' in the highest stage of communism, which to them meant at most a shift from official state ownership of all resources to ownership by 'social' or 'administrative' organizations, officially proclaimed as non-states.[29] The reason that Marx suppressed the publication of this essay in his lifetime seems similar to the Soviet's burying of their allegedly final-final goal. To say that even the Marxist public is 'not yet ready for it' is a rich understatement; one trusts that they never will be.

In socialist practice, of course, while communist countries never got to the 'highest stage', there seemed to be little evidence of either a notable appreciation of beauty or of great spontaneous or artistic creativity. Perhaps even the relative physical deprivation rather than the rapid and absolute starvation of 'beyond communism' of twentieth century socialist regimes was responsible for the grey and grim cast universally acknowledged to pervade these countries.

But of course all these problems are neatly buried by the pervasive but implicit premise underlying all of Marx's discussions of communism: the unsupported, unquestioned assumption that throughout all these changes, production remains happily abundant, if not superabundant. Hence the economic problem is simply and quietly assumed away.

Some might protest that, in our discussion of communism, we have not mentioned the feature that is generally considered the hallmark of that system: the slogan, 'From each according to his ability, to each according to his needs'. This phrase seems to contradict our view that the essence of the communist society is a secularized religion rather than economics. The *locus classicus*, however, of Marx's proclamation of this well-known slogan of French socialism, was in the course of his vitriolic *Critique of the Gotha Program* in 1875, in which Marx denounced the Lassallean deviationists who were forming the new German Social Democratic Party. And it is clear from the context of his discussion that this slogan is of minor and peripheral importance to Marx. In point 3 of his *Critique*, Marx is denouncing the clause of the programme calling for communization of property and 'equitable distribution of the proceeds of labour'. In the course of his discussion, Marx states that inequality of labour income is 'inevitable in the first stage of communist society,...when it has just emerged after prolonged birth pangs from capitalist society. Right can never be higher than the economic structure of society and the cultural development thereby determined'. On the other hand, Marx goes on,

> In a higher phase of communist society, after the enslaving subordination of individuals under division of labour, and therewith also the antithesis between mental and physical labour, has vanished; after...the productive forces have also increased with the all-round development of the individual, and all the springs of cooperative wealth flow more abundantly – only then can the narrow horizon of bourgeois right be fully left behind and society inscribe on its banners: from each according to his ability, to each according to his needs![30]

It should be evident from this passage and its context that Marx's final sentence, far from being the point and the culmination of his discussion, was stated briefly only to be dismissed. What Marx is saying is that the key to the communist world is not any such principle of the distribution of goods, but the eradication of the division of labour, the all-round development of individual faculties, and the resulting flow of superabundance. In such a world, the famous slogan becomes of only trivial importance. Indeed, Marx proceeds immediately after this passage to denounce talk among socialists of 'equal right' and 'equitable distribution' as 'ideological nonsense about "right" and other trash common among the democrats and French Socialists...'. He then quickly adds that 'it was in general incorrect to make a fuss about so-called "distribution" and put the principal stress on it'.[31,32]

The absolute misery and horror of the ultimate stage (and *a fortiori* of the beyond-ultimate stage) of communism should now be all too apparent. The eradication of the division of labour would quickly bring starvation and economic misery to all. The abolition of all structures of human interrelation would bring enormous social and spiritual deprivation to every person. And, even the alleged 'artistic' intellectual and creative development of all man's faculties in all directions would be totally crippled by the ban on all specialization. How can true intellectual development or creation come without concentrated effort? In short, the terrible economic suffering of mankind under communism would be fully matched by its intellectual and spiritual deprivation. Considering the nature and consequences of communism, to call this horrific dystopia a noble and 'humanist' ideal can at best be considered a grisly joke, in questionable taste. The prevalent notion, for example, that Marxian communism is a glorious ideal for man perverted by the later Engels or by Lenin or Stalin, can now be put into proper perspective. None of the horrors committed by Lenin, Stalin, or other Marxist–Leninist regimes can match the monstrousness of Marx's communist 'ideal'. Perhaps the closest approximation was the short-lived communist regime of Pol Pot in Cambodia which, in attempting to abolish the division of labour, managed to enforce the outlawry of money – so that for their tiny rations the populace was totally dependent upon the niggardly largesse of the communist cadre. Moreover, they attempted to eliminate the 'contradictions between town and country', by following the Engels goal of destroying large cities, and by coercively depopulating the capital, Phnom Penh, overnight. In a few short years, the Pol Pot group managed to exterminate one-third of the Cambodian population, perhaps a record in genocide.[33]

Since under ideal communism everyone could and would have to do everything, it is clear that, even before universal starvation set in, very little could get done. To Marx himself, all differences among individuals were 'contradictions' to be eliminated under communism, so that presumably the mass of individuals would have to be uniform and interchangeable.[34] Whereas Marx apparently postulated normal intellectual capabilities even under communism, to later Marxists, it seems that difficulties could be alleviated by the emergence of superhuman beings. To Karl Kautsky (1854–1938), the German Marxist who assumed the mantle of the top leadership of Marxism upon the death of Engels in 1895, under communism 'a new type of man will arise...a superman...an exalted man'. Leon Trotsky waxed even more lyrical: 'Man will become incomparably stronger, wiser, finer. His body more harmonious, his movements more rhythmical, his voice more musical...The human average will rise to the level of an Aristotle, a Goethe, a Marx. Above these other heights new peaks will arise'. If the beyond ultimate stage of communism ever lasts long enough to breed a new super-race, we may safely leave it to the communist theoreticians of that future day to resolve the problem of whether the 'contradiction' of 'permitting' a super-Aristotle to tower over an Aristotle may be allowed to exist.[35]

Neither should libertarians be taken in by the Marxian goal of the 'withering away of the State' under communism, or in the use of the phrase, borrowed from the cherished aim of the French free market libertarians Charles Comte and Charles Dunoyer: a world where the 'government of persons is replaced by the administration of things'. There are two major flaws in this formulation from the *laissez-faire* libertarian viewpoint. First, of course, as the Russian anarcho-communist Mikhail Bakunin (1814–76) insistently pointed out: it is absurd to try to reach statelessness via the absolute maximization of state power in a totalitarian dictatorship of the proletariat (or more realistically a select vanguard of the said proletariat). The result can only be maximum statism and hence maximum slavery. As perhaps the first of the 'new class' theorists, and anticipating the iron law of oligarchy of Michels and Mosca, Bakunin prophetically warned that a minority ruling class will once again, after the Marxian revolution, rule the majority:

> But the Marxists say, this minority will consist of the workers. Yes, no doubt...of former workers, who, as soon as they become governors or representatives of the people, cease to be workers and start looking down on the working masses from the heights of state authority, so that they represent not the people but themselves and their own claim to rule over others. Anyone who can doubt this knows nothing of human nature...The terms 'scientific socialist' and 'scientific socialism', which we meet incessantly in the works and speeches of the...Marxists, are sufficient to prove that the so-called people's state will be nothing but a despotism over the masses, exercised by a new and quite small aristocracy of real or bogus 'scientists'. ...They [the Marxists] claim that only dictatorship, their own of course, can bring the people freedom; we reply that a dictatorship can have no other aim than to perpetuate itself, and that it can engender and foster nothing but slavery in the people subjected to it. Freedom can be created only by freedom...[36]

Indeed, only a believer in the preposterous necromancy of the 'dialectic' could believe otherwise, that is, could believe that a totalitarian state can inevitably and virtually instantly be transformed into its opposite, and that therefore the way to get rid of the state is to work as hard as possible to maximize its power.

But the problem of the dialectic is not the only, indeed not even the main, problem with Marxian communism. For Marxism shares with the anarchists a grave problem of the higher stage of pure communism, assuming for a moment that it could ever be reached. The crucial point is that, both for anarchists and for Marxists, ideal communism is a world without private property, and that all property and resources will be owned and controlled in common. Indeed, the anarcho-communists' major complaint against the state is that it is allegedly the main enforcer and guarantor of private property and therefore that to abolish private property the state must also be eradicated. The truth, of course, is precisely the opposite: the state, through history, has been the main despoiler and plunderer of private property. With private property mysteriously abolished, then, the elimination of the state under communism (of either the Marxian or anarchist variety) would necessarily be a mere camouflage for a new state that would emerge to control and make decisions for communally owned resources. Except that the state would not be called such, but rather renamed something like a 'people's statistical bureau', as has already been done in Khadafy's Libya, and armed with precisely the same powers. It will be small consolation to future victims, incarcerated or shot for committing 'capitalist acts between consenting adults' (to cite a phrase made popular by Robert Nozick), that their oppressors will no longer be the state but only a people's statistical bureau. The state under any other name will smell as acrid. Furthermore, it will be inevitable, under the iron law of oligarchy, that 'world communal decisions' will *have* to be undertaken by a specialized élite, so that the ruling class will inevitably reappear, under Bakuninite as well as any other form of communism.[37]

And, as we have indicated, in the 'beyond-communism' stage, the stage of universal no-ownership and therefore of no action and no use of resources, death for the entire human race would swiftly ensue.

Marx and his followers have never demonstrated any awareness of the vital importance of the problem of allocation of scarce resources. Their vision of communism is that all such economic problems are trivial, requiring neither entrepreneurship nor a price system nor genuine economic calculation – that all problems could be quickly solved by mere accounting or recording. The classic absurdity on this matter was laid down by Lenin, who accurately expressed Marx's view in declaring that the functions of entrepreneurship and of allocation of resources have been '*simplified* by capitalism to the utmost' to mere matters of accounting and to 'the extraordinarily simple operations of watching, recording, and issuing receipts, within the reach of anybody who can read and write and knows the first four rules of arithmetic'. Ludwig von Mises wryly and justly comments that Marxists and other socialists have had 'no greater perception of the essentials of economic life than the errand boy, whose only idea of the work of the entrepreneur is that he covers pieces of paper with letters and figures'.[38]

It is perhaps all too fitting that we now find that the idea of communism as a simple problem of book-keeping and registration was perhaps originated by the French apocalyptic fantast and inspirer of Marx, Théodore Dézamy.[39]

10.4 Arriving at communism

Karl Marx had a crucial problem. He was not interested, as were the scorned 'Utopian' socialists, in merely exhorting everyone to adopt the communist path to a perfect society. He did not propose to leave the attainment of communism to the imperfect free wills of mankind. He demanded a certain, 'inevitable' path, a 'law of history' that would demonstrate the absolute inevitability of history's reaching its final glory in a communist society. But here he was at a disadvantage relative to the various Christian wings of messianic communism: for, unlike them, there was here no inevitable Messiah to arrive and usher in a Kingdom of God on earth. As in the case of the post-mils, however, it was up to mankind, rather than the Messiah, to establish the Kingdom. Even without a Messiah, a vigilant and growing vanguard could establish the Kingdom; and the vanguard could even help in various pre-mil versions of millennialism. So that leadership by a dedicated vanguard was very much in the messianic tradition.

As Professor Tucker points out, Marx was not lacking a moral theory. He was definitely a moralist, but a highly curious one. In his 'mythic vision', the 'good', the 'moral', consists of participating in the inevitable triumph of the proletarian revolution, while the 'bad', or 'immoral', is trying to obstruct it.

> The answer to the question as to what should be done is given in the mythic vision itself, and can be summed up in a single word: 'Participate!'...So Marx...says that it is not a matter of bringing some utopian system or other into being (i.e. of defining a social goal and purposefully endeavoring to realize it) but simply of 'consciously participating in the historical revolutionary process of society which is taking place before our very eyes'.[40]

Thus, to be moral means to be 'progressive', to be in tune with the inevitable future workings of the laws of history, whereas the harshest condemnation is reserved for those who are 'reactionary', who dare to obstruct, even with partial success, such allegedly predestined turns of events. Thus Marxists are particularly vehement in denouncing revolutionary moments in which the existing rule of 'progressives' is replaced by 'reactionaries', and the clock is, miraculously, in the metaphor of historicist inevitability, 'turned back'. For example: the Franco revolution against the Spanish republic, and Pinochet's overthrow of Allende in Chile.

But if a certain change is truly inevitable, *why* is it important for human agency to lend a hand, indeed to struggle mightily on its behalf? Here we turn to the critical matter of *timing*. While a change may be inevitable, the intervention of man can and will speed up this most desired of happenings. Man can function, in one of Marx's favourite obstetrical metaphors, as a 'midwife' of history.[41] Man's intervention could give the inevitable a helpful push.

Yet, Marx's obstetrical analogies are only a feeble attempt to evade the self-contradiction between the idea of inevitability and action to achieve the inevitable. For according to Marx, the timing as well as the nature of events is determined by the material dialectic of history. Socialism is brought about, wrote Marx in *Capital*, by the 'operation of the immanent laws of capitalistic production itself'. As von Mises points out, to Marx

> Ideas, political parties, and revolutionary actions are merely superstructural; they can neither delay nor accelerate the march of history. Socialism will come when the material conditions for its appearance will have matured in the womb [obstetrics again!] of capitalist society, neither sooner or later. If Marx had been consist-

ent, he would not have embarked upon any political activity. He would have waited quietly for the day on which 'the knell of private capitalist property sounds'.[42]

Marx might not have been logical or consistent, but his attitude was squarely in the millennialist tradition. As Professor Tuveson points out:

> Several characteristics of historical Communist movements recall millenarian agitations. There is, for one, the well-known fanaticism of millenarian believers...The firm conviction that a sequence of events, leading to universal redemption, is ordained (or 'determined') would seem to lead to passivity on the part of an individual...But, characteristically, there is a vitally important qualification. Although the series of events is prophesied, their *timing* may be retarded by the failure of mankind. To delay the coming of redemption, then, is a great sin, against one's fellow beings, against posterity, against the power that has ordained events. But whole-hearted, zealous participation in the historically determined duties, doing what the old millenarians would call 'doing God's will', gives special *éclat*. In most millenarian groups there is something corresponding to the 'Communist Party'. In Revelation itself there are the hundred and forty-four thousand, 'the first fruits unto God and to the Lamb', who are without guile, for they are 'without fault before the throne of God'. (Revelation XIV:4–5). Thus, the whole proletariat, like the whole body of the saved, is without damning fault, but the specially distinguished group...are chosen from the chosen.[43]

But there was still a remaining problem: *whence* comes the inevitability in the Marxian schema? The proof that his cherished communist ideal would inevitably, 'scientifically' arrive, would occupy Marx for the rest of his life. Certainly, he found the outlines of such proof in the mysterious workings of the Hegelian dialectic, which he bent to his use.

10.5 Marx's character and his path to communism

Karl Marx, as the world knows, was born in Trier, a venerable city in Rhineland Prussia, in 1818, son of a distinguished jurist, and grandson of a rabbi. Indeed, both of Marx's parents were descended from rabbis. Marx's father Heinrich was a liberal rationalist who felt no great qualms about his forced conversion to official Lutheranism in 1816. What is little known is that, in his early years, the baptized Karl was a dedicated Christian. In his graduation essays from the Trier *gymnasium* in 1835, the very young Marx prefigured his later development. His essay on an assigned topic, 'On the Union of the Faithful with Christ' was orthodox evangelical Christian, but it also contained hints of the fundamental 'alienation' theme that he would later find in Hegel. Marx's discussion of the 'necessity for union' with Christ stressed that this union would put an end to the tragedy of God's alleged rejection of man. In a companion essay, 'Reflections of a Young Man on the Choice of a Profession', Marx expressed a worry about his own 'demon of ambition', of the great temptation he felt to 'inveigh against the Deity and curse mankind'.

Going first to the University of Bonn and then off to the prestigious new University of Berlin to study law, Marx soon converted to militant atheism, shifted his major to philosophy, and joined a *Doktorklub* of young (or Left) Hegelians, of which he soon became a leader and general secretary.

The shift to atheism quickly gave Marx's demon of ambition full rein. Particularly revelatory of Marx's adult as well as youthful character are volumes of poems, most of them lost until a few were recovered in recent years.[44] Historians, when they discuss these poems, tend to dismiss them as inchoate romantic yearnings, but they are too congruent with the adult Marx's social and revolutionary doctrines to be casually dismissed. Surely, here seems to be a case where a unified (early plus late) Marx is vividly revealed. Thus in his poem 'Feelings', dedicated to his childhood sweetheart and later wife Jenny von Westphalen, Marx expressed both his megalomania and his enormous thirst for destruction:

> Heaven I would comprehend
>   I would draw the world to me;
> Living, hating, I intend
>   That my star shine brilliantly...

and

> ...Worlds I would destroy forever,
> Since I can create no world;
>   Since my call they notice never...

Here is a classical expression of Satan's supposed reason for hating, and rebelling against, God.

In another poem, Marx writes of his triumph after he shall have destroyed God's created world:

> Then I will be able to walk triumphantly,
>   Like a god, through the ruins of their kingdom.
> Every word of mine is fire and action.
>   My breast is equal to that of the Creator.

And in his poem, 'Invocation of One in Despair', Marx writes:

> I shall build my throne high overhead
>   Cold, tremendous shall its summit be.

For its bulwark – superstitious dread
For its marshal – blackest agony.[45]

The Satan theme is most explicitly set forth in Marx's 'The Fiddler', dedicated to his father:

See this sword?
the prince of darkness
Sold it to me.

And:

With Satan I have struck my deal,
He chalks the signs, beats time for me
I play the death march fast and free.

Particularly instructive is Marx's lengthy, unfinished poetic drama of this youthful period, *Oulanem, A Tragedy*. In the course of this drama his hero Oulanem, delivers a remarkable soliloquy, pouring out sustained invective, a hatred of the world and of mankind, a hatred of creation and a threat and vision of total world destruction.

Thus Oulanem pours out his vials of wrath:

...I shall howl gigantic curses on mankind:
Ha! Eternity! She is an eternal grief...
Ourselves being clockwork, blindly mechanical,
Made to be the foul-calendars of Time and Space,
Having no purpose save to happen, to be ruined,
So that there shall be something to ruin...
If there is a something which devours,
I'll leap within it, though I bring the world to ruins–
The world which bulks between me and the Abyss
I will smash to pieces with my enduring curses.
I'll throw my arms around its harsh reality:
Embracing me, the world will dumbly pass away,
And then sink down to utter nothingness,
Perished, with no existence – that would be really living!

And

...the leaden world holds us fast,
And we are chained, shattered, empty, frightened,

> Eternally chained to this marble block of Being...
> and we –
> We are the apes of a cold God.[46]

All this reveals a spirit that often seems to animate militant atheism. In contrast to the non-militant variety, which expresses a simple disbelief in God's existence, militant atheism seems to believe implicitly in God's existence, but to hate Him and to wage war for His destruction. Such a spirit was all too clearly revealed in the retort of the militant atheist Bakunin to the famous pro-theist remark of the deist Voltaire: 'If God did not exist, it would be necessary to create Him." To which the demented Bakunin retorted: 'If God did exist, it would be necessary to destroy Him." It was this hatred of God as a creator greater than himself that apparently inspired Karl Marx.

Also prefiguring the man was a trait that Marx developed early in his youth and never relinquished: a shameless sponging on friends and relatives. Already in early 1837, Heinrich Marx, castigating his son Karl's wanton spending of the money of others, wrote to him that 'on one point... you have wisely found fit to observe an aristocratic silence; I am referring to the paltry matter of money'. Indeed, Marx took money from any source available: his father, mother, and throughout his adult life, his long-suffering friend and abject disciple, Friedrich Engels, all of whom fuelled Marx's capacity for spending money like water.[47]

An insatiable spender of other people's money, Marx continually complained about a shortage of financial means. While sponging on Engels, Marx perpetually complained to his friend that his largess was never enough. Thus, in 1868, Marx insisted that he could not make do on an annual income of less than £400–£500, a phenomenal sum considering that the *upper tenth* of Englishmen in that period were earning an average income of only £72 a year. Indeed, so profligate was Marx that he quickly ran through an inheritance from a German follower of £824 in 1864, as well as a gift of £350 from Engels in the same year.

In short, Marx was able to run through the munificent sum of almost £1200 in two years, and two years later accept another gift of £210 from Engels to pay off his newly accumulated debts. Finally, in 1868, Engels sold his share of the family cotton mill and settled upon Marx an annual 'pension' of £350 from then on. Yet Marx's continual complaints about money did not abate.[48]

As in the case of many other spongers and cadgers throughout history, Karl Marx affected a hatred and contempt for the very material resource he was so anxious to cadge and use so recklessly. The difference is that Marx created an entire philosophy around his own corrupt attitudes toward money. Man, he thundered, was in the grip of the 'fetishism' of money. The problem was the existence of this evil thing, not the voluntarily adopted attitudes of some people toward it. Money Marx reviled as 'the pander between...human life and the means of sustenance', the 'universal whore'. The utopia of communism was a society where this scourge, money, would be abolished.

Karl Marx, the self-proclaimed enemy of the exploitation of man by man, not only exploited his devoted friend Friedrich Engels financially, but also psychologically. Thus, only three months after Marx's wife, Jenny von Westphalen, gave birth to his daughter Franziska in March 1851, their live-in maid, Helene ('Lenchen') Demuth, whom Marx had 'inherited' from Jenny's aristocratic family, also gave birth to Marx's illegitimate son, Henry Frederick. Desperately anxious to keep up *haute bourgeois* conventions and to hold his marriage together, Karl never acknowledged his son, and, instead, persuaded Engels, a notorious womanizer, to proclaim the baby as his own. Both Marx and Engels treated the hapless Freddy extremely badly, Engels's presumed resentment at being so used providing him a rather better excuse. Marx boarded Freddy out continually, and never allowed him to visit his mother. As Fritz Raddatz, a biographer of Marx, declared, 'if Henry Frederick Demuth was Karl Marx's son, the new mankind's Preacher lived an almost lifelong lie, and scorned, humiliated, and disowned his only surviving son'.[49] Engels, of course, picked up the tab for Freddy's education. Freddy was trained, however, to take his place in the working class, far from the lifestyle of his natural father, the quasi-aristocratic leader of the world's downtrodden revolutionary proletariat.[50,51]

Marx's personal taste for the aristocracy was lifelong. As a young man, he attached himself to his neighbour, Jenny's father Baron Ludwig von Westphalen, and dedicated his doctoral thesis to the baron. Indeed, the snobbish proletarian communist always insisted that Jenny imprint 'née von Westphalen' on her calling card.

10.6 Notes

1. Ernest L. Tuveson, 'The Millenarian Structure of *The Communist Manifesto'*, in C.A. Patrides and Joseph Wittreich (eds), *The Apocalypse: in English Renaissance Thought and Literature* (Ithaca: Cornell University Press, 1984), pp. 326–7. Tuveson speculates that Marx and Engels may have been influenced by the outburst of millenarianism in England during the 1840s. On this phenomenon, particularly the flare-up in England and the US of the Millerites, who predicted the end of the world on 22 October 1844, see the classic work on modern millenarianism, Ernest R. Sandeen, *The Roots of Fundamentalism: British and American Millenarianism, 1800–1930* (Chicago: University of Chicago Press, 1970). See Tuveson, ibid., p. 340, n. 5.
2. Jean B. Quandt, 'Religion and Social Thought: The Secularization of Postmillennialism', *American Quarterly*, 25 (Oct. 1973), pp. 402–3. Actually, Ely, in common with many other post-mils, was not all *that* gradual, as he spoke of the New Jerusalem, 'which we are all eagerly awaiting'.
3. Quoted in S.V. Utechin, 'Philosophy and Society: Alexander Bogdanov', in Leopold Labedz (ed.), *Revisionism: Essays on the History of Marxist Ideas* (New York: Praeger, 1962), p. 122.
4. J.P. Stern, 'Marxism on Stilts: Review of Ernst Bloch, *The Principle of Hope*', *The New*

Republic, 196 (9 March 1987), pp. 40, 42; Leszek Kolakowski, *Main Currents of Marxism* (Oxford: Oxford University Press, 1984), III, pp. 423–4.

5. G.K. Chesterton, *Orthodoxy* (New York: 1927), pp. 244–5. Quoted in Thomas Molnar, *Utopia: the Perennial Heresy* (New York: Sheed & Ward, 1964), p. 123.
6. 'The C.P.S.U. [Communist Party of the Soviet Union], being a party of scientific communism, advances and solves the problems of communist construction as the material and spiritual prerequisites for them become ready and mature, being guided by the fact that necessary stages of development must not be skipped over...'. *Fundamentals of Marxism—Leninism* (2nd rev. ed., Moscow: Foreign Languages Publishing House, 1963), p. 662. Also see ibid., pp. 645–6, 666–7, 674–5.
7. On alienation and the dialectic, see Chapter 11.
8. Stein treated French socialism and communism as ideologies of the propertyless proletariat, aiming to destroy the historical foundations of European society based on the principles of individual personality and private property. The difference of course, is that Marx, in contrast to the other 'classless' socialists and communists, embraced this connection to the proletariat, whereas Stein condemned and warned against it. See the excellent and illuminating work by Robert C. Tucker, *Philosophy and Myth in Karl Marx* (Cambridge: Cambridge University Press, 1961), pp. 114–7. Stein's book, Lorenz von Stein, *Der Socialismus und Communismus des Heutigen Frankreichs* (Leipzig: 1842), remains untranslated. (Later editions were entitled *Geschichte des socialen Bewegung in Frankreich*, 1850, 1921). Stein spent his mature years as professor of public finance and public administration at the University of Vienna, 1855–88.
9. Quoted in Tucker, op. cit., note 8, pp. 155. Italics are Marx's.
10. Indeed, it is no accident that Marxian historians, from Engels to Ernst Bloch, have been great admirers of these regimes and movements, first, because of their communism, and second, because they were certainly 'people's movements', bubbling up from the lower classes.
11. Tucker, op. cit., note 8, pp. 155–6.
12. *Anti-Dühring* became the common name for Engels's *Herr Eugen Dühring's Revolution in Science*, which came out in 1878, five years before Marx's death. Three general chapters, not focused on Dühring, came out in French in 1880, as *Socialism: Utopian and Scientific*, which became second to the *Communist Manifesto* as a popular presentation of Marxism in the late nineteenth century. The English translation, authorized by Engels, was published in 1892, and therefore Engels must be held responsible for such a clumsy locution as the verb 'environ'. See R.C. Tucker (ed.), *The Marx-Engels Reader* (2nd ed., New York: W.W. Norton, 1972), pp. 715–6.
13. Tucker, op. cit., note 8, pp. 196–7.
14. Ibid., p. 198.
15. Tucker, op. cit., note 12, p. 160. Similarly, in his *Anti-Dühring*, Engels heaped scorn upon the sort of 'Prussian socialism' which would preserve the division of labour as 'inevitable in the nature of things'. In contrast, Engels proclaimed that in the future communism, 'In time to come there will no longer be any professional porters or architects, and that the man who for half an hour gives instructions as an architect will also push a barrow for a period, until his activity as an architect is once again required'. Ibid., p. 718. In this spirit, Maoist China, during the Cultural Revolution, randomly substituted surgeons and janitors for each other in hospitals.

    Finally, in his *Woman and Socialism* (1883), the faithful German Marxist and working-class organizer, August Bebel (1840–1913), paraphrased Marx's passage for the role of women under communism: 'At one moment a practical worker in some industry she is in the next hour educator, teacher, and nurse: in the third part of the day she exercises some art or cultivates a science; and in the fourth part she fulfills some administrative function'. Quoted in Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (Indianapolis: Liberty Classics, 1981), p. 168n.
16. Alexander Gray, *The Socialist Tradition* (London: Longmans, Green, 1946), p. 328.
17. Tucker, op. cit., note 12, p. 723.
18. Tucker, op. cit., note 8, p. 197n.

19. On the debate within the Soviet Union on this issue, see Herman Akhminov, 'The Prospects for the Division of Labor', *Bulletin of the Institute for the Study of the USSR* (July 1964), pp. 3–18.
20. Friedrich Engels, 'On Authority', written in 1872 and first published in an Italian collection in 1874. Tucker, op. cit., note 12, p. 731.
21. English translation by William O. Henderson, *The Life of Friedrich Engels* (London: Frank Cass, 1976) I, pp. 369–76. Cited in T.W. Hutchison, *The Politics and Philosophy of Economics: Marxians, Keynesians and Austrians* (Oxford: Basil Blackwell, 1981), pp. 9–12, 14.
22. On Ricardian socialists, and on Rodbertus's business cycle theory, see Chapter 13 below. Rodbertus was an independently wealthy Prussian politician and civil servant, who lived most of his life as a leisured and erudite Prussian country squire. (He purchased an estate near the town of Jagetzow in East Prussia, and promptly renamed himself Rodbertus von Jagetzow.) His basic thrust was that labour is bound down by the iron or brazen law of wages (so named by Lassalle, as we shall see below), but that justice can be imposed by socialism run by the state, a literally divine, self-creative living organism, best headed by the king (in short, a monarchical socialism). Rodbertus sternly warned, however, that people are not yet moral enough for such socialism – and would not be for another five hundred years. See Gray, op. cit., note 16, pp. 343–51.
23. Hutchison, op. cit., note 21, p. 15. Hutchison points out that 'Engels's warning regarding imbalances in the supply of trousers and trouser buttons has recently acquired embarrassing relevance' in Soviet Russia. In 1980, *Pravda* (Moscow) had complained that, in regard to priority of supply, 'in the clothing industry trousers are on the list of the "most important", but zip-fasteners are not'. Ibid., p. 20n.
24. Ibid., pp. 15–16.
25. 'Private Property and Communism', in Tucker, op. cit., note 12, p. 85.
26. As Tucker puts it, 'Socialized humanity is not only a classless but also a stateless, lawless, family-less, religion-less and generally structure-less collectivity of complete individuals who live in harmony with themselves, with each other, and with the anthropological nature outside them. It hardly needs pointing out that this society without social structure is not a social order in any meaningful sense of that term. Speaking in the younger Marx's vein, it is an un-society'. Tucker, op cit., note 8, p. 201.
27. Ibid., pp. 158–61.
28. Tucker, op. cit., note 12, p. 93.
29. The Soviet version of ultimate communism hardly differed from the first stage, of Soviet life itself. All the central, new, disturbing messianic or bizarre features of communism are played down or buried. Thus, to the Soviets, higher or true communism was *not* the end of history, but merely a society that 'will change and improve continuously'. Communist abundance will emphatically *not* be fabulous lands flowing with milk and honey'. There will simply be 'rapid and continuous advance' of 'socialist science and technology'. *Fundamentals of Marxism - Leninism*, op. cit., note 6, pp. 698–9, and pp. 698–717.
30. Karl Marx, *Critique of the Gotha Programme* (New York: International Publishers, 1938), p. 10. The critique was first published by Engels in 1891, after Marx's death. The Lassalleans were followers of the late Ferdinand Lasalle (1825–64) a blowhard and dandy who was extremely popular in Germany, especially beloved by the working class, and the pre-eminent organizer of the proletariat. Typically, Lassalle died early in a most unproletarian and aristocratic way – in a duel over a lady. One of Lasalle's two major deviations from Marxism was his ultra-Malthusian devotion to the Malthus–Ricardo subsistence theory of wages as determined by population growth, which he popularized in the most rigid form, and allegedly named the 'iron law of wages', in which form it won widespread fame. In reality, Lassalle dubbed it the 'brazen law of wages' (in the sense of 'made of brass'), and his most common locution was 'the brazen and gruesome law of wages' (*das eherne und grausame Gesetz*).

    Lassalle's other and more important deviation was his embrace and worship of the state. Marx saw the state as a tyrannical instrument of mass exploitation which required a violent revolution to overthrow. Lassalle, in Hegelian fashion, on the other hand, worshipped the state as a guide and developer of freedom, as the fusion of man into a spiritual whole, and as an eternal instrument for moral regeneration. The only problem with the state, for Lassalle, was the fact that it was not yet controlled by the workers, but this could be rectified simply by enacting universal suffrage, after which the state would be run by a workers' party and the workers would then *become* the state and all would be well. The state would promptly transfer the control of production to workers' associations which would thus circumvent the brazen law by appropriating to themselves the surplus profits now extracted by the capitalists. See Gray, op. cit., note 16, pp. 332–43.

31. Actually, Marx goes on to make a useful point: that distribution always flows from the 'conditions of production' and cannot be separated from it. One would like to think that this was not only an argument against the 'vulgar socialists' but also an implicit slap at J.S. Mill, who thought that while production was bound by economic law, 'distribution' could be separated from production and reformed by state action.
32. See the excellent discussion of this point in Tucker, op. cit., note 8, p. 200.
33. The Soviet people were spared the full cataclysm of communism when Lenin, a master pragmatist, drew back from the early Soviet attempt (1918–21) to abolish money and leap into communism (later deliberately mislabelled 'war communism'), and went back to the largely capitalist economy of the New Economic Policy. Mao tried to bring about communism in two disastrous surges: the Great Leap Forward, which attempted to eliminate private property and to eliminate the 'contradictions' between town and country by building a steel plant in every backyard; and the Great Proletarian Cultural Revolution, which tried to eliminate the 'contradiction' between intellectual and manual labour by shipping an entire generation of students to forced labour in the wilds of Sinkiang. On the myth of 'war communism', see the illuminating discussion in Paul Craig Roberts, *Alienation and the Soviet Economy* (Alburquerque: University of New Mexico Press, 1971), pp. 20–47.
34. In an amusing note, during the New Left period of the late 1960s, the *Liberated Guardian* broke off from the quasi-Maoist journal, *The Guardian*, in New York City, on the ground that the latter functioned in the same way as any 'bourgeois' periodical, with specialized editors, typists, copy-readers, business staff, etc. The *Liberated Guardian* was run by a 'collective' in which, assertedly, every person performed every task without specialization. The same criticism, followed by the same solution, was applied by the women's caucus which confiscated the property of the New Left weekly, *Rat*. Both periodicals, as one would expect, died a mercifully swift death. See Murray N. Rothbard, *Freedom, Inequality, Primitivism, and the Division of Labor* (Menlo Park, Calif. Institute for Humane Studies, 1971), pp. 15n, 20.
35. See von Mises, op. cit., note 15, p. 143. Also see Rothbard, op. cit., note 34, pp. 8–15.
36. Bakunin, *Statehood and Anarchy*: quoted in Leszek Kolakowski, *Main Currents of Marxism: Its Origins, Growth and Dissolution* (New York: Oxford University Press, 1981), I, pp. 251–2. See also Abram L. Harris, *Economics and Social Reform* (New York: Harper & Bros, 1958), pp. 149–50.
37. On self-ownership and on the impossibility of communal ownership, see Murray N. Rothbard, *The Ethics of Liberty* (2nd ed., Atlantic Highlands, NJ: Humanities Press, 1983), pp. 45–50.
38. Italics are Lenin's. V.I. Lenin, *State and Revolution* (New York: International Publishers, 1932), pp. 83–4; von Mises, op. cit., note 15, p. 189. Also see Harris, op. cit., note 36, pp. 152–3n.
39. See the standard biography of Marx by David McLellan, *Karl Marx: His Life and Thought* (New York: Harper & Row, 1973), p. 118.
40. Tucker, op. cit., note 8, p. 229.
41. On obstetrical metaphors in Marxism, see Gray, op. cit., note 16, p. 299 and 299n.
42. Ludwig von Mises, *Theory and History*, (1957, Auburn, Ala.: Ludwig von Mises Institute, 1985), p. 81.
43. Tuveson, op. cit., note 1, pp. 339–40.
44. The poems were largely written in 1836 and 1837, in his first months in Berlin. Two of the

poems constituted Marx's first published writings, in the *Berlin Atheneum* in 1841. The others have been mainly lost.

45. Richard Wurmbrand, *Marx and Satan* (Westchester, Ill: Crossway Books, 1986), pp. 12–13.
46. For the complete translated text of *Oulanem*, see Robert Payne, *The Unknown Karl Marx* (New York: New York University Press, 1971), pp. 81–3. Also excellent on the poems and on Marx as fundamentally a messianist is Bruce Mazlish, *The Meaning of Karl Marx* (New York: Oxford University Press, 1984).

    Pastor Wurmbrand points out that *Oulanem* is an anagram of Emmanuel, the Biblical name for Jesus, and that such inversions of holy names are standard practice in Satanic cults. There is no real evidence, however, that Marx was a member of such a cult. Wurmbrand, op. cit., note 45, pp. 13–14 and passim.
47. Friedrich Engels (1820–95) was the son of a leading industrialist and cotton manufacturer, who was also a staunch pietist from the Barmen area of the Rhineland in Germany. Barmen was one of the major centres of pietism in Germany, and Engels received a strict pietist upbringing. An atheist and then a Hegelian by 1839, Engels wound up at the University of Berlin and the Young Hegelians by 1841, and moved in the same circles as Marx, the two becoming fast friends in 1844.
48. See the enlightening estimates in Gary North, *Marx's Religion of Revolution: The Doctrine of Creative Destruction* (Nutley, NJ: Craig Press, 1968), pp. 26–8. Also see ibid. (2nd ed., Tyler, Texas: Institute for Christian Economics, 1989), pp. 232–56.
49. Fritz J. Raddatz, *Karl Marx: A Political Biography* (Boston: Little Brown & Co., 1978), p. 134.
50. Marx's zeal in covering up his indiscretion was at least matched by historians of the Marxist establishment, who managed to suppress the truth about Freddy Demuth until recent years. Although the truth was known to leading Marxists such as Bernstein and Bebel, the news of Marx's illegitimate fatherhood was only disclosed in 1962 in Werner Blumenberg's *Marx*. See in particular W.O. Henderson, *The Life of Friedrich Engels* (London: Frank Cass, 1976), II, pp. 833–4. Some loyal Marxists still refuse to accept the ugly facts. Thus, see the labour of love by the late leader of the 'Draperite' wing of the Trotskyist movement, Hal Draper, *Marx–Engels Cyclopedia* (3 vols, New York: Schocken Books, 1985).
51. As for Engels, he refused to marry his mistress Mary because she was of 'low' descent. After Mary's death her sister Lizzie became Engels's mistress. Engels magnanimously married Lizzie on her deathbed 'in order to provide her a "last pleasure"'.

11 Alienation, unity, and the dialectic

11.1 Origins of the dialectic: creatology

'Alienation', to Marx, bears no relation to the fashionable prattle of late twentieth century Marxoid intellectuals. It did not mean a psychological feeling, of anxiety or estrangement, which could somehow be blamed on capitalism, or on cultural or sexual 'repression'. Alienation, for Marx, was far more fundamental, more cosmic. It meant, at the very least, as we have seen, the institutions of money, specialization, and the division of labour.[1] The eradication of these evils was necessary to unite the collective organism or species man 'to himself', to heal these splits within 'himself' and between man and 'himself' in the form of man-created nature. But the radical evil of alienation was yet far more cosmic than that. It was metaphysical, a deep part of the philosophy and the world-view that Marx picked up from Hegel, and which, through its allied 'dialectic', brought to Marx the outlines of the engine that would inevitably bring us communism as a law of history, with the ineluctability of a law of nature.

It all started with the third century philosopher Plotinus, a Platonist philosopher and his followers, and with a theological discipline seemingly remote from political and economic affairs: *creatology*, the 'science' of the First Days. We have already seen, in fact, that another allied and almost equally remote branch of theology – *eschatology*, or the science of the Last Days – can have enormous political and economic consequences and ramifications.

The critical question of creatology is: why did God create the universe? The answer of orthodox Augustinian Christianity, and hence the answer of Catholics, Lutherans, and Calvinists alike, is that God, a perfect being, created the universe out of benevolence and love for His creatures. Period. And this seems to be the only politically safe answer as well. The answer given by heretics and mystics from early Christians on, however, is quite different: God created the universe not out of perfection and love, but out of felt need and imperfection. In short, God created the universe out of felt uneasiness, loneliness, or whatever. In the beginning, before the creation of the universe, God and man (the collective organic species, of course, not any particular individual), were united in one, so to speak, cosmic blob. How we can even speak of 'unity' between man and God before man was even created is a conundrum that will have to be cleared up by someone more schooled in the divine mysteries than the present author. At any rate, history then becomes a process, indeed a pre-ordained process, by which God develops *His* potential, and man the collective species develops *its* (or his?) potential. But even as this development takes place, and both God and man develop and render themselves more perfect in and through history, offsetting this 'good' development a terrible and tragic thing has also taken place: man has been separated, cut off, 'alienated' from God, as well as from other men, or from nature. Hence the pervasive concept of alienation.

Alienation is cosmic, irremediable, and metaphysical, inherent in the very process of creation, or rather, irremediable until the great day inevitably arrives: when man and God, having both fully developed themselves, finish the process and history itself by re-merging, by uniting once again in the merger of these two great cosmic blobs into one.

Note, first, how this great historical process comes about. It is the inevitable, pre-ordained 'dialectical' process of history. There are, as usual, three stages. Stage one is the original phase: man and God are in happy and harmonious unity (a unity of pre-creation?) but things, particularly with the human race, are rather undeveloped. Then, the magic dialectic does its work, stage two occurs, and God creates man and the universe, both God and man developing their potentials, with history a record and a process of such development. But creation, as in most dialectics, proves to be a two-edged sword, for man suffers from his cosmic separation and alienation from God. For Plotinus, for example, the Good is unity, or The One, whereas Evil is identified as any sort of diversity or multiplicity. In mankind, evil stems from self-centredness of individual souls, 'deserter[s] from the All'.

But then, finally, at long last, the development process will be completed, and stage two develops its own *Aufhebung*, its own 'lifting up', its own transcendence into its opposite or negation: the reunion of God and man into a glorious unity, an 'ecstasy of union', and end to alienation. In this stage three, the blobs are reunited on a far higher level than in stage one. History is over. And they shall all live(?) happily ever after.

But note the enormous difference between this dialectic of creatology and eschatology, and that of the orthodox Christian scenario. In the first place, the alienation, the tragedy of man in the dialectical saga from Plotinus to Hegel, is metaphysical, inescapable from the act of creation itself. Whereas the estrangement of man from God in the Judeo-Christian saga is not metaphysical but only moral. To orthodox Christians, creation was purely good, and not deeply tainted with evil; trouble came only with Adam's Fall, a moral failure not a metaphysical one.[2] Then, in the orthodox Christian view, through the Incarnation of Jesus, God provided a route by which this alienation could be eliminated, and the individual could achieve salvation. But note again: Christianity is a deeply individualistic creed, since each individual's salvation is what matters. Salvation or the lack of it will be attained by each individual, each individual's fate is the central concern, not the fate of the alleged collective blob or organism, man with a capital M. In the orthodox Christian schema, each individual goes to Heaven or Hell.

But in this allegedly optimistic mystical view (nowadays called 'process theology'), the only salvation, the only happy ending is that of the collective organism, the species, with each individual member of that organism being brusquely annihilated along the way.

This dialectical theology, in particular its creatology, began in full flower with the Plotinus-influenced ninth century Christian mystic John Scotus Erigena (c. 815 – c. 877) an Irish–Scottish philosopher located in France, and continued through a heretical underground of Christian mystics, in particular such as the fourteenth century German, Meister Johannes Eckhart (?1260 – ?1327). The pantheistic outlook of the mystics was similar to the call of the Buddhist–theosophist–socialist Mrs Annie Besant: as Chesterton perceptively and wittily noted, not to love our neighbour but to *be* our neighbour. Pantheist mystics call upon each individual to 'unite' with God, the One, by annihilating his individual, separated, and therefore alienated self. While the means of various mystics may differ from the Joachites, or the Brethren of the Free Spirit, whether through a process of history or through an inevitable Armageddon, the *goal* remains the same: obliteration of the individual through 'reunion' with God, the One, and the ending of cosmic 'alienation', at least on the level of each individual.

Particularly influential for G.W.F. Hegel and other thinkers in this tradition was the early seventeenth century German cobbler and mystic Jacob Boehme (1575–1624), who added to this heady pantheistic brew the alleged mechanism, the force that drives this dialectic through its inevitable course in history. How, Boehme asked, did the world of pre-creation transcend itself into creation? Before creation, he answered, there was a primal source, an eternal unity, an undifferentiated, indistinct, literal Nothing (*Ungrund*). (It was, by the way, typical of Hegel and his Idealist followers to think that they add grandeur and explanation to a lofty but unintelligible concept by capitalizing it.) Oddly enough, to Boehme, this No-thing possessed within itself an inner striving, a *nisus*, a drive for self-realization. It is this drive which creates a transcending and opposing force, the *will*, which creates the universe, transforming the Nothing into Something.

11.2 Hegel and the man–God

The key step in secularizing dialectic theology, and thus in paving the way for Marxism, was taken by the lion of German philosophy, Georg Wilhelm Friedrich Hegel (1770–1831). Born in Stuttgart, Hegel studied theology at the University of Tübingen, and then taught theology and philosophy at the Universities of Jena and Heidelberg before becoming the leading philosopher at the new jewel in the Prussian academic crown, the University of Berlin. Coming to Berlin in 1817, Hegel remained there until his death, ending his days as rector of the university.

In the spirit of the Romantic movement in Germany, Hegel pursued the goal of unifying man and God by virtually identifying God as man, and thereby submerging the former into the latter. Goethe had recently popularized the Faust theme, centring on Faust's intense desire for divine, or absolute knowledge, as well as divine power. In orthodox Christianity, of course, the overweening pride of man in trying to achieve god-like knowledge and power is precisely the root cause of sin and man's Fall. But, on the contrary, Hegel, a most heretical Lutheran indeed, had the temerity to generalize the Faustian urge into a world-philosophy, and into an alleged insight into the inevitable workings of the historical process.

In Professor Tucker's words, Hegelianism was a 'philosophic religion of self in the form of a theory of history. The religion is founded on an identification of the self with God'.[3] It should not be necessary to add at this point that 'the self' here is not the individual, but the collective organic species 'self'. In a youthful essay on 'The Positivity of the Christian Religion', written at the age of 25, Hegel revealingly objects to Christianity for 'separating' man and God except 'in one isolated individual' (Jesus), and placing God in another and higher world, to which man's activity could contribute nothing. Four years later, in 1799, Hegel resolved this problem by offering his own religion, in his 'The Spirit of Christianity'. In contrast to orthodox Christianity, in which God became man in Jesus, for Hegel Jesus's achievement was, *as a man*, to become God! Tucker sums this up neatly. To Hegel, Jesus:

> is not God become man, but man become God. This is the key idea on which the entire edifice of Hegelianism was to be constructed: there is no absolute difference between the human nature and the divine. They are not two separate things with an impassable gulf between them. The absolute self in man, the *homo noumenon*, is not mere godlike..., *it is God*. Consequently, in so far as man strives to become 'like God', he is simply striving to be his own real self. And in deifying himself, he is simply recognizing his own true nature.[4]

If man is really God, what then is history? Why does man, or rather, do men, change and develop? Because the man–God is not perfect, or at least he does not begin in a perfect state. Man–God begins his life in history totally unconscious of his divine status. History, then, for Hegel, is a process by which the man–God increases his knowledge, until he finally reaches the state of absolute knowledge, that is, the full knowledge and realization that he is God. In that case, man–God finally realizes his potential of an infinite being without bounds, possessed of absolute knowledge.

Why then did man–God, also termed by Hegel the 'world-self' (*Weltgeist*) or 'world-spirit', create the universe? Not, as in the Christian account, from overflowing love and benevolence, but out of a felt need to become conscious of itself as a world-self. This process of growing consciousness is achieved through creative activity by which the world-self externalized itself. This externalization occurs first by creating nature or the original world, but second – and here of course is a significant addition to other theologies –

there is a continuing self-externalization through human history. The most important is this second process, for by this means man, the collective organism, expands his building of civilization, his creative externalizing, and *hence* his increasing knowledge of his own divinity, and therefore of the world as his own self-actualization. This latter process: of knowing ever more fully that the world is really man's self, is the process which Hegel terms the gradual putting to an end of man's 'self-alienation', which of course for him was also the alienation of man from God. To Hegel, in short, man perceives the world as hostile *because* it is not himself, because it is alien. All these conflicts are resolved when he realizes at long last that the world really *is* himself. This process of realization is Hegel's *Aufhebung*, by which the world becomes de-alienated and assimilated to man's self.

But why, one might ask, is Hegel's man so odd, so neurotic, that he regards every thing that is not himself as alien and hostile? The answer is crucial to the Hegelian mystique. It is because Hegel, or Hegel's man, cannot stand the idea of himself not being God, and therefore not being of infinite space and without limits. Seeing any other being, or any other object, exist, would mean that he himself is not infinite or divine. In short, Hegel's philosophy is severe and cosmic solipsistic megalomania on a grand and massive scale. Professor Tucker develops the case with characteristic acuity:

> For Hegel alienation is finitude, and finitude in turn is bondage. The experience of self-estrangement in the presence of an apparent objective world is an experience of enslavement...Spirit [or the world-self], when confronted with an object or 'other', is *ipso facto* aware of itself as merely finite being, as embracing only so much and no more of reality, as extending only so far and no farther. The object is, therefore, a 'limit'. (*Grenze.*) And a limit, since it contradicts spirit's notion of itself as absolute being, i.e., being-without-limit, is necessarily apprehended as a 'barrier' or 'fetter'. (*Schranke.*) It is a barrier to spirit's awareness of itself as that which it conceives itself truly to be – the whole of reality. In its confrontation with an apparent object, spirit feels imprisoned in limitation. It experiences what Hegel calls the 'sorrow of finitude'.
>
> The transcendence of the object through knowing is spirit's way of rebelling against finitude and making the break for freedom. In Hegel's quite unique conception of it, freedom means the consciousness of self as unbounded: it is the absence of a limiting object or non-self...This consciousness of 'being alone with self'...is precisely what Hegel means by the consciousness of freedom...
> Accordingly, the growth of spirit's self-knowledge in history is alternatively describable as a progress of the consciousness of freedom.[5]

11.3 Hegel and politics

Typically, determinist schema leave convenient implicit escape-hatches for their creators and advocates, who are somehow able to rise above the iron determinism that afflicts the rest of us. Hegel was no different, except that his escape-hatches were all too explicit. While God and the absolute refer to man as collective organism rather than to its puny and negligible individual members, every once in a while great individuals arise, 'world-historical' men, who are able to embody attributes of the absolute more than others, and act as significant agents in the next big historical *Aufhebung* – the next great thrust into the man–God or world-soul's advance in its 'self-knowledge'. Thus, during a time when most patriotic Prussians were reacting violently against Napoleon's imperial conquests, and mobilizing their forces against him, Hegel reacted very differently. Hegel wrote to a friend in ecstasy about having personally seen Napoleon riding down the city street: 'The Emperor – this world-soul – riding on horseback through the city to the review of his troops – it is indeed a wonderful feeling to see such a man.'[6]

Hegel was enthusiastic about Napoleon because of his world-historical function of bringing the strong state to Germany and the rest of Europe. Just as Hegel's fundamental eschatology and dialectic prefigured Marxism, so did his more directly political philosophy of history. Thus, following the Romantic writer Friedrich Schiller, Hegel, in an essay in 1795, claimed that the equivalent of early or primitive communism was ancient Greece. Schiller and Hegel lauded Greece for the alleged homogeneity, unity and 'harmony' of its *polis*, which both authors gravely misconceived as being free of all division of labour. The consequent *Aufhebung* disrupted this wonderful unity and fragmented man, but – the good side of the new historical stage – it did lead to the growth of commerce, living standards, and individualism. For Hegel, moreover, the coming stage, heralded by Hegel's philosophy, would bring about a reintegration of man and the state.

Before 1796, Hegel, like many other young intellectuals throughout Europe, was enchanted by the French Revolution, individualism, radical democracy, liberty and the rights of man. Soon, however, again like many European intellectuals, Hegel, disillusioned in the French Revolution, turned toward reactionary state absolutism. In particular, Hegel was greatly influenced by the Scottish statist, Sir James Steuart, a Jacobite exile in Germany for a large part of his life, whose *Inquiry into the Principles of Political Economy* (1767) had been greatly influenced by the ultra-statist German eighteenth century mercantilists, the cameralists. Hegel read the German translation of Steuart's *Principles* (which had been published from 1769–72), from 1797 to 1799, and took extensive notes. Hegel was influenced in particular by two aspects of Steuart's outlook. One held that history proceeded in stages, deterministically 'evolving' from one stage (nomadic, agricultural, exchange, etc.) to the next. The other influential theme was that massive state intervention and control were necessary to maintain an exchange economy.[7] It comes as no surprise that Hegel's main disillusion in the French Revolution came from its individualism and lack of unity under the state. Again foreshadowing Marx, it became particularly important for man (the collective organism) to surmount unconscious blind fate, and 'consciously' to take control of 'his' fate via the state. And so Hegel was a great admirer not only of Napoleon the mighty world-conqueror, but also Napoleon the detailed regulator of the French economy.

Hegel made quite evident that what the new, developing strong state really needed was a comprehensive philosophy, contributed by a Great Philosopher to give its mighty rule coherence and legitimacy. Otherwise, as Professor Plant explains, 'such a state, devoid of philosophical comprehension, would appear as a merely arbitrary and oppressive imposition of the freedom of individuals to pursue their own interest'.

We need make only one guess as to what that philosophy, or who that Great Philosopher, was supposed to be. And then, armed with Hegelian philosophy and Hegel himself as its fountainhead and great leader, 'this alien aspect of the progressive modern state would disappear and would be seen not as an imposition but a development of self-consciousness. By regulating and codifying many aspects of social practice, it gives to the modern world a rationality and a predictability which it would not otherwise possess...'.[8]

Armed with such a philosophy and with such a philosopher, the modern state would take its divinely appointed stand at the height of history and civilization, as God on earth. Thus: 'The modern State, proving the reality of political community, when comprehended philosophically, could therefore be seen as the highest articulation of Spirit, or God in the contemporary world'. The state, then, is 'a supreme manifestation of the activity of God in the world', and, 'the State stands above all; it is Spirit which knows itself as the universal essence and reality'; and, 'The State is the reality of the kingdom of heaven'. And finally: 'The State is God's Will.'[9]

Of the various forms of state, monarchy is best, since it permits 'all' subjects to be 'free' (in the Hegelian sense) by submerging their being into the divine substance, which is the authoritarian, monarchical state. The people are only 'free' when they are insignificant particles of this unitary divine substance. As Tucker writes, 'Hegel's conception of freedom is totalitarian in a literal sense of the word. The world-self must experience itself as the totality of being, or in Hegel's own words must elevate itself to "a self-comprehending totality", in order to achieve the consciousness of freedom. Anything short of this spells alienation and the sorrow of finitude'.[10]

According to Hegel, the final development of the man–God, the final break-through into totality and infinity, was at hand. The most highly developed state in the history of the world was now in place – the existing Prussian monarchy under King Friedrich Wilhelm III.

It so happened that Hegel's apotheosis of the existing Prussian monarchy neatly coincided with the needs of that monarch. When King Friedrich Wilhelm III established the new University of Berlin in 1818 to assist in supporting, and propagandizing for, his absolute power, what better person for the chair of philosophy than Friedrich Hegel the divinizer of state power? The king and his absolutist party needed an official philosopher to defend the state from the hated revolutionary ideals of the French Revolution, and to justify his purge of the reformers and classical liberals who had helped him defeat Napoleon. As Karl Popper puts it:

> Hegel was appointed to meet this demand, and he did so by reviving the ideas of the first great enemies of the open society [especially Heraclitus and Plato] ... Hegel rediscovered the Platonic Ideas which lie behind the perennial revolt against freedom and reason. Hegelianism is the renaissance of tribalism... [Hegel] is the 'missing link', as it were, between Plato and the modern forms of totalitarianism. Most of the modern totalitarians,...know of their indebtedness to Hegel, and all of them have been brought up in the close atmosphere of Hegelianism. They have been taught to worship the state, history, and the nation.[11]

On Hegel's worship of the state, Popper cites chilling and revealing passages:

> The State is the Divine Idea as it exists on earth... We must therefore worship the State as the manifestation of the Divine on earth... The State is the march of God through the world... The State must be comprehended as an organism... To the complete State belongs, essentially, consciousness and thought. The State knows what it wills... The State...exists for its own sake... The State is the actually existing, realized moral life.[12]

All this rant is well characterized by Popper as 'bombastic and hysterical Platonism'.

Much of this was inspired by Hegel's friends and immediate philosophical predecessors, men like the later Fichte, Schelling, Schlegel, Schiller, Herder and Schleiermacher. But it was Hegel's particular task to turn his murky doctrines to the job of weaving apologetics for the absolute power of the extant Prussian state. Thus Hegel's admiring disciple, F.J.C. Schwegler, revealed the following in his *History of Philosophy*:

> The fullness of his [Hegel's] fame and activity, however, properly dates only from his call to Berlin in 1818. Here there rose up around him a numerous, widely extended, and...exceedingly active school; here too, he acquired, from his connections with the Prussian bureaucracy, political recognition of his system as the official philosophy; not always to the advantage of the inner freedom of his philosophy, or of its moral worth.[13]

With Prussia as the central focus, Hegelianism was able to sweep German philosophy during the nineteenth century, dominating in all but the Catholic areas of southern Germany and Austria. As Popper put it, 'having thus become a tremendous success on the continent, Hegelianism could hardly fail to obtain support in Britain from those who [felt] that such a powerful movement must after all have something to offer...' Indeed, the man who first introduced Hegel to English readers, Dr J. Hutchinson Stirling, admiringly remarked, the year after Prussia's lightning victory over Austria, 'Is it not indeed to Hegel, and especially his philosophy of ethics and politics, that Prussia owes that mighty life and organization she is now rapidly developing?'[14] Finally Hegel's contemporary and acquaintance, Arthur Schopenhauer, denounced the state–philosophy alliance that drove Hegelianism into becoming a powerful force in social thought:

> Philosophy is misused, from the side of the state as a tool, from the other side as a means of gain... Who can really believe that truth also will thereby come to light, just as a byproduct?...*Governments made of philosophy a means of serving their state interests, and scholars made of it a trade*...(Italics Schopenhauer's)[15]

In addition to the political influence, Popper offers a complementary explanation for the otherwise puzzling widespread influence of G.W.F. Hegel: the attraction of philosophers to high-sounding jargon and gibberish almost for its own sake, followed by the gullibility of a credulous public. Thus Popper cites a statement by the English Hegelian Stirling: 'The philosophy of Hegel, then, was...a scrutiny of thought so profound that it was for the most part unintelligible'. Profound for its very unintelligibility! Lack of clarity as virtue and proof of profundity! Popper adds:

> philosophers have kept around themselves, even in our day, something of the atmosphere of the magician. Philosophy is considered a strange and abstruse kind of thing, dealing with those things with which religion deals, but not in a way which can be 'revealed unto babes' or to common people; it is considered to be too profound for that, and to be the religion and the theology of the intellectuals, of the learned and wise. Hegelianism fits these views admirably; it is exactly what this popular superstition supposes philosophy to be.[16]

11.4 Hegel and the Romantic Age

G.W.F. Hegel, unfortunately, was not a bizarre aberrant force in European thought. He was only one, if the most influential and the most convoluted and hypertrophic, of what must be considered the dominant paradigm of his age, the celebrated Age of Romanticism. In different variants and in different ways, the Romantic writers of the first half of the nineteenth century, especially in Germany and Great Britain, poets and novelists as well as philosophers, were dominated by a similar creatology and eschatology. It might be termed the 'alienation and return' or 'reabsorption' myth. God created the universe out of imperfection and felt need, thereby tragically cutting man, the organic species, off from his (its?) pre-creation unity with God. While this transcendence, this *Aufhebung*, of creation has permitted God and man, or

God–man, to develop their (its?) faculties and to progress, tragic alienation will continue, until that day, inevitable and determined, in which God and man will be fused into one cosmic blob. Or, rather, being pantheists as was Hegel, until man discovers that he is man–God, and the alienation of man from man, man from nature, and man from God will be ended as all is fused into one big blob, the discovery of the reality of and therefore the merger into, cosmic Oneness. History, which has been predetermined towards this goal, will then come to an end. In the Romantic metaphor, man, the generic 'organism' of course, not the individual, will at last 'return home'. History is therefore an 'upward spiral' towards Man's determined destination, a return home, but on a far higher level than the original unity, or home, with God in the pre-creation epoch.

The domination of the Romantic writers by this paradigm has been expounded brilliantly by the leading literary critic of Romanticism, M.H. Abrams, who points to this leading strain in English literature stretching from Wordsworth to D.H. Lawrence. Wordsworth, Abrams emphasizes, dedicated virtually his entire output to a 'heroic' or 'high Romantic argument', to an attempt to counter and transcend Milton's epochal poem of an orthodox Christian view of man and God. To counter Milton's Christian view of Heaven and Hell as alternatives for individual souls, and of Jesus's Second Advent as putting an end to history and returning man to paradise, Wordsworth, in his own 'argument', counterpoises his pantheist vision of the upward spiral of history into cosmic unification and man's consequent return home from alienation.[17] The eventual eschaton, the Kingdom of God, is taken from its Christian placement in Heaven and brought down to earth, thereby as always when the eschaton is immanentized, creating spectacularly grave ideological social, and political problems. Or, to use a concept of Abrams, the Romantic vision constituted the secularization of theology.

Greek and Roman epics, Wordsworth asserted, sang of 'arms and the man', 'hitherto the only Argument heroic deemed'. In contrast, at the beginning of his great *Paradise Lost*, Milton declares:

> 'That to the height of this great Argument
> I may assert Eternal Providence
> And justify the ways of God to man'.

Wordsworth now proclaimed that his own Argument surpassing Milton's was instilled in him by God's 'holy powers and faculties', enabling him (presaging Marx's yearnings) to create his own world, even though he realized, in an unwonted flash of realism, that 'some call'd it madness'. For there 'passed within' him 'Genius, Power, Creation, and Divinity itself'. Wordsworth concluded that 'This is, in truth, heroic argument', an 'argument/Not less but more Heroic than the wrath/Of stern Achilles'. Other Englishmen steeped in the Wordsworthian paradigm were his worshipful follower Coleridge, Shelley, Keats, and even Blake, who, however, tried to blend Christianity and pantheism.

All these writers had been steeped in Christian doctrine, from which they could spin off on their own heretical, pantheistic version of millennialism. Wordsworth himself had been trained to become an Anglican priest. Coleridge was a philosopher and a lay preacher, who had been on the edge of becoming a unitarian minister, and was steeped in neoplatonism and the works of Jacob Boehme, Keats was an explicit disciple of the Wordsworthian programme, which he called a means toward secular salvation. And Shelley, though an explicit atheist, idolized the 'sacred' Milton above all other poets, and was constantly steeped in study of the Bible.

It should also be noted that Wordsworth, like Hegel, was a youthful enthusiast for the French Revolution and its liberal ideals and later, disillusioned, turned to conservative statism and the pantheist version of inevitable redemption through history.

The German Romantics were even more immersed in religion and mysticism than were their English counterparts. Hegel, Friedrich von Schelling, Friedrich von Schiller, Friedrich Hölderlin, Johann Gottlieb Fichte, were all theology students, most of them with Hegel at the University of Tübingen. All of them tried explicitly to apply religious doctrine to their philosophy. Novalis was immersed in the Bible. Furthermore, Hegel devoted a great deal of favourable attention to Boehme in his *Lectures on the History of Philosophy*, and Schelling called Boehme a 'miraculous phenomenon in the history of mankind'.

Moreover, it was Friedrich Schiller, Hegel's mentor, who was influenced by the Scot Adam Ferguson to denounce specialization and the division of labour as alienating and fragmenting man, and it was Schiller who influenced Hegel in the 1790s by coining the explicit concept of *Aufhebung* and the dialectic.[18]

In England, several decades later, the tempestuous conservative statist writer Thomas Carlyle paid tribute to Friedrich Schiller by writing a biography of that Romantic writer in 1825. From then on, Carlyle's writings were permeated with the Hegelian vision. Unity is good, and diversity or separateness is evil and diseased. Science as well as individualism is division and dismemberment. Selfhood, Carlyle ranted, is alienation from nature, from others, and from oneself. But one day there will come the breakthrough, the spiritual rebirth, led by world-historical figures ('great men') by which man will return home to a friendly world by means of the utter cancellation, the 'annihilation of self' (*Selbst-tödtung*).

Finally, in *Past and Present* (1843), Carlyle applied his profoundly anti-individualist (and, one might add, anti-human) vision to economic affairs. He denounced egoism, material greed and *laissez-faire*, which, by fostering the severance of men from each other, had led to a world 'which has become a lifeless other, and in severance also from other human beings within a social order in which 'cash payment is...the sole nexus of man with man".'. In opposition to this metaphysically evil 'cash nexus' lay the familial relation with nature and fellow-men, the relation of 'love'. The stage was set for Karl Marx.[19]

11.5 Marx and Left revolutionary Hegelianism

Hegel's death in 1831 inevitably ushered in a new and very different era in the history of Hegelianism. Hegel was supposed to bring about the end of history, but now Hegel was dead, and history continued to march on. So if Hegel himself was not the final culmination of history, then perhaps the Prussian state of Friedrich Wilhelm III was not the final stage of history either. But if it was not the final phase of history, then mightn't the dialectic of history be getting ready for yet another twist, another *Aufhebung*?

So reasoned groups of radical youth, who, during the last 1830s and 1840s in Germany and elsewhere, formed the movement of Young, or Left, Hegelians. Disillusioned in the Prussian state, the Young Hegelians proclaimed the inevitable coming apocalyptic revolution to destroy and transcend that state, a revolution that would *really* bring about the end of history in the form of national, or world, communism.

One of the first and most influential of the Left Hegelians was a Pole, Count August Cieszkowski (1814–94) who wrote in German and published in 1838 his *Prolegomena to a Historiosophy*. Cieszkowski brought to Hegelianism a new dialectic of history, a new variant of the three ages of man. The first age, the age of antiquity, was, for some reason, the age of emotion, the epoch of pure feeling, of no reflective thought, of elemental immediacy and unity with nature. The 'spirit' was 'in itself' (*an sich*). The second age of mankind, the Christian era, stretching from the birth of Jesus to the death of the great Hegel, was the age of thought, of reflection, in which the 'spirit' moved 'toward itself', in the direction of abstraction and universality. But Christianity, the age of thought, was also an era of intolerable duality, of man separated from God, of spirit separated from matter, and thought from action. Finally, the third and culminating age, the coming age, heralded by Count Cieszkowski, was to be the age of action. In short, the third post-Hegelian age would be an age of practical action, in which the thought of both Christianity and of Hegel would be transcended and embodied into an act of will, a final revolution to overthrow and transcend existing institutions. For the term 'practical action', Cieszkowski borrowed the Greek word *praxis* to summarize the new age, a term that would soon come to acquire virtually talismanic influence in Marxism. This final age of action would bring about, at long last, a blessed unity of thought and action, theory and praxis, spirit and matter, God and earth, and total 'freedom'. Along with Hegel and the mystics, Cieszkowski stressed that *all* past events, even those seemingly evil, were necessary to the ultimate and culminating salvation.

In a work published in French in Paris in 1844, Cieszkowski also heralded the new class destined to become the leaders of the revolutionary society: the *intelligentsia*, a word that had recently been coined by a German-educated Pole, B.F. Trentowski, who had published his work in Prussian-occupied Poznan.[20] Cieszkowski thus heralded and glorified a development that would at least be implicit in the Marxist movement (after all, the great Marxists, including Marx, Engels and Lenin, were all bourgeois intellectuals rather than children of the proletariat). If not in theory, this dominance of Marxist movements and governments by a 'new class' of *intelligentsia* has certainly been the history of Marxism in 'praxis'. This dominance by a new class has been noted and attacked from the beginnings of Marxism unto the present day: notably by the anarcho-communist Bakunin, and by the Polish revolutionary Jan Waclaw Machajski (1866–1926), during and after the 1890s.[21] It was also a similar insight into the German Social Democratic Party that prompted Robert Michels to abandon Marxism and develop his famous 'iron law of oligarchy' – that all organizations, whether private, governmental, or Marxist parties, will inevitably end up being dominated by a power élite.

Cieszkowski, however, was not destined to ride the wave of the future of revolutionary socialism. For he took the Christian messianic, rather than atheistic, path to the new society. In his massive unfinished work of 1848, *Our Father* (*Ojcze nasz*), Cieszkowski maintained that the new age of revolutionary communism would be a third age, an age of the Holy Spirit (shades of Joachism!), an era that would bring a Kingdom of God on earth 'as it is in heaven'. Thus, the final Kingdom of God on earth would reintegrate all of 'organic humanity', and would erase all national identities, with the world governed by a Central Government of All Mankind, headed by a Universal Council of the People.

But at the time, the path of Christian messianism was not clearly destined to be a loser in the intra-socialist debate. Thus, Alexander Ivanovich Herzen (1812–70), a founder of the Russian revolutionary tradition, was entranced by Cieszkowski's brand of Left Hegelianism, writing that 'the future society is to be the work not of the heart, but of the concrete. Hegel is the new Christ bringing the word of truth to men...'[22] And soon, Bruno Bauer, friend and mentor of Karl Marx and the leader of the *Doktorklub* of Young Hegelians at the University of Berlin, hailed the new philosophy of action in late 1841 as 'The Trumpet Call of the Last Judgment'.[23]

But the winning strand in the European socialist movement, as we have indicated, was eventually to be Karl Marx's atheism. If Hegel had pantheized and elaborated the dialectic of Christian messianics, Marx now 'stood Hegel on his head' by atheizing the dialectic, and resting it, not on mysticism or religion or 'spirit' or the absolute idea or the world-mind, but on the supposedly solid and 'scientific' foundation of philosophical materialism. Marx adopted his materialism from the Left Hegelian Ludwig Feuerbach, particularly his work on *The Essence of Christianity* (1843). In contrast to the Hegelian emphasis on 'spirit', Marx would study the allegedly scientific laws of matter in some way operating through history. Marx, in short, took the dialectic and made it what we can call a 'materialist dialectic of history'.

A lot of unnecessary pother has been made about terminology here. Many Marxist apologists have fiercely maintained that Marx himself never used the term 'dialectical materialism' – as if mere non-use of the *terms* lets Marx off the hook – and also that the concept only appeared in such later works of Engels as the *Anti-Dühring*. But the *Anti-Dühring*, published before Marx's death, was, like all other such writings of Engels, cleared with Marx first, and so we have to assume that Marx approved.[24]

The fuss stems from the fact that the term 'dialectical materialism' was widely stressed by the Marxist–Leninist movement of the 1930s and 1940s, these days generally discredited. The concept was applied by Engels, who of the two founders was particularly interested in the natural sciences, to biology. Applied to biology, as Engels did in the *Anti-Dühring*, dialectical materialism has an unmistakably crazy air. In an ultra-Hegelian manner, logic and logical contradictions, or 'negations', are hopelessly confused with the processes of reality. Thus: butterflies 'come into existence from the egg through negation [or transcendence] of the egg...they are negated again as they die'. And 'the barleycorn...is negated and is supplanted by the barley plant, the negation of the corn...The plant grows...is fructified and produces again barleycorns and as soon as these are ripe, the ear withers away, is negated. As a result of this negation of the negation we have gained the original barleycorn...in a quantity ten, twenty, or thirty times larger'.[25]

Furthermore, Marx himself, and not only Engels, was also very interested in Darwin and in biological science. Marx wrote to Engels that Darwin's work 'serves me as a basis in natural science for the class struggle in history' and that 'this is the book which contains the basis in natural history for our view'.[26]

By recasting the dialectic in materialist and atheist terms, however, Marx gave up the powerful motor of the dialectic as it operated throughout history: either Christian messianism or providence or the growing self-consciousness of the world spirit. How could Marx find a 'scientific' materialist replacement, newly grounded in the ineluctable 'laws of history' that would explain the inevitability of the imminent apocalyptic transformation of the world into communism? It is one thing to base the prediction of a forthcoming Armageddon upon the Bible; it is quite another to deduce this event from allegedly scientific laws. Setting forth the specifics of this engine of history was to occupy Karl Marx for the rest of his life.

Although Marx found Feuerbach indispensable for adopting a thoroughgoing atheist and materialist positions, Marx soon found that Feuerbach had not gone nearly far enough. Even though Feuerbach was a philosophical communist, he basically believed that if man forswore religion, then his alienation from his self would be over. To Marx, religion was only one of the problems. The entire world of man (the *Menschenwelt*) was alienating, and had to be radically overthrown, root and branch. Only apocalyptic destruction of this world of man would permit true human nature to be realized. Only then would the existing 'un-man' (*Unmensch*) truly become man (*Mensch*). As Marx thundered in the fourth of his 'theses on Feuerbach', 'one must proceed to destroy [the] 'earthly family' [as it is] 'both in theory and in practice'.[27]

In particular, declared Marx, true man, as Feuerbach had argued, is a 'communal being' (*Gemeinwesen*) or 'species being' (*Gattungswesen*). Although the state as it exists must be negated or transcended, man's participation in the state operates as such a communal being. The main problem comes in the private sphere, the market, or 'civil society', in which un-man acts as an egoist, as a private person, treating others as means, and not collectively as masters of their fate. And in existing society, unfortunately, civil society is primary, while the state, or 'political community', is secondary. What must be done to realize the full nature of mankind is to transcend the state and civil society by politicizing all of life, by making all of man's actions collective. Then real individual man will become a true and full 'species being'.[28]

But only a revolution, an orgy of destruction, can accomplish this task. And here, Marx harkened back to the call for total destruction that had animated his vision of the world in poems of his youth. Indeed, in a speech in London in 1856, Marx was to give graphic and loving expression to this goal of his 'praxis'. He mentioned that in Germany in the Middle Ages there existed a secret tribunal called the *Vehmgericht*. He then explained: 'If a red cross was seen marked on a house, people knew that its owner was doomed by the *Vehm*. All the houses of Europe are now marked with the mysterious red cross. History is the judge – its executioner the proletarian'.[29]

Marx, in fact, was not satisfied with the philosophical communism to which he and Engels had separately been converted by the slightly older Left Hegelian Moses Hess (1812–75) in the early 1840s. To Hess's communism, Marx, by the end of 1843, added the crucial emphasis on the *proletariat*, not simply as an economic class, but as destined to become the 'universal class' when communism was achieved. As we have indicated above, Marx actually acquired his vision of the proletariat as the key to the communist revolution from the 1842 work of Lorenz von Stein, an enemy of socialism, who interpreted the socialist and communist movements as rationalizations of the class interests of the proletariat. Marx discovered in Stein's attack the 'scientific' engine for the inevitable coming of the communist revolution. The proletariat, the most 'alienated' and allegedly 'propertyless' class, would be the key.

Marx had now worked out the outline of his secular messianic vision: a material dialectic of history, with the final apocalyptic revolution to be achieved by the proletariat. But how specifically was this to be accomplished? Vision was not enough. What scientific laws of history could bring about this cherished goal? Fortunately, Marx had a crucial ingredient for his attempted solution close at hand: in the Saint-Simonian concept of human history as driven by an inherent struggle among economic classes. The class struggle along with historical materialism was to be an essential ingredient for the Marxian material dialectic.

11.6 Marx as utopian

Despite Marx's claim to be a 'scientific socialist', scorning all other socialists whom he dismissed as moralistic and 'utopian', it should be clear that Marx himself was even more in the messianic utopian tradition than were the competing 'utopians'. For Marx not only sought a future society that would put an end to history: he claimed to have found the path towards that utopia inevitably determined by the 'laws of history'.

But a utopian, and a fierce one, Marx certainly was. A hallmark of every utopia is a militant desire to put an end to history, to freeze mankind in a static state, to put an end to diversity and man's free will, and to order everyone's life in accordance with the utopian's totalitarian plan. Many early communists and socialists set forth their fixed utopias in great and absurd detail, determining the size of everyone's living quarters, the food they would eat, etc. Marx was not silly enough to do that, but his entire system, as Thomas Molnar points out, is 'the search of the utopian mind for the definitive stabilization of mankind or, in gnostic terms, its reabsorption in the timeless'. For Marx, his quest for utopia was, as we have seen, an explicit attack on God's creation and a ferocious desire to destroy it. The idea of crushing the many, the diverse facets of creation, and of returning to an allegedly lost unity with God began, as we have seen, with Plotinus. As Molnar sums up:

> In this view, existence itself is a wound on nonbeing. Philosophers from Plotinus to Fichte and beyond have held that the reabsorption of the polichrome universe in the eternal One would be preferable to creation. Short of this solution, they propose to arrange a world in which change is brought under control so as to put

> an end to a disturbingly free will and to society's uncharted moves. They aspire to return from the linear Hebrew–Christian concept to the Greco-Hindu cycle – that is, to a changeless, timeless permanence.

The triumph of unity over diversity means that, for the utopians, including Marx, 'civil society, with its disturbing diversity, can be abolished'. Molnar then makes the interesting point that when Hayek and Popper rebut Marxism by demonstrating

> that no mind – not even that of a Politburo equipped with supercomputers – can overview the changes of the marketplace and its myriad components of individuals and their interactions, they miss the mark. Marx agrees with them. But, he wants to abolish the marketplace and its economic as well as intellectual ('legal, political, philosophical, religious, aesthetic') components, so as to restore a simple world – a monochrome landscape. His economics is not economics but an instrument of total control.[30]

All well and good, but, as the history of communist countries has shown, there are not many followers of Marx who are willing to settle for a world where no economic calculation is possible, and therefore where production collapses and universal starvation ensues.

Substituting in Marx for God's will or the Hegelian dialectic of the world-spirit or the absolute idea, is monist materialism, in its central assumption, as Molnar puts it, 'that the universe consists of matter plus some sort of one-dimensional law immanent in matter'. In that case, 'man himself is reduced to a complex but manipulable material aggregate, living in the company of other aggregates, and forming increasingly complex super aggregates called societies, political bodies, churches'. The alleged laws of history, then, are derived by scientific Marxists as supposedly evident and immanent within this matter itself.

The Marxian process towards utopia, then, is man acquiring insights into his own true nature, and then rearranging the world to accord with that true nature. Engels, in fact, explicitly proclaimed the Hegelian concept of the man–God: 'Hitherto the question has always stood: What is God? – and German [Hegelian] philosophy has resolved it as follows: God is man...Man must now arrange the world in a *truly* human way, according to the demands of his *nature*'.[31]

But this process is rife with self-contradictions; for example, and centrally, how can mere matter gain insights into his (its?) nature? As Molnar puts it: 'for how can matter gather insights? And if it has insights, it is not entirely matter, but matter *plus*'.

In this allegedly inevitable process, of arriving at the proletarian communist utopia after the proletarian class becomes conscious of its true nature, what is supposed to be Karl Marx's own role? In Hegelian theory, Hegel himself is the final and greatest world-historical figure, the man–God of man–Gods. Similarly, Marx in his view stands at a focal point of history as the man who brought to the world the crucial knowledge of man's true nature and of the laws of history, thereby serving as the 'midwife' of the process that would put an end to history. Thus Molnar:

> Like other utopian and gnostic writers, Marx is much less interested in the stages of history up to the present (the egotistic *now* of all utopian writers) than in the final stages when the stuff of time becomes more concentrated, when the drama approaches its denouement. In fact, the utopian writer conceives of history as a process leading to himself since he, the ultimate *comprehensor*, stands in the center of history. It is natural that things accelerate during his own lifetime and come to a watershed: *he* looms large between the Before and the After.[32]

The achievement of the Marxist utopia is, moreover, dependent upon leadership and rule by the Marxian cadre, the possessors of the special knowledge of the laws of history, who will proceed to transform mankind into the new socialist man by the use of force. In the Judeo-Christian tradition, the existence of evil is accounted for by the free will of the individual. In monist, determinist systems, on the other hand, all history is supposed to be determined by fixed laws, and therefore evil can only be *apparent*, while really acting in a deeper sense as a servant of the higher good. All apparent evil must be truly good, and serve some sort of determined plan, whether it be the unfolding of the God–man or an atheistic version thereof. Coercing people by a cadre in order to create a new socialist man cannot be evil or unacceptable in a just society. On the contrary, it is the duty of the Marxist vanguard, they who are the servants of the next inevitable stage of history, to impose such a regime. This is a duty to history, that alleged entity to which the cadre are in service, and who (which?) is destined to judge the actions of the past, to judge them as moral or immoral, as either advancing the birth of the allegedly inevitable historical future, or of thwarting such birth. In short, history or the cadre has the privilege and duty of judging any person or movement as being either 'progressive' (i.e. advancing the determined march of history) or 'reactionary' (retarding that inevitable march).

11.7 Notes

1. On alienation in Marx as rooted in exchange and the division of labour, and not simply in the capitalist wage-relation, see Paul Craig Roberts, *Alienation and the Soviet Economy* (Alburquerque, NM: University of New Mexico Press, 1971); and Paul Craig Roberts and Matthew A. Stephenson, *Marx's Theory of Exchange, Alienation, and Crisis* (2nd ed., New York: Praeger, 1983).
2. In extreme variants, such as the gnostic heretics of the early Christian era, the creation of matter was itself pure evil, an act by the Devil, or Demiurge, with spirit remaining divine.
3. Robert C. Tucker, *Philosophy and Myth in Karl Marx* (Cambridge: Cambridge University Press, 1961), p. 39.

4. Ibid., p. 41. These and other early essays by Hegel were first published as a collection of *Early Theological Writings* in 1907.
5. Ibid., pp. 53–4.
6. Quoted in Raymond Plant, *Hegel* (Bloomington, Ind.: Indiana University Press, 1973), p. 120.
7. Hegel was also influenced by Steuart's great rival, Adam Smith, but unfortunately in the wrong direction. From the *Wealth of Nations* Hegel concluded that the division of labour had brought man the misery of specialization, alienation, etc. More interestingly, from Smith's friend the Rev. Adam Ferguson's famous line on events that are 'the product of human action but not of human design', Hegel got the idea of each individual agent of the world-soul's pursuing the world-soul's purposes without conscious intent. This is Hegel's famous concept of the 'cunning of reason' at work through history.

   Ferguson, in turn, arrived at his famous phrase, not by analysis of the free market, as Hayek implies, but from an attempt to show that the revolt in Scotland in 1745, which almost succeeded in bringing the dread Catholic Jacobites to power, was unconsciously pursuing God's benevolent purpose of shaking Scottish Presbyterians – assumed of course to be God's true Church – out of their religious apathy. In short, the Scottish Catholics, though consciously pursuing evil ends, were unwittingly carrying out God's designs. Out of apparent evil, good. Similarly, when Hegel later hailed Napoleon as the 'world-historical' man, he saw Napoleon as intending to pursue evil but unconsciously furthering God's benevolent design. See Richard B. Sher, *Church and University in the Scottish Enlightenment* (Princeton, NJ: Princeton University Press, 1985), pp. 40–44.
8. Plant, op. cit., note 6, p. 96.
9. See ibid., pp. 122, 123, 181.
10. Tucker, op. cit., note 3, pp. 54–5. E.F. Carritt points out that, for Hegel, 'freedom' is 'desiring above all things to serve the success and glory of their State. In desiring this they are desiring that the will of God should be done...'. If an individual thinks he should do something which is *not* for the success and glory of the state, then, for Hegel, 'he should be "forced to be free".' How does a person *know* what action will redound to the glory of the state? To Hegel, the answer was easy. Whatever the state rulers demand, since 'the very fact of their being rulers is the surest sign of God's will that they should be'. Impeccable logic, indeed! See E.F. Carritt, 'Reply' (1940), reprinted in W. Kaufmann, (ed.), *Hegel's Political Philosophy* (New York: Atherton Press, 1970), pp. 38–9.
11. Karl R. Popper, *The Open Society and its Enemies* (5th ed., Princeton, NJ: Princeton University Press, 1966), II, pp. 30–31.
12. Ibid., p. 31.
13. Ibid., p. 33.
14. In 1867. See ibid., p. 34.
15. Ibid., p. 33.
16. Ibid., pp. 27, 30. For an explanation of what Popper refers to as the 'scherzo-style' of his chapter on Hegel, see ibid., pp. 393–5.
17. M.H. Abrams, *Natural Supernaturalism: Tradition and Revolution in Romantic Literature* (New York: Norton, 1971). Milton's depiction of the Fall and the Second Advent is truly eloquent and stirring. On the loss of Eden: 'Farewell happy Fields/Where Joy forever dwells...'. And on the Second Advent: 'Time will run back and fetch the age of gold', 'And then at last our bliss/Full and perfect is,/But now begins...'
18. On the influence of Schiller's views of organicism and alienation on Hegel, Marx and later sociology, see Leon Bramson, *The Political Context of Sociology* (Princeton, NJ: Princeton University Press, 1961), p. 30n.
19. See Abrams, op. cit., note 17, p. 311.
20. B.F. Trentowski, *The Relationship of Philosophy to Cybernetics* (Poznan, 1843), in which the author also coined the word 'cybernetics' for the new, emerging form of rational social technology which would transform mankind. See James H. Billington, *Fire in the Minds of Men: Origins of the Revolutionary Faith* (New York: Basic Books, 1980), p. 231.
21. On Machajski, see Paul Avrich, *The Russian Anarchists* (Princeton, NJ: Princeton Univer-

sity Press, 1967), pp. 102–6. Machajski's preferred solution to the problem of domination by the intellectuals was scarcely convincing. Machajski called for a secret organization of revolutionary workers, The Workers' Conspiracy, presumably headed by himself, which would lead the proletarian revolution, and establish a 'classless' society shorn of the evil distinctions between mental and manual labour.
22. Billington, op. cit., note 20, p. 225.
23. It is to Bauer that the world owes the terms 'critical' and 'criticism', which Marxists have long employed as endlessly repeated slogans ever since; e.g., 'Critique of Critical Theory', 'Critical Legal Studies', etc.
24. According to Schumpeter, moreover, Marx was virtually a co-author of the *Anti-Dühring*. Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper & Bros., 1942), p. 39n.
25. Engels, *Anti-Dühring*, cited in Ludwig von Mises, *Theory and History* (3rd ed., Auburn, Ala.: Ludwig von Mises Institute, 1985), p. 105. Also see the sardonic commentary on this passage by Alexander Gray, *The Socialist Tradition* (London: Longmans, Green, 1946), p. 300n. Gray also notes Marx's summary of the dialectic in the *Poverty of Philosophy*, which he comments is 'not without entertainment value': 'The yes becomes no, the no becomes yes, the yes becomes at the same time yes and no, the no becomes at the same time no and yes, the contraries balance, neutralize, and paralyze each other'. (My own translation from Gray's French quote.)
26. Marx to Engels, 16 Jan. 1861 and 19 Dec. 1860. See Gary North, *Marx's Religion of Revolution: Regeneration Through Chaos* (2nd ed., Tyler, Texas: Institute for Christian Economics, 1989), pp. 89n–90n.
27. Tucker, op. cit., note 3, p. 101.
28. Ibid., p. 105.
29. Ibid., p. 15.
30. Thomas Molnar, 'Marxism and the Utopian Theme', *Marxist Perspectives* (Winter 1978), pp. 153–4. The economist David McCord Wright, while not delving to the religious roots of the problem, stressed that one group in society, the statists, seek 'the achievement of a fixed ideal static pattern of technical social organization. Once this ideal is reached, or closely approximated, it need only be repeated endlessly thereafter'. David McCord Wright, *Democracy and Progress* (New York: Macmillan, 1948), p. 21.
31. Molnar, op. cit., note 30, pp. 149, 150–51.
32. Ibid., pp. 151–2.

12 The Marxian system, I: historical materialism and the class struggle

12.1 The Marxian strategy

Marx desperately sought a materialistic dialectic of history, a dialectic that would account for all basic historical change and would lead inevitably to communist revolution. Lacking a Boehmeian 'nisus' or mystical inner drive to serve as motor of the dialectic, Marx had to fall back on class conflict embedded in historical materialism. But it was characteristic of Marx that this crucial area of the Marxian system, along with other important discussions, was presented, not systematically, but in the course of fugitive paragraphs or even passages, here and there throughout the writings of Marx and Engels. The system has to be constructed out of these widely separated passages. As a result, or perhaps from the inherently grave weakness of the argument, Marx's terminology is invariably vague and fuzzy, and his allegedly law-like linkages of the dialectic virtually non-existent. Often they are mere unsupported assertion. As a result, the Marxian system is not only a tissue of fallacies, but of flimsy fallacies and linkages as well.

No economic or social theory is obliged to come up with correct predictions, in the sense of forecasts of the future. But the Marxian doctrine is different. Like pre-millennial pietists who are forever predicting an imminent Armageddon, Marx claims to come up with 'laws of history' which, according to him, are 'scientific' rather than mystical. Well, if he knows the laws of history, then Marx had better come up with correct predictions of such allegedly determined laws. Yet all his predictions have proved utterly wrong. At this point, Marxists invariably fall back on changing the prediction, or pointing to some offsetting factor (seen only in hindsight) that temporarily delayed the prediction from coming true. Thus, as we shall see further below, one of Marx's predictions, crucial to the inevitable workings of the road to socialism, was that the working class would suffer increasing poverty and immizeration. When the working classes, in contrast, obviously continued to gain spectacularly in living standards in the western world, Marxian apologists fell back on the assertion that Marx meant only poverty 'relative to' the capitalist class. It is doubtful, however, whether bloody revolution will be waged by a proletariat for having only one yacht while capitalists have a dozen each. 'Relative' misery is a very different kettle of fish. The Marxists then came up with the view that western workers' standards of living were rising because of a 'temporary' delay brought about by western imperialism, enabling western workers to be 'capitalists' relative to the exploited Third World. The fact that Marx and Engels were themselves in favour of western, particularly German, imperialism, as a progressive force, is usually passed over in silence by Marxian writers.

On theoretical matters, the strategy of Marxists is similar. Increasingly, as crucial Marxian doctrines become evidently too absurd to be held seriously, e.g. technological determinism of all life, or the labour theory of value, they are abandoned by the Marxist, who then proceeds to maintain stubbornly that he is still a 'Marxist', and that Marxism essentially still holds true. But this is the attitude of a mystical religious adept rather than of a scientific or even a rational thinker.

One crucial weapon wielded often by Marxists and by Marx himself was 'the dialectic'. Since the dialectic allegedly means that the world and human society consist of conflicting or 'contradictory' tendencies side by side or even within the same set of circumstances, *any* prediction can then be justified as the result of one's deep insight into whichever part of the contradictory dialectic might be prevailing at any given time.[1] In short, since either *A* or non-*A* can occur, Marxians can safely hedge their bets so that no prediction of theirs can ever be falsified. It has been said that Gerry Healy, the absolute leader of the left-wing British Trotskyite movement until scandal brought him down in recent years, was able to maintain his power by claiming the power of exclusive insight into the mysterious workings of the dialectic. And an outstanding example of hedging one's bets by Marx himself was described in a letter to Engels. Marx writes to Engels that he has just forecast something in his column for the *New York Tribune*. He adds cynically and revealingly: 'It is possible that I may be discredited. But in that case it will still be possible to pull through with the help of a bit of dialectic. It goes without saying that I phrased my forecasts in such a way that I would prove to be right also in the opposite case'.[2]

12.2 Historical materialism

There is no place in his system where Marx is fuzzier or shakier than at its base: the concept of historical materialism, the key to the inevitable dialectic of history.

At the base of historical materialism and of Marx's view of history is the concept of the 'material productive forces'. These 'forces' are the driving power that creates all historical events and changes. So what are these 'material productive forces'? This is never made clear. The best that can be said is that material productive forces mean 'technological methods'. On the other hand, we are also faced with the term 'mode of production', which seems to be the same thing as material productive forces, or the sum of, or systems of, technological methods.

At any rate, these material productive forces, these technologies and 'modes of production', uniquely and monocausally create all 'relations of production' or 'social relations of production' independently of people's wills. These 'relations of production', also extremely vaguely defined, seem to be essentially legal and property relations. The sum of these relations of production somehow make up the 'economic structure of society'. This economic structure is the 'base' which causally determines the 'superstructure', which includes natural science, legal doctrines, religion, philosophies, and all other forms of 'consciousness'. In short, at the bottom of the base is technology which in turn constitutes or determines modes of production, which in turn determines relations of production, or institutions of law or property, and which finally in turn determine ideas, religious values, art, etc.

How, then, do historical changes take place in the Marxian schema? They can *only* take place in technological methods, since everything else in society is determined by the state of technology at any one time. In short, if the state of technology is T and everything else is the determined superstructure, S, then to Marx,

$$T_n \rightarrow S_n$$

where n is any point of time. But then, the only way in which social change can take place is via change in technology, in which case

$$T_{n+1} \rightarrow S_{n+1}$$

As Marx put it in the clearest and starkest statement of his technological determinist view of history, in his *Poverty of Philosophy*:

> In acquiring new productive forces men change their mode of production, and in changing their mode of production, their means of gaining a living, they change all their social relations. The hand mill gives you society with the feudal lord; the steam mill society with the industrial capitalist.

The first grave fallacy in this farrago is right at the beginning: Where does this technology come from? And how do technologies change or improve? Who puts them into effect? A key to the tissue of fallacies that constitute the Marxian system is that Marx never attempts to provide an answer. Indeed he cannot, since if he attributes the state of technology or technological change to the actions of man, of individual men, his whole system falls apart. For human consciousness, and individual consciousness at that, would then be determining material productive forces rather than the other way round. As von Mises points out:

> We may summarize the Marxian doctrine in this way: In the beginning there are the 'material productive forces', i.e., the technological equipment of human productive efforts, the tools and machines. No question concerning their origin is permitted; they are, that is all; we must assume that they are dropped from heaven.[3]

And, we may add, any changes in that technology must therefore be dropped from heaven as well.

Furthermore, as von Mises also demonstrated, consciousness, rather than matter, is predominant in technology:

> a technological invention is not something material. It is the product of a mental process, of reasoning and conceiving new ideas. The tools and machines may be called material, but the operation of the mind which created them is certainly spiritual. Marxian materialism does not trace back 'superstructural' and 'ideological' phenomena to 'material' roots. It explains these phenomena as caused by an essentially mental process, viz. invention.[4]

Machines are embodied ideas. In addition, technological processes do not only require inventions. They must be brought forth from the invention stage and be embodied in concrete machines and processes. But that requires savings and capital investment as well as invention. But, granting this fact, then the 'relations of production', the legal and property rights system in a society, help determine whether or not saving and investment will be encouraged and discouraged. Once again, the proper causal path is *from* ideas, principles, and the legal and property rights 'superstructure' *to* the alleged 'base'.

Similarly, machines will not be invested in, unless there is a division of labour of sufficient extent in a society. Once again, the social relations, the cooperative division of labour and exchange in society, determine the extent and development of technology, and not the other way round.[5]

In addition to these logical flaws, the materialist doctrine is factually absurd. Obviously, the hand mill, which ruled in ancient Sumer, did *not* 'give you' a feudal society there: furthermore, there were capitalist relations long before the steam mill. His technological determinism led Marx to hail each important new invention as *the* magical 'material productive force' that would inevitably bring about the socialist revolution. Wilhelm Liebknecht, a leading German Marxist and friend of Marx, reported that Marx once attended an exhibition of electric locomotives in London, and delightedly concluded that electricity would give rise to the inevitable communist revolution.[6]

Engels carried technological determinism so far as to declare that it was the invention of fire that separated man from the animals. Presumably the group of animals to whom fire somehow arrived were thereupon determined to evolve upward; the emergence of man himself was simply a part of the superstructure.

Even granting Marx's thesis momentarily for the sake of argument, his theory of historical change still faces insuperable difficulties. For why can't technology, which somehow develops as an automatic given, simply and smoothly change the 'relations of production' and the 'superstructure' above it? Indeed, if the base at each moment of time determines the rest of the superstructure, how can a change in the base *not* smoothly determine an appropriate change in the rest of the structure? But, again, a mysterious element enters the Marxian system. Periodically, as technology and the modes of production advance, they come into conflict, or, in the peculiar Hegelian–Marxian jargon, in 'contradiction' to the relations of production, which continue in the conditions appropriate to the past time period and past technology. These relations therefore become 'fetters' blocking technological development. Since they become fetters on growth, the new technology gives rise to an inevitable social revolution that overthrows the old production relations and the superstructure and creates new ones that have been blocked or fettered. In this way, feudalism gives rise to capitalism, which in turn will give way to socialism.

But if technology determines social production relations, what is the mysterious force that delays the change in those relations? It couldn't be human stubbornness or habit or culture, since we have already been informed by Marx that modes of production impel men to enter into social relations apart from their mere wills.

As Professor Plamenatz points out, we are merely *told* that the relations of production become fetters on the productive forces. Marx merely asserts this point, and never even attempts to offer a cause, material or otherwise. As Plamenatz puts the entire problem:

> then, all of a sudden, without warning and without explanation, he [Marx] tells us that there nevertheless arises inevitably from time to time an incompatibility between them [the productive forces and the relations of production] which only social revolution can resolve. This incompatibility apparently arises because the dependent variable [the relations] begins to impede the free operation of the variable on which it depends. [The material productive forces.] This is an astounding statement, and yet Marx can make it without even being aware that it requires explanation.[7]

Professor Plamenatz has shown that part of the deep confusion is both generated, and camouflaged, by Marx's failure to define 'relations of production' adequately. This concept apparently includes legal property relations. But if legal property relations were at fault in this dialectical delay in adjustment, thus setting up the 'fetters', then Marx would be conceding that the problem is really legal or political rather than economic. But he wanted the determining base to be *purely economic*; the political and the ideological had to be merely part of the determined superstructure. So 'social relations of production', allegedly economic, were the fetters; but this can only makes sense if this means the property rights or legal system. And so Marx got out of his dilemma by being so fuzzy and ambivalent about the 'relations of production' that these relations could be taken either as *including* the property structure, as *identical* with that structure, or else the two might be totally *separate* entities.

In particular, Marx accomplished his obscurantist purpose by asserting that the property rights system was part of the 'legal expression of' the 'relations of production' – thus somehow being able to be part of the superstructure and yet of the economic 'relations of production' at the same time. 'Legal expression', needless to say, was not defined either. As Plamenatz summed up, the entire concept of 'relations of production', so necessary to the Marxian thesis of material or economic determinism, serves Marx as a 'ghost battalion closing a vital gap in the front of Marxian theory'.[8] Yet in all this there is no way that the concept of 'relations of production' can make economic determinism intelligible, and there is no way by which these relations can either be determined by the modes of production *or* can in themselves determine the property rights system.

The only possible coherent chain of causation, in contrast, is the other way round: from ideas to property rights systems to the fostering or crippling the growth of saving and investment, and of technological development.

Twentieth century Marxists, from Lukacs to Genovese, have often tried to save the day from the embarrassment of the technological determinism of Marx and his immediate followers. They maintain that all sophisticated Marxists know that the causation is not unilinear, that the base and the superstructure really influence each other. Sometimes, they try to torture the data to claim that Marx himself took such a sophisticated position. Either way, they are characteristically obfuscating the fact that they have in reality abandoned Marxism. Marxism is monocausal technological determinism, along with all the rest of the fallacies we have depicted, or it is nothing, and it has demonstrated no inevitable or even likely dialectic mechanism.[9]

12.3 The class struggle

Even assuming that the unexplained incompatibility between the productive forces and the relations of production exists, why shouldn't this incompatibility continue forever? Why doesn't the economy simply lapse into permanent stagnation of the technological forces? This 'contradiction', so to speak, was scarcely enough to generate Marx's goal of the inevitable proletarian communist revolution.

The answer that Marx supplies, the motor of the inevitable revolutions in history, is inherent class conflict, inherent struggles between economic classes. For, in addition to the property rights system, one of the consequences of the relations of production, as determined by the productive forces, is the 'class structure' of society. For Marx, the fetters are invariably applied by the privileged 'ruling classes', who somehow serve as surrogates for, or living embodiments of, the social relations of production and the legal property system. In contrast, another, inevitably 'rising' economic class somehow embodies the oppressed, or fettered, technologies and modes of production.

The 'contradiction' between the fettered material productive forces and the fettering social relations of production thus becomes embodied in a determined class struggle between the 'rising' and the 'ruling' classes, which are bound, by the inevitable (material) dialectic of history to result in a triumphant revolution by the rising class. The successful revolution at last brings the relations of production and the material productive forces, or technological system, into harmony. All is then peaceful and harmonious until later, when further technological development gives rise to new 'contradictions', new fetters, and a new class struggle to be won by the rising economic class. In that way, feudalism, determined by the hand mill, gives rise to middle classes when the steam mill develops, and the rising middle classes, the living surrogates of the steam mill, overthrow fetters imposed by the feudal landlord class. Thus, the material dialectic takes one socio-economic system, say feudalism, and claims that it 'gives rise' to its opposite, or 'negation', and its inevitable replacement by 'capitalism', which thus 'negates' and transcends feudalism. And in the same way electricity (or whatever) will inevitably give rise to a proletarian revolution which will permit electricity to triumph over the fetters that capitalists place upon it.

It is difficult to state this position without rejecting it immediately as drivel. In addition to all the flaws in historical materialism we have seen above, there is no causal chain that links a technology to a class, or that permits economic classes to embody either technology or its 'production relations' fetters. There is no proffered reason why such classes must, or even plausibly might, act as determined puppets for or against new technologies. Why must feudal landlords try to suppress the steam mill? Why can't feudal landlords invest in steam mills? And why can't capitalists cheerfully invest in electricity as they already have in steam? Indeed, they have in fact happily invested in electricity, and in all other successful and economical technologies (as well as bringing them about in the first place). Why are capitalists inevitably oppressed under feudalism, and why are the proletariat equally inevitably oppressed under capitalism? (On Marx's attempt to answer the latter question, see below.)

If, finally, class struggle and the material dialectic bring about an inevitable proletarian revolution, why does the dialectic, as Marx of course maintains, at that point come to an end? For crucial to Marxism, as to other millennial and apocalyptic creeds, is that the dialectic can by no means roll on forever. On the contrary, the chiliast, whether pre- or post-millennial, invariably sees the end of the dialectic, or the end of history, as imminent. Very soon, imminently, the third age, or the return of Jesus, or the Kingdom of God on earth, or the total self-knowledge of the man–God, will effectively put an end to history. Marx's atheist dialectic, too, envisioned the imminent proletarian revolution, which would, after the 'raw communist' stage, bring about a 'higher communism' or perhaps a 'beyond communist' stage, which would be a classless society, a society of total equality, of no division of labour, a society without rulers. But since history is a 'history of class struggles' for Marx, the ultimate communist stage would be the final one, so that, in effect, history would then come to an end.

Critics of Marx, from Bakunin to Machajski to Milovan Djilas, have of course pointed out, both prophetically and in retrospect, that the proletarian revolution, whichever its stage, would not eliminate classes, but, on the contrary, would set up a new ruling class and a new ruled. There would be no equality, but another inequality of power and inevitably of wealth: the oligarchic élite, the vanguard, as rulers, and the rest of society as the ruled.

In order to round out his system, Marx was interested in the dialectical workings of the past, the passages from oriental despotism or the 'Asiatic mode of production' to the ancient world, thence to feudalism, and from feudalism to capitalism. But his main interest, understandably, was in demonstrating the precise mechanism by which capitalism was supposed to give way, imminently, to the proletarian revolution. After working out this broad system, the rest of Marx's life was largely devoted to demonstrating and developing these alleged mechanisms.

12.4 The Marxian doctrine of 'ideology'

Even Marx must dimly recognize that not 'material productive forces', not even 'classes', act in the real world, but only individual consciousness and individual choice. Even in the Marxian analysis, each class, or the individuals within it, must become conscious of its 'true' class interests in order to act upon pursuing or achieving them. To Marx, each individual's thinking, his values and theories, are all determined, *not* by his personal self-interest, but by the interest of the class to which he supposedly belongs. This is the first fatal flaw in the argument; why in the world should each individual ever hold his class higher than himself? Second, according to Marx, this class interest determines his thoughts and viewpoints, and *must* do so, because each person is only capable of 'ideology' or false consciousness in the interest of his class. He is not capable of a disinterested, objective search for truth, nor of pursuit of his own interest or of that of all mankind. But, as von Mises has pointed out, Marx's doctrine pretends to be pure, non-ideological science, and yet written expressly to advance the class interest of the proletariat. But, while all 'bourgeois' economics and all other disciplines of thought were interpreted by Marx as false by definition, as 'ideological' rationalizations of bourgeois class interest, the Marxists

> were not consistent enough to assign to their own doctrines merely ideological character. The Marxian tenets, they implied, are not ideologies. They are a fore-

> taste of the knowledge of the future classless society which, freed from the fetters of class conflicts, will be in a position to conceive pure knowledge, untainted by ideological blemishes.[10]

Dr David Gordon has aptly summed up this point:

> If all thought about social and economic matters is determined by class position, what about the Marxist system itself? If, as Marx proudly proclaimed, he aimed at providing a science for the working class, why should any of his views be accepted as true? Mises rightly notes that Marx's view is self-refuting: if all social thought is ideological, then *this* proposition is itself ideological and the grounds for believing it have been undercut. In his *Theories of Surplus Value*, Marx cannot contain his sneering at the 'apologetics' of various bourgeois economists. He did not realize that in his constant jibes at the class bias of his fellow economists, he was but digging the grave of his own giant work of propaganda on behalf of the proletariat.[11]

Von Mises also raises the point that it is absurd to believe that the interests of any class, including the capitalists, could ever be served better by a false than by a correct doctrine.[12] To Marx, the point of philosophy was only the achievement of some practical goal. But if, as in pragmatism, truth is only 'what works', then surely the interests of the bourgeoisie would not be served by clinging to a false theory of society. If the Marxian answer holds, as it has, that false theory is necessary to justify the existence of capitalist rule, then, as von Mises points out, from the Marxian point of view itself the theory should not be necessary. Since each class ruthlessly pursues its own interest, there is no need for the capitalists to justify their rule and their alleged exploitation to *themselves*. There is also no need to use these false doctrines to keep the proletariat subservient, since, to Marxists, the rule or the overthrow of a given social system depends on the material productive forces, and there is no way by which consciousness can delay this development or speed it up. Or, if there are such ways, and the Marxists often implicitly concede this fact, then there is a grave and self-defeating flaw in the heart of Marxian theory itself.

It is a well-known irony and another deep flaw in the Marxian system that, for all the Marxian exaltation of the proletariat and the 'proletarian mind', all leading Marxists, beginning with Marx and Engels, were emphatically bourgeois themselves. Marx was the son of a wealthy lawyer, his wife was a member of the Prussian nobility and his brother-in-law Prussian minister of the interior. Friedrich Engels, his lifelong benefactor and collaborator, was the son of a wealthy manufacturer, and himself a manufacturer. Why were not *their* views and doctrines also determined by bourgeois class interests? What permitted *their* consciousness to rise above a system so powerful that it determines the views of everyone else?

In this way, every determinist system attempts to provide an escape-hatch for its own believers, who are somehow able to escape the determinist laws that afflict everyone else. Unwittingly, these systems become in that way self-contradictory and self-refuting. In the twentieth century, Marxists such as the German sociologist Karl Mannheim attempted to elevate this escape-hatch into High Theory: that somehow, 'intellectuals' are able to 'float free', to levitate above the laws that determine all other classes.

12.5 The inner contradiction in the concept of 'class'

A 'class' is a set of entities with one identifiable thing in common. Thus there is a class of 'bald eagles' or of 'geraniums', and such a class can be widened or narrowed: e.g., the class of 'geraniums growing in New Jersey'. A 'social class' is a class of human beings with one thing in common. The number of identifiable social classes is virtually infinite. Thus: there is the 'class of people over 6 feet 4 inches in height', the 'class of people named Smith', the 'class of people weighing under 160 pounds', etc. *ad infinitum*. Some of these classes will be useful for certain types of social analysis (e.g. the 'class of people over 65 years of age with diabetes'), for medical or insurance or demographic purposes. But from our point of view, in a study of the Marxian theory of class, these classes are all worthless because there is no inherent conflict between them. In the market economy, in the international division of labour and exchange of products, there is no inherent conflict between short and tall people, people of various weights and names, etc. All classes live in harmony through the voluntary exchange of goods and services that mutually benefits them all. Furthermore, there is no reason for an individual in a free society, or in a market economy, to act on behalf of 'the interests of his class' rather than, or even as a surrogate for, his own individual interest. Will a person, when deciding at what job to work, or what investment to make, first and foremost consult his 'class interest' as the member of a 'class over 6 feet tall'? The very idea is absurd.

Is there no time, then, when social classes are in inherent conflict? Yes, there are such times, but only when some classes are privileged by state coercion, while other classes are restricted or burdened by state coercion. Ludwig von Mises perceptively used the term 'caste' to identify groups either privileged or burdened by the state, as distinguished from 'classes', which are simply groups of people on the free market in no sense in inherent conflict. The caste system in India was a classic case. The privileged or 'ruling' castes acquired power, income, and status by state coercion; the submerged or 'ruled' castes, for example, were prevented by coercion from leaving the lowly occupations of their ancestors. Other ruling and ruled 'castes' or classes are not as rigid as the Indian caste system, but still they partake of the same coercively determined status. Thus, the Brahmin caste, privileged by the state, was in inherent conflict with the Untouchables, who were submerged as a class by the state. These castes then have conflicting class (or 'caste') interest: the Brahmins to maintain their privileges, the Untouchable or other submerged castes to break out of their burdens. The point is that, by the use of state power, each individual Brahmin has a common or 'class' interest in maintaining his privileges; while each Untouchable has a common class interest in freeing himself from oppression.

Thus, even in less rigid cases than in an absolute caste system, the class of short and tall people, or the class of people named Smith, normally living in peace and harmony, could *become* classes in inherent conflict. Suppose, for example, the state decrees a large subsidy for all people over 6 feet tall, or a special heavy tax on all those under 5 feet 5 inches. If special privileges were heaped on people named Smith, then this would be a privileged class at the expense of everyone else, and there would be an economic incentive to try to join the 'ruling class', people named Smith, as quickly as possible.

Even in such situations, as Marx in practice could not deny, there were and are individuals who, for various reasons of ideology or opportunism, fail to follow their own common class-interest. There were and are Brahmins who put the demands of justice (that is, ideas or principles) higher than their class interest, or Untouchables who, for personal interest, willingly submit to the existing order.

There is a grave inner contradiction at the heart of the Marxian system, in Marx's crucial concept of class. In the Marxian dialectic, two mighty social classes face each other in inherent conflict, the ruling and the ruled. In the first two of history's major conflicts: 'oriental despotism', and 'feudalism', the social classes are defined by Marx in what we have seen to be the libertarian, or Misesian, manner: as classes privileged or burdened by the state. Thus, in 'oriental despotism', or the 'Asiatic mode of production', the emperor and his technocratic bureaucracy run the state, and constitute its 'ruling class'. This class acquires privileges from the state, and taxes and controls the 'ruled' classes, that is, everyone else, largely the peasantry but also craftsmen and merchants. Here Marx adopts the libertarian (as we have seen advanced by James Mill) definition of a two-class system, the ruling Few who have gained control of the state, who are governing and exploiting the ruled Many. Under feudalism, a similar concept applies. The landlord class has acquired territory through war and conquest, and has settled down to oppress the peasantry and the merchants and craftsmen via coerced rents, taxes, controls and serfdom. Once again, Marx's class categories are 'caste' categories: the ruling class is such by virtue of its having gained control of the state, the main social apparatus of coercion.

All well and good. But then, suddenly, when Marx gets to capitalism, the class categories change, without acknowledgement. Now the ruling class is not simply defined as the class that runs the state apparatus. Now, suddenly, the original act of rule or 'exploitation' is the voluntary market wage contract, the very act of a capitalist hiring a worker and a worker agreeing to be hired. This in itself, to Marx, establishes a common 'class-interest' among capitalists, exploiting a 'common class' of workers. It is true that Marx also believed that this 'capitalist class' runs the state, but only as 'the executive committee of the ruling class', that is, of a ruling class that *previously existed* on the free market, because of the wage system. So that what Marx, as analyst of oriental despotism or feudalism, would consider ruling-class exploitation still exists under capitalism, but only as an *addendum* to the pre-existing capitalist exploitation of the workers through the wage system. Ruling-class exploitation under capitalism is unique in exercising a *double* exploitation: *first*, on the market as part of the wage contract, and *second*, the alleged exploitation by the state as executive committee of the ruling class.

It should be evident that Marx's analysis of class is by this point a mish-mash, in total disarray; two contradictory definitions of class are jammed together, unfused and unacknowledged. Why should capitalism, of all systems, be able to levy a 'double' exploitation that no other ruling class in Marx's historical schema can ever enjoy?

But the crucial point is that Marx's definition of class and class conflict under capitalism is hopelessly muddled and totally wrong. How can 'capitalists', even in the same industry let alone in the entire social system, have any thing crucial in common? Brahmins and slaves, in a caste system, certainly enjoy a common class-interest, in conflict with other castes. But what is the common 'class-interest' of the 'capitalist class'? On the contrary, capitalist firms are in continual competition and rivalry with each other. They compete for raw material, for labour, for sales and customers. They compete in price and quality, and in seeking new products and new ways to get ahead of their competitors. Marx, of course, did not deny the reality of this competition. So how can all capitalists, or even 'the steel industry', be considered a class with common interests? Again, in only one way: the steel industry only enjoys common interests if it can induce the state to create such interests through special privilege. State intervention to impose a steel tariff, or a steel cartel with restricted output and higher price, would indeed *create* a privileged 'ruling class' of steel industrialists. But no such class having common interests pre-exists on the market before such intervention comes about. Only the state can create a privileged class (or a subordinate and burdened class) by acts of intervention into the economy or society. There can be no 'capitalist ruling class' on the free market.

Similarly, there can be no 'working class' with common class-interests on the free market. Workers compete with each other, just as capitalists or entrepreneurs compete with each other. Once again, if groups of workers can use the state to exclude other groups, they can become a ruling class as against the excluded groups. Thus, if government immigration restrictions keep out new workers, the native workers can benefit (at least in the short run) at the expense of incomes of immigrants; or if white workers can keep black workers out of skilled jobs by state coercion (as was done in South Africa), the former becomes a privileged or ruling class at the expense of the latter.

An important point here is that *any* group that can manage to control, or gain privileges from, the state can take its place among the exploiters: this can be specific groups of workers, or businessmen, or Communist Party members, or whatever. There is no reason to assume that only 'capitalists' can acquire such privileges.

In his class analysis, Marx constantly had to struggle with the fact that neither capitalists nor workers act in practice as if they are each members of monolithic, conflicting classes. On the contrary, capitalists persist in competing with each other, and workers likewise. Even in their rousing *Communist Manifesto*, Marx and Engels had to admit that 'The organization of the proletarians into a class, and consequently into a political party, is continually being upset again by the competition among the workers themselves'. Indeed.

But there are more grave problems. For Marx had his two-class analysis; the essence of each titanic struggle in history is between two great social classes: the ruling *vs* the ruled, the rising class in tune with the new material productive forces, the declining one out of tune. But it is one thing to employ a two-class ruler *vs* ruled analysis according to libertarian or Millian definitions; since there are indeed common caste interests and conflicts, this concept is here a simplification, but an important and workable one. But what are we to do in the complex, multi-class world of the capitalist market economy? How can we employ a two-class model there, either for market or political action?

And there is no question that Marx is committed to the two-class model: capitalists *vs* proletarians. All other classes fade away, so that the mighty, exploited immizerated class can and will rise up as a monolith to overthrow 'the capitalist class'. As Marx and Engels say in the *Communist Manifesto*: 'Our epoch, the epoch of the bourgeoisie, possesses, however, this distinctive feature: it has simplified the class antagonisms: Society as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other: Bourgeoisie and Proletariat'.[13]

But in practice, in analysing recent history or current events, Marx and Engels were forced to talk about many classes and groups, and their interactions – thereby implicitly but definitely betraying their own absurd two-class model. And so we have the problem that Marx's two classes are far from monoliths, that their members compete with each other constantly and collaborate very rarely, and also that in capitalist society in particular it is impossible to analyse historical action by squeezing all human actors into two classes.

In practice, however, Marx and other Marxists happily use a multi-class model in analysing historical events: 'steel capital', 'textile capital', 'armament capital', 'finance capital', etc. But they do not seem to realize that while they are being far more realistic than when prating about 'capitalists' *vs* 'workers' as two-class monoliths, they are totally betraying the Marxian dialectic itself. No inevitable revolution, for example, will ever follow from multi-class squabbling – certainly not Marx's cherished proletarian one.

Marx himself, and Marxists generally, have devoted many millions of words to the concept and use of the term 'class'. Yet in all his writings, Marx never once defined it. For if he had attempted a definition, the stark inner contradiction in the concept, the slippage between state creation and mere market action, would have become starkly clear, and something would have had to give.

Thus, in Marx's theoretical *magnum opus, Capital*, there is no attempt at a definition of class. Only an incomplete Volume I was published in Marx's lifetime (1867), at which point he had substantially finished working on the book. After Marx's death in 1883, Engels worked up, edited and published the remaining manuscript in two further volumes (1885, 1894).[14] Only in the famous very last chapter of the third volume does Marx finally arrive at an attempt to define what he and Engels had been talking and writing about for four decades. It is an unfinished chapter of startling brevity – five short paragraphs. In this chapter, 'Classes', Marx begins with the classical Ricardian triad: that the sources of income in the market economy are wages, profits and rents, and that the receivers of such income constitute the 'three big classes of modern society' – labourers, capitalists and landlords.[15] So far, so good. But then Marx adds that even England, 'the most highly and classically developed' capitalist country, contains 'middle and intermediate strata [which] even here obliterate lines of demarcation everywhere'. But, he quickly hastens to assure his readers that this problem is irrelevant, since the concentration and polarization of classes is proceeding apace.

Marx then begins the third paragraph of this seemingly climactic chapter. 'The first question to be answered is this: What constitutes a class?' Indeed. He then adds that the reply to this question 'follows naturally' from the reply to a second, related question: 'What makes wage-labourers, capitalists, and landlords constitute the three great social classes?' We are now primed for the answer, first to the latter Ricardian question and then to the first, critical query, 'What constitutes a class?'

On the second question, Marx states that 'at first glance' the identity of incomes with their sources constitutes the answer. After all, workers earn wages from their labour, capitalists make profits from their capital, and landlords obtain rent from their land. But Marx quickly warns us that this simple answer will not do. For:

> However, from that standpoint, physicians and officials, e.g., would also constitute two classes, for they belong to two distinct social groups, the members of each of these groups receiving their revenues from one and the same source. The same would also be true of the infinite fragmentation of interest and rank into which the division of social labour splits labourers as well as capitalists and landlords – the latter, e.g. into owners of vineyards, farm owners, owners of forests, mine owners and owners of fisheries.

Precisely. Marx has said it very well; his cherished two-class monolith model (or three-class, if we throw in the allegedly declining 'feudal remnant' – the landlord class) lies totally in ruins.[16]

Thus Marxian class theory, and therefore Marxism, lay destroyed by its creator's own hand. But if it is always darkest before the dawn, if the suffering of the oppressed class is greatest just before the apocalyptic revolutionary moment, we would expect Karl Marx to step in and triumphantly save the day. How does he do it? How does the drama unfold? In one of the great anti-climactic moments in the history of social thought, the manuscript ends with the lines we have just quoted. There is just a cryptic footnote from Engels: 'Here the manuscript breaks off'.

The way Engels puts it implies that the Master was struck down just as his pen was ready to wield the Answer that would rescue the crumbling Marxian theory of class and place it on solid foundations. But we know this was not true, for the 'breaking off' occurred 16 years before Marx's death. Marx had ample time for his dramatic and conclusive answer. Why didn't he pursue it? We can only conclude that he couldn't, that he was stopped, that he realized that there *was* no answer, and that Marxism would henceforth have to rely on repetition and bluster to carry it through.

12.6 The origin of the concept of class

We have seen above that James Mill, in the early decades of the nineteenth century, worked out a simple but cogent and effective two-class theory of class; the ruling class that ran the state, and the remainder of society, who constituted the ruled. At about the same time, during the Restoration period in France after the fall of Napoleon in 1814, a group of *laissez-faire* libertarian theorists were working out a far more sophisticated version of the same model, a model that contained a historical and sociological dimension absent in James Mill. This group were the spiritual and physical descendants of the ideologues of the Napoleonic era, and the major link was J.B. Say. Say was the inspirer and elder statesman of this Restoration group, which was led by his son-in-law Charles Comte (François Charles Louis Comte, 1782–1837) and Charles Dunoyer (Barthélemy Charles Pierre Joseph Dunoyer, 1786–1862). An important follower of Comte and Dunoyer was the young Augustin Thierry (1795–1856), soon to become to most notable of French historians. At the beginning of the Restoration and until 1820, Comte and Dunoyer founded and edited *Le Censeur* followed by *Le Censeur Européen*, periodicals that became the centre for the new *laissez-faire* movement.

Like Mill, Comte and Dunoyer defined conflicting classes as those who gained control of the state apparatus as against those who were controlled by the state. But they also pointed out that history had been a history of such class (or 'caste') struggles. Under oriental despotism, the emperor and his bureaucracy constituted the ruling class; in early Europe, conquering tribes settled down among the conquered to constitute a state with a ruling class; historically, then, another component of such a ruling class is that, at least initially, it was of a different ethnic group from the ruled. In this way, ethnic oppression reinforced political–economic class oppression by the state.

But to Comte and Dunoyer, the new element, the factor that would bring about the inevitable emergence and triumph of a classless (in the sense of 'casteless') society, was what they called *industrielisme*. The emergence of an industrial society required an international free market economy to enable it to work; hence Comte and Dunoyer saw it as inevitable that a free market economy would spread throughout Europe and eventually the world, dissolving the ruling classes, and bringing about a libertarian region and world, a world free of the oppression of the state. Thus the state, in this vision, would wither away, to be dissolved into the market exchange economy, and in the explicit language of Comte and Dunoyer, 'the government of men would be replaced by the administration of things'.

Thus Comte and Dunoyer saw the world as being split into the productive classes (workers, entrepreneurs, producers of all kinds), crippled and oppressed by the 'non-productive' classes, using the state to levy tribute upon the producers. The 'non-producers' were, in particular, politicians, government officials, and *rentiers* living off government bonds, as well as subsidized businessmen or receivers of government privilege. The 'peak of perfection', which Comte and Dunoyer saw as eventually arriving, 'would be reached if all the world worked, and no one governed'.

In their analysis, Comte and Dunoyer went beyond their mentor, J.B. Say, with his blessing, to add the historical, sociological, and political philosophic dimensions to the strictly economic.

The Comte–Dunoyer movement were firm and militant believers in individual liberty and in property rights. Thus Dunoyer's attack on egalitarianism: 'Equality would be the reversal of that fundamental law of humanity and of society' which provides that the income and the position of each man 'depends above all on his conduct, and is proportionate to the activity, the intelligence and the morality and the persistence of his efforts'. And on liberty, Dunoyer wrote that for 40 years, 'I have defended the same principles: liberty in everything, in religion, in philosophy, in literature, industry, in politics. And by liberty I mean the triumph of individuality...'.[17]

The worm in the apple, the way in which libertarian social class analysis got transmuted into a mixture of itself and its opposite, was provided by a garrulous French aristocrat Henri, Comte de Saint-Simon (Claude Henri de Rouvroy, Comte de Saint-Simon 1760–1825). Saint-Simon, a hopelessly muddled thinker, was not aided in his existential confusion by his penchant for picking up ideas orally, at salons, instead of by systematic reading.[18] For a while, during the *Censeur* period, Saint-Simon, who had picked up the Comte–Dunoyer ideas at salons, was what could best be described as a fellow-traveller of theirs, and pushed their ideas in his own periodical, *l'Industrie* (1816–18). After that, however, Saint-Simon grew increasingly authoritarian and hostile to *laissez-faire* liberalism. Having imbibed libertarian class analysis from Comte and Dunoyer, he characteristically got the concepts confused, and introduced the fateful and unacknowledged contradiction: between conflicting classes in the sense of those who govern, or are governed by, the state *versus* employers *vis-à-vis* wage earners on the free market. The Marxian jumble was Saint-Simon's dubious contribution to social thought. After Saint-Simon's death in 1825, his disciple Olinde Rodrigues, an engineer and son of a bureaucrat, joined by Enfantin and Bazard, founded the Saint-Simonian journal *Le Producteur* which, followed by conferences and tracts for the remainder of the 1820s, converted their deceased master's confused social philosophy into a militant proposal for a totalitarian socialist system. This system was to be run by what the Saint-Simonians considered the true class representatives of *industrielisme*: an alliance of engineers and other technocratic intellectuals with investment bankers, coordinated and led by a banker-dominated central bank.

In short, in contrast to communist socialism, which was at least ostensibly egalitarian, Saint-Simonianism was frankly élitist, to be run by the 'good' and allegedly modern classes. Thus the Saint-Simonians, who were the first users of the word 'socialism', repudiated capitalists and entrepreneurs, on behalf of their favoured bankers and intellectual classes, representing the worker–producers. It is perhaps not coincidental that, of the two maximum co-leaders of Saint-Simonianism, Enfantin and Bazard, Barthélemy Prosper Enfantin was the son of a banker, was trained as a banker and engineer, and had been a mathematics student of Olinde Rodrigues. Nor is it surprising that Saint-Simonianism appealed hugely to the investment bankers, the *Producteur* being financed by the prominent banker, Jacques Laffitte. The Saint-Simonian culture reached the peak of its remarkable influence in France from 1830–32, after which the dual popes of this political–religious cult, Enfantin and Saint-Amand Bazard (1791–1832) had a fiery split on the free love question on which every disciple was required to take immediate sides. Unfortunately, the destructive split between the two popes came too late, and the Saint-Simonian socialist movement had already become astoundingly influential throughout Europe. In France, artists and writers became Saint-Simonians, including George Sand, Balzac, Hugo, and Eugène Sue, while in music Berlioz attempted to apply Saint-Simonian principles by composing a *Song on the Installation of Railroads*, and Franz Liszt played the piano at Saint-Simonian meetings.

In England, the reactionary romantic pantheist Thomas Carlyle took to Saint-Simonian socialism immediately, and became its leading spokesman in England, going so far as to translate and attempting to publish the master's final work, *The New Christianity*, in which he foreshadowed the development of his movement into the cult of a new religion. Of more lasting importance was the deep influence that Saint-Simonianism had on John Stuart Mill. For it was the Saint-Simonians who were initially and largely responsible for Mill's quasi-conversion from his father's hard-core free market views to semi-socialism. In his *Autobiography*, Mill explains that he read every Saint-Simonian tract and how it was 'partly by their writings that [his] eyes were opened to the very limited and temporary value of the old political economy, which assumes private property and inheritance as indefeasible facts and freedom of production and exchange as the *dernier mot* of social improvement'. Indeed, in a letter to a leading French Saint-Simonian, Gustave d'Eichtal, a friend of Rodrigues, Mill went so far as to concede that some form of Saint-Simonian socialism 'is likely to be the final and permanent condition of our race', although he differed with them in believing that it would take a long time for mankind to become capable of achieving that happy state.[19]

There is no country, however, that took to Saint-Simonianism with more gusto than Germany. In the early 1830s, Saint-Simonianism 'went like wildfire through the German literary world'.[20] Its enthusiastic adepts included the eminent political writer, Friedrich Buchholz and the famous poet Heinrich Heine, while the Young German school of poets became Saint-Simonian adepts. But the most important influence of Saint-Simonianism in Germany was on the Young Hegelians, Young German poets such as T. Mundt and G. Kuehne were Hegelian university lecturers on philosophy. More directly, Saint-Simonianism exercised a formative influence on Marx. In the first place, Marx's home town of Trier had been part of the German Rhineland occupied by France for two decades of the French revolutionary wars. Hence the town had become greatly susceptible to French intellectual influences. As a result, Trier was rife with Saint-Simonian agitation when Marx was a young adolescent; so much so that the archbishop felt obliged to condemn Saint-Simonian doctrines from the pulpit. Ludwig Gall, former secretary to the Trier city council, was a prominent and prolific Saint-Simonian writer. There is little doubt that Marx read Gall's writings.

Another powerful influence on Marx was one of his favourite teachers at the University of Berlin, Eduard Gans, one of Hegel's favourite disciples, who taught criminal law. Gans was both a Hegelian and a Saint-Simonian, and the interpenetration of the two doctrines in Germany deeply shaped the views of the Young Hegelians, of whom Marx became a leader. As Billington notes, 'The entire phenomenon of left Hegelianism has indeed been described as "nothing more than a Hegelianized Saint-Simonianism or a Saint-Simonianized Hegelianism".'[21] Steeped in Saint-Simon as well as Hegel, Marx found the concept of class struggle, as strained through the defective lenses of the Saint-Simonians, ready to hand and suited for incorporation into his own Grand Design. In addition to the class struggle between proletarians and capitalists, Marx also adopted the Saint-Simonian version of industry and its embodiment (among the Saint-Simonians and in Marx, the workers) as inevitably victorious, along with the future goal of history as the withering away of the state and the 'replacement of the government of men by the administration of things'. There was, of course, a crucial difference between this abortive concept and its original. Among Comte and Dunoyer, the utopian state was to be a purely free society of individual property-holders and free market exchangers; for Marx it was to be a communal collective 'self' ownership of all goods by 'man', with no extant division of labour, specialization, money or exchange.

Marx himself has testified to a particularly powerful Saint-Simonian influence over him, as conveyed by his beloved mentor, surrogate father, and future father-in-law, Baron Ludwig von Westphalen. Towards the end of his life, Marx told his close friend and admirer, the Russian liberal aristocrat Maxim Kovalevsky, that he had imbibed Saint-Simonianism from von Westphalen, who was apparently an ardent admirer of Saint-Simonian doctrine.

We have already seen that in the *Communist Manifesto*, Marx and Engels slipped into the original libertarian, rather than the Saint-Simonian–Marxian theory of class, confusing the state-privileged with capitalists who hire workers on the market. In a penetrating discussion, Professor Ralph Raico has pointed out that the term 'bourgeois' as used on the Continent provided the basis for that confusion. As Raico notes:

> When Marx says that the *bourgeoisie* is the main exploiting and parasitic class in modern society, '*bourgeoisie*' may be understood in two different ways. In England and the United States, it has tended to suggest the class of capitalists and entrepreneurs who make their living by buying and selling on the (more or less)

> free market...On the Continent, however, the term '*bourgeoisie*' has no such necessary connection with the market: it can just as easily mean the class of 'civil servants' and *rentiers* off the public debt as the class of businessmen involved in the process of social production.[22]

Raico goes on to state that the systematic exploitation of other classes by bureaucrats and public debt-holders 'was a commonplace of 19th century social thought'; Tocqueville, for example, denounces the 'middle class' rule under the '*bourgeois* monarchy' of Louis Phillippe (1830–48) as follows: 'It settled into every office, prodigiously increased the number of offices, and made a habit of living off the public Treasury almost as much as from its own industry.'[23]

But this is far from all. Professor Raico shows that, in analysing specific historical events, particularly in contemporary French history, Marx and Engels kept slipping into the state-bound two-class, libertarian-type analysis. Thus, consider Marx's *Eighteenth Brumaire of Louis Bonaparte* (1852), analysing the events leading up to Bonaparte's *coup* of 2 December 1851, which Marx himself portrayed as a 'demonstration how the *class struggle* in France created circumstances and relationships that made it possible for a grotesque mediocrity to play a hero's part'. In the *Eighteenth Brumaire*, Marx writes indignantly of:

> This executive power, with its enormous bureaucracy and military organization, with its ingenious state machinery, embracing wide strata, with a host of officials numbering half a million, this appalling parasitic body, which enmeshes the body of French society like a net and chokes all its pores, sprang up in the days of the absolute monarchy...Every *common* interest was straightway severed from society, counterpoised to it as a higher general *interest*, snatched from the activity of society's members themselves and made an object of government activity, from a bridge, a schoolhouse and the communal property of a village community to the railways, the national wealth and the national university of France... All revolutions perfected this machine instead of smashing it. The parties that contended in turn regarded the possession of this huge state edifice as the principal spoils of the victor... [U]nder the second Bonaparte...the state seems to have made itself completely independent. As against civil society, the state machine has consolidated its position...[24]

Not only is Marx using here a two-class state-bound analysis of class conflict, but he foreshadows the libertarian development of the idea of the state as an anti-social instrument, as in Herbert Spencer and in Franz Oppenheimer, and even Albert Jay Nock's advanced twentieth century libertarian analysis of 'state power' as being an interest inherently opposed to, and exploitative of, 'social power'.

Fine. But *where* in all of this are the capitalists and their use of the state as their 'executive committee' to redouble their exploitation of the proletariat?

Where, in fact, are capitalists and proletariat *at all*? As Raico points out, there is a delicious irony here. For sophisticated libertarian analysts speak not only of state power, but also of various groups in history – Asiatic bureaucratic despotism, feudal landlords, Communist Parties, or whatever – who have managed to gain control of the state and use its coercive apparatus of exploitative rule over the rest of society. Thus, as Raico notes, the Marxian analysis 'here completely ignores the massive use of state-power by *segments of the capitalist class*, and limits itself to the exploitative activities of those directly in control of the state apparatus'. Why Marx and Engels 'should care to whitewash the capitalists in this way', Raico concludes ironically, 'I cannot say'.[25]

Marx repeated a similar analysis 20 years later in his *The Civil War in France* (1871) on the rise and fall of the Paris Commune. That Commune, he wrote, aimed at restoring 'to the social body all the forces hitherto absorbed by the State parasite feeding upon, and clogging the free movement of society'. In particular, the Commune was able to succeed, at least for a while, 'by destroying the two greatest sources of [government] expenditure – the standing army and State functionarism'.

Finally, Engels in his 1891 preface to the *Civil War in France*, applied this same libertarian, and very un-Marxian, analysis to the existing political situation in the United States:

> Nowhere do 'politicians' form a more separate and powerful section [class?] of the nation than precisely in North America. There, each of the two major parties which alternately succeed each other in power is itself in turn controlled by people who make a business of politics... It is in America that we see best how there takes place this process of the state power making itself independent in relation to society... we find two great gangs of political speculators, who alternately take possession of the state power and exploit it by the most corrupt means and for the most corrupt ends – the nation is powerless against these two great cartels of politicians who are ostensibly its servants, but in reality dominate and plunder it.[26]

Professor Raico concludes his analysis as follows:

> It seems, therefore, that there are *two* theories of the state (as well as, correspondingly, two theories of exploitation) within Marxism: there is the customarily discussed and very familiar one [and the one which Marx himself proclaimed], of the state as the instrument of the ruling class (and the concomitant theory which locates exploitation within the production process); and there is the theory of the state which pits it against 'society' and 'nation' (two surprising and significant terms to find in this context...). Moreover, it would seem suggestive that it is this *second* theory that predominates in those writings of Marx which, because of their nuanced and sophisticated treatment of concrete and immediate political reality, many commentators have found to be the best expositions of the Marxian historical analysis.[27]

12.7 The legacy of Ricardo

As Karl Marx plunged into the economics of capitalism that would occupy the rest of his life, he found ready at hand a marvellous weapon: Ricardian economics. In contrast to J.B. Say and the French tradition, Ricardo concentrated not on market exchange and its inevitable focus on individual actors and enchangers benefiting from exchange, but on 'production' followed by 'distribution' of income as a distinct and separate process. Ricardo's main focus was on how this social income from production is 'distributed'. Whereas Say or Turgot looked at individual factors of production and how their income emerges from production and exchange, Ricardo focused only on entire, allegedly homogeneous, 'classes' of producers: workers earning wages, capitalists earning 'profits' and landlords acquiring rent. As von Mises pointed out: 'On the market there are always only single individuals...Even Marx had to make a point of explaining that as purchases and sales are made only between single individuals, it is not admissible to look to them for relations between social classes'.[28]

For Ricardo, then, tautologically, *given* total production, which was mysteriously *there* and not explained, more of the fixed total pie obtained by one class must mean less for other classes. There are, as we remember, no entrepreneurs in Ricardo, because the Ricardians had their eyes firmly fixed on long-run equilibrium, which is supposed to describe living reality, and in such equilibrium, devoid of change or uncertainty, there is no room for entrepreneurship. Thus, for Ricardo, the conditions were already there for a class-struggle theory of the capitalist economy.

Not only that. For the delighted Marx found that Ricardian doctrine was, in effect, a quantity of labour theory of value. Utility dropped out, and since only reproducible goods and not non-reproducible goods such as Rembrandt paintings were considered explainable, only the cost of production was considered a determinant of the embodied value of goods. And since Ricardo finessed 'rent' as allegedly not a part of cost, the only possible cost except labour hours was profit (interest) or cost of capital, and this was so small as to be readily neglected. Besides, profits are allegedly only a declining residual after the payment of wages, which are doomed to keep rising in money but not in real terms as population continues to press upon the food supply.

In the gloomy Ricardian perspective, there are two logical paths towards a call for change in the *status quo*. For Marx the labour theory of value, the view that labour is the sole producer of value, meant that the capitalist's return, profit, constituted the exploitative extraction of 'surplus value' from the workers. The workers produce all value, but the capitalists are able somehow to coerce the workers into accepting wages that are below the full product. In fact, adopting the Malthusian–Ricardian view of population, the workers are paid a subsistence wage, while the capitalists extract the remainder of the workers' product as their surplus value, or profit. To the old Malthusian problem: wouldn't the same problem of overpopulation foil a socialist economy? the Marxian answer was that such an iron law of wages (to adopt the term of Lassalle) would not apply under socialism.

Oddly, neither Marx nor his critics ever realized that there is one place in the economy where the Marxian theory of exploitation and surplus value *does* apply: not to the capitalist–worker relation in the market, but to the relation of master and slave under slavery. Since the masters own the slaves, they indeed only pay them their subsistence wage: enough to live on and reproduce, while the masters pocket the surplus of the slaves' marginal product over their cost of subsistence. This surplus value extracted from the slave constitutes the profits of the masters from slave-ownership. In the free society, in contrast, the workers, owning their own bodies and their own labour, pocket their full marginal product (discounted, as an Austrian would add, by the interest return the labourers freely and willingly pay to the capitalists for advancing them the value of their production now rather than wait until after the product is produced and sold).

Yet, such is the process of capitalization in the market that, in a system of slavery in the midst of a general market economy (as in the American South), the surplus value will be capitalized (by bidding up the value, and therefore the selling or buying price of the slaves). The long-run tendency will be for the business of slavery to yield a return equal to that of any other industry. The surplus profits will be bid away into the general rate of return on capital.

To return to Marx, he also found very handy the Smithian concept (not, to the latter's credit, much employed by Ricardo) that only *material commodities*, and not immaterial services, constitute production or value. Material goods are frozen labour, whereas immaterial labour services are, in Marxian terms, 'non-productive'. In this area, Marx took a giant step backwards from Ricardo to Adam Smith. All this, however, fitted neatly into Marxian philosophical materialism.

Marx also found that Ricardo had already treated all labour as homogeneous, with any differences in quality simply weighted by some sort of index to reduce them to quantity of labour hours.

One logical path for a radical Ricardian, clearly, was to call for the expropriation of surplus value, and the establishment of a system in which the labourers earn the full value of their product. As we shall see shortly, this was the path taken by the 'Ricardian socialist' writers in Britain. But there was another, more logical path. After all, the Ricardians could and did say that capital earned profits from their supplying workers with capital goods, with 'frozen labour'. Such a service is clear, otherwise the workers would not have had to rely on capitalists for money while working on the product. Marx's reply, that capital goods, being frozen labour, should be owned by the workers misses the point that *something*, some service must have been added by the capitalists – which, as we have already seen, was essentially savings and, if we may put it that way, who were advancing the workers' 'frozen time'.

A very different radical path, much more Ricardian and indeed already trod by James Mill, was to concentrate on the other possible bugbear class in the Ricardian system: the landlords – they who simply extract a return for no service, for simply sitting on the 'original and indestructible powers of the soil'. Furthermore, in their own vision of historical laws, the orthodox Ricardians saw the capitalists losing profit, the workers static at subsistence level, and the social product increasingly eaten up by the parasitic landlord class. The nationalization of land rent, then, the 'pre-Henry Georgist' route, was taken by other disciples, including the last of the consistent, radical Ricardians, Henry George.

But how has Marx managed to dispose of the land question that so agitated Ricardo and Mill? First of all, Marx was the great prophet of man as labourer; in his version of Hegelianism, man *created* nature, indeed the entire universe. Since land is man's creature, there is no room for worry about land or land-created value. Labour is all. Second, land as the basis for technology, the economy, and the social system, was the key to the feudal system, but feudalism was part of the dying 'pre-capitalist' pre-industrial order, a reactionary remnant unworthy of attention. Basically, then, Marx simply assimilated land into 'capital', and returns on land into profits. Thus land – the annoying superfluous third class of factors – can drop out and make way for the mighty two-class polarization and final struggle between the capitalists and the proletariat.

12.8 Ricardian socialism

Marx was hardly the first person to arrive at radical proletarian conclusions from the Ricardian system and the labour theory of value. Mediating between Ricardo and Marx were the 'Ricardian socialists', who greatly influenced Marx, but whose influence has been depreciated by Marxists – including Marx himself – who like to think that the master's unique genius in arriving at neo-Ricardian socialism had no predecessors.

The first Ricardian socialist was William Thompson (1775–1833), a well-to-do Irish landlord from County Cork. Thompson's prolix and repetitious work, *An Inquiry into the Principles of the Distribution of Wealth*, published in 1824, went into three editions in the next half-century. An extreme Benthamite utilitarian, Thompson in his *Inquiry* also simply declared that 'labour is the *sole* parent of wealth'. Neither utility, pleasure, or scarcity had anything to do with it. From this flat assertion, the labour theory of value swiftly followed. As Alexander Gray puts it, with his characteristic wit, 'it should be obvious that if the definition selected gives in advance an assurance labour is the *sole* parent of wealth, this ought to be a considerable aid towards proving that wealth may be attributed entirely to labour'.[29]

Thompson advocated a world of free and voluntary exchanges as a way of ensuring that workers will earn their product. But what of the *existing* system of exchange? Anticipating Marx, these exchanges were, according to Thompson, coerced, the capitalists 'seizing the products of their labour [of the labourers] by force'. But here, on the edge of Marxism, Thompson retreated into a libertarian class analysis. For what constitutes such coercion? An entire spectrum of 'bounties, protestations, apprenticeships, guilds, corporations, monopolies' – which sounds very much like Comte, Dunoyer, or James Mill.

But Thompson presses on. Rent and profit are, in particular, 'surplus value' (in Thompson's original phrase) extracted from the exploited workers. But then Thompson retreats again from his full vision, conceding that 'the labourer must pay for the use of these [capital goods], when so unfortunate as not to possess them'. So even though Thompson is full of invective against the greedy and rapacious capitalists, he concedes that they perform a necessary function. How much, then, should they be paid? It is not surprising that Thompson floundered in trying to discover such a principle.

Thompson wound up, then, far from a revolutionary; instead, his mild, pre-John Stuart Mill-like solution was to encourage cooperatives as a means of arriving at inter-class harmony (in his *Labor Rewarded*, 1827). But this scarcely exhausted Thompson's heresies as a pre-Marxian. For, being dedicated to free exchange, Thompson sensibly had to admit that from exchange often emerges accumulation, and from accumulation there arises the dread capitalist class. Thus: 'you cannot abridge the exchanges and consequent accumulations of the capitalist without at the same time abridging all barter'. And, further, admitting the serpent of wages and rent back into Eden: 'Why not permit the labourer to exchange for the use of a house, a horse, a machine, as well as for its possession?[30]

The other founding father of Ricardian socialism in 1820s, John Gray (1799–1883), was possessed, like Thompson, of a most un-Marxian spirit of moderation. As a young Scottish clerk in a wholesale house in London, Gray published his socialistic *Lectures on Human Happiness* in 1825. An arch-utilitarian, and expounder of the Ricardian labour theory of value, Gray fulminated against capitalists as exploiters of the working class, and, like Marx, saw the seeds of such exploitation in trade or barter. If William Thompson's innovation was the phrase 'surplus value', John Gray's particular contribution to the Marxian brew was to bring back, in a heavy way, the physiocratic-Adam Smith notion of productive *vs* unproductive labour, and thus rescue this flawed concept from Ricardian neglect. Not only that: but Gray narrowed the Smithian standard of productive labour considerably. As Gray put it, '*they only* are productive members of society who apply *their own hands* either to the cultivation of the earth itself, or to the preparing and appropriating the produce of the earth to the uses of life'. Having narrowed the definition of productive, Gray then began to make curious concessions, admitting, for example, that some occupations may be to some extent 'useful' although 'unproductive'.

John Gray then proceeded happily to run through the list of British occupations, and to allocate in an obviously purely arbitrary way the percentages of 'productivity' or 'usefulness' in each occupation. Thus, Gray contends that merchants, manufacturers and others who are 'mere distributors of wealth', could still be 'useful' but 'only in a *sufficient* number'. Gray concluded that the productive classes were far short of half the total population.

Harking back, perhaps unconsciously, to the ancient Greeks, Gray reserved some of his choicest venom for the retailers, whom he savaged as 'productive' only of 'deception and falsehood, folly and extravagance, slavery of the corporeal, and prostitution of the intellectual faculties of man'.[31]

It turns out that for Gray, the main sin, the crucial evil, is competition. The competition of labour pushes the wages of labour down to a minimum. Standard Marxian fare, no doubt. But, in addition, even though labour is supposedly the sole creator of value, Gray also worries that competition, with equal perniciousness, also keeps to a minimum the amount of profits and rent.[32]

John Gray concludes with the general principle that every individual in society, except those living on fixed incomes, finds their incomes limited and ground down by competition.

It turns out that the exploitation of labour, indeed of *everyone*, is engineered by competition itself, which 'limits' production. Put an end to competition, then, and not only will the ideal world arrive where the labourer earns his full product, but also wealth will then be multiplied 'without any known limits'. The world is only impoverished because of competition; eliminate it, and wealth will be abundant for all.[33]

Even though Gray maintained that competition could be abolished immediately and with only good effects, he was distressingly vague on how to accomplish this feat. He seemed to favour some sort of all-embracing cooperative, thereby bringing him close to Thompsonian reform. Soon, however, Gray shifted his attention to the 'limitations' on production allegedly imposed by hard money, and so he turned increasingly to a call for accelerating amounts of cheap and easy money.

Thus, in 1831, Gray's book *The Social System* called for cheap and abundant credit to fuel and finance increased production, guided by a governmental national bank. Gray, of course, also advocated irredeemable paper money and the abolition of the gold standard. This analysis was further developed in John Gray's last work, *Lectures on the Nature and Use of Money* (1848).

After 1848, John Gray's social protests ceased completely, and so until recently it was assumed by historians that he had died 'around 1850'. It turns out, however, that Gray, shortly after the publication of his *Lecture of Human Happiness*, founded with his brother James the famous publishing firm of J. & J. Gray of Edinburgh. As the firm flourished, especially after 1850, Gray settled down to a comfortable existence, and died at a ripe old age of 84 in 1883.

A decade and a half after Thompson and Gray, the third leading Ricardian socialist made his appearance: John Francis Bray (1809–97), in his major work, much quoted by Marx, *Labour's Wrongs and Labour's Remedy* (1839). Bray was born in Washington DC, the child of English actors, and, when his mother died, his ailing father brought John Francis back to Leeds in England in 1822. In Leeds, Bray became a compositor, and plunged into the trade-union movement, becoming treasurer of the Leeds Working Men's Association in 1837.

Like the others an extreme utilitarian, Bray, in *Labour's Wrongs*, asserts that God had meant men to be happy, but that unhappiness was injected into the world by the institution of private property, which destroyed the just institution of communal property, particularly in the land. From private property arose the odious division of labour and class conflict, exploitation of labourers and extraction of their surplus value by the capitalist class. Moreover, Bray averred that the root problem is the alleged fact of unequal exchange. Although understanding that, in market exchanges, each party benefits, Bray asserts that, especially in a labour contract, this is not enough, that the exchange and its benefits must be 'equal'.

Not realizing that there is no point in *any* exchange unless the value, for each man, of each of the two exchanged goods is *unequal*, Bray, in a notable pre-Marxian passage, asserts:

> Men have only two things which they can exchange with each other, namely, labour and the product of labour; therefore, let them exchange as they will, they merely give, as it were, labour for labour. If a system of exchanges were acted upon, the value of all others would be determined by the entire cost of production, and equal values would always exchange for equal values.[34]

Here we have packed into one short compass a number of crucial Marxian fallacies: that only commodities are produced or important (in contrast to allegedly non-productive services); the ancient Aristotelian fallacy that exchange *implies* equality of value; the labour theory of value; and the idea that in a just world, prices will all be equal to their costs of production, basically the quantity of labour hours expended in production.

To John Bray, as to Marx after him, the remedy for all this systemic evil is communism, 'the most perfect form of society man can institute'. But in contrast to Marx, Bray saw no inevitable mechanism or law of history to yield that great event. To the contrary, and in contrast to the other communists of his day, John Bray perceived that communism required a New Communist Man to work, but that the advent of this new man was definitely not on the horizon. Any communism would come up against 'the foul and loathsome selfishness which now more or less accompanies every action, clings to every thought, and pollutes every aspiration'.[35]

Instead, Bray focused his vision, not on the impractical and remote ultimate goal, but on his allegedly practical transition, or intermediate, social goal. That happened to be a hypertrophied version of the cooperative schemes that had proved so alluring to Thompson and Gray. Bray proposed that the world be organized into one vast cartellized network of cooperative corporations: that is, cooperatives organized on the principle of one stockholder, one vote. The cartellized network would be achieved by the workers and cooperators *buying out* all existing capitalists. Bray did not seem to see that acquiring the capital to finance this most massive buy out of all time might be even more impractical than organizing Marx's violent proletarian revolution.

Scratch a socialist of this epoch and one will find a money crank. Sure enough, Bray envisioned that the cooperative cartel, once established, would eliminate existing money, and substitute a national bank that would issue notes to each worker based on the quantity of labour-time he had expended in production. The goods the labourer would buy would in their turn be priced at the amount of labour-time embodied within them. Perhaps if Marx had ever been interested in charting his future communist economy, labour-time notes might have been part of his package.

Strictly, there would be no reason for Marxian labour-time notes to increase, but John Bray, as an inflationist, did not of course see it that way. The function of his national bank would be to keep money issued and flowing 'like blood within the living body,...equably through society at large, and infuse universal health and vigor'. The note issue would, of course, always be kept 'within the limits of the actual effective capital existent' – a form of 'needs of trade' argument at least as absurd as the usual variant.[36] For the nominal 'value' of existing capital would of course increase as the money supply kept rising.

A few years after the publication of *Labour's Wrongs*, in 1842, Bray returned to the United States. A second book, *A Voyage from Utopia*, was finished in manuscript, but remained unpublished until the 1950s. For the rest of his life in the United States, Bray wrote sporadically, contributing many letters to labour and socialist periodicals, as well as chapters in the mid-1850s for an unfinished book, *The Coming Age*. Bray's life was as sporadic as his output. He found making a living precarious, working for brief jobs as a printer for newspapers, and complaining, rather inconsistently with his doctrines, that American employers were far more exploitative than British, the 'Yankees', as Professor Dorfman paraphrased Bray, 'appear[ing] more like gamblers and sharpers than honest businessmen'.[37]

Eventually, Bray went west to Michigan, where he had inherited some land, and eked out a living as a newspaperman and small farmer. During the 1870s and 1880s, Bray became vice-president of the American Labor Reform League and was a member of the socialistic Knights of Labor. His later writings, some of which denounced spiritualism, emphasized attacks on the gold standard and a call for an abundance of state paper money that would allegedly drive interest rates down to zero. His communist ideal was now abandoned as utopian.

Two of Bray's later writings are worthy of note. Even though he was opposed to slavery in *Labour's Wrongs*, his opposition to the Civil War in his anonymous anti-war pamphlet, *American Destiny: What Shall it Be, Republican or Cossack?* (1864) led him onward to judge slavery as really no worse than countries cursed by a huge public debt. Moreover, the natural state of the black man, to Bray, is 'nakedness and indolence', so that a South that freed its slaves would decay irremediably, with capital disappearing, and plantations returning to the wilderness.

In his final book, *God and Man a Unity and All Mankind a Unity* (1879), John Bray added to his money crankism the idea of a 'non-theological religion', in which establishing the right social institutions would bring about a this-worldly kind of 'immortality'.

A striking anomaly is a writer of the 1820s and later who is invariably listed by historians as a leading Ricardian socialist, but who was most emphatically neither a Ricardian nor a socialist. Thomas Hodgskin (1787–1869) was a brilliant, innovative and self-educated political theorist who, far from being a socialist, was a *laissez-faire* libertarian to the point of being an individualist anarchist. Hodgskin's father was a storekeeper at the naval dockyard who sent his son to sea at the age of 12. Eventually, Hodgskin's individualist instincts and principles rubbed against naval discipline, and one day, he writes, 'I complained of the injury done me, by a commander-in-chief, to himself, in the language that I thought it merited; he had unjustly deprived me of every chance of promotion from my own exertions, and that was robbing me of every hope'.[38]

As one might expect, Hodgskin's naval commander did not take kindly to his outburst of righteous indignation, and Hodgskin was forcibly retired from the navy, at half-pay, at the comparatively young retirement age of 25. Embittered, Hodgskin promptly took revenge on the navy by publishing his first book, *An Essay on Naval Discipline* (1813), a blistering attack on military tyranny. Eloquently, Hodgskin began his work by setting down the main lesson he had learned: 'Patiently submitting to oppression (because it comes from a superior) is a vice: to surmount your fears of that superior, and resist it, is a virtue'.[39]

Hodgskin's experience left him a bitter enemy of government and government intervention in all its forms; and several years of travelling around

Europe and reading and meeting people strengthened and deepened these convictions. Returning to Great Britain, Hodgskin published a two-volume travel book, *Travels in the North of Germany* (Edinburgh, 1820), in which, as Alexander Gray puts it, 'innocent *Reisebilder* are interlarded with anarchistic digressions, doubtless to the amazement and perturbation of many of his readers'.[40]

Settled in London, Hodgskin was, for the rest of his life, to work as a lecturer and a journalist. He worked for a while with people who seemed to be his natural allies for *laissez-faire*: Francis Place, James Mill, and the philosophic radicals. But very shortly it became clear that there were severe philosophical differences between them. In the first place, Hodgskin abandoned his early Benthamite utilitarianism for a trenchant and militant natural law and natural rights position. In his brilliant and logical work, *The Natural and Artificial Right of Property Contrasted* (1832), Hodgskin presented a radicalized Lockean view of property rights. An ardent defence of the right of private property, including a homesteading defence of private property in land, Hodgskin corrected Locke's various slippages from a consistent 'Lockean' position. To Hodgskin, it was crystal-clear that 'natural' private property rights were sound and just (such as each man in his own person, or in property that he creates or land that he homesteads, or in property which he acquires in an exchange of just property titles). On the other hand, great mischief was performed by 'artificial' property rights, that is, rights created by government artificially, in defiance of natural law and natural rights. Hodgskin's work remains today as one of the best expositions of natural property rights doctrine.

Another difference with the Benthamites was that unfortunately and anomalously, Hodgskin imbibed the labour theory of value from another influential 'Ricardian socialist' of the day, the pseudonymous 'Piercy Ravenstone'.[41] Ravenstone denounced private ownership of land and capital for creating stolen, or 'artificial', property, whereas since labour is the sole creator of production, by rights, or naturally, all income should redound to labour. Rent and profit, asserted Ravenstone, are extracted from the product of labour: this 'fund for the maintenance of the idle is the surplus produce of the labour of the industrious'. Furthermore, Ravenstone put forth a truly bizarre theory of capital, in which 'capital' is a non-existent concept designed to cloak the theft of labour's surplus. Capital, Ravenstone absurdly declared, 'may be increased to any imaginable amount without adding to the real riches of a nation'.[42]

From then on, Hodgskin was afflicted by an anomalous combination of *laissez-faire* anarchism and a Ravenstonian labour theory of value. How square the two? At first, Hodgskin tried to do so by attributing the exploitation, the 'surplus value' of labour, solely to such government intervention as the Combination Laws, which restricted the right to form labour unions. Hence Hodgskin helped found the *Mechanics' Magazine*, and then its affiliate, the London Mechanics' Institute, an institution for lectures to the working classes. During the course of the successful Ricardian–Benthamite agitation for repeal of the Combination Laws in 1824, Hodgskin wrote his Ravenstonian booklet, *Labour Defended Against the Claims of Capital* (1825), followed by Mechanics' Institute lectures published as *Popular Political Economy* (1827).

Particularly bizarre was Hodgskin's development of the Ravenstonian view that capital is unimportant and non-existent. Hodgskin denies that any savings are involved in capital, any advances from foregone consumption. Circulating capital, he says sophistically, are not produced in advance; the bread the worker buys is baked each day rather than being stored in advance by the capitalist. In fact, of course, no one claims that the capitalist actually stores the workers' food and other means of subsistence in advance; but his saved money is advanced ahead of production and sale to the worker, which enables the worker to buy his subsistence now instead of having to wait for years. As for fixed capital, not only is it stored-up labour – a general Ricardian socialist argument – but these machines are only 'inert, decaying and dead matter', unless 'guided, directed and applied by skillful hands'. Hodgskin concludes that 'fixed capital does not derive its utility from previous, but present labour', grotesquely ignoring the fact that just because capital and labour need each other does not make labour the *sole* factor of production. In the crowning absurdity, Hodgskin declares that 'it is a miserable delusion to call capital something saved'.

There is no question that Hodgskin's ultra labourism influenced Karl Marx, but his extreme labour theory of value does not make him a Ricardian, much less a socialist. In fact, Hodgskin was highly critical of Ricardo and the Ricardian system, denounced Ricardo's abstract methodology and his theory of rent, and considered himself a Smithian rather than a Ricardian. Smith's natural law and harmony-of-interest free market doctrine was also far more congenial to Hodgskin.

Although continuing to be a labourist, Hodgskin became increasingly repelled by the English labour movement, and its growing interest in state intervention. Labour unions he no longer saw as much of a remedy, let alone a panacea. Increasingly, he saw that the only way to reconcile labourism and *laissez-faire* was to press for the repeal of all government intervention, indeed of all positive law that was not simply a restatement of natural law and natural rights. For all such law was an invasion of rights of property. In contrast to the Ricardian socialists who extolled cartel-like cooperatives, Hodgskin called for removal of all government restrictions on free and unlimited competition. He enthusiastically joined Cobden and Bright in agitation for repeal of the Corn Laws, and in repealing feudalistic laws restricting and entailing land from free sale outside the family. From 1846–55, Hodgskin served as an editor of the *Economist*, the journalistic champion of *laissez-faire*, with as yet no important incompatibility of views with editor-in-chief James Wilson. There he became a friend and mentor of the young Herbert Spencer, hailing Spencer's anarchistic work, *Social Statics*, with the exception of denouncing the early Spencer's pre-Georgist land socialism on behalf of Lockean individualism.

Furthermore, even at his most labourist in the 1820s, Thomas Hodgskin, in contrast to John Gray, widened rather than narrowed the definition of 'labour'. Mental activity is as much 'labour', he pointed out, as muscular exertion, so he warned against limiting the term 'labour' to the 'operations of the hands'. Not only that: Hodgskin also pointed out cogently that the capitalist is also very often a manager, and therefore also a 'labourer'. So whereas capitalists may be oppressors, businessmen in their capacity as managers or 'masters', 'are labourers as well as their journeymen'. And there is nothing wrong with the wages of management.[43]

In addition, the Hodgskin of the 1820s hailed retailers as 'indispensable agents', and praised wholesalers and merchants in Smithian terms as conferring blessings on society by pursuing their own interests. Even bankers 'are still very important, and have long been very useful labourers'. Banking, 'let us never forget...is altogether a private business, and no more needs to be regulated by meddling statesmen, than the business of paper-making'. Finally, in his *Popular Political Economy*, Hodgskin eulogized the market price system, which, in a deep sense, is 'the finger of Heaven, indicating to all men how they may employ their time and talents most profitably for themselves, and most beneficially for the whole society'.[44]

After his retirement from the *Economist* editorial board, Hodgskin continued to write articles for that journal. There he praised commerce ('We are all merchants...and...trade is only mutual service by mutual dealing'); speculation ('without speculation we should have no railroads, no docks, no great companies...') and competition ('the soul of excellence, and gives to every man his fair reward').[45]

In his final publication, of lectures on criminal law delivered in 1857, Thomas Hodgskin summed up his economic and political philosophy. The people's wants for higher standards of living, he declared, 'can only be satisfied by more freedom, and less taxation'. The free trade principles of the 1840s must be only a stepping-stone towards ever purer and more consistent *laissez-faire*. Ultimately, all government services must be privatized and subjected to the requirements of the free market:

> The unrestricted competition, which nature establishes, must be the rule for all our transactions; and by the higgling of the market, which is mutual and free action, the salaries of [government] officials, and the payments of the priesthood must be regulated as well as the profit of the shopkeeper, and the wages of the labourer.

In printing his lectures, Hodgskin announced his intention of completing and publishing a masterwork, *The Absurdity of Legislation Demonstrated*, which would show, 'in a connected didactic form', that 'all legislation, which of course includes Government, is founded on false assumptions'.[46]

Unfortunately, Hodgskin never completed the work, or published anything further, and when he died, in 1869, at the age of 82, this man, once so widely influential, received not a single obituary notice in the London papers. But, at any rate, enough is surely known to dismiss the view that this individualist, despite the labourism that influenced Marx, was in any sense a socialist, or even a Ricardian.

12.9 Notes

1. As Gray wittily puts it, the dialectic often seems 'to the illiterate and ignorant outsider to become a mere toy which enables every swing of every pendulum to be regarded as the embodiment of a great philosophical principle'. Alexander Gray, *The Socialist Tradition* (London: Longmans, Green, 1947), p. 300.
2. In Igor Shafarevich, *The Socialist Phenomenon* (New York: Harper & Row, 1980), p. 210.
3. Ludwig von Mises, *Theory and History* (1957, Auburn, Ala.: Mises Institute, 1985), pp. 111–2.
4. Ibid., pp. 109–10.
5. In the *Poverty of Philosophy*, Marx angrily denounced Proudhon for making this very point, that division of labour precedes machines.
6. See M.M. Bober, *Karl Marx's Interpretation of History* (2nd rev. ed., Cambridge, Mass.: Harvard University Press, 1948), p. 9.
7. John Plamenatz, *German Marxism and Russian Communism* (New York: Longmans, Green & Co., 1954), p. 29.
8. Ibid., p. 27.
9. For a defence of technological monocausality as a key to Marxism by the founder of Russian Marxism, George V. Plekhanov (1857–1918), see Plekhanov, *The Development of the Monist View of History* (New York: International Publishers, 1973). Cf. David Gordon, *Critics of Marxism* (New Brunswick, MJ: Transaction Books, 1986), p. 22. For a critique of Marxism–Plekhanovism, see Leszek Kolakowski, *Main Currents of Marxism* (Oxford: Oxford, University Press, 1981), pp. 340–2.
10. Von Mises, op. cit., note 3, p. 126.
11. David Gordon, 'Mises Contra Marx', *The Free Market*, 5 (July 1987), pp. 2–3.
12. For the refutation of another, allied point in Marx's ideology doctrine, that each economic class has a different logical structure of mind ['polylogism'], see Ludwig von Mises, *Human Action* (New Haven, Conn.: Yale University Press, 1949), pp. 72–91.
13. In the first, 'Bourgeois and Proletarians' section of the *Communist Manifesto*, Marx and Engels continually confuse the concepts of 'caste' and 'class', i.e. class as special privilege *vs* sets of individuals on the free market. Thus: 'In the earlier epochs of history, we find almost everywhere a complicated arrangement of society into various orders, a manifold gradation of social rank. In ancient Rome we have patricians, knights, plebeians, slaves; in the Middle Ages, feudal lords, vassals, guild-masters, journeymen, apprentices, serfs; in almost all of these classes, again, subordinate gradations, [i.e., classes as castes]'.

Further, 'The modern bourgeois society that has sprouted from the ruins of feudal society has...established new classes, new conditions of oppression...[The unexamined leap from a caste-class to a free-market situation]'.

14. During the 1870s, Marx led Engels to believe that he was working hard and steadily on Volumes II and III of *Capital*. At Marx's death, Engels was astonished to find that Marx had done virtually no work on the manuscript since 1867, in short, that Marx had lied shamelessly to his friend and patron. See W.O. Henderson, *The Life of Friedrich Engels* (London: Frank Cass, 1976), II, p. 563.
15. See below on the Ricardian contribution to the Marxian theory of class.
16. Cf. these insights from Marxism's outstanding twentieth century opponent, Ludwig von Mises: 'The theory of irreconcilable class conflict is illogical when it stops short at dividing society into three or four large classes. Carried to its logical conclusions, the theory would have to go on dissolving society into groups of interests till it reached groups whose members fulfilled precisely the same function. It is not enough to separate owners into landowners and capitalists. The differentiation must proceed until it reaches such groups as cotton spinners who manufacture the same count of yarn, or the manufacturers of black kid leather, or the brewers of light beer....No special common interest unites the owners of arable land, of forests, of vineyards, of mines, or of urban real estate... There are no common interests among labourers either. Homogeneous labour is as non-existent as the universal worker. The work of the spinner is different from the work of the miner and the work of the doctor ... Nor is unskilled labour homogeneous. A scavenger is different from a porter'. Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (4th ed., Indianapolis: Liberty Classics, 1981), pp. 300–301.
17. See James Bland Briscoe, 'Saint-Simonianism and the Origins of Socialism in France, 1816–32' (doctoral dissertation in history, Columbia University, 1980), p. 59.
18. It is difficult not to agree with Alexander Gray's assessment of Saint-Simon, as quoted from the French social philosopher Émile Faguet: 'Saint-Simon is a rare example of incoherence in his life, incoherence in his character, and incoherence in his detailed ideas, combined with a fixity in his ruling views.' (My translation.) Gray, op. cit., note 1, p. 160n.
19. See F.A. von Hayek, *The Counter-Revolution of Science* (Glencoe, Ill.: The Free Press, 1952), p. 158.
20. Ibid., p. 159.
21. James Billington, *Fire in the Minds of Men: Origins of the Revolutionary Faith* (New York: Basic Books, 1980), p. 225.
22. Ralph Raico, 'Classical Liberal Exploitation Theory: A Comment on Professor Liggio's Paper', *The Journal of Libertarian Studies*, 1 (Summer 1977), p. 179.
23. Alexis de Tocqueville, *Recollections*, ed. by J.P. Mayer and A.P. Kerr (Garden City, New York: Doubleday & Co. 1970), p. 5.
24. Raico, op. cit., note 22, pp. 179–80. Professor Tucker, curiously enough, hails *The Eighteenth Brumaire* as a 'brilliant masterpiece', and an application of class struggle analysis and the materialist conception of history. But isn't this work a demonstration of quite the opposite? See Robert C. Tucker (ed.), *The Marx–Engels Reader* (2nd ed., New York: W.W. Norton, 1978), p. 594.
25. Raico, op. cit., note 22, p. 180.
26. Ibid., p. 180, 183n4.
27. Ibid., p. 180.
28. Von Mises, op. cit., note 16, p. 292; he notes that this passage in Vol 1 of *Capital* was not in the first 1867 edition, but was added by Marx in the French edition (1873). The insertion was connected to the desperate changes made by Marx in his theory in Volume III of *Capital*, not published until after his death.
29. Gray, op. cit., note 1, p. 271.
30. From *Labour Rewarded*. See Gray, op. cit., note 1, p. 276.
31. Ibid., p. 290n.
32. Ibid., p. 294.
33. Ibid., pp. 294–5.

34. Quoted in G.D.H. Cole, *Socialist Thought: The Forerunners, 1789–1850* (London: Macmillan, 1959), p. 137.
35. Gray, op. cit., note 1, p. 287.
36. In Joseph Dorfman, *The Economic Mind in American Civilization, 1606–1865* (New York: Viking Press, 1946), II, p. 688.
37. Ibid., p. 689.
38. Élie Halévy, *Thomas Hodgskin* (London: Ernest Benn, Ltd, 1956), p. 30.
39. Ibid., p. 31.
40. Gray, op. cit., note 1, p. 278.
41. Piercy Ravenstone, *A Few Doubts as to the Correctness of Some Opinions Generally Entertained on the Subjects of Population and Political Economy* (London, 1821).
42. Halévy, op. cit., note 38, pp. 89n–90n. Ravenstone was apparently not a socialist either. Best indications are that he was either the Rev. Edward Edward, a High Tory Anglican clergyman, or Richard Puller, the equally Tory son of a director of the South Sea Company, the Tory speculative banking scheme. Ravenstone's goal was apparently to strike an effective blow against capitalism and free markets by one of their ancient enemies, the High Tory advocates of statism and big government.
43. Gray, op. cit., note 1, p. 282.
44. Ibid., p. 280. Gray, an adherent of the Austrian School, adds a teasing and witty note on his fellow Austrians: 'Even an orthodox economist of these days, brought up on Tales from the Viennese Woods, may well be forgiven if his faith falters when invited to identify the price-system with the finger of Heaven.'
45. In Halévy, op. cit., note 38, pp. 148–9.
46. Ibid., p. 164.

13 The Marxian system, II: the economics of capitalism and its inevitable demise

13.1 The labour theory of value

We have seen that, for the latter half of his life, Karl Marx, exiled in Britain far from the political or possible revolutionary fray, spent the last years of his life searching for the mechanism by which the economics of capitalism would inevitably and ineluctably give rise to its own revolutionary overthrow. In short, the mechanism by which the capitalist class would be expropriated by the revolutionary proletariat, which would then proceed to usher in the various stages of communism.

Marx found a crucial key to this mechanism in Ricardo's labour theory of value, and in the Ricardian socialist thesis that labour is the sole determinant of value, with capital's share, or profits, being the 'surplus value' extracted by the capitalist from labour's created product. 'Capital' was merely 'frozen labour', so that any possible contribution to the product devolves on labour as well.

But, in order to arrive at the labour, or quantity-of-labour-hours, theory of value, Marx, in his systematic work *Capital*, had to dispose of other, subjective, claimants to determining value. He also had to demonstrate that value was somehow objectively embodied in the product (a material good, of course, since Marx, with Smith, had dismissed immaterial services as 'unproductive'). He attempted to perform this feat at the very beginning of Volume I of *Capital*, and how he did it is highly instructive.

Marx begins *Capital* by concentrating on 'the commodity', an object – as we have seen, a *material substance* – which has utility for satisfying human wants. In this way like Ricardo, he leaves immaterial services out of the picture, and also omits studying the value of non-reproducible products, which have no ongoing costs of production. Like Ricardo, Marx also begins with the necessity of utility, but, like his master, he quickly dismisses this basic fact as of little or no use in explaining 'exchange-value', the proportion in which commodities exchange for one another on the market. As in Smith and Ricardo, therefore, use-value and exchange-value, or price, of commodities are sundered from each other. How, then, explain exchange-value? How, in short, explain the proportions by which commodities exchange for each other on the market?

Marx adds that, superficially, it seems that exchange values are relative, that they fluctuate in relation to each other, and that therefore there is nothing objectively 'intrinsic' in the product that determines its value. Marx then sets out to correct this alleged error. Here is the crucial paragraph:

> Let us take two commodities, *e.g.*, corn and iron. The proportions in which they are exchangeable, whatever these proportions may be, can always be represented by an equation in which a given quantity of corn is equated to some quantity of iron: *e.g.*, 1 quarter corn = x cwt.iron. What does this equation tell us? It tells us

> that in two different things – in 1 quarter of corn and x cwt.of iron, there exists in equal quantities something common of both. The two things must therefore be equal to a third, which in itself is neither the one nor the other. Each of them so far as it is exchange-value, must therefore be reducible to this third...of which thing they represent a greater or less quantity.[1]

Thus, Marx inserts his crucial error at the very beginning of his system. The fact that two commodities exchange for each other in some proportion does *not* mean that they are therefore 'equal' in value and can be 'represented by an equation'. As we have learned ever since Buridan and the scholastics, two things exchange for each other only because they are *unequal* in value to the two participants in the exchange. *A* gives up to *x* to *B* in exchange for *y*, because *A* prefers *y* to *x*, and *B*, on the contrary, prefers *x* to *y*. An equals sign falsifies the essential picture. And if the two commodities, *x* and *y*, were really equal in value in the sight of the two exchangers, why in the world did either of them take the time and trouble to make the exchange? Marx's concentration on 'the commodity' threw him off from the very start, for the focus should have been not on the thing, the material object, but in the individuals, the actors, *doing* the exchanging, and deciding whether or not to make the trade.

If there is no equality in value, then there is clearly no third 'something' to which these values must be equal. Marx compounds his original error with another, assuming that if there were an equality of value, there is therefore necessarily some third tangible thing to which they must be equal and by which they can be measured. There is no warrant for this leap from equality of value to measurement of an objective third entity; the implicit, and fallacious, assumption is that 'value' is an objective entity like weight or length which can be scientifically measured against some third, external, standard.

Having made two egregious and fatal mistakes in one paragraph Marx presses on inexorably to his conclusion. Emphasizing by mere assertion that utility can have nothing whatever to do with exchange-values, a point crucial to his case, he claims that use-values have nothing to do with exchange-values or prices. This means that all real attributes of goods, their natures, their varying qualities, etc., are abstracted from, and can have nothing to do with, their values. By tossing out all real-world properties from the discussion, Marx is perforce left with goods as the embodiment of pure, abstract, undifferentiated labour hours, the quantity of allegedly homogeneous labour hours embodied in the product.

Marx of course sees that there are great problems with this approach. What about the scholastic thrust: is the market expected to cover the costs, the enormous number of labour hours, needed to make a product in an obsolete way? If a book is printed, or hand-scripted, is the market going to cover the payment for the enormous number of labour hours needed in the hand-copying process? Is the market expected to pay the labour costs of carrying goods across land, as compared to shipping them by sea? Marx's way of disposing of these awkward questions was to create the concept of 'socially necessary' labour time. The determinant of the value of a good is not any old labour time spent on, or embodied in, its production, but only labour time that is 'socially necessary'. But this is a cop out, and evades the issue by begging the entire question. Market value is determined only by the quantity of 'socially' necessary' labour time. But what is 'socially necessary'? Whatever the market decides. So a crucial ingredient of explaining market value is market decisions, market values, themselves.

To elaborate further: Marx defines 'labour time socially necessary' as 'that required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time'.[2] This brings up a corollary problem: how to meld a myriad of different qualities and skills of labour into one homogeneous, abstract 'labour hour'? Here, taking up a hint from Ricardo, Marx inserts the concepts of 'average' and 'normal'. It all averages out. But how is this average obtained? It is done by weights, with higher quality, unusually productive labour weighted more heavily in quantity labour-time units than is the labour of an unskilled worker. But who decides the weights? Once again, Marx's crucial question-begging methodology comes into play. For Marx acknowledges that it is the *market*, its relative prices and wages, which determines the weights, *i.e.* which labour is more productive or higher in quality and in what degree than some other forms of labour. So market values, prices, and productivities are being used to try to explain the determinants of those same values and prices.[3]

13.2 Profit rates and 'surplus value'

Marx proceeds with his model in a Ricardian socialist manner. In contrast to Ricardo, however, land and rent are simply assimilated into 'capital', since man's labour allegedly created all land anyway, and since the importance of land and feudalism allegedly disappears as capitalism proceeds on its way. Values and prices of land therefore need not be treated or explained. There are, then, two mighty classes under capitalism: the homogeneous labourers, the proletariat; and 'the capitalists' [as in Smith and Ricardo, there are, of course, no entrepreneurs. All is in slowly moving long-run equilibrium]. But the values of goods are the sole creation of quantities of labour-hours. Capitalists, by some sort of coercion, by their imposed set of property relations, extract by force a 'profit' from the product of the 'exploited' workers. This profit is 'surplus value', the value seized by capitalists out of total value produced.

Profit, for Marx, is derived *only* from exploiting labour; it is the surplus value over the wages necessary for the subsistence of labour. Profits, on the other hand, have nothing to do with the amount of capital invested; for capital is only dead matter, stored or frozen labour, and can therefore no longer be 'exploited' to provide current profits.[4] Only 'living' labour, then, can be used to provide profit for the capitalist. But if the amount of profit is extracted solely from labour, this means that any accumulation of capital will necessarily *reduce* the *rate* of profit earned by the capitalist. Thus, suppose no capital or, in Marxian terms, 'constant' capital is used,[5] and investment is made solely in the form of 'variable capital' used to pay wages. Suppose that profits from production of the good are $100, and total variable capital, or wage payment, is $1 000. In that case, the profit rate is 10 per cent. On the other hand, suppose that there is investment in capital goods amounting to, say, another $1 000. Total capital investment is then $2 000, but since profits are only derived from labour they are still the same $100, so that the profit rate has now fallen to 5 per cent.

What determines wages, the amount grudgingly accorded to the workers by the capitalist class? Here Malthus and the iron law of wages make their vital appearance, determining wages at all times at the means of subsistence. Marx, of course, hastens to clear his future communist utopia from any Malthusian problems by asserting that Malthus and the iron law only holds sway under capitalism, and would certainly not apply under communism.

It must be emphasized that the iron law is crucial to Marx's entire system. For Marx, the value and price of every good is determined by its cost, *i.e.,* the quantity of labour hours embodied in its production. Marx believed that, on the market, capitalists pay workers the 'value of their labour-power', by which he meant, of course, *not* their productivity or marginal productivity, but the 'cost' of producing and maintaining the labour, *i.e.*, the cost, or the quantity of labour hours, needed to produce the labourers' means of subsistence.[6]

Professor Conway, in his generally excellent survey and critique of Marxism, claims that Marx's theory of surplus value does not *require* the iron law of wages, since the capitalists could still extract some surplus value even if wages were higher than the subsistence wage. Very true, except that *then* wages in the Marxian system would be undetermined, and indeed there would be no reason to assume that surplus value exists at all, or that it is large enough to have any importance in the economy. Besides, if wages are not locked into the bare means of subsistence, then the plight of the workers under capitalism might not be so pitiable after all. And what if there were then very little substance to spur the workers into the revolutionary overthrow of capitalism that Marx insisted was inevitable? Thus, in the *Communist Manifesto*, Marx and Engels proclaimed emphatically that the average wage is always 'the minimum wage, *i.e.,* that quantum of the means of subsistence [*Lebensmittel*], which is absolutely requisite [*notwendig*] to keep the laborer in bare existence as a laborer. What, therefore, the wage-laborer appropriates by means of his labor, merely suffices to prolong and reproduce a bare existence'.[7,8] And Engels, in his late work *Anti-Dühring* (1878), asserts that large-scale industry 'restricts the consumption of the masses at home to a starvation minimum…'

There are great problems in Marx's model. His theory implies that, since profits are only derived from the exploitation of labour, profit *rates* are necessarily lower in heavily capitalized than in labour-intensive industries. But everyone, including Marx, is forced to acknowledge that this manifestly does *not* hold true on the market. The tendency on the market, as Smith and Ricardo well knew, is for rates of profit to tend toward equality in all industries. But how so, if profit rates are necessarily and systematically higher in the labour-intensive industries?

Here is surely the most glaring single hole in the Marxian model. Marx acknowledged that, in the real world, profit rates clearly tend toward equality (or, as Marx termed it, an 'average rate of profit'), and that real prices or exchange-values in capitalist markets therefore do not exchange at their Marxian quantity-of-labour values. Marx admitted this crucial problem, and promised that he could solve the problem successfully in a later volume of *Capital*. He struggled with this problem for the rest of his life, and never solved it – perhaps one of the main reasons that he stopped working early on *Capital* and never published the later volumes. In the first edition of his great *History of the Theories of Capital and Interest* published in 1884, the year after Marx's death, the outstanding Austrian theorist Eugen von Böhm-Bawerk, in his critique of Marx, pointed out that 'Marx himself became aware of the fact that there was a contradiction here, and found it necessary for the sake of his solution to promise to deal with it later on. But the promise was never kept, and indeed could not be kept'.[9]

Böhm-Bawerk later noted that the growing legion of Marxian adepts continued to maintain their faith that the master would eventually come up with a solution to this grave and apparently ineradicable flaw in the Marxian system.[10] Then, in the preface to Marx's posthumous second volume of *Capital*, Friedrich Engels teasingly and rather childishly declared that in a forthcoming volume Marx would solve the famous profit rate and value problem, and invited all Marxian and other economists to a kind of prize essay contest to guess how Marx was going to solve this seemingly insoluble contradiction. In the ensuing nine years until the publication of the climactic Volume III of *Capital*, a surprisingly large number of economists tried their hands at this little game. In the preface to the long-awaited Volume III, published in 1894, a year before his own death, Engels was able to demonstrate triumphantly that none of these economists had come close to winning the prize.[11] Thus Engels was far less cautious than Marx in being willing to go public and trumpet a 'solution' that Marx had apparently not felt worthy of being published.[12]

Volume III was subjected to detailed, withering, thoroughgoing demolition two years later by Böhm-Bawerk in his extensive review essay, *Karl Marx and the Close of His System.*[13] A century later, Böhm-Bawerk's devastating refutation of the Volume III solution and therefore the Marxian system remains definitive. It swept the boards in professional economics, and has remained dominant ever since, successfully inoculating economists, at least, against the Marxian virus, and certainly against the labour theory of value. Unfortunately, Böhm-Bawerk's point was too technical to have much impact outside the ranks of economists, and, since then, Marxism has held its greatest attraction in the ranks of sociologists, historians, the literati, and others who tend to be economically ignorant.

Böhm-Bawerk, in sum, posed the grave inner contradiction of Marxian theory plainly and starkly: Marx claimed that goods exchanged on the market in proportion to the quantities of labour embodied in them (i.e., that their values are determined by the quantity of labour-hours needed to produce them), and *yet* also conceded that the rates of profit on all goods tended to be equal. And yet, if the first clause is true, the rates of profit would be systematically lower in proportion to the intensity of capital investment, and higher in proportion to their labour-intensiveness of production. Marx promised to resolve this insoluble contradiction in Volume III and to reconcile these two fundamentally contradictory propositions.

In *Karl Marx and the Close of His System*, Böhm-Bawerk demonstrated that Marx's proffered 'solution' was a sham, and that actually what Marx did was to throw in the towel and admit that, on the capitalist market, profit rates were equal and therefore that prices were *not* proportional to or determined by the quantity of labour hours in the production of goods. Instead, Marx in effect embraced standard Ricardian theory and admitted that prices were actually determined by the costs (or, in his terminology, 'prices') of production plus the average rate of profit. In this way, while pretending to have saved his theory by talking grandly about competition transforming 'values into prices of production', Marx had actually abandoned the labour theory of value altogether and had therefore scuttled his entire system.

Böhm-Bawerk then goes into a systematic critique of various Marxian arguments attempting to save the phenomenon, including nonsense about 'total value' being equal to total prices of all products.

It is instructive to note the reaction of Marxists to Volume III and to Böhm-Bawerk's exposure and demolition of their system's grave inner contradictions. Too often, they reacted in the manner of religious cultists and not honest scientists. That is, when their system is caught in egregious fallacies or contradictions, or makes grossly faulty predictions, cultists save their theory *by changing the terms* of the argument. That is, they assert that the theory said something quite different, or that the prediction had really been different. Similarly, the extremely popular Millerite movement in the early 1840s had confidently forecast the exact date of Jesus's Second Advent, in 1843. When Jesus did not arrive on the predicted date, the Millerites characteristically claimed a slight error in their calculations, and postponed the happy date for another few months. When Jesus failed to arrive once more, most Millerites dispersed, but some of the hard-core faithful changed the terms of the argument by insisting that Jesus had indeed arrived on the expected date, but that his advent was invisible, the more visible second part of the Second Coming to arrive at some future date. (This latter group became the Seventh Day Adventists.) And so the fallback position of the Marxian apologists was the outrageously false claim that Marx never *meant* his labour-determined values to determine, or in any way affect, market prices. Marx, they asserted loftily, had no interest in such petty matters as market price; his labour-quantity-created 'values' were simply embodied mystically into market commodities, presumably then to have no relevance whatever to the real world of market capitalism.

Thus Paul Sweezy asserted that Marx was not dealing with prices at all but really in 'what today might be called economic sociology'.[14] G.D.H. Cole tried to claim, in his *What Marx Really Meant*, that for Marx, in contrast to other economists, value had nothing to do with determining prices, but was, essentially *by definition*, the quantity of labour hours embodied in a product. Alexander Gray levelled a witty and devastating critique of Cole:

> But the identity of value and embodied labour was surely something that Marx thought he had *proved* (and which therefore required proof) in the opening pages of *Capital*...If the identity of value and labour is a matter of definition and assumption, then at least we know the meaning Marx attaches to 'value': but in that case the pretended proof in the opening chapter is mere eye-wash; since one states, but does not prove, definitions. Also in that case it is to be feared that the whole of *Capital*, resting on an arbitrary definition which implies the conclusion to be reached, is an example of wandering vainly in a circle, even more than the most critical critics had thought possible. If, on the other hand, the identity of value and labour is a matter of proof and not of definition, we are still left to grope for the meaning Marx attaches to 'value'.[15]

While official Marxists have all taken this escape-hatch – saving the labour theory of value by rendering it irrelevant – the only full-scale Marxist attempt to rebut Böhm-Bawerk was that of the Austrian Marxist Rudolf Hilferding (1877–1941), *Böhm-Bawerk's Critique of Marx*, published in 1904, with the English translation being published in 1920. Hilferding's apologetics, taking the fallback line that Marx never meant values to determine prices, is a clumsy and garbled work. It is interesting that Hilferding's friend and fellow leading Austro-Marxist theoretician, Otto Bauer, dismissed Hilferding as never having truly understood the nature of the problem. Bauer enrolled in

Böhm-Bawerk's great seminar at the University of Vienna in order to learn enough to be able to refute Böhm-Bawerk's celebrated critique. In the end, Bauer gave up the task, virtually admitting that the Marxian labour theory of value was indefensible.[16] Most modern Marxist scholars hold the labour theory of value to be an embarrassment, and sophisticated Marxists have dropped it altogether, unfortunately without also giving up the system of which it is a crucial and necessary part.[17]

A curious case of Marxist apologetics is a book widely and extravagantly touted as the definitive *critique* of Marxism. In his *Marxism*, Professor Thomas Sowell takes the Hilferding line and adds further errors of his own. Thus, he berates Böhm-Bawerk for having 'repeatedly misunderstood' Marx, when the meticulous Böhm-Bawerk understood Marx all too well, and Sowell follows Hilferding in erroneously claiming that Böhm-Bawerk and other critics wrongly held that Marx identified 'values' with prices. On the contrary, Böhm-Bawerk and the others were fully aware that labour-created 'values' were supposed to determine, but not be the same as, exchange-values, or prices. It is also ironic that an author who makes a big point of castigating well-known economists who write on Marxian economics without once citing Marx, should yet make the egregious and pompous claim that Marx referred 'nowhere to a *theory* of value, despite a numerous – and undocumented – interpretive literature to the contrary'. As a reviewer of Sowell points out, such a reference by Marx can easily be found in Volume III of *Capital*.[18]

Although orthodox Marxists of course do not acknowledge it, the Hilferding fallback position, while indeed saving the equalization of profit in the real world, does so at the grave cost of abandoning the labour theory of value. Or, what is the same, leaving it as an empty and meaningless shell. But if there is no labour theory of value, then there is no surplus value, no exploitation and no reason for the proletariat to rebel against a world in which their product is not being systematically confiscated by the capitalist class.

The most interesting and flamboyant case of an ardent Marxist who behaved honourably when confronted with the stark contradiction between Volumes I and III of *Capital* was the Italian economist Achille Loria (1857–1943). For Loria, the first volume of *Capital* had been 'a masterpiece wherein all is great, all alike incomparable and wonderful'. Yet to Loria Volume III was a grievous death-blow to Marx's own system. Loria in fact did not need to wait for Böhm-Bawerk's critique; in his own review of Volume III, Loria attacked the book as a 'mystification' instead of a 'solution'. Loria denounced the book as 'the Russian campaign' [à la Napoleon] of the Marxian system, its 'complete theoretical bankruptcy', a 'scientific suicide', and the 'most explicit surrender of his own teaching'.[19]

Let Alexander Gray have the perceptive and hilarious last word on Marx's value theory:

> To witness Böhm-Bawerk or Mr. [H.W.B.] Joseph carving up Marx is but a pedestrian pleasure; for these are but pedestrian writers, who are so pedestrian as to clutch at the plain meaning of words, not realising that what Marx really meant [Cole] has no necessary connection with what Marx undeniably said. To witness Marx surrounded by his friends is, however, a joy of an entirely different order. For it is fairly clear that none of them really knows what Marx really meant; they are even in considerable doubt as to what he was talking about; there are hints that Marx himself did not know what he was doing. In particular, there is no one to tell us what Marx thought he meant by 'value'. And indeed, what all these conjectures reveal is somewhat astounding, and, one would like to think unique. *Capital* is, in one sense, a three-volume treatise, expounding a theory of value and its manifold applications. Yet Marx never condescends to say what he means by 'value', which accordingly is what anyone cares to make it as he follows the unfolding scroll from 1867 to 1894. Nor does anyone know to what world all this applies. Is it to the world in which Marx wrote? Or to an abstract, 'pure' capitalist world existing ideally in the imagination, and nowhere else? [Croce] Or (odd as the suggestion may appear) was Marx (probably unconsciously) thinking in terms of medieval conditions? [Wilbrandt] No one knows. Are we concerned with *Wissenschaft*, slogans, myths, or incantations? Marx, it has been said, was a prophet – and perhaps this suggestion provides the best approach. One does not apply to Jeremiah and Ezekiel the tests to which less inspired men are subjected. Perhaps the mistake the world and most of the critics have made is just that they have not sufficiently regarded Marx as a prophet – a man above logic, uttering cryptic and incomprehensible words, which every man may interpret as he chooses.[20]

13.3 The 'laws of motion', I: the accumulation and centralization of capital

Thus, Karl Marx had established, to his own satisfaction at least, the labour theory of value and the reconciliation of the theory with the tendency of profit rates toward equality. But Marx was not particularly interested in explanatory laws for the workings of the capitalist system. He was interested in pressing on to what he called the 'laws of motion' (a revealingly mechanistic term!) of the capitalist system, that is, in its inevitable march towards the victory of revolutionary communism, a march that would proceed 'with the inexorability of the laws of nature'. How and where, then, was capitalism bound to move?

One crucial aspect of the inevitable doom of capitalism is the inescapable law of the falling rate of profit. The extant uniform equilibrium rate, according to Marx, was doomed to keep falling. Both Smith and Ricardo had theories of a falling rate of profit, each fallacious, and each arrived at in completely different ways. To Smith, the rate of profit (or interest) is determined by the stock of capital; the greater the amount of capital accumulated, the lower the profit rate. Ricardo, in contrast, was worried about the increasing squeeze of the economy by the landlords as inexorable population growth puts ever more inferior lands under cultivation. Labour hours required for production are raised, thereby raising both money wages and rents, hence eating increasingly into profits.[21]

Marx's falling rate of profit follows from the accumulation of capital over time, but in a way different from Smith's or Ricardo's.[22] As we have seen, for Marx capital is deadweight, and provides no profit to the capitalist. All his profit comes from the exploitation of 'living' labour, and therefore amassing more capital necessarily lowers his rate of profit, the ratio of his total profit divided by his total capital invested. And since the hallmark of capitalist development is continuing accumulation of capital, this means that capitalism is doomed to ever-falling rates of profit.

But, one may well ask, if the accumulation of capital necessarily slashes profits, why do capitalists, who are clearly motivated by a search for higher rather than lower profits, insist on continuing to accumulate? Why do they persist in cutting their own throats?

One Marxian answer to this riddle is 'competition', and Leninists in particular like to explain the allegedly later development of 'monopoly capitalism' and of imperialism as attempts by capitalists to form cartels, or find investment outlets abroad, as attempts to stave off the dread consequences of competition.[23] But the mere citation of 'competition' is scarcely an adequate answer. It is true, for example, that a new discovery or a new industry will cause very high profits at the beginning, and that in the pursuit of these profits new, competing firms will eventually bid down the rate of profit in the industry. But, in the short run, at least, and before equilibrium arrives, these capitalists are still making high and above normal profits. But, in contrast, the Marxian businessman who accumulates capital, *loses* profits *at each step of the way,* and not simply in the long run. It is therefore difficult to see why any one capitalist, at any step of the way, would ever be tempted to join in the accumulative parade.

Marx's ultimate answer to this riddle is deceptively simple: capitalists accumulate, despite the immediate and future fall in their profits because, well, they have an irresistible, irrational urge, or 'instinct' to do so. This, of course, is no explanation at all; it abandons any genuine explanation under the cloak of a high-sounding but ultimately meaningless label such as 'drive' or 'instinct'. It makes the same error as the legendary attempt to 'explain' why opium puts people to sleep by solemnly intoning that opium has 'dormitive power'. Note the *Leitmotif* of irrationality in Marx's analysis of why capitalists accumulate in Volume I of *Capital*: 'Accumulate, accumulate! That is Moses and the prophets!...Therefore, save, save, i.e., reconvert the greatest possible of surplus-value, or surplus-product into capital! Accumulation for accumulation's sake, production for production's sake'.[24]

Not for the sake of profits! And a similar theme appears in Marx's earlier essay, *Wage Labor and Capital*': 'That is the law which again and again throws bourgeois production out of its old course and which compels capital to intensify the productive forces of labour, *because* it has intensified them..., the law which gives capital no rest and continually whispers in its ear: "Go on! Go on!'"[25]

There was, of course, another way by which Marx and the Marxists could salvage the rationality of the accumulation of capital, and that was to take the fallback Hilfdering route, and abandon the labour theory as a doctrine relevant to the real world. Marx, indeed, took this road as well as claiming a mystical urge to accumulate 'for its own sake'. In this manifestation, or face, of Marx, capitalist innovators do indeed make an initially high profit above the uniform 'average' rate prevailing in the market; these pioneers make high 'surplus profits', followed by imitators and competitors until the profit rate is eventually driven down to the equilibrium, or average rate. All well and good, and in this variant at least, reality again wins out. However, once again, the price of acknowledging reality is prohibitive: for if this sort of thing happens habitually on the market, why does the rate of profit have to fall *at all*, much less present us with an inexorable, continuing tendency? Once again, as in the Böhm-Bawerk–Hilferding imbroglio, Marxists can only embrace reality by abandoning the Marxian system. Unfortunately, they of course do not acknowledge this surrender, and continue to proclaim that reality has only required a slight adjustment to the true doctrine.

Whichever course the Marxists take, it is crucial for them to salvage the continuing accumulation of capital, since it is through such accumulation that increased productivity and particularly technological innovations take place and are instituted in the economy. And we must remember that it is through technological innovation that capitalists dig their own grave, for the capitalist system and capitalist relations become the fetters that block technological development. Some technological method that capitalism cannot encompass, which Marx late in life thought would be electricity, would provide the spark, the necessary and sufficient base for the inevitable overthrow of capitalism and the seizing power by the 'final' historical class, the proletariat.

To Marx, two consequences followed necessarily from the alleged tendency to the accumulation of capital and the advance of technology. The first is the 'concentration of capital', by which Marx meant the inexorable tendency of each firm to grow ever larger in size, for the scale of production to enlarge.[26] Certainly, there is a great amount of expansion of scale of plant and firm in the modern world. On the other hand, the law is scarcely apodictic. Why may not the accumulation of capital be reflected in a growth in the *number* of firms, rather than merely in increasing the size of each? And while many industrial processes grow by increasing the optimal scale, others flourish by being relatively small and flexible in size. Henry Ford's massive automobile factories were economic and profitable for a while; but, later, by the 1920s, they inevitably led to severe losses because such massive investment proved inflexible in meeting changes in the nature and form of consumer demand. And while automobile plants are large-sized, automobile *parts* plants and firms are typically small in size. Furthermore, new and small firms have typically outcompeted large Behemoths in introducing inventions and technological innovations—the very area that most interested Marx. Large-scale firms tend to become bureaucratic, hidebound, and mired in intellectual and financial vested interests in existing plants and ways of production. Time after time, only new, small firms can carry out the cutting-edge of technological innovation.[27]

If Marx's law of the concentration of capital is by no means certain, then his next thesis, the 'law of the centralization of capital', is in even shakier shape. Here Marx asserted an inevitable law by which smaller firms in each industry go to the wall, and are absorbed in fewer and fewer giant firms – in short, a tendency toward the monopolization of industry. For one reason, competition 'always ends in the ruin of many small capitalists, whose capitals partly pass into the hands of their conquerors, and partly vanish completely'. For a second reason for his law, Marx pointed to the recent invention of the joint-stock company, or corporation, and its ability to concentrate masses of small capital into one organization. But this process of centralization or monopolization can be, and has been, counteracted by such developments as the growth of new processes (as we have seen above) and by the spread of geographical competition. Thus, in addition to small innovators we have mentioned, the alleged dominance of the Big Three automobile firms in the US has been eradicated by the growth of foreign (Japanese, West German, etc.) competition. Furthermore, while small 'family' retail groceries were superseded, the alleged monopolization of the retail grocery business by A&P in the 1930s was pulverized by the growth of the new technology of supermarkets. In the meanwhile, the small groceries have returned in the new form of convenience or 24-hour stores. In New York City, in recent years, larger supermarkets have been outcompeted in the quality and variety of fruit and vegetables by small, 24-hour Korean–American family stores. In late nineteenth and early twentieth century America, the Standard Oil monopoly of petroleum refining was rocked by its bureaucratic failure to perceive that the new Texas and Oklahoma oil fields were the wave of the future in crude oil, and by its backwardness in seeing that kerosene would rapidly be giving way to gasoline as the dominant petroleum product. This muscle-bound failure left room for small and vigorous new entrepreneurs such as Gulf and Texaco to leap in and eliminate Standard's dominance in oil.

A final instructive example of excessive scale of firm and unprofitable monopoly, was the result of the vast merger boom of 1899–1901, in which literally scores of industries, following the lure of monopoly profits, merged into one monopoly firm, and almost invariably lost heavily, and were forced to give way to strenuous multi-firm competition.[28]

Thus, no one can predict which way the winds of competition, of creation and decline, of innovation and decay, will blow. Certainly one of the tendencies of capitalism is a greater variety and spectrum of quality of product, and this tendency promotes 'decentralization' rather than Marxian centralization. Suffice it to say that there is no evidence, despite the numerous attempts of the federal government to give artificial impetus to centralization, that American industry is any more centralized now than it was at the turn of the twentieth century.[29]

Finally, there is another side to the rise of corporations that Marx naturally leaves out. The very instrument by which the joint-stock company can raise otherwise unavailable masses of capital, has transformed the economy from one of a small number of capitalists, to a modern world in which every person, be he or she ever so small, can and does become a capitalist. That is, virtually everyone owns a few shares of stock, or owns shares of pension funds invested in stocks or bonds. 'Every man a capitalist' is, in today's world, a pervasive condition rather than a hopeful slogan for the future.

Stressing this point leaves one subject to ridicule by Marxists and left-liberals, who point out, obviously enough, that an individual capitalist owning a few shares of stock exerts little power in the corporate world. But such ridicule is ignorant and misplaced, since the point is that in this sense, stockholders are like consumers. The individual consumer has little say over the types and amounts of goods and services produced, but the mass of consumers together exert total economic power. Similarly, the man who owns one share of stock may have little say in corporate decisions, but the disaffection of even a relatively small minority could have costly consequences for the large shareholders if the disaffected sell their stock and send the values of shares plummeting. Large stockholders will exert direct control of a corporation, but far more indirect power lies in the hands of the mass of small shareholders, just as the ultimate economic power over each firm is wielded by the mass of consumers in their decisions on whether and how much to buy of the firm's product.

To return to Marx and his laws of concentration and centralization of capital. We are now beginning to see the lineaments of why, for Marx, capitalism is inevitably rushing to its appointed doom. First, of course, Marx must rely on his absurd monolithic two-class model, all of society being increasingly squeezed into two uniform classes each with common interests: the capitalists and the proletariat. But the law of the centralization of capital means that the ranks of the capitalists are continually diminishing (as we have seen, running in the teeth of the virtual universalization of the ranks of capitalists from the development of capital markets and corporations). Indeed, the ever-smaller number of ever-wealthier and more powerful capitalists succeed by 'expropriating' their fellow capitalists, and driving them downward into the ranks of the proletariat (since, in Marx's two-class schema, there is no other place for them to go).[30] Before even bringing the workers themselves into the picture, we can see that the ranks of the capitalists, as they dwindle, necessarily become more beleaguered.

The genuine absurdity of this picture was unwittingly revealed by the German Marxist Karl Kautsky, dubbed by Engels, in apostolic succession, the next pope of the Marxian movement. Kautsky simplistically pursued the logic of his master. As Kautsky summed up this process in his book on the Erfurt programme:

> capitalist production tends to unite the means of production, which have become the monopoly of the capitalist class, into fewer hands. This evolution finally makes all the means of production of a nation, indeed of the whole world economy, the private property of a single individual or company, which disposes of them arbitrarily. The whole economy will be drawn into one colossal undertaking, in which every thing has to serve one master. In capitalist society private ownership in the means of production ends with all except one person being propertyless. It thus leads to its own abolition, to the lack of property by all and the enslavement of all.[31]

And what is more, we are advancing toward this state of affairs 'more rapidly than most people believe.'

It's as if Kautsky can now glimpse a bit of the absurdity of the position into which the logic of the Marxian system has placed him. Lest we be tempted to sit back and wait for the one Goldfinger, worth umpteen quadrillion dollars, who holds the entire world of impoverished slaves in his thrall, Kautsky hastens to assure us that the world will not have to wait for the *entire* process to work itself out. Instead, 'the mere approach to this condition must increase the sufferings, conflicts, and contradictions in society to such an extent, that they become intolerable and society bursts its bounds and falls to pieces...'[32] Kautsky, however, did not succeed in drawing back before inadvertently revealing how preposterous the Marxian model really is.

13.4 The 'laws of motion', II: the impoverishment of the working class

The vital corollary for the Marxian system, of the ever-thinning ranks of the centralized capitalists, is the ever-swelling ranks of the proletariat, and their increasing impoverishment and immiseration. The two antagonistic classes engage in a dialectic all their own, the culminating dialectic in the Marxian system. On the one hand: the ever-thinning ranks of the ever-wealthier capitalists, until (or nearly until) one man owns all the wealth in the world; on the other, the ever-swelling ranks of the ever-more impoverished proletariat, until the proletarian masses rise up and take over. But let Marx tell the story, in what amounts to his rousing peroration in the penultimate chapter of Volume I of *Capital*:

> Hand in hand with this centralisation, or this expropriation of many capitalists by few, develop, on an ever-extending scale, the cooperative form of the labour-process, the conscious technical application of science,...the entanglement of all peoples in the net of the world-market, and with this, the international character of the capitalistic regime. Along with the constantly diminishing number of the magnates of capital, who usurp and monopolise all advantages of this process of transformation, grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working-class, a class always increasing in numbers, and disciplined, united, organized by the very mechanism of the process of capitalist production itself. The monopoly of capital becomes a fetter on the mode of production, which has sprung up and flourished along with, and under it. Centralisation of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated.[33]

Now here is a critical and crucial point in the Marxian argument. The increasing impoverishment of the working class is a key to the Marxian system, because on it rests the allegedly inevitable doom of capitalism and its replacement by the proletariat.[34] If there is no increasing impoverishment, there is no reason for the working class to react against their intensifying exploitation and burst asunder their 'capitalist integument', those fetters on the technological mode of production. So how does Marx demonstrate the increasing poverty of the proletariat?

At this point, Marx seems to grow desperate, and to come up with a number of varied and contrasting arguments, some of which are mutually contradictory. It's as if Marx wildly tries to multiply the arguments, however feeble, in the hope that at least one will stick, and that he will demonstrate the inevitability of the next, proletarian communist, stage of history. But all of these attempts to prove increasing misery come up, first and foremost, against an insuperable obstacle, an obstacle that only Ludwig von Mises has clearly demonstrated.[35] For if workers' wages are already and at all times at the means of subsistence, kept there by the iron law, how can they get any *worse off*? They have been at maximum poverty level, so to speak, for a long time. But if for that reason they cannot get worse off, where is the dynamic that will lead them to rise up and overthrow the system? We can concede, of course, that the new proletarians, so rudely tossed into the ranks of the working class by their triumphant fellow-capitalists, will be particularly edgy and disgruntled at their new lot in life. But surely Marx would not be content to *confine* his revolutionary workers to the relatively limited ranks of recently déclassé capitalists. Especially since the bulk of the workers simply remain where they have always been: at the margin of subsistence.[36]

Setting aside for the moment this grave inner contradiction with the iron law of wages, *how* does Marx propose to establish his alleged law of the increasing impoverishment of the proletariat? In one answer, the eternally falling rate of profits puts a severe pressure on capitalists to find more profit by sweating and exploiting the proletariat more intensively, making them work harder and for longer hours. But aside from the problem of the ever-present iron law, Marx is faced with the problem: why did capitalists allow their rate of exploitation to grow slack until finally spurred on by a falling rate of profit? Don't capitalists always and at all times try to maximize their rates of profit? And if so, and unless we are to assume a sudden intensification of greed, or of eagerness for profit among capitalists, they are never slack or lax in squeezing the greatest possible amount of profit from the workers. But then, how can a falling rate of profit spur them on to ever-greater heights? Surely, it is not simply a desire for profit.

Here Marx falls back on a suggested mechanism for this increased exploitation of labour and falling wage rate: the accelerating growth of a permanent 'industrial reserve army', a growing legion of the unemployed. It is increased competition from the unemployed that forces wage rates downwards, and increasingly continues to do so as capitalism advances.

But how can there be a continuing army of the unemployed, when wages to the unemployed are zero? Why don't the unemployed starve to death before they can ever constitute a competitive threat to the employed proletariat? If Marx answers that the unemployed are rapidly absorbed into the employed ranks, driving down wage rates thereby, then he abandons his requirement for increasing impoverishment: the growth of a permanent, and expanding, army of the unemployed. So how are they supported and how do they continue in existence?

Also, where does the industrial reserve army come from? Market economists know that unemployment quickly eliminates itself by lowering wage rates. Only if wage rates are bolstered above the market equilibrium level does unemployment become permanent; and if, as Marx maintains, the unemployed army *lowers* wage rates through its competition, then it should rapidly disappear and pose no further problems.

But where does the industrial reserve army come from in the first place? For Marx, it is the old bugaboo, technological unemployment. Industry is mechanized, and workers are thrown, presumably permanently, out of jobs. But what of the expansion of quantity demanded and of production brought about by technological innovation? And what of the increased demand for production and resources in *other* industries that are freed by cheaper products in the technologically expanding industry? And what, as we have seen above, of lower wage rates as the free market way of maintaining full employment of labour? Technological unemployment is an old and oft-discredited bogey. When automatic dialling for telephones was established, for example, there was a general piteous wail that the poor, beloved telephone operators would be thrown out of work by this productive, but heartless, innovation. And yet, of course, the lower prices of telephone service resulted in an enormous expansion of telephone's market, *including* a substantial increase in the number of telephone operators. Similarly, the number of workers in the construction industry have been *increased* not slashed, by the development of cranes, electric shovels, and other construction machinery, as compared to the good old days of hand shovels. All in all, for the technological unemployment argument to work as a way of demonstrating increasing impoverishment, not only would each successive technological innovation have to cause permanent unemployment, but the effect would have to accelerate over time, and thereby more than offset any equilibrating tendencies towards greater employment that the market might possess.

In the discussion of the alleged industrial reserve army, we have been dealing with Marx's assertion that there is a permanent, secular increase of that army. Below, we shall deal with another Marxian doctrine, of the recurrence of *cyclical* unemployment, which, along with ever-worsening cyclical depressions, may provide the motor of increasing misery and proletarian revolution.

Another Marxian argument for the inevitability of the impoverishment of the working class is found particularly in the *Communist Manifesto.* As machinery develops and capitalists accumulate capital, Marx and Engels lament, labour loses its variety of skills, and the proletariat gets pushed into ever simpler, more monotonous and unskilled tasks, and this de-skilling lowers the average wage.[37]

This feeble argument rings particularly hollow nowadays, when left-liberal friends of the working class are pushing the exactly *opposite* lament: that, in an age when ever greater numbers of labour are going into high-skilled computer and electronics work, what is to happen to the poor, aging unskilled labourer, left behind in the march of progress?

A related Marxian argument stresses not so much the increasing impoverishment of the working class, but its immiseration through aggravated 'alienation', increasing monotony or repulsiveness of work caused by expanding mechanization. While Marx himself indeed refers to such alleged expanding misery in work of the labouring class, we have seen at length above that for Marx 'alienation' had nothing to do with subjective psychology, or monotony of work, but was cosmically rooted in, and indeed defined as an attribute of, the basic modern system of exchange and the division of labour, and, beyond that, in the separation of individual men from Man and from Nature that was going to be cured, and could only be cured, by communism. Apart from the empirical problem of how more monotonous work was really becoming, and the contrast to the liberating nature of the increasing variety of wants, products and occupations, it is difficult to see how or why any 'alienation' should *increase* significantly over time, much less how this increase is conveyed in some way to the working class. No, the case of increasing misery as a spur to revolution must be a palpable and objective one, evident to the working class, or be no case at all.

We are left with the doctrine of the growing impoverishment of the proletariat, a doctrine so crucial in Marx that it can hardly be trivialized as a 'prediction' that somehow went astray. This 'prediction' is absolutely critical to the allegedly inevitable tendency for the workers to rise up and overthrow capitalism, a tendency that is supposed to deepen and accelerate as capitalism progresses. And yet, it has been starkly evident to everyone that one of the vitally significant facts of the century and a half since the birth of Marxism has been the continuing, spectacular growth in real wages and in the standard of living of the working class and of the mass of the population. Indeed what we have seen in this period is the most spectacular growth in industrialization and in living standards in the history of the world. Moreover, and particularly telling in a critique of Marx, that advance of the working class has been particularly striking precisely in the advanced capitalist countries of the West, those that were supposed to herald the growing impoverishment of the proletariat. Here is a stern and unrelenting fact that every Marxist must face, and one that by itself can and should destroy the Marxian system. How have the Marxists dealt with this grave problem?

Some Marxists, of course, have simply abandoned the ship, either noisily proclaiming their defection or quietly slipping from the fold. A few Marxists, as Schumpeter bemusedly notes, 'actually do not mind taking up the ridiculous position that a tendency for the working class's standard of life to fall is in fact observable'.[38] But generally, Marxists have tried to save the phenomenon, salvage the theory, by various fallback positions or forms of evasion. One popular tactic asserts that the underlying *tendency* toward impoverishment still exists, but has been 'temporarily' (one or two centuries?) offset by counteracting factors. A popular but bizarre Leninist variant is that workers in the West have benefited from imperialist western exploitation of, or investment in, the Third World, so that in a sense, western workers become 'capitalists' on an international scale. In the first place, in this transmutation of the oppressed proletariat of the West into exploiting 'capitalists' of the Third World, what ever happened to the inevitable *dwindling* of the capitalist class? Second, the grotesquerie of this doctrine may be gauged by the fact, as P.T. Bauer has demonstrated in many works, that the bulk of the Third World, however poor, has *also* been developing rapidly in recent decades, and the standard of living of their working masses has steadily risen. Not only that; but this development and rise in standards has taken place precisely in those areas and regions of the Third World (e.g. port cities) in closest trading and investment touch with developed western countries. On the other hand, it is the remote areas of the Third World, not yet opened up to trade with the West, that have lagged behind in this economic growth. None of this can be squared with the image of the western world making its tremendous strides over the century at the expense of what would have to be very rapid and deep impoverishment and immiseration of the masses in the Third World.[39]

Apart from imperialism, there have been other intervening factors that various Marxists claim to have temporarily interrupted the working of inevitable impoverishment. A particularly popular choice, at about the turn of the twentieth century, was the closing of the frontier in the western United States. The frontier thesis eventually lost popularity as the event receded in memory and the workers' living standards continued their inexorable advance, although it was curiously revived in the outlandish 'stagnation thesis' of the late 1930s, in which the closing of the frontier (along with other ill-chosen factors) was suddenly supposed to have risen up out of its grave of four decades and smitten the economy with an unexplained delayed immiseration.

But by far the most popular fallback position has been to change the terms of the argument and the prediction. Flying in the face of the evidence, these Marxists contend that Marx 'did not really mean' 'absolute' impoverishment, a continuing fall in the standard of living; he meant a fall in the *relative* income of the workers, relative, of course, to the standard of living of the capitalist class. It was 'relative impoverishment', not 'absolute', that Marx supposedly meant, and that the Marxists were now proclaiming.[40]

As an empirical question, relative impoverishment may or may not be true at various times and places, but its cogency is certainly dubious. It is certainly clear that the degree of inequality, for example, under oriental despotism or in the absolutist France of Louis XIV was far greater than it is under modern capitalism. But more important is the ludicrousness of relying on 'relative impoverishment' as a sufficient motor for the working class to rise up in bloody revolution to overthrow the capitalist class. If a worker has one yacht, will he rise up in rebellion because there are others in the society who have two or three? Or, to put it more realistically, will a worker with two colour TV sets rise up in revolution because Rockefeller or Lee Iacocca or Hugh Hefner has a larger set in each room? We are a long, long way from immiseration. The coming inevitable wrath of the proletariat has turned, at last, to farce.

And yet even the head of official Marxism after Engels, Karl Kautsky, being forced in 1899 to admit that the standard of living of the workers was rising, was compelled to fall back on the view that what Marx really meant was relative, or what Kautsky called 'social', poverty. By 'social poverty' Kautsky frankly meant envy, or 'covetousness', and so he was obliged to fall back on the view that gaining in income but seeing *others* gain more would suffice to rouse the workers into enough envy to rise up and overthrow the entire system.[41] In any case, it is far more plausible that envy would be institutionalized in political drives, say, for a progressive income tax or various subsidies from government, rather than erupt in a revolutionary destruction of the entire system.

All this does not deny that there are indeed passages in Marx which describe only a relative impoverishment of the working class and a growth in their envy at those wealthier than they.[42] The point, however, is that there is *also* another, dominant strain in Marx's writings which forecasts and stresses an increasing *absolute* real, objective impoverishment of the working class.

Finally, there is a glaring inner contradiction at the heart of Marxian economics that is never resolved. If the capitalists suffer over time from a falling rate of profit, and workers suffer from increasing impoverishment, who is *benefiting* in the distribution of the economic pie? At least in the Ricardian system, the capitalists suffer from a falling rate of profit, and the workers are kept at brute subsistence level, but *some* group keeps grabbing all the social benefits – the parasitic landlords and their increasing absorption of the social product by land rent. But in the Marxian system, the landlords have disappeared, increasingly and rapidly assimilated into the capitalist class. So how can *both* mighty classes lose out under developing capitalism?[43]

13.5 The 'laws of motion', III: business cycle crises

A final variant of Marx's attempt to demonstrate the inevitability of the proletarian revolution was closely related to the doctrine of absolute impoverishment. This variant, however, stressed, not a steady secular trend toward growing impoverishment or an industrial reserve army, but rather increasingly destructive business cycle crises and depressions, marked by impoverishment and cyclical unemployment. We turn now to Marx's theory, or rather his various *theories* of cycles and crises, for his writings contain several very different and incompatible theories. Perhaps Marx, in desperation, was willing to come up with a number of theories, hoping that one of them, at least, might stick.

13.5.1 Underconsumptionism

The underconsumption explanation of depression was Marx's dominant variant of cycle theory, as evidenced for example, by his and Engels's repeated attacks on Say's law, and on Ricardo's adherence to that law.[44] The point, as elaborated particularly in Marx's *Theories of Surplus Value* (written 1861–63), is that as capitalist accumulation and production advances, it outstrips the ability of the exploited workers, who earn far less than the value of their product, to consume. The mass of workers cannot consume enough to buy the capitalist product, and the slack is not taken up by the capitalist exploiters, who are far more interested in saving and accumulating than in consuming. Hence, Say is incorrect, and there is systemic general overproduction, with production outstripping the masses' ability to consume.[45] As Marx repeatedly says, 'the majority of the people, the labouring population, can extend their consumption only within very narrow limits'.

Marx returns to this dominant underconsumptionist theme in Volume III of *Capital.* In capitalism, Marx writes, the 'consuming power of society' is determined by 'antagonistic conditions of distribution', which 'reduce the consumption of the great mass of the population to a variable minimum within more or less narrow limits'. Moreover,

> the consuming power is furthermore restricted by the tendency to accumulate, the greed for an expansion of capital and a production of surplus-value on an enlarged scale... The market must, therefore, be continually extended... But to the extent that the productive power develops, it finds itself at variance with the narrow basis on which the conditions of consumption rest.

Also, in Volume III of *Capital*, Marx writes: 'The ultimate reason for all crises always remains the poverty and restricted consumption of the masses, in the face of the drive to develop the productive forces as if only the absolute consumption of society set a limit to them'.[46]

The most obvious and blatant problem with an underconsumptionist theory of economic crises is that it explains too much. For if the consumption of the masses is never enough to buy back the product and keep business profitable, why is there no *permanent* depression? Why are there *booms* as well as busts? Both Marx and Engels apparently sensed this problem, and hence saw the need for at least a supplementary theory. Thus, in Volume III of *Capital*, Marx, in addition to the quote above, conceded that there are at least temporary boom periods before crises, when wages rise and workers obtain a larger share of the product.[47] Engels, too, in *Anti-Dühring*, first states that 'large-scale industry, which hunts all over the world for new consumers, restricts the consumption of the masses at home to a starvation minimum and thereby undermines its own internal market'. But, then, a bit later in the same work, Engels, after asserting that 'the underconsumption of the masses is therefore also a necessary condition of crises', admits the concept cannot explain 'why crises exist today' while 'they did not exist at earlier periods'.

By the time that Engels wrote the preface to the first English edition of Volume I of *Capital* in 1886, however, the problem had been neatly resolved to his own satisfaction. While business cycles of boom and bust had indeed prevailed until 1867, he opined, the English economy was now satisfactorily bogged down in permanent depression. Whatever the subsidiary causes of the booms, they were now ended, and permanent depression would soon usher in the proletarian revolution. Amidst the sea of wreckage of self-assured Marxian 'predictions', this was one of the most absurdly and strikingly wrong. Thus Engels:

> The decennial cycle of stagnation, prosperity, over-production, and crisis, ever recurrent from 1825 to 1867, seems indeed to have run its course; but only to land us in the slough of despond of a permanent and chronic depression. The sighed-for period of prosperity will not come; as often as we seem to perceive its heralding symptoms, so often do they vanish into air. Meanwhile, each succeeding winter brings up afresh the great question, 'what to do with the unemployed'; but while the number of the unemployed keeps swelling from year to year, there is nobody to answer that question; and we can almost calculate the moment when the unemployed losing patience will take their own fate into their own hands.[48]

In the event, of course, prosperity came to England long before the proletarian revolution.

In any case, underconsumption is a totally flawed theory, whether used to explain cyclical crises or permanent depressions. In the first place, savings do not 'leak out' of the economy; they are spent, on vitally important investments in resources and capital goods. More importantly, as in the case of every crazy theory, the price system quietly drops out of the picture, and we are left with such aggregative juggernauts as 'production' and 'consumption' facing each other. There is no such thing as overproduction; there is only too much produced for the *price* that consumers are willing to pay, a price which, in crises, does not cover the costs incurred by businessmen. But, once we recognize *that*, we must then also see that, in order to bring production and consumption into balance, in order to eliminate the problem of supply, or stock, being greater than demand, all that need happen is for prices to fall. Let prices fall, and they will soon equilibrate supply and demand, and business losses will only be temporary. And this point leads the analyst to consider the next step: why did businessmen – entrepreneurs with a sterling overall record in forecasting demand and costs – why this time did they bid up costs so excessively high that they suffer losses in trying to sell the product? In short, why did businessmen make this cluster of severe forecasting errors that mark the period of economic crisis? None of this, of course, could be considered by Marx and by the underconsumptionists, who do not bother considering the price system. Moreover, Marx, like Smith and Ricardo before him, has no conception of the entrepreneur or of the function of entrepreneurship.

Finally, it is well known that crises invariably begin, not in the consumer goods industries that underconsumptionism would lead us to expect, but precisely in capital goods industries, and in those industries farthest and most remote from the consumer. The problem it would seem – correctly – is *too much* rather than *too little* consumption.[49]

13.5.2 The falling rate of profit

The second crisis theory, prominent in Volume III of *Capital*, focuses on the Marxian falling rate of profit. The incessant drive of capitalists to accumulate brings about a secular trend of the rate of profit to fall. Finally, when profit falls below 'a certain rate', the growth of capital ceases, and an economic crisis ensues. Just as capitalism leads to an overproduction of goods in relation to consumption, so too it creates an over-accumulation of capital. The cessation of capital investment leads to a recession in the capital goods industries, which then widens into a general depression.

While this second explanation of economic crisis at least has the merit of focusing on capital goods industries rather than consumption, it is scarcely an improvement. In the first place, once again, the falling rate of profit seems to describe a law of secular decline; but why should it lead to a *specific* economic collapse, much less a cyclical series of booms and busts? Even if the profit rate falls, why should businessmen stop investing, especially all of a sudden? What is the mechanism to explain the sudden, sharp upper turning point? Moreover, even if the profit rate falls, the admittedly increasing mass of saved capital might well increase the *absolute amount* of aggregate profits, so that even though the *rate* falls, the process may still stimulate a great deal of further investment.

Furthermore, even if Marx could explain an upper turning point and a sharp crash, why should there ever be a *revival*? Here is a particularly shaky point in Marx: capital *decumulates* greatly during the crisis, so that the capital denominator actually declines, and hence the rate of profit to total investment rises. This process can again create greater investment, and another boom. The likelihood, however, that a depression will be steep enough to actually consume capital and *also* raise profit rates more than the alleged continuing tendency for the profit rate to fall, is very low. And even if a recovery gets under way, why should a lusty boom ensue?

There is, finally, no hint in Marx or Engels why these cycles or depressions are supposed to increase in intensity, universality, and depth over time, finally to result in permanent depression and revolution.

All in all, the falling rate of profit strand of cycle theory is singularly shadowy and unconvincing.

13.5.3 Disproportionality

Here, in the 'disproportionality' theory of Marx, we return, in a deep sense, to where we, or rather Marx himself, began: to communism, and the desire to eradicate the market and the division of labour. Woven into his discussions in *Capital* and *Theories of Surplus Value* (written 1861–63) is the view that cycles and crises inevitably stem from the market process. To Marx, the problem was endemic in the market economy, and particularly in the money, or indirect exchange, economy. Since the market allegedly had no coordinating mechanism, all production and exchange, according to Marx, is chaotic, discoordinated, a regime of what he called 'the anarchy of production'. As Bober sums it up:

> This theory is concerned with the maladjustments and disproportionalities traced to the anarchy of competition; to the blundering, incoordinate moves of multitudes of individual capitalists; to the complexities of the many elements which must fit into each other in an enormously complex world, and which will do so by sheer accident if not by planned design; and to the vagaries of wind and weather.[50]

Marx had a telling point against the Ricardians, the British classicists of his day. The world does not indeed bask happily in the never-never land of long-run equilibrium. But what Marx overlooked is precisely what the Ricardians overlooked: if they had shifted their focus out of the cloudland of long-run equilibrium, and back to the real world of the market economy, they would have discovered a very different world. They would have seen what Turgot and the French and Italians and scholastics had seen: the real world of markets is not perfectly, but still harmoniously and dynamically coordinated by two crucial elements: a price system that is free to fluctuate to equate the changing forces of supply and demand; and entrepreneurs who, in their continuing search for increased profits and avoidance of losses, perform this coordinating task. But by focusing on long-run equilibrium, the British classicists had eliminated both the real world price system and the vital entrepreneurial role in the market economy – the successful anticipation of change in a changing and uncertain world. If there is no price system for the exchange of property titles to goods and services, and there are no capitalist–entrepreneurs, then indeed production is in a state of 'anarchy'.

Marx also saw that discoordination might cause over-accumulation of capital, and wove this theme into the preceding variant – the falling rate of profit – in an attempt to explain cycles and crises. Some later economists, notably the Russian Marxist economist Tugan-Baranowsky, elaborated these hints into what has been called a 'non-monetary over-investment theory' of the business cycle.[51]

Marx saw that the monetary and credit system played an important role in cycles and crises: credit is important in the centralization of capital: it encourages speculation, intensifies the crisis, and accelerates overproduction. But to emphasize bank credit as a fundamental cause of the cycle could have been fatal for Marx's attempt to pin the blame for cycles and crises on forces inherent within the capitalist market economy. And so it was necessary for him to repudiate any possible currency school emphases on the causal role of bank credit: 'The superficiality of Political Economy', Marx writes in *Capital*, 'shows itself in the fact that it looks upon the expansion and contraction of credit, which is a mere symptom of the periodic changes of the industrial cycle, as their cause'.[52]

Despite his overt scorn for John Stuart Mill, Marx was thereby driven into implicit support for the Mill–Tooke–banking school theory of the business cycle.[53] As we have seen, the currency school writers themselves were forced into this view after the seeming failure of Peel's Act of 1844 to eradicate business cycles. While all banking school-type theorists on *non*-monetary disproportionality and over-investment were obliged to admit that expansion of money and bank credit were necessary conditions to a cycle boom, they all proclaimed that credit cycles were only passive resultants of non-monetary cycles of 'over-' and 'under-' trading or of 'speculation'. Thus Millian non-monetary cycle theory permeated the ranks of economists, and encouraged economists, including Marx, to blame the capitalist market economy for the recurrence of business cycles. The insights of the vanished currency school, the realization that money and credit as a *necessary condition* was close to saying a *cause*, and the original insight that it takes bank credit expansion to distort the market's signals to entrepreneurs and create a boom-bust cycle, remained buried, to be discovered or rediscovered by Ludwig von Mises in 1912.

13.6 Conclusion: the Marxian system

Thus, Karl Marx created what seems to the superficial observer to be an impressive, integrated system of thought, explaining the economy, world history, and even the workings of the universe. In reality, he created a veritable tissue of fallacies. Every single nodal point of the theory is wrong and fallacious, and its 'integument' – to use a good Marxian term – is a web of fallacy as well. The Marxian system lies in absolute tatters and ruin; the 'integument' of Marxian theory has 'burst asunder' long before its predicted 'bursting' of the capitalist system. Far from being a structure of 'scientific' laws, furthermore, the jerry-built structure was constructed and shored up in desperate service to the fanatical and crazed messianic goal of destruction of the division of labour, and indeed of man's very individuality, and to the apocalyptic creation of an allegedly inevitable collectivist world order, an atheized variant of a venerable Christian heresy.

During the 1960s, messianic and romantic Marxists liked to make a sharp separation between the earlier lovable, idealistic, 'humanist' Marx, and the later, mean, hard-core, proto-Stalinist 'economist' Marx. But we now know that there is no such division. There is only one Marx, whether early or late, once he adopted Marxism in the 1840s. There is even a good case for seeing one lifelong Marx, including his crazed, demonic poems calling for universal destruction in his still earlier graduate school years at Berlin. In fact, the humanist Marx is scarcely a relief from the later economist – quite the contrary. All Marxes-in-one were in service to his fanatical and destructive messianic vision of communism. A convincing case can be made, indeed, that the well-known horrors of twentieth century communism: of Lenin, Stalin, Mao and Pol Pot, can be considered the logical unfolding, the embodiment, of the nineteenth century vision of their master, Karl Marx.

13.7 Notes

1. Karl Marx, *Capital, Vol. I* (New York: International Publishers, 1967), p. 37.
2. Ibid., I, p. 39.
3. Compare the discussion in David Conway, *A Farewell to Marx: An Outline and Appraisal of His Theories* (Harmondsworth, Mddx: Penguin Books, 1987), pp. 83–9.
4. As Böhm-Bawerk was later to point out, even if we choose to adopt this cost-of-production approach, we have to recognize that capital embodies not just labour, and land, but also *time*. Land, as we shall see further, was tossed out by Marx by amalgamating it into capital; but if time had been acknowledged as an important factor, then time-preference would have to be acknowledged, and the entire Marxian system would have collapsed.
5. 'Constant' because, according to Marx, capital goods, being deadweight, cannot generate any profit, or increased value.
6. Professor Conway neatly summarizes Marx's point: '...the labourer is paid in wages per day a sum of value equal in amount to the value of his labour-power for a day. Since the value of a day's labour-power is equal to the amount of labour required to produce that day's labour-power, it follows that the value of a day's labour-power is equal to the amount of labour required to produce the labourer's means of subsistence consumed per day'. Conway, op. cit., note 3, pp. 96–7.
7. In a previous passage of the *Manifesto*, Marx and Engels had written that 'the price of a commodity, and therefore also of labour [later modified to 'labour-power'], is equal to the cost of production'. Furthermore, 'the cost of production of a workman is restricted, almost entirely, to the means of subsistence that he requires for his maintenance, and for the propagation of his race'. See Robert C. Tucker (ed.), *The Marx–Engels Reader* (2nd ed., New York: W.W. Norton, 1972), pp. 479, 485.
8. On the dependence of the Marxian system on the iron law of wages, see Ludwig von Mises, 'The Marxian Theory of Wage Rates', in Eugen von Böhm-Bawerk, *The Exploitation Theory of Socialism–Communism* (3rd ed., South Holland, Ill.: Libertarian Press, 1975), pp. 147–51. Von Mises's essay was originally published in *Christian Economics*, May 1961.

   As von Mises points out, Marx did not like the *name* 'iron law of wages', because it was coined by his great rival in German socialist politics, Ferdinand Lassalle (1825–64), but he adhered strongly to the *concept*.

   Curiously, Lassalle's famous phrase, translated into English as 'the iron law', should have been called, as Alexander Gray points out, 'the brass' or 'brazen' law of wages. As Gray characteristically adds, 'in any case, being metallic, it does not greatly matter. A maniac for accuracy might indeed point out that what he [Lassalle] most frequently called it was '*das eherne* [brazen] *und grausame* [cruel] *Gesetz* [law]' which somehow sounds even more horrible'. Alexander Gray, *The Socialist Tradition* (London: Longmans, Green, 1946), p. 336.
9. Eugen von Böhm-Bawerk, *Capital and Interest* (London: Macmillan, 1890), p. 390.
10. Eugen von Böhm-Bawerk, *Karl Marx and the Close of His System* (New York: A. M. Kelley, 1949), p. 5.
11. Ibid., pp. 5–6. The 'contestants' included the well-known German statistician Wilhelm Lexis (1885), the Marxist Conrad Schmidt (1889, 1892–93), the Italian Marxist Achille Loria (1890), the *laissez-faire* liberal Julius Wolf (1891), and a number of Italian economists during 1894.
12. Remember that, as we have noted in our discussion of the definition of class, Karl Marx was scarcely cut off in midstream from working on *Capital*. He had abandoned work on his *magnum opus* at the time of publication of Volume I, and had spent a decade and a half lying to his doting friend and patron about his continuing to work on *Capital*.
13. First published as *Zum Abschluss des Marxschen Systems* in a *Festschrift* for Karl Knies in 1896, and published as a separate booklet the same year. It was a rapid success, being translated the following year into Russian, and the English translation coming out in 1898. Unfortunately, 'close' is a peculiar and misleading term; a far more accurate title would have been *Karl Marx and the Completion of His System*.

14. Paul M. Sweezy, 'Professor Cole's *History of Socialist Thought*', *American Economic Review*, 47 (1957), p. 990. Cited in Gary North, *Marx's Religion of Revolution* (Nutley, NJ: The Craig Press, 1968), p. 163. Sweezy also maintained that the German Ladislaus von Bortkiewicz had refuted Böhm-Bawerk's critique of Marx, but Samuelson pointed out that von Bortkiewicz's position was far closer to Böhm-Bawerk than it was to Marx. Paul Samuelson, 'Wages and Interest: A Modern Discussion of Marxian Economic Models', *American Economic Review*, 47 (1957), pp. 890–92.
15. Gray, op. cit., note 8, p. 319.
16. See Ludwig von Mises, *Notes and Recollections* (South Holland, Ill.: Libertarian Press, 1978), pp. 39–40.
17. For a thorough critique of recent attempts by a group of 'analytical Marxists', to jettison the labour theory of value and yet retain Marxism, see David Gordon, *Resurrecting Marx* (New Brunswick, NJ.: Transaction Books, 1990).
18. Sowell's claim is on page 153 of the London: Lawrence and Wishart edition. Sowell also absurdly denies that Marx believed at all in a labour theory of value. Thomas Sowell, *Marxism: Philosophy and Economics*: (London: Unwin Paperbacks, 1986), pp. 3–5, and *passim*. The excellent and devastating review of Sowell is David Ramsay Steele, 'Review of Thomas Sowell, *Marxism: Philosophy and Economics*', *International Philosophical Quarterly*, 26 (June 1986), pp. 201–3.
19. Böhm-Bawerk, op. cit., note 10, p. 30. Also see Gray, op. cit., note 8, p. 317.
20. Gray, op. cit., note 8, pp. 321–2.
21. *Real* wages, of course, remain at subsistence level.
22. Marx, of course, was not interested in the land question, since land was supposed to be withering away in importance with the decline of the 'feudal-land' remnant as capitalism advanced on its determined course. Furthermore, Marx was anxious to get on to his two-class, capitalists *vs* proletariat model, and so he simply assimilated land into the concept of 'capital'.
23. The Leninist theory depends on the claim that both state monopoly capitalism and imperialism come later than competitive, non-imperialist capitalism, the latter condition having prevailed during Marx's lifetime. But imperialism – tribes or nation-states conquering or aggressing against, and robbing, other tribes or nations – is as old as recorded history, and state monopoly capitalism at least as old as the mercantilist era.
24. Marx, op. cit., note 1, I, p. 595.
25. Tucker, op. cit., note 7, p. 213.
26. Thus, Marx wrote, in Volume I of *Capital*, that 'It is a law, springing from the technical character of manufacture, that the minimum amount of capital which the capitalist must possess has to go on increasing', and 'the development of capitalist production makes it necessary constantly to increase the amount of capital laid out in a given industrial undertaking'. Cf. Conway, op. cit., note 3, pp. 126–7.
27. This has been spectacularly true in the computer industry. In the cases of xerography and Polaroid photography, as well, the pathbreaking innovations that founded the industry were met with incomprehension and rejection by the Behemoths in the photography field. For these and other pre-computer examples, see John Jewkes, David Sawers, and Richard Stillerman, *The Sources of Invention* (1959, 2nd ed., New York: Norton, 1968).
28. On the merger movement at the turn of the century and its collapse, see Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation of American History, 1900–1916* (Glencoe, Ill.: The Free Press, 1963); Arthur S. Dewing, *Corporate Promotion and Reorganizations* (Cambridge, Mass.: Harvard University Press, 1924); idem., *The Financial Policy of Corporations* (5th ed., New York: Ronald Press, 1953), 2 vols; and Naomi R. Lamoreaux, *The Great Merger Movement in American Business, 1895–1904* (New York: Cambridge University Press, 1985).
29. It is unfortunate that Professor Conway, in his generally illuminating work on Marxism, uncritically accepts the Marxian dictum of the tendency of giant firms to dominate each industry. Conway, op. cit., note 3, p. 128.
30. In Marx's colourful language, the centralization of capital consists of 'the expropriation of many capitalists by few', or, in even more vivid rhetoric, 'One capitalist always kills

many'. Marx, op. cit., note 1, I, p. 763.

31. Quoted in Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (2nd ed., New Haven: Yale University Press, 1951), p. 362.
32. *Ibid.*
33. Marx, op. cit., note 1, I, p. 763.
34. Thus, Marx writes, again in *Capital*: 'The greater the social wealth, the functioning capital, the extent and energy of its growth, and, therefore, also the absolute mass of the proletariat and the productiveness of its labour, the greater is the industrial reserve army... The relative mass of the industrial reserve army increases therefore with the potential energy of wealth. But the greater this reserve-army in proportion to the active labour-army, the greater is the mass of a consolidated surplus population... The more extensive, finally,...the industrial reserve army, the greater is official pauperism. *This is the absolute general law of capitalist accumulation*'. (Italics Marx's.) Marx , op. cit., note 1, I, p. 664.
35. Thus, von Mises writes that Marx tried to demonstrate the inevitability of socialism 'by the famous prognostication that capitalism generates necessarily and unavoidably, a progressive impoverishment of the masses of the wage earners. The more capitalism develops', he says, the more 'grows the mass of misery, oppression, slavery, exploitation. With "the progress of industry" the worker "sinks deeper and deeper", until finally, when his sufferings become unbearable, the exploited masses revolt and establish the everlasting bliss of socialism'.

    But von Mises then points out, this crucial argument 'contradicts the whole Marxian theory of the determination of wage rates...[T]his theory asserts that wage rates are under capitalism always and necessarily so low that for physiological reasons they cannot drop any further without wiping out the whole class of wage earners. How is it then possible that capitalism brings forth a progressive impoverishment of the wage earners? Marx in his prediction of the progressive impoverishment of the masses contradicted the essential teachings of his own theory'. Von Mises, op. cit., note 8, pp. 150–51.
36. In a remarkably frenetic and unconvincing whirl of Marxian apologetics, Professor Sowell tries to absolve Marx of this contradiction by denying *both* parts: the Marxian adherence to the iron law of wages, *and* the progressive impoverishment of the working class. On the former, Sowell latches on to anti-Lassalle mutterings by Engels in a footnote, and in correspondence between Marx and Engels, and then comes up with a spectacularly original definition of 'subsistence' which implies not a bare minimum existence, but a rising standard of living! On progressive impoverishment, he dismisses this concept as early *Communist Manifesto* Marx, rejected by the mature Marx of *Capital*, and he clings for support to the Marxist–Leninist economist Ronald Meek. To defend this absurd interpretation, Sowell is forced to write off embarrassingly pro-impoverishment passages in *Capital*, such as we have seen above, as 'lurid' remarks applying only to *particular* groups of workers, and to conveniently ignore the peroration chapter of *Capital*. Sowell, op. cit., note 18, pp. 128–31. Marx also took the impoverishment line in his *Value, Price and Profit* (1865). Cf. North, op. cit., note 14, pp. 140–41.
37. 'Owing to the extensive use of machinery and to division of labour, the...[workman] becomes an appendage of the machine, and it is only the most simple, most monotonous, and most easily acquired knack, that is required of him. Hence, the cost of production of a workman is restricted, almost entirely, to the means of subsistence that he requires for his maintenance, and for the propagation of his race.' Tucker, op. cit., note 7, p. 479.
38. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), p. 686n. Many Marxists have claimed, at the least, that the standard for life of the English workers fell at the advent of the Industrial Revolution, say from the middle or late eighteenth century to the mid-nineteenth, but the scholarship of R. Max Hartwell and others have well disposed of this Marxian charge.
39. Cf. Conway, op. cit., note 3, p. 132.
40. Schumpeter, who generally treats Marx excessively gently, pours proper scorn on the relative impoverishment theorists: 'Still other interpreters have made efforts to make Marx's law mean relative misery only, i.e. a fall in the relative share of labor, which, besides being equally untenable, clearly violates Marx's meaning.' Schumpeter, op. cit.,

note 38, p. 686n. On absolute impoverishment, also see M.M. Bober, *Karl Marx's Interpretation of History* (2nd ed., Cambridge Mass.: Harvard University Press, 1948), pp. 213–21.

41. Von Mises, op. cit., note 31, pp. 381–4. As von Mises points out, it is at least equally likely that envy of the workers is aroused by an *increase* in egalitarianism and in their relative status, thus causing greater irritation at a gap that is now *smaller*.
42. Cf. Conway, op. cit., note 3, p. 133.
43. See Gottfried Haberler, 'Marxist Economics in Retrospect and Prospect', in M. Drachkovitch (ed.), *Marxist Ideology in the Contemporary World – Its Appeals and Paradoxes* (Hoover Institution, New York: Praeger, 1966), pp. 118, 183.
44. 'If judged by the amount of space it receives, and especially by the persistently repeated references to it early and late in his and Engels' writings, the underconsumption theory seems to dominate over the other theories.' Bober, op. cit., note 40, p. 232. We are indebted to Bober for his classic discussion of Marx's cycle theories, in *ibid.*, pp. 232–57.
45. Thus, Marx in *Theories of Surplus Value*: 'Overproduction has specifically for its condition the general law of the production of capital...while on the other side the mass of producers remains restricted – and on the basis of the capitalist system of production must remain restricted – to an average quantum of wants.' See Bober, op. cit., note 40, p. 240. Also see Tucker, op. cit., note 7, pp. 443–65. It is significant that passages setting forth underconsumption theory in Chapter XVII of the *Theories of Surplus Value* are the *only* discussion of crisis theory in Tucker's *Reader*. In the headnote to the selections, Professor Thomas Ferguson, after pointing out that Marx, curiously, 'left no developed account of his views on crises', adds that Chapter XVII of *Theories* 'contains the best and most systematic discussion by Marx on economic crises'. Tucker, p. 443.
46. Astonishingly, Sowell maintains not only that there is no trace of underconsumptionism in Marx, but that those who assert it only cite each other, not Marx himself. He has, for one thing, apparently never heard of Bober's standard work. Sowell, op. cit., note 18, pp. 78–9, 85–8.
47. Marx and Engels also felt the need to separate themselves as much as they could from straight underconsumption, in view of the fact that two of their great German rivals and opponents were ardent underconsumptionists. These were the Prussian aristocrat and evolutionary state socialist Johann Karl Rodbertus (1805–75), and the University of Berlin economist and social reformer Eugen Karl Dühring (1833–1921).
48. Engels, 'Preface to the English Edition', in Marx, op. cit., note 1, I, p. 6.
49. For a further critique of underconsumptionism, see Murray N. Rothbard, *America's Great Depression* (4th ed., New York: Richardson & Snyder, 1983), pp. 55–8.
50. Bober, op. cit., note 40, pp. 251–2.
51. Mikhail Ivanovich Tugan-Baranowsky (1865–1919). Strictly speaking, Tugan-Baranowsky was a Ukrainian who taught in Russia's St Petersburg. He first enunciated his business cycle theory in his doctoral dissertation, 'The Industrial Crises in England', published in Russian in 1894. Tugan-Baranowsky taught political economy at St Petersburg until 1917, when he became minister of finance and general secretary of the Central Rada of the Ukraine. The following year, Tugan-Baranowsky became head of the Ukrainian Academy's socio-economic department and of its Institute for the Study of Economic Cycles. At his death in 1919, Tugan was economic adviser to the Ukrainian delegation at Versailles. See Sergio Amato, 'Tugan-Baranowsky...' in I.S. Koropeckyj (ed.), *Selected Contributions of Ukrainian Scholars to Economics* (Cambridge, Mass.: Harvard University Press, 1984), pp. 1–59. On non-monetary over-investment cycle theories, see Gottfried Haberler, *Prosperity and Depression* (4th ed., Cambridge, Mass.: Harvard University Press, 1958), pp. 72–85. Amato maintains that the German economist Arthur Spiethoff (1873–1957), who launched his own version of the cycle theory in 1902–3, purloined it from Tugan-Baranowsky's German translation in 1901, then claimed it as his own original discovery. Amato, 'Tugan-Baranowsky', p. 6.
52. See Bober, op. cit., note 40, p. 275. Sowell, on the other hand, claims that Marx held money and credit to be the sole cause of the business cycle. Sowell, op. cit., note 18, pp. 92–5.

53. Indeed, Marx's entire theory of money was profoundly influenced by Thomas Tooke and the banking school. Marx believed, with Tooke, that changes in price levels determined changes in the quantity of money and not *vice versa*, and that balance of payments deficits were determined by real rather than monetary factors. Hence, in his theory of money and its effects, Marx was the opposite of a Ricardian. See Arie Arnon, 'Marx's Theory of Money: the Formative Years', *History of Political Economy*, 16 (Winter 1984), pp. 560–75.

14 After Mill: Bastiat and the French *laissez-faire* tradition

14.1 The French *laissez-faire* school

John Stuart Mill's conquest of British economics by his 1848 treatise, *The Principles of Political Economy*, succeeded in imposing a miasma upon British economics for at least a quarter-century. In some respects, indeed, the subjectivist (or, in its trivialized label, the 'marginalist') revolution against Mill, led abortively by Jevons in the 1870s, never really took hold in Great Britain. The Millian miasma imposed a vague and incoherent adhesion to the labour theory, or at best the cost-of-production theory, of value; to the methodology of positivism, tempered by a confused inductivism; to individualism, muddled by organicism; to a vague, tentative preference for the free market easily overridden by almost any objection, in particular the alleged ability of labour unions to win general wage increases as well as the supposed moral superiority of socialism. Politically, in short, Mill was cleverly positioned to be the patron saint of *laissez-faire* as well of virtually any and all attacks against it – in short, to be the philosopher of the British *status quo* as it existed or as it might become. At the same time, Mill became the modern liberal intellectual's favourite straw-man champion of *laissez-faire*, ever ready to make the most damaging concessions to his modern liberal opponents. In that way, the modern liberal intellectual can sound the triumphal note: 'But even *Mill* admits…' and thus expect to win the day by the invocation of authority alone.

In monetary and banking affairs, indeed, Mill was the guru for precisely the *status quo* as imposed by the Peel Act of 1844 and continuing until World War I: that is, a broad commitment to hard money in the form of the gold standard, but cleverly and fundamentally vitiated by a Bank of England monopoly control of a fractional-reserve banking system that could readily inflate money and credit within that allegedly sound system.

Although of all countries, British economics in the nineteenth century (and down through World War II) managed to accrue the greatest prestige, it was not able to exercise total hegemony over economics abroad. In France, in particular, the legacy of J.B. Say led, in dramatic contrast, to a subjective utility and consistent *laissez-faire* tradition that managed to retain dominance over French economics for nearly a century. We have seen that French *laissez-faire* economics was established in the Restoration period after 1815 by a brilliant group of young economists and social theorists inspired by J.B. Say, and headed by Charles Dunoyer and by Say's son-in-law Charles Comte. Although Comte died in middle age, Dunoyer lived long enough to write his three-volume *magnum opus, De la liberté du Travail* (*On the Freedom of Labour*), (1845), and to preside over the founding, in 1842, of the leading Société d'Économie Politique (The Society of Political Economy), which would meet monthly for decades, as well as its scholarly journal, the *Journal des Économistes*, which had been launched a few months before the society.

From then until World War I, an admirable and productive cadre of economists staffed the main French academic posts, edited and wrote for numerous scholarly journals, formed associations and conferences, and wrote and lectured indefatigably on behalf of harmony of interests and general prosperity through free markets, free trade, and *laissez-faire*. It is remarkable that at least three generations of French economists were schooled in, and carried on and developed, this *laissez-faire* tradition. Despite generations of changing fashions and enormous temptations from the side of statism and special privilege, French economists, for nearly a century, stuck to their guns and remained stalwart champions of *laissez-faire* and enemies of state intervention and special privilege.

Here we might pay special attention to the men who collaborated on the first encyclopedia of economics, an excellent two-volume work, *Dictionnaire d'Économie Politique* (Paris: Guillaumin, 1852–53), co-edited and published by Gilbert Guillaumin (1801–64), an indefatigable publisher of countless French economic and *laissez-faire* works during the nineteenth century. The co-editor Charles Coquelin (1805–52), himself a major contributor to the dictionary, unfortunately died shortly before publication. The dictionary went through four printings. Another leading light of the dictionary, and founding secretary of the Société d'Économie Politique, was Joseph Garnier (Clément Joseph Garnier, 1813–81), for some years editor-in-chief of the *Journal des Économistes*, and author of several highly successful textbook treatises in economics including: *Éléments d'économie politique (1845* – many editions), and *Éléments des Finances* (1858 – many editions).

French *laissez-faire* economists pioneered, not only encyclopedias of economics, but also the study of the history of the discipline. The first history of economic thought was the *Histoire de l'économie politique en Europe* (1837, 4th edition, 1860, English translation, *History of Political Economy in Europe* 1880), by Jérome-Adolphe Blanqui (1798–1854), who studied political economy under Say, and succeeded him as professor. Blanqui was also for many years editor-in-chief of the *Journal des Économistes*. Joseph Garnier had been Blanqui's student. Blanqui, in turn, was the son-in-law of Michel Chevalier (1806–79). An engineer and Saint-Simonian socialist in his youth, Chevalier became a *laissez-faire* liberal, becoming professor of political economy at the Collège de France, and publishing the three-volume *Cours d'Économie Politique* (1842–50). Chevalier was also a statesman, negotiating the famous fee trade treaty with England (England being represented by the great Richard Cobden) in 1860, a high-water mark of the free trade and free market movement in nineteenth century Europe. Another prominent student of Chevalier was Henri (Joseph Léon) Baudrillart (1821–92), who went on to teach political economy at the Collège de France, and whose *Manuel d'Économie Politique* was published in 1857, and went into numerous editions.

Another prominent economist was the Pole Louis Wolowski (1810–76), a brother-in-law of Michel Chevalier. Born in Warsaw, Wolowski emigrated to France in 1834, founding and editing for many years the *Revue de législation et jurisprudence*. Possessor of a doctorate of law and another in political economy, Wolowski was to become a banker, statesman and professor as well as being associated for many years with the *Journal des Économistes*. Wolowski's nephew, Émile Levasseur (1828–1911) became a prominent economic historian and successor to Baudrillart at the Collège de France. Levasseur published a well-known work on the *Histoire des classes ouvrières en France* (History of the Working Classes in France) (1859) and, in 1867, published a *Précis d'Économie Politique*, which went into many editions. Wolowski and Levasseur, it should be noted, wrote a scintillating joint article in defence of property rights, on 'Property', for Lalor's three-volume *Cyclopedia of Political Science*, published in the United States in 1884.

A worthy successor to Jérome-Adolphe Blanqui as historian of economic thought in the French *laissez-faire* school was Maurice Block (1816–1901). Born in Berlin but emigrating to France, Block worked in the statistical department of the ministry of agriculture, industry and trade. By his 40s, Block was a full-time editor and writer in economics. For 44 years, from 1856 virtually until his death, Block served as editor of the *Annuaire d'économie politique et de la statistique* (Annual of Economics and Statistics), as well as editor of the *Dictionnaire générale de la Politique* (from 1862 and later years), and the *Dictionnaire de l'Administration Française* (1855 and later years), and also wrote several important books on the theory of statistics, on socialism, on French finances, and a *Petit manuel d'économie politique*, published in 1873 and going into many editions. An erudite and indefatigable scholar, Maurice Block served for over 40 years as a reporter on all economic writings in Europe for the *Journal des Économistes*, capping his career with a great two-volume history of economic thought, *Le progrès de la science économique depuis Adam Smith* (1890). In his *Progrès*, Block praised the new Austrian school, and denounced the historicism and opposition to economic law of the German historical school.

Three generations of Says also took a prominent part in the French movement of *laissez-faire* economics. Jean-Baptiste's only son Horace-Émile Say (1794–1860) was merchant for a time in the United States and especially in Brazil, and served as a commercial judge and a councillor of state during the period of the Second Republic, 1859–61. Horace Say wrote a book on the history of commercial relations between France and Brazil. Horace's son, Jean-Baptiste Léon Say (1826–96), became a prominent statesman devoted to free trade and *laissez-faire*. Léon Say wrote many articles for the *Journal des Économistes*, he was the owner of the *laissez-faire*-oriented *Journal des Débats*, and he was the minister of finance from 1872 to 1879, and again in

1882. He was also president of the French Senate in 1882. Léon Say concluded a preliminary free trade treaty with England in 1880, and successfully opposed the introduction of an income tax.

One of the last of the fiery and uncompromising free market and anti-interventionists of the French school was Yves Guyot (1843–1928), a prolific writer who also served as city councillor of Paris (1876–85) and minister of public works (1889–92). Guyot succeeded the venerable Gustave de Molinari after he stepped down as editor of the *Journal des Économistes* in 1909.

So dominant was the *laissez-faire* school in France during the nineteenth century that its teaching permeated the popular culture. Popular writers, journalists and novelists expounded on the harmony of interests, and on the mutual benefit and the general prosperity brought about by the free market. Thus no more lucid and inspiring an economic primer and paean to the workings of the free market has ever been written than the lectures to French workers, formed into the *Handbook of Social Economy: Or the Workers' ABC*, written by the popular novelist Edmond About (1828–85).[1]

Indeed, the very lucidity and popularity of the French writers was turned against them by the British classical economists, generally dense and obscure writers, who could turn their very elegance of style against the French, and denounce them for superficiality of thought and scholarship. This tradition has been redoubled by modern historians, whose intense hostility to the French writers' political conclusions reinforces their brusque dismissal. In particular, modern historians unfairly dismiss the French writers as mere popularizers, lacking theoretical depth.

14.2 Frédéric Bastiat: the central figure

Particularly suffering from historical neglect is the most famous of the French *laissez-faire* economists, Claude Frédéric Bastiat (1801–50), to whom the two-volume *Dictionnaire d'Économie Politique* (1852) was respectfully and affectionately dedicated. Bastiat was indeed a lucid and superb writer, whose brilliant and witty essays and fables to this day are remarkable and devastating demolitions of protectionism and of all forms of government subsidy and control. He was a truly scintillating advocate of an untrammelled free market. Frédéric Bastiat's justly famous 'Petition of the Candlemakers' is still anthologized in books of economic readings; in this satiric petition to the French parliament, the candlemakers' trade association petitions the government to protect their industry, which employs many thousands of men, from the unfair, unjust, invasive competition of a foreign light source: the sun. Bastiat's candlemakers petition the government to shut out the sunlight all over France – a protective device that would give employment to many millions of worthy French candlemakers.

Bastiat's fable of the broken window also brilliantly refuted Keynesianism nearly a century before its birth. Here, he outlines three levels of economic analysis. A mischievous boy hurls a rock at a plate glass store window, and breaks the glass. As a crowd gathers round, the first-level analysis, common sense, comments on the event. Common sense deplores the destruction of property in breaking the window, and sympathizes with the storekeeper for having to spend his money repairing the window. But then, says Bastiat, comes the second-level, sophisticated analyst or what we might call a proto-Keynesian. The Keynesian says: oh, but you people don't realize that the breaking of the window is *really* an economic blessing. For, in having to repair the window, the storekeeper invigorates the economy by his spending, and gives welcome employment to glaziers and their workers. Destruction of property, by compelling spending, therefore stimulates the economy and has an invigorating 'multiplier effect' on production and employment.

But then in steps Bastiat, the third-level analyst, and points out the grievous fallacy in the destructionist proto-Keynesian position. The alleged sophisticated critic, says Bastiat, concentrates on 'what is seen' and neglects 'what is not seen'. The sophisticate *sees* that the storekeeper must give employment to glaziers by spending money to repair his window. But what he doesn't see is the storekeepers's opportunity foregone. If he did not have to spend the money on repairing the window, he could had *added* to his capital, and to everyone's standard of living, and thereby employed people in the act of advancing, rather than merely trying to sustain, the current stock of capital. Or, the storekeeper might have spent the money on his own consumption, employing people in *that* form of production.

In this way, the 'economist', Bastiat's third-level observer, vindicates common sense and refutes the apologia for destruction of the pseudo-sophisticate. He considers what is not seen as well as what is seen. Bastiat, the economist, is the *truly* sophisticated analyst.[2]

Frédéric Bastiat was also a perceptive political, or politico-economic, theorist. Attacking statism as a growing parasitic burden upon producers in the market, he defined the state as 'the great fiction by which everyone tries to live off everyone else'. And in his work on *The Law* (1850), Bastiat insisted that law and government must be strictly limited to defending the persons, the liberty, and the property of people against violence; any going beyond that role would be destructive of liberty and prosperity.

While often praised as a gifted popularizer, Bastiat has been systematically derided and undervalued as a theorist. Criticizing the classical Smithian distinction between 'productive' labour (on material goods) and 'unproductive' labour (in producing immaterial services), Bastiat made an important contribution to economic theory by pointing out that *all* goods, including material ones, are productive and are valued precisely because they produce immaterial services. Exchange, he pointed out, consists of the mutually beneficial trade of such services. In emphasizing the centrality of immaterial services in production and consumption, Bastiat built on J.B. Say's insistence that all market resources were 'productive', and that income to productive factors were payments for that productivity. Bastiat also built upon Charles Dunoyer's thesis in his *Nouveau traité d'économie social* (New Treatise on Social Economy) (1830) that 'value is measured by services rendered, and that products exchange according to the quality of services stored in them'.[3]

Perhaps most important, in stark contrast to the Smith–Ricardo classical school's exclusive emphasis on production, and neglect of the goal of economic endeavours – consumption, Bastiat proclaimed once again the continental emphasis on consumption as the goal and hence the determinant of economic activity. Bastiat's own oft-repeated triad: 'Wants, Efforts, Satisfactions' summed it up: wants are the goal of economic activity, giving rise to efforts, and eventually yielding satisfactions. Furthermore, Bastiat noted that human wants are unlimited, and hierarchically ordered by individuals in their scales of value.[4]

Bastiat's concentration on *exchange*, and on analysis of exchange, was also a highly important contribution, especially in contrast to the British classicists' focus on production of material wealth. It was the emphasis on exchange that led Bastiat and the French school to stress the ways in which the free market leads to a smooth and harmonious organization of the economy. Hence the importance of *laissez-faire*.[5]

Frédéric Bastiat was born in 1801 in Bayonne, in south-western France, the son of a landowner and prominent merchant in the Spanish trade. Orphaned at the age of nine, Bastiat entered his uncle's business firm in 1818; when, seven years later, he inherited his grandfather's landed estate, Bastiat left the firm and became a gentleman farmer. But his interests were neither in trade nor in agriculture, but in the study of political economy. Fluent in English, Italian and Spanish, Bastiat steeped himself in all the extant economic literature in these languages. Apart from an unsuccessful attempt to establish an insurance firm in Portugal in the early 1840s, as well as being a member of the district council and his undemanding service as a country judge, Bastiat spent two decades in quiet study and reflection on economic problems. He was most heavily influenced by J.B. Say, partially by Adam Smith, by Destutt de Tracy, and particularly by the great four-volume *laissez-faire* libertarian work of Charles Comte, *A Treatise on Legislation* (1827). Indeed, as a teenager, Bastiat had been a subscriber to Comte and Dunoyer's journal, *Le Censeur*, and he was to become a friend and colleague of Dunoyer's in the struggle for free trade.

Bastiat entered the economic literature with a sparkling attack on protectionism in France and England in the *Journal des Économistes* in late 1844, an article which created a sensational impact. Bastiat followed this up with another article in the *Journal*, in early 1845, denouncing socialism and the concept of a 'right to labour'. During the few years he had left on earth, Bastiat poured forth a stream of lucid and influential writings. His two-volume *Economic Sophisms* (1845), a collection of witty essays on protectionism and government controls, sold out quickly, going into several editions, and was swiftly translated into English, Spanish, Italian and German. During the same year, Bastiat published *Cobden et la Ligue*, his tribute to Cobden and the Anti-Corn Law League: a history of the League that included the principal speeches and articles by Cobden, Bright, and other stalwarts of the League.

After setting up a free trade association in Bordeaux in 1846, Bastiat moved to Paris, where he stepped up his literary efforts and organized a national association for free trade. He became the secretary-general of the national association, as well as editor-in-chief of *Le Libre-Échange (Free Trade)*, the periodical of the French free trade association. Even though in frail health, Bastiat also participated in the revolution of 1848, being elected to the constituent and then the legislative assembly, where he served from 1848 until his death.

Bastiat's final political service has been undervalued by most historians. While generally voting in the minority in the assembly as a stalwart of individual liberty and *laissez-faire*, Bastiat was highly influential as vice-president (and often acting president) of the assembly's finance committee. There he fought tirelessly for lower government spending, lower taxes, sound money, and free trade. While he fought ardently in opposition to socialist and communist schemes, Bastiat elected to sit on the Left, as a proponent of *laissez-faire* and the republic, and as an opponent of protectionism, absolute monarchy, and a warlike foreign policy. As a consistent civil libertarian, Bastiat also fought against the jailing of socialists, the outlawry of peaceful trade unionism, or the declaration of martial law. Bastiat also made his mark by at least partially converting the man who would become the president of the provisional republic in 1848, the eminent poet and orator Alphonse Marie Louis Lamartine (1790–1869) from his previous socialism to (an admittedly inconsistent) *laissez-faire* position.[6]

Bastiat died young in 1850, leaving his two-volume theoretical *magnum opus*, *Economic Harmonies*, only partially published; the remainder was published posthumously. It was a fitting memorial to Bastiat that his friend Michel Chevalier, the man whom he had converted to free trade and *laissez-faire*, should have been the one to conclude, with Richard Cobden, the great free trade Anglo-French treaty of 1860.

Bastiat met Cobden on his first trip to England in the summer of 1845, and for the remainder of Bastiat's life the two men were close friends and frequent correspondents, visiting each other frequently. The two influenced each other greatly, Bastiat providing Cobden with broader theoretical insights in his devotion to free trade, and the latter inspiring Bastiat to organize a movement in France similar to the Anti-Corn Law League. In particular, Cobden took from Bastiat a devotion to natural law and natural rights; an emphasis on the harmony of individuals, groups, and nations through the mutual benefits of the free market; and a staunch opposition to war and an interventionist foreign policy, and a devotion to international peace. The two also shared a consistent devotion to *laissez-faire* devoid of the numerous hesitancies and qualifications imposed by the classical economists, or of the gloomy Ricardian hostility to landlords or to land rent.[7]

14.3 The influence of Bastiat in Europe

Inspired by Bastiat's organizing and by his theories, free trade associations rapidly established themselves in various countries in Europe. Belgium formed a free trade association shortly after France, and the Belgian group stayed in constant correspondence with Bastiat and his *Libre-Échange*. Former minister Charles de Brouckère, burgomaster of Brussels, was president of the Belgian association. In Italy an association for free trade established the journal *Contemporaneo* in the Autumn of 1846, and printed a statement hailing the French free trade association. While the statement praised the Anti-Corn Law League, it also lauded the French association as more all-encompassing in its free-market position: 'the British Association has declared war against only one of the evils in its own country [tariffs and the Corn laws], while the French Association has adopted a more general plan that encompasses the entire human race. It wishes to induce all nations to fraternize, and to invite everyone to the banquet of production and consumption.'[8]

One of the prominent signers of the Italian statement was Professor Raffaele Busacca, a vigorous defender of free trade and a prolific writer on statistical, historical and theoretical subjects in economics.

A particularly important follower and admirer of Frédéric Bastiat was the man who became the unquestioned leader and dominant force in economic theory and policy in nineteenth century Italy. He was the Sicilian-born Francesco Ferrara (1810–1900), a stalwart advocate of *laissez-faire*, professor of political economy at the University of Turin, and the teacher and mentor of most Italian economists of the next generation. Ferrara also played an important political role in the unification of Italy and was at one time minister of finance of the new nation. In addition, Ferrara was an eminent historian of economic thought, to which he contributed the editorship of the first two series of the multi-volume translation, *Biblioteca dell'Economista* (Turin, 1850–69), and especially his two-volume *Esame storico-critico di economisti e dottrine economiche* (1889–92). For many years, Ferrara was professor at the University of Turin, and there trained many prominent Italian economists. In addition to Bastiat, upon whom he lavished 100 pages in his great *Esame*, Ferrara particularly hailed the works, of Say, Dunoyer and Chevalier.

Ferrara's theoretical contributions, like Bastiat's, have been systematically underweighted by harsh modern, anti-*laissez-faire* critics who, as in the case of Bastiat, find it difficult to believe that anyone who is ardently and consistently in favour of *laissez-faire* could possibly be an important scholar and economic theorist. Thus, Ferrara's 'cost-of-reproduction' theory of value, often dismissed as a clumsy rewrite of Ricardian 'cost-of-production', has recently been shown instead to be a partial anticipation of subjective, marginal utility theory.[9]

For several decades Francesco Ferrara's exchange-oriented and *laissez-faire* economics held sway among Italian economists. In the 1870s, however, the interconnected statist trends of protectionism and of the German historical school, as well as outright socialism, began to infest Italian economics. Ferrara valiantly combated the new trends. A formal split occurred in 1874, when the younger statists, centred in Padua, formed the Association for the Development of Economic Studies, publishing a journal which soon become the *Giornale degli Economisti*. On the other hand, the Ferraristas, centred in Florence, formed the Adam Smith Society, and published the weekly *L'Economista*. While outnumbered, the Ferrara group produced some notable younger disciples, including Domenico Berardi, who published a critique of government intervention in 1882 and a book on money 30 years later; A. Bertolini, who wrote a critique of socialism in 1889; and Fontanelli, who wrote a critique of unions and strikes. In particular, we might mention Tulio Martello of Bologna, known as the last of the Ferraristas. With the characteristic half-sneer which he tended to reserve for ardent partisans of *laissez-faire*, Schumpeter wrote of Martello's challenging call for polymetallism as the path of complete monetary freedom in *La Moneta* (1883), that 'the value of which is but slightly impaired by some liberalist vagaries on free coinage'.[10]

While seemingly battling a rear-guard action against overwhelming odds, Ferrara and his school actually hung on long enough to turn the tide, by influencing the new 'army of marginalist–liberalists' led by Maffeo Pantaleoni. The group seized control of the dominant economic journal (the *Giornale degli Economisti*) in 1890, and was to remain dominant for years thereafter.[11]

Sweden was a country heavily influenced by Bastiat, who became the major authority in Swedish economics and politics. A young Swede, Johan August Gripenstedt (d. 1874), met Bastiat on a trip to France, and was deeply influenced for the rest of his life by the French *laissez-faire* leader. Gripenstedt became the greatest of the economic liberals in Sweden during the 1860s and 1870s, as well as the most influential politician in Sweden. By 1870, Gripenstedt, almost single-handed, had managed to eliminate all import and export prohibitions in Sweden, to abolish all export duties, to reduce tariffs on manufactured goods, and to bring about free trade in agricultural products.

Shortly after Gripenstedt's death, his followers and disciples formed the Stockholm Economic Society in 1877, dedicated to the principles of Bastiat and Gripenstedt. Some of the leading members were: Johan Walter Arnberg, director of the Bank of Sweden, who warned of the dangers of socialism stemming from businessmen's demands for government subsidies; G.K. Hamilton, professor of economics at the University of Lund, so dedicated to Frédéric Bastiat that he named his son 'Bastiat' in 1865; A.O. Wallenberg, founder of the Stockholm Euskilda Bank; and Johan Henrik Palme, leading banker, dedicated to free trade.

Two prominent *laissez-faire* political leaders in the Economic Society should be mentioned. One was Axel Gustafsson Bennich, director-general of the customs, and right-hand man of Gripenstedt. Bennich was an indefatigable and joyous battler for free trade and *laissez-faire* throughout his long life. Another was the president of the Stockholm Economic Society, Carl Freidrich Waern, a Gothenburg merchant who became minister of finance and head of the board of trade. Waern resigned from the latter post because he refused to sign a law mandating protection of young timber in the forests, a measure he denounced as an egregious invasion of the rights of private property.

As was true of *laissez-faire* thinkers and activists in England and France, Swedish libertarians were split on what to do about banking. Central banker Johan Arnberg and economist Hans Forssell favoured the central Bank of Sweden as a means of abolishing all private bank notes, which they considered inflationary and pernicious. On the other hand, banker A.O. Wallenberg championed free banking.

By the mid-1880s, however, in Sweden as in the rest of Europe, statism began to make a successful comeback and gradually to become dominant. Protectionists began to infiltrate the Economic Society by the mid-1880s, and Sweden adopted a protective tariff system in 1888. In 1893, the symbol of protectionist triumph came with a protectionist being chosen president of the former central nucleus of free trade, the Stockholm Economic Society. During the 1880s, too, despite the bitter attacks of Forssell and other founding stalwarts, the society began to champion social welfare and other *Kathedersozialist* ('socialism of the chair') policies. In this way, Swedish economic theory and policy shifted, during the decade, from its original French *laissez-faire* orientation toward the German historical school and its 'monarchical socialism'. This sharp change was greatly facilitated by German being made the dominant foreign language in the Swedish public schools in 1878.[12]

But even in Prussia, a free trade party was established during the late 1840s dedicated to Bastiat's principles. The Prussian free trade movement was led by John Prince Smith (1809–74), son of an English father and German mother, who corresponded frequently with Bastiat. In one letter Prince Smith wrote to Bastiat:

> The friends to whom I have shown your book [*Economic Harmonies*] are enthusiastic about it. I promise you that it will be read eagerly by our best thinkers... We hope to establish a formal league among the democratic parties and the free traders... 'Bring Bastiat here', a leader of the democrats said to me, 'and I promise to lead 10,000 men in a procession to celebrate his visit to our capital'.[13]

John Prince Smith was born in London in 1809, the son of a barrister. On the death of his father, he began working at the age of 13 for a London mercantile firm.[14] Later he turned to journalism, travelling to his mother's country, and in 1831 became a teacher of English and French at a *gymnasium* in the port of Elbing in East Prussia. Learning economics in Germany, Prince Smith, by the 1830s, began writing articles on behalf of the free market, and vigorously defended seven professors who had been fired in 1837 from the University of Göttingen for protesting the despotic revocation of the liberal Hanoverian constitution. His ensuing difficulties with the Prussian educational administration led Prince Smith to leave his teaching post in 1840 and turn to full-time journalism.

Prince Smith not only came out generally for the free market, but also began a vigorous and consistent anti-war and anti-militarist stand, which brought him to advocate the elimination of the Prussian state's bulwark, the standing army, and its replacement by a far cheaper and popularly controlled citizens' militia.

In 1843, Prince Smith launched his lifelong crusade for freedom of trade, putting it in a historical and sociological context reminiscent of the writings of Comte and Dunoyer. Furthermore, Prince Smith made clear that for him 'free trade' meant not simply absence of international trade barriers but also an absolute free market at home, with the state confined only to police protection.[15]

In 1846, Prince Smith, joined by several associates, sent an address to Robert Peel, in which they congratulated the British prime minister for his outstanding achievement in repealing the Corn Laws. Peel's gracious and highly principled reply caused a sensation in Prussia, and Prince Smith was inspired by the response to found, in December of that year, the German Free Trade Union.[16] The union, consisting of business leaders and scholars, held its first, organizing meeting the following March in the hall of the Berlin Stock Exchange. The great majority of the 200 attendees were businessmen.

For the rest of his life, John Prince Smith led the way in Germany in agitating for free markets and free trade. In 1860, he founded the Economic Society as the successor to the Free Trade Union. His home in Berlin (he had married the daughter of a wealthy Berlin banker) became a salon for liberal Prussian politicians, some of whom formed the Progressive Party. In 1858, Prince Smith helped found the annual congress of German economists, which was dedicated to *laissez-faire* until its final meeting in 1885.

At the congress, Prince Smith delivered papers attacking usury laws, criticizing patents, and denouncing irredeemable paper money. In 1863, Prince Smith helped found and co-edited the *Quarterly Journal for Economy, Politics, and Cultural History (Vierteljahrschrift für Volkwirtschaft, Politik, und Kulturgeschichte)*, along with the ultra-individualist Julius Faucher (1820–78), Prince Smith's closest collaborator. The *Quarterly Journal* soon became 'the chief theoretical organ of classical liberalism in Germany',[17] and continued in existence for 30 years. Fluent in French, Prince Smith contributed to the French *Journal des Économistes*, and he also helped organize, and wrote for, a *Concise Dictionary of Economics (Handwörterbuch der Volkwirtschaftslehre*, 1866), modelled after the French *laissez-faire Dictionnaire d'Économie Politique*.

During the 1870s and 1880s, *laissez-faire* views in Prussia and Germany were swiftly replaced by the dominance of the German historical school, statism, and 'socialism of the chair'. This radical change was greatly fostered by the political triumph of Bismarck and Prussian militarism over classical liberalism, and the union of the bulk of the German nation under the Prussian domination of 'blood and iron'.

The high point of the European free trade movement came early, at a famous international congress of economists, organized by the Belgian free trade association at Brussels, from 16–18 September 1847. Inspired by the Anti-Corn Law League victory and the Bastiat movement, and by a triumphal 14 month-long European tour by Cobden in 1846–47, the congress met to decide the free trade question. Presided over by the Belgian de Brouckère, the congress consisted of 170 delegates from 12 countries, and included publicists, manufacturers, agriculturists, merchants and statesmen, as well as economists. While Bastiat was unable to attend, de Brouckère, in his opening address, hailed Bastiat as the 'zealous apostle of our doctrines'. Particularly active at the congress was the French delegation, especially Louis Wolowski, Charles Dunoyer, Jérome-Adolphe Blanqui and Joseph Garnier; also active was John Prince Smith, head of the Prussian delegation. Other prominent attendees were Colonel Thomas Perronet Thompson, of the English parliament, and James Wilson, editor of *The Economist*.

While a small contingent of protectionists spoke at the congress, they were swamped by the free traders, who passed a resounding declaration for freedom of trade. Unfortunately, plans for further meetings of the congress were broken up by the Revolution of 1848, which delivered a grave setback to the movement for economic freedom in Europe, from which it took some years to recover. After a brief Indian Summer of the 1860s, the *laissez-faire* movement for free markets, free trade and international peace, began in the 1870s and 1880s to give way, tragically, to a Europe of protectionism, militarism, welfare states, compulsory cartels and warring international power blocs.

Nationalist and statist economics, an industrial recrudescence of commercial mercantilism, began to dominate Europe.

14.4 Gustave de Molinari, first anarcho-capitalist

Of all the leading libertarian French economists of the mid- and late nineteenth centuries, the most unusual was the Belgian-born Gustave de Molinari (1819–1912). Born in Liège, the son of a Belgian physician and a baron who had been an officer in the Napoleonic army, Molinari spent most of his life in France, where he became a prolific and indefatigable author and editor in lifelong support of pure *laissez-faire*, of international peace, and in determined and intrasigent opposition to all forms of statism, governmental control and militarism. In contrast to British soft-core utilitarianism on public policy, Molinari was an unflinching champion of freedom and natural law.

Coming to Paris, the cultural and political centre of the French-speaking world, at the age of 21 in 1840, Molinari joined the Société d'Économie Politique on its inception in 1842, and became the secretary of Bastiat's association for free trade when it was formed in Paris in 1846. He soon became one of the editors of the association's periodical, *Libre-Échange*. Molinari quickly began to publish widely in the free trade and free market press in Paris, becoming an editor of the *Journal des Économistes* in 1847. He published his first of many books in 1846, *Études Economiques: sur l'Organisation de la Liberté industrielle et l'abolition de l'esclavage* (*Economic Studies: on the Organizaton of Liberty and the Abolition of Slavery*).

The young Molinari, however, hit the *laissez-faire*-oriented Société d'Économie Politique like a thunderclap in 1849, with his most famous and original work. He delivered a paper expounding, for the first time in history, a pure and consistent *laissez-faire*, to the point of calling for free and unhampered competition in what are generally called uniquely 'public' services: in particular, the sphere of police and judicial protection of person and private property. If free competition is better and more efficient in supplying *all other* goods and services, Molinari reasoned, why not for this last bastion, police and judicial protection – a view that over a century later would come to be called 'anarcho-capitalism'.

Molinari first set forth his view in the *Journal des Économistes*, the periodical of the Société, in February 1849.[18] This article was quickly expanded into book form, *Les Soirées de la Rue Saint-Lazare*, a series of fictional dialogues between three protagonists: the conservative (advocate of high tariffs and state monopoly privilege); the socialist; and the economist (clearly himself). The final, or eleventh, *Soirée* elaborated further on how his concept of free market protective services could work in practice.[19]

A meeting of the Société d'Économie Politique in the Autumn of 1849 was devoted to Molinari's radically new theory as expounded in the *Soirées*. After

Molinari had presented the essence of his proposal in a paper, the assembled libertarian dignitaries engaged in a discussion. Apparently the new theory threw them, because unfortunately no one dealt with the essence of the new doctrine. Charles Coquelin and Frédéric Bastiat could only fulminate that no competition anywhere can exist without a back-up by the supreme authority of the state (Coquelin), and that the force needed to guarantee justice and security can *only* be imposed by a 'supreme power', (Bastiat). Both engaged in pure assertion without argument, and both here chose to ignore what they knew full well in all other contexts: that this 'supreme power' had scarcely proved to be a reliable guarantor of private property in the past or present (to say nothing, alas, of the future).

Of all the leading libertarian minds assembled, only Charles Dunoyer deigned to try to rebut Molinari's argument. He deplored that Molinari had been carried away by the 'illusions of logic', and maintained that 'competition between governmental companies is chimerical, because it leads to violent battles'. Apart from ignoring the *truly* violent battles that have always occurred *between states* in our existing 'international anarchy', Dunoyer failed to grapple with the very real incentives that would exist in an anarcho-capitalist world for defence companies to engage in treaties, contracts and arbitrations.[20] Instead, Dunoyer proposed to rely on the 'competition' of political parties *within* a representative government – hardly a satisfactory solution to the problem of social conflict from a libertarian, anti-statist point of view. Dunoyer also opined that it was most prudent to leave force in the hands of the state, 'where civilization has put it' – this from one of the great founders of the conquest theory of the state!

Unfortunately, except for these few remarks, the libertarian economists assembled failed to deal with Molinari's thesis, their discussion largely criticizing Molinari for allegedly going too far in attacking all use of the power of eminent domain by the state.[21]

Particularly interesting was the general treatment of the maverick Molinari by his fellow French *laissez-faire* libertarian economists. Even though he persisted in advocating his anarcho-capitalist or free market protection views for many decades (e.g. in his *Les Lois Naturelles de l'Économie Politique*, 1887), Molinari was scarcely treated as a pariah for his heretical views. On the contrary, he was treated as he indeed was: the logical culmination of their own *laissez-faire* views which they respected even though they could not fully agree. On the death of Joseph Garnier in 1881, Molinari became the editor of the *Journal des Économistes*, a post which he occupied until his ninetieth year in 1909.[22] Molinari only backtracked on his anarchistic views in his very late works, beginning in his *Esquisse de l'organisation politique et économique de société future* (1899). Here he retreated to the idea of a single monopoly defence and protection company, which service would be contracted out by the central state to a single private corporation.[23]

How Molinari was considered by his colleagues may be seen from the footnote by Joseph Garnier, the editor of the *Journal*, on introducing Molinari's first revolutionary article in 1849. Garnier noted:

> Although this article may appear utopian in its conclusions, we nevertheless believe that we should publish it in order to attract the attention of economists and journalists to a question which has hitherto been treated in only a desultory manner and which should, nevertheless, in our day and age, be approached with greater precision. So many people exaggerate the nature and prerogatives of government that it has become useful to formulate strictly the boundaries outside of which the intervention of authority becomes anarchical and tyrannical rather than protective and profitable.[24]

Fifty-five years later, at the appearance of the first English translation of Molinari's work, his fellow-octogenarian, the *laissez-faire* attorney and economist, Frédéric Passy (1822–1912), wrote a moving tribute to his old friend and colleague Molinari. He wrote of his 'esteem and admiration for the character and talent' of the man 'who is the doyen of our ...liberal economists – of the men with whom, though, alas! few in number, I have been happy to stand side-by-side during more than half a century'. Passy went on to state that these liberal principles had been proclaimed by Cobden, Gladstone and Bright in England, and by Turgot, Say, Chevalier and Bastiat in France. 'And my belief grows yearly stronger that, but for these principles, the societies of the present would be without wealth, peace, material greatness, or moral dignity.' Molinari, Passy added, 'has maintained these principles from his youth', from his *Soirée de la Rue St. Lazare* during the 1848 Revolution, though lectures and writings, to his editorship of the *Journal des Économistes,* where 'month-by-month the important Review of which he is editor-in-chief repeats them in a fresh guise'. And finally, Molinari's books, where: 'annually, so to speak, a further book, as distinguished for clearness of grasp as for admirable literary style, goes out to testify to the constancy of his convictions no less than to the unimpaired vigour of his mental outlook and the virile serenity of his green old age.'[25]

14.5 Vilfredo Pareto, pessimistic follower of Molinari

One prominent person rarely associated by scholars with the Bastiat-Ferrara *laissez-faire* school was the eminent sociologist and economic theorist, Vilfredo Federico Damaso Pareto (1848–1923). Pareto was born in Paris into a noble Genoan family. His father, the Marchese Raffaelle Pareto, a hydraulic engineer, had fled Italy as a republican and supporter of Mazzini. The senior Pareto returned to Italy in the mid-1850s and gained a high rank in the Italian civil service. The young Pareto studied at the Turin Polytechnic where he earned a graduate engineering degree in 1869; his graduate thesis was on the fundamental principle of equilibrium in solid bodies. As we shall see in a later volume, Pareto's thesis led him to the idea that equilibrium in mechanics is the proper paradigm for investigation into economics and the social sciences.[26] After graduation, Pareto became a director of the Florence branch of the Rome Railway Company, and in a few years he became managing director of a Florence firm manufacturing iron and iron products.

Pareto soon plunged into political writing, taking a fiery stand in favour of *laissez-faire* and against all forms of government intervention, defending personal and economic freedom, and attacking plutocratic subsidies and privileges to business with equal fervour to his denunciations of social legislation or proletarian socialist forms of intervention. Pareto was one of the founders of the Adam Smith Society in Italy, and also ran unsuccessfully for Parliament twice during the early 1880s.

Heavily influenced by Molinari, Pareto's writings came to the latter's attention in 1887. Molinari then invited Pareto to submit articles to the *Journal des Économistes*. Pareto met the French liberals, and formed a friendship with Yves Guyot, who was to be Molinari's successor as editor of the *Journal* and who was to write Molinari's obituary in 1912. Shortly after getting in touch with Molinari, Pareto's mother died, and he was able to give up his manufacturing post, become a consulting engineer, get married, and retire to his villa in 1890 to devote the rest of his life to writing, scholarship, and the social sciences. Freed of his business duties, Pareto plunged into a one-man crusade against the state and statism, and formed a close friendship with the *laissez-faire* neoclassical marginalist economist Maffeo Pantaleoni (1857–1924), who drew Pareto into technical economic theory. Having become a Walrasian under Pantaleoni's tutelage, Pareto succeeded Léon Walras as professor of political economy at the University of Lausanne. Pareto continued at Lausanne, also teaching sociology, until 1907, when he fell ill, and retired to a villa on Lake Geneva, where he continued to study and write until his death.

Pareto's shift into technical neoclassical theory did not for a moment abate his ardent battle for freedom and against all forms of statism, including militarism. An idea of his trenchant *laissez-faire* liberalism can be gained from his article on 'Socialism and Freedom' published in 1891:

> So we can group socialists and protectionists under the name of restrictionists, whilst those who want to base the distribution of wealth solely on free competition can be called liberationists...
>
> Thus restrictionists are divided into two types: socialists, who through the intervention of the state, wish to change the distribution of wealth in favour of the less rich; and the others, who, even if they are sometimes not completely con-

> scious of what they are doing, favour the rich – these are the supporters of commercial protectionism and social organisation of a military type. We owe to Spencer the demonstration of the close analogy of these two types of protectionism. This similarity between protectionism and socialism was very well understood by the English liberals of the school of Cobden and that of John Bright and was clarified in the writings of Bastiat.[27]

Pareto's writings, furthermore, are studded with appreciative and often lengthy quotes from Molinari. Thus, in the same article on 'Socialism and Freedom', Pareto praises Molinari for advancing a unique and bold system that 'proceed(s) towards the conquest of freedom, using all the knowledge that is offered by modern science'.

In his 'Introduction to Marx's *Capital*' in a book on Marxism (*Marxisme et économie pure*, 1893), Pareto was clearly influenced by the French libertarian Dunoyer–Comte concept of the 'ruling class' as whatever group controls the state. He ended the chapter with a lengthy and admiring quote from Molinari, who carried through this libertarian class doctrine. Pareto ended the Molinari quote with this sentence: 'Everywhere the ruling classes have one thought – their own selfish interests – and they use the government to satisfy them.'[28]

Pareto's first great treatise on economics, the *Cours d'Économie Politique* (1896), was heavily influenced by both Molinari and Herbert Spencer. In every polity, he points out, there is a minority ruling class exploiting the majority who are the ruled. Tariffs Pareto treats as an example of legal spoliation, plunder and theft. Pareto left no doubt that his objective was to eradicate all such legalized plunder. As Placido Bucolo points out, Pareto did *not*, as some analysts claim, adopt a Marxian view of class struggle in his *Cours*. Instead, he adopted the French libertarian class doctrine. Thus, Pareto says in the *Cours*:

> the class struggle assumes two forms at all times. One consists in economic competition which, when it is free, produces the greatest ophelimity [utility] ...[For] every class like every individual, even if it only acts to its own advantage, is indirectly useful to the others... The other form of class struggle is the one whereby every class does its utmost to seize power and make it an instrument to despoil the other classes.[29]

Laissez-faire liberalism had been a genuine mass movement in much of the nineteenth century: certainly in the United States and Great Britain, and partially in France, Italy, Germany, and throughout western Europe. Much of the time in the latter half of the century, the socialist idea was considered less of a threat to liberty, by classical liberals such as Pareto and Spencer, than the existing system of militarist and warlike statism dominated by privileged businessmen and landlords, the system to which Pareto would give the vivid and contemptuous name, 'pluto-democracy'. By the turn of the century, however, it was becoming clear to *laissez-faire* liberals that the masses had been captivated by socialism, and that socialism would pose an even greater threat to freedom and free markets than had the older, neomercantilist, pluto-democratic system.

Laissez-faire liberals throughout Europe had been gloriously optimistic during most of the nineteenth century. It was obvious that liberty provided the most rational, the most prosperous, system, the system most attuned to human nature, the system that works for the harmony and peace of all peoples and nations. Surely, the centuries-long shift from statism to freedom, from 'status to contract' and from the 'military to the industrial' that had brought about the Industrial Revolution and immense improvement for the human race, was destined to continue and expand, ever onward and upward. Surely, freedom and the world market were bound to expand forever, and the state gradually to wither away.

The comeback, first, of aggressive business statism in the 1870s, followed by expanding mass support for socialism in the 1890s, however, put a rude end to the ingrained optimism of *laissez-faire* liberals. The perceptive *laissez-faire* thinkers saw that the twentieth century would bring the shades of night, and put an end to the great civilization – the realm of progress and freedom – that had been the product of nineteenth century liberalism. Pessimism and despair began to grip the slowly vanishing breed of *laissez-faire* liberals, and understandably so. They foresaw the growth everywhere of statism, tyranny, collectivism, massive wars, and social and economic decline.

Each of the aging *laissez-faire* liberals reacted to this momentous and fateful new trend in his own way. Spencer continued to fight on to the end, placing greater emphasis on what he considered the main threat of socialism as against the business statism that he had previously combated. Pareto's path was to change radically into a stance of bitter cynicism. The world, he concluded as he saw the inexorable decline of libertarian ideas and movements, is governed not by reason but by irrationality, and it now became Pareto's role to analyse and chronicle those irrationalities. Thus, in an article in 1901, Pareto notes that everywhere in Europe, both socialism and nationalism–imperialism are on the increase, and that classical liberalism is being ground down between them: 'all over Europe the Liberal party is disappearing, as are the moderate parties...The extremists stand face to face: on one side socialism, the great rising religion of our age; on the other side, the old religions, nationalism and imperialism.'[30]

Faced with the failure of his hopes and with the looming statist hell of the twentieth century, Vilfredo Pareto, in the words of his perceptive biographer S.E. Finer, decided to 'retreat to Galapogos', a remote island that, in the argot of Pareto's day, served as a metaphor and a vantage point for a totally detached analysis and critique of the folly looming around him.[31] The final push for Pareto on the road to 'Galapogos' came in 1902, when the Italian Socialist Party abandoned its opposition to the protectionist policy of the 'bourgeois' statist government. The two long-standing enemies of *laissez-faire* liberalism had now joined forces! From that point on, Pareto's retreat to a detached and aristocratic Olympian bitterness was complete.[32]

The first book of Pareto's in which the new pessimistic stance becomes dominant is his *Les Systèmes Socialistes* (2 vols, 1901–2). But his newly detached stance did not at all mean that he had abandoned his libertarian ideals or his method of social analysis. Indeed, Finer writes of Pareto that Molinari was 'a man whom [he] admired till his dying day'.[33] Thus Pareto writes bitterly of how in society, robbery through government is far easier, and hence more attractive, than hard work for the acquisition of wealth. As Pareto mordantly wrote, in a passage that anticipated such twentieth century libertarian theorists as Franz Oppenheimer and Albert Jay Nock:

> Social movements usually follow the line of least resistance. While the direct production of economic goods is often very hard, taking possession of those goods produced by others is very easy. This facility has greatly increased *from the moment when deprivation became possible through the law and not contrary to it.* [Italics Pareto's.] To save, a man must have certain control over himself. Tilling a field to produce grain is hard work. Waiting in the corner of a wood to rob a passer-by is dangerous. On the other hand, going to vote is much easier and if it means that all those who are unadaptable, incapable and idle will be able to obtain board and lodging by it, they will hurry to do so.[34]

Pareto unfortunately championed a positivist methodology in keeping with his reliance on the model of physics and mechanics. But this was more than offset by his supplying us a deathless anecdote in a brilliant defence of natural economic law as against the 'anti-economists' of the German historical school. It is an anecdote that Ludwig von Mises liked to relate in his seminar:

> Once, during a speech which he was making at a statistical congress in Bern, Pareto spoke of 'natural economic laws,' whereupon [Gustav] Schmoller, who was present, said that there was no such thing. Pareto said nothing, but smiled and bowed. Afterward he asked Schmoller, through one of his neighbors, whether he was well acquainted with Bern. When Schmoller said yes, Pareto asked him again whether he knew of an inn where one could eat for nothing. The elegant Schmoller is supposed to have looked half pityingly and half disdainfully at the modestly dressed Pareto – although he was known to be well off – and to have answered that there were plenty of cheap restaurants, but that one had to pay something everywhere. At which Pareto said: 'So there *are* natural laws of political economy!'[35]

14.6 Academic convert in Germany: Karl Heinrich Rau

While John Prince Smith and his colleagues were battling valiantly for *laissez-faire* in the court of business and public opinion, the most prominent academic economist in Germany was becoming a highly influential convert to the cause. Karl Heinrich Rau (1792–1870) was the most important academic economist in Germany in the first half of the nineteenth century, and perhaps down to his death in 1870. Rau was born in Erlangen, a Protestant town in northern Bavaria, and his father was Lutheran pastor and professor of theology at the university there. Graduating from Erlangen in 1812, Rau taught at secondary school, and in 1818 became professor of political economy at the University of Giessen. Four years later, Rau became professor of political economy at the University of Heidelberg and held that post until his death nearly half a century later. In addition to being a widely liked and influential teacher, Rau played an active and influential role in the government of Baden, indeed helping to shape the outlook of Baden officialdom for 50 years.

In addition to being a long-time consultant to the Baden government, Rau became a court councillor upon accession to the chair at Heidelberg, and became a privy councillor at Baden in 1845. Several times, Rau served in the Baden Diet, and in 1848 was elected a member of the Frankfurt Parliament.

Trained in German cameralism, Rau, for the first two decades of his lengthy career, was a temporizing moderate in his views, attempting to balance the Smithian system of natural liberty with cameralism, deductive theory with a compendium of facts and statistics. A cautious moderate, Rau was leery of abolishing the guilds, and defended an organicist view of the state as against Adam Smith.

On the other hand, as time went on, Rau became increasingly *laissez-faire* liberal and less and less statist. The beginning of this gradual but accelerating conversion came in the early 1820s; in 1819–20, Rau translated the six-volume treatise of the moderate Smithian Heinrich Friedrich von Storch, a Baltic German teaching in Russia and writing in French. Rau's German translation of Storch's *Cours d'économie politique* was published in three volumes.

Particularly important, however, was Rau's multi-volume textbook on economics, the *Lehrbuch der politischen Oekonomie*. The first volume of the *Lehrbuch* was published in 1826, and the second in 1828. The *Lehrbuch* promptly became the standard economics text in Germany, going through eight editions in Rau's lifetime, with a ninth edition of Volume I published six years after Rau's death. Moreover, Rau's *Lehrbuch* was translated into no less than eight languages![36]

Rau's increasingly classical liberal views were reflected in the successive editions of the *Lehrbuch*. Still more were they reflected in the pages of the economic journal, the *Archiv der politischen Oekonomie und Polizeiwissenschaft*, which Rau founded in 1835.

The culmination of Karl Rau's conversion to *laissez-faire* came at the height of libertarian economic opinion in Europe, in the years around 1847. In his address to the university community at Heidelberg in November 1847, Rau denounced state intervention as the creation of ever-increasing special privileges to the aid of selfish interest groups; state intervention, then, can only benefit one person or group at the expense of another. Moreover, government intervention, instead of curing social problems, creates many new problems of its own. Rau warned, in his Heidelberg address, of the liberties endangered by government planning and controls, and particularly warned of the spread of socialist and communist 'fantasies'; in the absence of private property and private enterprise, only force could be used to induce people to work.[37]

14.7 The Scottish maverick: Henry Dunning Macleod

Henry Dunning Macleod (1821–1902) was an exuberant and prolific Scottish maverick who, in the teeth of the Millian monolith dominating Britain after 1848, never received his due from British economists or British academics.[38] Macleod was born in Edinburgh, the son of a Scottish landowner, and studied mathematics at Trinity College, Cambridge, graduating in 1843. He became an attorney and was admitted to the bar six years later. Two years afterward, Macleod wrote a report on the administration of poor-relief in several Scottish parishes, and went on to establish the first poor-law union in Scotland. In 1854, Macleod was made a director of the Royal British Bank, and this immediately sparked a lifelong fascination with economics, and specifically with matters of money and banking.

Macleod wrote prolifically on monetary matters, his *Theory and Practice of Banking* (1855) becoming influential and going through five editions. Macleod took a firm gold standard and free banking position, unfortunately adopting also the banking school apologia for inflationary, fractional-reserve banking. Macleod was the one who introduced the term 'Gresham's law' into economics, and also contributed an important analysis of the ways in which fractional-reserve bank credit operates, in particular how bank loans *create* deposits, which then function on the market as money substitutes in the same way as bank notes.

If Macleod had confined his economic work to money and banking, he might have earned considerable respect among British economists; although he differed from the mainstream in favouring free banking, his pro-gold standard and anti-bimetallist views, as well as his banking school orientation, were close enough to the reigning orthodoxy to bring him the acclaim he deserved.[39] But Macleod ran into a wall of opposition in Britain because he stood squarely against the British Smith–Ricardo–Mill labour theory of value and material concept of wealth. As a result, Macleod's dream of becoming a professor never materialized.

Inspired by Archbishop Whately, Macleod went back to the late eighteenth century and discovered the Abbé de Condillac, whom he exuberantly declared to have been the true founder of economics, in contrast to the labour theory and materialist doctrine of Adam Smith. Enthusiastically adopting the Whately concept of 'catallactics' as the genuine method of economics, Macleod argued that Condillac, with his focus on economics as the science of exchanges, rather than 'wealth', was the founder of the catallactic approach. Condillac, noted Macleod, like the Italian economists of the eighteenth century, 'places the origin and source of value in the human mind, and not in labour, which is the ruin of English Economics'. Furthermore, Macleod asserted, Condillac was correct that exchange value stems from value conferred upon goods by consumers, so that value and demand derive solely from mental desires by consumers. Contrary to Smith and Ricardo who believed that the labour of producers confers value on products, 'Value does not spring from the labour of the producer, but from the desire of the consumer'.[40]

Since value stems from subjective valuation by consumers, it follows, declared Macleod, that men engage in exchange precisely because each man values what he gains more than what he gives up, else he would not have embarked on the exchange. Hence, echoing scholastic and continental theorists from Jean Buridan onwards, both parties to any exchange must gain in value. Macleod went on, in the proto-Austrian spirit, to declare that *anticipated* market prices determine costs that will be incurred in production rather than the other way round:

> It is indisputably true that things are not valuable because they are produced at great expense, but people spend much money in producing because they expect that others will give a great price to obtain them... Buyers do not give high prices because sellers have spent much money in producing, but sellers spend much money in producing because they hope to find buyers who will give more.[41]

As if Henry D. Macleod did not give enough offence to mainstream nineteenth and twentieth century economics, he capped his crimes by hailing the great libertarian and catallactician Frédéric Bastiat, whom he saluted as 'the brightest genius who ever adorned the science of Economics'. Bastiat, Macleod declared, 'plucked up by the roots the noxious fallacies which are the Economics of Adam Smith and Ricardo... He simply cleared away the stupendous chaos and confusion and mass of contradictions of Adam Smith...'[42]

In his revolutionary work of 1871 which brought marginalism and at least a semi-Austrian position to England, W. Stanley Jevons issued a cry from the heart against the 'noxious influence' of the stifling authority of John Stuart Mill over economics in England. Ever eager to find and rediscover neglected forerunners, Jevons hailed Bastiat and Macleod as well as Senior, Cairnes and others. Unfortunately, as is evidenced by his treatment at the hands of the *New Palgrave*, Macleod's reputation clearly needs to be resuscitated once again.[43]

14.8 Plutology: Hearn and Donisthorpe

Another forerunner and contemporary hailed by the revolutionary marginalist Stanley Jevons was the Irish–Australian economist, William Edward Hearn (1826–88). Born in County Cavan, Ireland, Hearn was one of the last students of the great Whatelyite economists at Trinity College, Dublin, entering in 1842 and graduating four years later. There he learned an economics very different from the dominant Millian school in Britain, an economics steeped in subjective utility theory and a catallactic focus upon exchange. Made the first professor of Greek at the new Queen's College, Galway in Ireland at the age of 23, Hearn received an appointment five years later, in 1854, as professor of modern history, logic and political economy as well as temporary professor of classics at the new University of Melbourne, Australia. In a country otherwise devoid of economists, Hearn had little incentive to pursue economic studies; he became dean of the law faculty and chancellor of the university. Most of his scholarship was devoted to such diverse subjects as the condition of Ireland, the government of England, the theory of legal rights and duties, and a study of the Aryan household, on all of which he published books issued in London as well as Melbourne. Hearn also served as a member of the legislative council of the state of Victoria and as leader of the Victoria House.

Hearn wrote only one book in economics from his eyrie in Australia, but it proved highly influential in England. *Plutology, or the Theory of the Efforts to Satisfy Human Wants*, was published in Melbourne in 1863 and reprinted in London the following year.[44] 'Plutology' was a term that Hearn adopted from the French *laissez-faire* economist J.G. Courcelle-Seneuil (1813–92), in his *Traité théorique et pratique d'économie politique* (1858) to mean a pure science of economics, a scientific analysis of human action. There are, indeed, hints in Hearn that he sought a broad science of human action going beyond even the limits of catallactics, or exchange.[45]

Hearn's *Plutology* was patterned after Bastiat. Like Bastiat, Hearn provided a *Harmonielehre*, demonstrating the 'unfailing rule' that the pursuit of self-interest produces a flow of services on the market in the 'order of their social importance'. Like Bastiat, Hearn began with a chapter on human wants, the satisfaction of which is central to the economic system. Human wants, Hearn pointed out, are hierarchically ordered, with the most intense wants satisfied first, and with the value of each want diminishing as the supply of goods to fulfil that want increases. In short, Hearn came very close to a full-fledged theory of diminishing marginal utility. Since each party to every exchange gains from the transaction, this means that each person gains more than he gives up – so that there is an inequality of value, and a mutual gain, in every exchange.

The value of every good, showed Hearn, is determined by the interaction of its utility with its degree of scarcity. Demand and supply thereby interact to determine price, and competition will tend to bring prices down to the minimum cost of production of each product. Thus Providence, through competition, brings about a beneficent social order, a natural harmony, through the free market economy.

In all these doctrines, Hearn anticipated the imminent advent of the Austrian School of economics, as well as echoing and building upon the best utility/scarcity/harmony–mutual benefit analyses of continental economics. Also anticipating the Austrian School, and building upon Turgot and various nineteenth century French and British writers including John Rae, was Hearn's analysis of entrepreneurship. The entrepreneur contracts with labour and 'capital' (i.e. lenders) at a fixed price, attains full title to the eventual output, and then bears the profit or loss incurred by eventual sale to the particular entrepreneur at the next stage of production.

Hearn also showed that capital accumulation increases the amount of capital relative to the supply of labour, and therefore raises the productivity of labour, as well as standards of living in the economy. He saw that capital could accumulate, and therefore living standards could increase in the economy, without limit. In addition, Hearn generalized the law of diminishing returns, expanding it from land to all factors of production, being careful to assume a given technology and supplies of natural resources.

A champion of free trade, William Hearn called for the removal of Catholic disabilities in Britain, the freeing of the Irish wool trade, the abolition of usury laws and entail, and the removal of all restrictions on transactions in land. Opposing government intervention, Hearn declared that government's only function is to preserve order and enforce contracts, and to leave all other matters to individual interest.

Hearn's *Plutology* was used as an economics text in Australia for six decades until 1924 – indeed it was virtually the only work on economics published in Australia until the 1920s. While the book went unnoticed upon its publication in London in 1864, it soon drew high praise from several economists, especially Jevons, who hailed it as the best and most advanced work on economics to date. Jevons featured *Plutology* prominently in his path-breaking *Theory of Political Economy* (1871). Apart from these citations, however, Hearn's work gave rise to only one plutological disciple. The attorney and mine-owner Wordsworth Donisthorpe (1847–?) published his *Principles of Plutology* (London: Williams & Norgate, 1876), which apparently was mentioned by no economic work from that day until the publication of the *New Palgrave* in 1987, either in the literature of the time or in any of the histories or surveys of economic thought. While scarcely an earth-shattering work, Donisthorpe's 206-page book certainly did not deserve to sink without trace.[46]

Most of *Principles of Plutology* was devoted to ground-clearing methodology, discussion of definitions, and attacks on plutology's great methodological rival, 'political economy'. But yet there was much valuable substantive discussion in Donisthorpe, a lucid writer who admirably wanted to forge a scientific economics that would clearly distinguish between analysis and ethical or political advocacy. Defining plutology as the purely scientific investigation of the uniformity or relations between values, Donisthorpe went on to point out that values are all relative; and that these values, including the value of money, vary continually and unpredictably, in contrast to units such as weights which remain fixed and unvarying. There are different intensities of wants, and different degrees of utility, and the interaction of these utilities and relative scarcities determine values.

In a proto-Austrian manner, Donisthorpe also distinguished between directly useful and indirectly useful goods, and showed how the latter had varying degrees of remoteness from the pleasure-giving stage of goods; in short, Donisthorpe engaged in a sophisticated analysis of the time-structure of production. He also had a pioneering analysis of the influence of substitutes and complements ('co-elements') upon values. While Donisthorpe's discussion of demand curves (i.e. schedules), supply, and price was interesting but hopelessly confused (e.g. he denied that an increased desire of consumers for a product would raise their demand for the product), he did present a remarkably clear foreshadowing of Philip Wicksteed's insight of four decades later that witholding the stock of a product by suppliers really amounts to the suppliers' 'reservation demand' for that product. Thus Donisthorpe:

> In the first place sellers and buyers are not two classes, but one class... To refuse a certain price for an article is to give that price for it. A proprietor who refuses to sell a horse for fifty guineas virtually gives fifty guineas for the horse in the hope of getting more for him another day, or else because he obtains more gratification from the horse than from fifty guineas. Proprietors who do not sell must be regarded as virtually buyers of their own goods.[47]

Perhaps from disappointment at the reception of his book, Wordsworth Donisthorpe, like Hearn before him, abandoned economic theory and plutology from then on, and spent the next two decades battling on behalf of libertarianism and individualism in law and political philosophy.[48]

14.9 Bastiat and *laissez-faire* in America

Frédéric Bastiat's writings found a receptive climate in *laissez-faire*-oriented United States. This was particularly true of the distinguished political and social scientist Francis Lieber (1800–72), a young Prussian scholar who had fled a central Europe inhospitable to German nationalism. In 1835, Lieber succeeded the Jeffersonian Thomas Cooper as professor of political economy and history at the University of South Carolina. Lieber's two-volume *Manual of Political Ethics* (1838–39) was a comprehensive defence of the absolute rights of private property, as well as its corollary, the right of free exchange of that property. 'Man yearns', said Lieber, 'to see his individuality represented and reflected in the acts of his exertions – in property'. Property, noted Lieber, existed before society and the state, and the state's function is to defend property rights, the unrestricted right of exchange, accumulations, and bequest, from attack. The role of the independent judiciary, an institution created in the United States, was to be guardian over private property, and to do so by applying the common law, 'a body of rules of action grown up spontaneously and independently of direct legislative or executive action'.

In 1856, Lieber acquired the chair of history and political science (formerly chair of political economy and history), at Columbia University in New York City. In his inaugural address at Columbia, Lieber delivered a paean to free exchange, which is fundamental to civilized life.

Lieber happily taught political economy from the text of Say's *Treatise*, and argued that economics teaches the idea of 'the natural, simple and uninterrupted state of things in which man is allowed to apply his means as best he thinks'. So devoted was Lieber to freedom of trade that he believed that the time would soon come when nations would include free trade in their bills of rights. Indeed, Lieber wrote the introduction to the first English translation of Bastiat's *Sophisms of Political Economy* in 1848. That translation had been made by Lieber's friend, Louisa Cheves McCord (1810–79), daughter of the former head of the Bank of the United States Langdon Cheves, and wife of Colonel David McCord, a protégé of Thomas Cooper and a South Carolina banker, planter, attorney and newspaper publisher. A devoted admirer of Bastiat, Mrs McCord also wrote journal articles denouncing socialism and communism.

But the two outstanding followers of Frédéric Bastiat in the United States were Francis Amasa Walker (1799–1875)[49] and his close friend and younger New Englander, the Rev. Arthur Latham Perry (1830–1905). Amasa Walker was the son of a blacksmith, who soon rose to become a successful shoe manufacturer in Boston as well as a railroad promoter. His earliest economic interest was in money and banking, where he became an ardent Jacksonian. Even though a bank director, Walker endorsed the currency principle, and fervently advocated 100 per cent gold money, with bank notes banned from going beyond the specie in the vaults of the banks. In addition, most notes, especially small denominations, were to be gradually eliminated. Bank credit, Walker pointed out, creates inflation and boom–bust cycles, as the banks face an outflow of gold abroad and are forced to contract their credit and bank notes. Walker also realized that gold discoveries need not create crises and panic, since the gold could make possible a more rapid achievement of 100 per cent specie money.

Amasa Walker retired from industrial activity in 1840, at the age of 41, and from then on devoted himself to economics and to political activity. He lectured on economics at Oberlin and Amherst, and from 1853 to 1860 was an examiner in political economy at Harvard. Walker wrote a number of essays for the New York financial organ, *Merchants' Magazine*, and in 1857 published a book on money and banking, *The Nature and Uses of Money*. He also served in the Massachusetts legislature and as secretary of the state of Massachusetts.

Walker, by then a lecturer at Amherst College, published, at the end of the Civil War, a scintillating general treatise on economics, *The Science of Wealth: A Manual of Political Economy* (Boston: Little, Brown, 1866), which incorporated his monetary views into a general treatise on *laissez-faire*. The book was immensely popular, at home and abroad, going into eight editions in the next eight years.

Walker's money and banking views were the centrepiece of his book. He took the rare position of advocating a system of free banking *within* a firm matrix of legally required 100 per cent reserve.[50] Walker wrote:

> Much has been said...of the desirableness of *free banking*. Of the propriety and rightfulness of allowing any person who chooses to carry on banking, as freely as farming or any other branch of business, there can be no doubt. But it is not, and can never be, expedient or right to authorize by law the universal manufacture of currency...[When] only notes equivalent to certificates of so much coin are issued, banking may be as free as brokerage. The only thing to be secured would be that no issues should be made except upon specie in hand.[51]

In his general economics, Walker emphasized catallactic analysis, and employed the concepts of wealth and value squarely in the Bastiat tradition. In fact, Walker heaped a great deal of praise on Bastiat's theory of value, and proceeded to include several pages of quotes and examples from Bastiat's *Harmonies*. In addition, Walker continued in the French tradition of stressing the entrepreneur as a force in production very different from that of the pure capitalist.[52]

But unquestionably the outstanding disciple of Bastiat in the United States was Arthur Latham Perry. Perry, a graduate of Williams College in 1852, almost immediately accepted the position in which he would spend the bulk of his life teaching history, political economy, and German at his *alma mater*. Perry had ben introduced to Bastiat's works by his friend Amasa Walker, and he reported that 'I had scarcely read a dozen pages in that remarkable book [Bastiat's *Harmonies of Political Economy*] when the Field of the Science, in all its outlines and landmarks, lay before my mind just as it does today [1883]...from that time Political Economy has been to me a new science; and that I experience then and thereafter *a sense of having found something...*'[53]

In the Spring of 1864, Perry wrote a series of articles on 'Papers on Political Economy' for the *Springfield Republican*, which set forth Perry's Bastiat-derived viewpoint on political economy. The proper focus of economic theory, he declared, was value, and value is determined by the mutual services exchanged in any transaction. The crucial axiom and focus of economic analysis, added Perry, is that men exert effort in order to satisfy desires, and trade is a mutual exchange of services to bring about those satisfactions. Both parties gain from every exchange, else they would not engage in the transaction. Workers, Perry pointed out, could only gain if more capital is employed in hiring them, which would increase wage rates per worker.

Encouraged by Walker, Perry expanded his articles into a textbook, published the following year. *Elements of Political Economy*, later called *Political Economy*, became by far the most successful economic textbook in the country, going through no less than 22 editions in 30 years. In his text, Perry not only paid tribute to Bastiat, but also hailed Macleod, and adopted the Macleod vision of the history of economic thought – saluting Condillac, Whately, Bastiat and Macleod as leaders of the correct services, catallactic, or what Perry called the 'All Sales' school.[54] Engaging in a detailed and sophisticated analysis of exchange and its preconditions in values and the division of labour, Perry went beyond Bastiat to purge economics totally of the vague and materialistic Smithian concept of 'wealth' and to focus instead completely on exchange.[55]

Although he did not use the term 'entrepreneur', Perry's concentration on value and exchange as a human *activity* led him to treat the businessman as an active forecasting entrepreneur rather than a robotic participant in a static general equilibrium. Thus: 'your man of business must be a man of brains. The field of production is no dead level of sluggish uniformity like the billowy and heavy sea'; instead, the occupation 'requires foresight, wise courage, and a power of adaptation to varying circumstances'.[56]

True to his focus on the great mutual benefits of exchange, Arthur Perry lauded free exchange and denounced all restrictions and limitations upon that process. Thus Perry points out that

> ...anybody can know that what is rendered in an exchange is thought less of on the whole than what is received. The slightest introspection tells any man *that*. As

> this must always be true of each of the parties to any exchange,...each is glad to part with something for the sake of receiving something else... A very little introspection will inform any person, that were this higher estimate wanting in the mind of either of the two parties, the trade would not take place at all... Hence no law or encouragement is needed to induce any persons to trade; trade is natural, as any person can see who stops to ask himself why he has made a given trade; and on the other hand, any law or artificial obstacle that hinders two persons from trading who would otherwise trade, not only interferes with a sacred right, but destroys an inevitable gain that would otherwise accrue to two persons alike.[57]

Perry particularly attacked such virulent interferences in free exchange as minimum wages, labour unions, usury laws, and paper money. While Perry, even more than Walker, failed to realize fully that bank deposits were as much part of the money supply as notes, he went even beyond Walker's 100 per cent reserve proposal for paper money, to calling for the eradication of paper money completely, even if backed 100 per cent by specie. He believed, however, that bank credit and issue of deposits should be totally free within that matrix.

Perry was especially vehement in attacking protectionism, writing numerous articles and delivering hundreds of speeches on behalf of free trade and against protection. The protective tariff, Perry pointed out, was unsound economically; it violated property rights, and it violated the letter and spirit of the Ten Commandments. A protective tariff stole from the western farmer to establish privileges for a few manufacturers. Perry courageously withstood the pressure of powerful Williams alumni, headed by ironmonger George H. Ely, against his free trade teachings. After the assassination of his former student, lifelong friend, and fellow-member of the Cobden Club of Great Britain, President James A. Garfield, Perry took the highly unpopular step in New England of leaving the Republican Party as the 'party of privilege' and corruption, and joining the Democratic Party. Much admired by free trade statesmen, Perry was asked by President Cleveland to be his secretary of the Treasury.

Another *laissez-faire* stalwart, at least for the prime years of his life, was Perry's friend and colleague who taught rhetoric at Williams, the Rev. John Bascom (1827–1911). During the 1850s and 1860s, Walker, Perry and Bascom made a formidable team in New England. Perry persuaded Bascom to write a book on economics, and Bascom's *Political Economy* (1859) extolled the forces of production and competition in seeking profit and in thereby benefiting the commonwealth. Government's only role is to protect the rights of private property, so that production can do its work. Bascom also pointed out that 'monopoly' can only be meaningfully defined as an exclusive grant of privilege by the government; otherwise *all* property could be called 'monopoly'. Bascom also joined Walker in advocating 100 per cent specie reserves to bank notes.

Later, John Bascom became president of the University of Wisconsin, and succeeded Perry in the chair of history and political economy at Williams when the latter retired in the 1890s. Bascom must have become a severe trial to his old friend, however, because by the 1880s, Bascom had begun to abandon the cause and write books in the new statist discipline of 'sociology'. Bascom now shifted drastically to call for the government privileging of labour unions, and for the abolition of the 'excess' of individualism. Bascom had now come to believe that the only danger from socialism and collectivism was 'unreasonable resistance to [this] organic force which is pushing into our lives'. 'Growth' [i.e. collectivism], Bascom smugly concluded, 'must have its way'.[58] Clearly, John Bascom had rapidly made his peace with the new intellectual current that swept Europe and the United States in the 1880s and 1890s.

One of the most unusual – and most advanced – of the American admirers of Frédéric Bastiat was the Boston merchant Charles Holt Carroll (1799–1890). A staunch adherent of free trade and *laissez-faire*, Carroll, in articles in mercantile and financial magazines from 1855 until 1879, concentrated on questions of money and banking. In essence, Charles Carroll was the last Jacksonian, continuing to argue the ultra-hard money cause long past the tremendous setback it received during the Civil War, when greenbackism and the national banking act necessarily led sound money men to concentrate on sheer return to the gold standard. Moreover, Carroll was not content to advocate 100 per cent banking; he perceptively and consistently urged 100 per cent banking for demand deposits as well as notes. Carroll, indeed, was particularly clear in demonstrating that bank demand deposits mainly arise from the extension of loans by the banks. He also pointed out the fallacy of the Smithian 'real bills' justification for fractional-reserve banking. Furthermore, Carroll realized that central banking, epitomized by the Bank of England, allows far more room for the expansion of fractional reserve and 'fictitious' money than would a system of free banking. But in addition, Carroll went beyond most hard-money advocates by calling for the elimination of such potentially dangerous currency *names* as 'the dollar' (which give the illusion that these units are goods-in-themselves), and their replacement as the currency unit by regular, ordinary-language definitions of weight in gold, e.g. in numbers of troy ounces. For international currencies, that is, for currencies not redeemable in a common metal, Carroll worked out the essence of the purchasing-power-parity theory for the underlying determination of exchange rates on the world market.[59]

14.10 Decline of *laissez-faire* thought

By the latter decades of the nineteenth century, *laissez-faire*, in economic thought and in social and political influence, was in decline throughout

Europe and the United States. Pareto was scarcely the only *laissez-faire* thinker in despair. Spearheaded by the welfare–warfare state developed in Prussia, academics and politicians alike scorned the 'old fashioned' tenets of *laissez-faire* and embraced the seemingly modern and 'progressive' advance of statism, state planning and welfare state measures. American academics, trained in Germany, the home of the Ph.D., came back from Europe singing the praises of the 'organic' Big State, scorned the idea of economic law and the market economy, and advocated class 'harmony' through Big Government. It is scarcely a coincidence that this new modern Big Government was desperately in need of academics, scientists, journalists and other opinion-moulding intellectuals, first, to engineer the consent of the public to the new dispensation of statism, and second, to participate in staffing, regulating, and legislating for the new planned economy. In short, the new dispensation meant a huge increase in monetary demand (by the state) for the services of pro-statist intellectuals, an important fact which did not go unnoticed among the ranks of the new progressive intelligentsia.

Throughout Europe, small associations of academics and businessmen dedicated to *laissez-faire* were replaced by larger organizations of mainly academics dedicated to professionalism and the promotion of their academic–economic gild. Not coincidentally, the new organizations were often explicitly statist and devoted to eradicating *laissez-faire*. Richard T. Ely, German-educated academic empire-builder devoted to institutionalism, statism, and Christian socialism, was the main founder of the American Economic Association, specifically excluding *laissez-faire* economists such as William Graham Sumner and Perry who had formed a political economy club; after this exclusionist policy was later rejected by Ely's colleagues as too extreme, Ely resigned from the AEA in a huff, and was only reconciled in later years.

Whereas *laissez-faire* thought was in decline, the tyranny of the British classical model, re-established by Mill in 1848, was ripe for collapse. The precedents for replacement of the classical model had already been worked out by past economists: by the scholastics, Cantillon, Turgot, and Say and the nineteenth century French; by Whately, the Trinity College, Dublin school, and Longfield and Senior, in Britain and Ireland. The next great advance in economic thought was the overthrow of the classical Ricardian paradigm, and the arrival of the subjectivist revolution (generally mis-labelled the marginalist revolution) beginning in the 1870s. The famous marginalist triad of Jevons, Walras and Menger and the Austrian School has been fortunately dehomegenized in recent years, inspired by the classic article of William Jaffé two decades ago,[60] and it is now clear that the revolution against the classical school paradigm went far beyond emphasis on the marginal unit of a good or service, especially in the hands of Carl Menger and his followers. But that is the stuff of another volume.

14.11 Notes

1. About's *Handbook* went into many editions. See the English translation, *Handbook of Social Economy, or the Worker's ABC* (London: Strahan & Co., 1872).
2. A century later, Bastiat's broken window fallacy served as the inspiration and centrepiece of Henry Hazlitt's excellent and best-selling economic primer, *Economics in One Lesson* (New York: Harper & Bros, 1946).
3. Dean Russell, *Frédéric Bastiat: Ideas and Influence* (Irvington-on-Hudson: Foundation for Economic Education, 1965), p. 20.
4. See Joseph T. Salerno, 'The Neglect of the French Liberal School in Anglo-American Economics: A Critique of Received Explanations', *The Review of Austrian Economics*, 2 (1988), p. 127.
5. See the sensitive appreciation of this aspect of Bastiat's contribution in Israel M. Kirzner, *The Economic Point of View* (Princeton, NJ: D. Van Nostrand, 1960), pp. 82–4.
6. On the trials and tribulations which the *laissez-faire* liberals had with the Revolution of 1848, which generally had an unfavourable effect on the *laissez-faire* movement, see David M. Hart, 'Gustave de Molinari and the Anti-Statist Liberal Tradition, Part I', *The Journal of Libertarian Studies*, V (Summer 1981), pp. 273–6.
7. For Cobden's encomiums to Bastiat, see Russell, op. cit., note 3, pp. 73–4.
8. Ibid., p. 90.
9. Thus Piero Barucci writes that Ferrara's value theory 'was meant to be a critical reply to Ricardo's labor theory of value, in which Ferrara did not see any element of subjectiveness. With his reproduction cost he intended to work out a theory of value which took into account both the element of cost and that of utility of goods. The value of a good would be, in this way, the comparison between the utility attributed by a subject to the good itself and the cost he thinks he would have to incur to reproduce the good. Indeed, this theory emphasized the fact of the utility of goods'. Piero Barucci, 'The Spread of Marginalism in Italy, 1871–1890', in R.D.C. Black, A.W. Coats, and C.D.W. Goodwin (eds), *The Marginal Revolution in Economics: Interpretation and Evaluation* (Durham, NC: Duke University Press, 1973), p. 260. Also see the important article by Salerno, op. cit., note 4, p. 121. And see ibid, p. 144n. 10, and F. Caffè, 'Ferrara, Francesco', *The New Palgrave: Dictionary of Economics* (London: Macmillan, 1987), II p. 302.
10. J.A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), p. 1081.
11. See Barucci, op. cit., note 9, p. 264. Achille Loria, the leading Italian socialist and historicist of this period, noted that Ferrara and his school lauded Bastiat, considered Ricardo and Stuart Mill as dangerous and sophistical theorists and abhorred the German economists as 'advocates of interventionism and socialism'. Although a fervent opponent of everything Ferrara stood for, Loria was perceptive – and gracious – enough to refer to Ferrara as 'the greatest Italian economist of the nineteenth century' and 'without doubt the greatest genius of which the economic science of our country boasts'. Salerno, op. cit., note 4, p. 144n8. Also see ibid., pp. 121–2.
12. In Norway, we know that a popular treatise on economics was inspired by Bastiat. (H. Lehmann, *Velstandslaere,* 1874.) On the Swedish Economic Society, see Eli F. Heckscher, 'A Summary of Economic Thought in Sweden, 1875–1950', *The Scandinavian Economic History Review*, 1 (1953), pp. 105–25.
13. Russell, op. cit., note 3, p. 91.
14. It is perhaps significant that Prince Smith's father, John Prince Smith, Senior, wrote tracts in favour of natural law and free trade, for example, *Elements of the Science of Money* (1813). See Donald G. Rohr, *The Origins of Social Liberalism in Germany* (Chicago: University of Chicago Press, 1963), pp. 85ff.
15. 'Prince Smith used the term "free trade" in a wide sense, as in his assertion...that "to the state free trade assigns no other task than just this: *the production of security*".' Ralph Raico, 'John Prince Smith and the German Free Trade Movement', in W. Block and L. Rockwell (eds.), *Man, Economy, and Liberty: Essays in Honor of Murray N. Rothbard* (Auburn, Ala.: The Ludwig von Mises Institute, 1988), p. 349n.8.

16. See W.O. Henderson, 'Prince Smith and Free Trade in Germany', *Economic History Review*, 2nd ser., 2 (1950), p. 297, rprt. in W.O. Henderson, *Britain and Industrial Europe, 1750–1870* (Liverpool, 1954).
17. Raico, op. cit., note 15, p. 346. On the near-individualist anarchism of Julius Faucher, see Andrew R. Carlson, *Anarchism in Germany, Vol. I: The Early Movement* (Metuchen, NJ: The Scarecrow Press, 1972), pp. 65–6.
18. Gustave de Molinari, 'De la production de la securité', *Journal des Économistes*, XXV (Feb. 1849), pp. 277–90. Translated as Gustave de Molinari, *The Production of Security* (trans. J. McCulloch, New York: Center for Libertarian Studies, May 1977).
19. See the complete translation of the eleventh *soirée* in 'Appendix', David M. Hart, 'Gustave de Molinari and the Anti-statist Liberal Tradition, Part III', *The Journal of Libertarian Studies*, VI (Winter 1982), pp. 88–102.
20. See Murray N. Rothbard, *For a New Liberty: the Libertarian Manifesto* (1973, rev. ed., New York: Libertarian Review Foundation, 1985). For an appreciative discussion of Molinari and of the concept of total privatization of protection from crime, see Bruce L. Benson, 'Guns for Protection and Other Private Sector Responses to the Fear of Rising Crime', in D. Kates (ed.), *Firearms and Violence: Issues of Public Policy* (San Francisco: Pacific Institute for Public Policy Research, 1984), pp. 346–56. Also see Benson, *The Enterprise of Law* (San Francisco: Pacific Institute, 1990).
21. For the discussion around Molinari's thesis, see the *Journal des Économistes*, XXIV (15 October 1849), pp. 315–6. For more on a summary of the discussion, see Murray N. Rothbard, 'Preface', Molinari, op. cit., note 18, pp. i–iii.
22. Molinari lived in Belgium during the decade of the 1850s. He returned to Belgium upon the *coup d'état* of Louis Napoleon in December 1851, which precipitated Bonaparte's despotism in France. With the aid of his friend Charles de Brouckère, Molinari was appointed professor of political economy at the Belgian Royal Museum of Industry in Brussels, and at the Higher Institute of Commerce in Antwerp. His lectures at the museum formed the basis of Molinari's major theoretical work, his *Cours d'Économie Politique* (2 vols, Paris, 1863). Molinari continued to write articles and reviews for the *Journal des Économistes* during his Belgian years, also founding the *Économiste belge* in 1855, an even more frankly radical journal which he continued to edit for another 13 years. Molinari returned to Paris in 1860, becoming editor-in-chief of the *laissez-faire* journal, the *Journal des Débats*, from 1871 to 1876.
23. This book was unfortunately the only one of Molinari's works to be translated into English, as *The Society of Tomorrow* (New York: G.P. Putnam's Sons, 1904). On Molinari's retreat in his later years, and for an elaboration of his views in general, see David M. Hart, 'Gustave de Molinari and the Antistatist Liberal Tradition, Part II', *The Journal of Libertarian Studies*, V (Autumn 1981), pp. 399–434.
24. Molinari, op. cit., note 18, pp. 1–2.
25. Frédéric Passy, 'Prefatory Letter', in Molinari, op. cit., note 23, pp. xxviii–xxix. A prolific author on economics himself, Passy was at one point president of the Société d'Économie Politique, as well as a member of the French Chamber of Deputies, 1881–88. Passy was a co-founder of the International Peace League in 1867, and, for his work on behalf of peace and international arbitration, was awarded the Nobel Peace Prize in 1901.
26. Pareto's role in the development of mathematical neoclassical general equilibrium theory will be treated in a later volume; the present section deals with his political economy. See however, on the Pareto–Croce debate on positivism *vs* praxeology as the proper economic method, Murray N. Rothbard, *Individualism and the Philosophy of the Social Sciences* (San Francisco: Cato Institute, 1979), pp. 54–6.
27. In P. Bucolo (ed.), *The Other Pareto* (London: Scolar Press, 1980), p. 44.
28. From Molinari's *Précis d'économie politique et de la moral* (1893), in Bucolo, op. cit., note 27, p. 68.
29. Quoted in ibid., p. 144.
30. Ibid., p. 141.
31. See the illuminating article by S.E. Finer, 'Pareto and Pluto-Democracy: the Retreat to Galapogos', *American Political Science Review*, 62 (1968), pp. 440–50. Even more im-

portant is Finer's introduction to Vilfredo Pareto, *Sociological Writings* (ed. S.E. Finer, London: Pall Mall Press, 1966).
32. See Bucolo, op. cit., note 27, p. 166.
33. Finer, in Pareto, op. cit., note 31, p. 18.
34. Bucolo, op. cit., note 27, pp. 149–50.
35. Theo Suranyi-Unger, *Economics in the Twentieth Century* (New York: W.W. Norton, 1931), p. 128. My own translation from Pareto's quoted sentence.
36. More specifically, eight editions appeared of Volume I, on theory, in Rau's lifetime, as well as five editions of Volume II, on economic policy, and five editions of Volume III, on public finance, beginning in 1832. A sixth posthumous edition of Volume III was revised by Rau's ex-student, also from Erlangen, Professor Adolph Wagner. Wagner also rewrote and published the ninth edition of Volume I in 1876. See Keith Tribe, *Governing Economy: The Reformation of German Economic Discourse 1750–1840* (Cambridge: Cambridge University Press, 1988), p. 183 and 183n.
37. See Donald G. Rohr, *The Origins of Social Liberalism in Germany* (Chicago: University of Chicago Press, 1963), pp. 78–84. Also see H.C. Recktenwald, 'Rau, Karl Heinrich', *The New Palgrave*, op. cit., note 9, IV, p. 96.
38. This is true of his current treatment by British academics as well, as witness the sustained sneer that permeates the article by Murray Milgate and Alastair Levy, "Henry Dunning Macleod," *The New Palgrave*, op. cit., note 9, III, pp. 268–9.
39. For an appreciative discussion of Macleod by a modern pro-gold standard, banking school French theorist, see Charles Rist, *History of Monetary and Credit Theory* (1940, New York; A.M. Kelley, 1966), pp. 73, 102, 203, 205, 261.
40. Salerno, op. cit., note 9, pp. 130–1. Also see, Murray N. Rothbard, 'Catallactics', *New Palgrave*, op. cit., note 9, II, p. 377.
41. Salerno, op. cit., note 9, p. 131. See Henry Dunning Macleod, *The Elements of Political Economy* (London: Longman, Brown, 1857), pp. 98–100, 111, 127. Also see Macleod, *The History of Economics* (New York: G.P. Putnam's, 1896); and idem., *A Dictionary of Political Economy*, Vol. I (London, 1863).
42. Salerno, op. cit., note 9, p. 132.
43. W. Stanley Jevons, *The Theory of Political Economy* (Baltimore: Penguin Books, 1970), pp. 57, 261. Also see Israel M. Kirzner, *The Economic Point of View* (New York: D. Van Nostrand, 1960), pp. 73, 202–3.
44. J.A. LaNauze writes of the Hearn work that 'It was an innovation in English political economy to begin a treatise with a chapter on human wants, and to make the satisfaction of wants a central theme... But his is an innovation only in English writing. The prominence which Hearn gives to wants is simply a reflection of his reading from French literature. His chapter is in places almost a transcription from Bastiat's *Harmonies*, and his sub-title echoes Bastiat's frequently repeated phrase, "Wants, Efforts, Satisfactions!"' J.A. LaNauze, *Political Economy in Australia* (Carlton, Australia: Melbourne University Press, 1949), pp. 56–8. See also the discussion of Hearn in Salerno, op. cit., note 9, pp. 125–9.
45. Kirzner, op. cit., note 43, pp. 202n7, 212n2.
46. Williams & Norgate was an important publisher of the day, the publisher of Herbert Spencer's works and of the philosophic journal *Mind*. This is not surprising in view of the libertarian individualist philosophy common to both Donisthorpe and Spencer.
47. Wordsworth Donisthorpe, *Principles of Plutology* (London: Williams & Norgate, 1876), p. 132. Also see Peter Newman, 'Donisthorpe, Wordsworth', *New Palgrave*, op. cit., note 9, I, pp. 916–7.
48. On Donisthorpe as libertarian, see W.H. Greenleaf, *The British Political Tradition*, Vol. II, *The Ideological Heritage* (London: Methuen, 1983), pp. 277–80.
49. Not to be confused with his son and namesake, a moderate statist who was to become first president of the American Economic Association. (Francis Amasa Walker, 1840–97.)
50. Walker, squarely in the American tradition, insisted, as against the British currency school, that bank deposits were fully as much part of the money supply as bank notes. And yet, oddly and inconsistently, he failed to include deposits in his 100 per cent reform proposal,

asserting unconvincingly that restriction of notes to their equivalent in specie would exert a sufficient check on the creation of deposits.

51. Amasa Walker, *The Science of Wealth* (3rd ed., Boston: Little, Brown, 1867), p. 230–31.
52. Ibid., pp. 9–13; also see Salerno, op. cit., note 9, pp. 133–5.
53. Arthur Latham Perry, *Political Economy* (1883, 21st ed., New York: Scribner, 1892), p. ix.
54. Despite his devotion to Walker for leading him to Bastiat, and despite his being one of those *laissez-faire* economists to whom Perry dedicated his book, Perry privately reproved Walker for 'being too much in bondage to Adam Smith'. See Sidney Fine, *Laissez-faire and the General-Welfare State* (Ann Arbor: University of Michigan Press, 1956), p. 52n16.
55. For an appreciation of Perry's contribution, see Kirzner, op. cit., note 43, pp. 75–7.
56. Joseph Dorfman, *The Economic Mind in American Civilization* (New York: Viking Press, 1949), III, p. 57.
57. Perry, op. cit., note 53, pp. 102–3.
58. Dorfman, op. cit., note 56, III, pp. 178–9.
59. For the collected writings of Charles H. Carroll, see Charles Holt Carroll, *Organization of Debt into Currency* (E. Simmons, ed., Princeton: Van Nostrand, 1964).
60. William Jaffé, 'Menger, Jevons and Walras De-Homogenized', *Economic Inquiry*, 14 (Dec. 1976), pp. 511–24.

Bibliographical essay

As we noted in Volume I, it is impossible for a bibliographical essay in a comprehensive history of economic thought to list, much less to annotate, every source for the history, much less for the important ancillary fields of history of social, political and religious thought, all of which, in addition to economic history proper, impinge on the development and conflicts in economic thought. The best I can do, then, is to describe and annotate those sources, largely secondary ones, which I found most helpful in working on this study. I hope, then, that this bibliographical appendix may serve as a guide to readers who wish to delve into various topics and areas in this vast and complex field.

Overall bibliographies

By far the most comprehensive bibliographical essay in the history of economic thought is the remarkably full treatment in Henry W. Spiegel, *The Growth of Economic Thought* (3rd ed., Duke University Press, 1991), which now stretches to no less than 161 pages, and is by far the most valuable feature of the book. The four-volume *New Palgrave: A Dictionary of Economics* (London: Macmillan, and New York: Stockton Press, 1987), contains a number of excellent essays on particular economists. At the other end of the spectrum, the brief sketches in the unpretentious paperback by Ludwig H. Mai, *Men and Ideas in Economics: A Dictionary of World Economists, Past and Present* (Lanham, MD: Rowman and Littlefield, 1977) are surprisingly useful. Fewer but far more in-depth entries are discussed in Mark Blaug, *Great Economists Before Keynes* (Cambridge: Cambridge University Press, 1986).

J.B. Say

It is truly a scandal that there is not a single biography of the great J.B. Say in English (and only one in French, an old work by Ernest Teilhac). In fact, there is precious little analysis of any aspect of Say's thought except for a mountain of work devoted to the small part of it known as 'Say's law' – and too much of *that* deals with mathematical equations that Say would have properly scorned in any case. Say's *magnum opus* is translated into English as *A Treatise on Political Economy* (ed. Clement C. Biddle, 6th Amer. ed., 1834, New York: A. M. Kelley, 1964), based on the final fifth French edition of 1826. Biddle's excellent notes occasionally correct lapses from *laissez-faire* by the author. Also see J.B. Say, *Letters to Mr. Malthus* (1821, New York: A.M. Kelley, 1967). It is also unfortunate that in the mighty and definitive multi-volume Sraffa edition of Ricardo's works and letters, Say's letters to Ricardo are printed in the original French and not translated into English. Considering the enormous resources that were poured into the Ricardo project, it is difficult to see why these letters were not translated.

On the ideologues and their philosophical and scientific background, see the notable discussion in F.A. von Hayek, *The Counter-Revolution of Science* (Glencoe, Ill.: The Free Press, 1952), pp. 105–16. De Tracy is covered fully in Emmet Kennedy, *Destutt De Tracy and the Origins of 'Ideology'* (Philadelphia: American Philosophical Society, 1978). On Say and the ideologues, see Leonard P. Liggio, 'Charles Dunoyer and French Classical Liberalism', *The Journal of Libertarian Studies*, 1 (Summer 1977), pp. 153–65; and Mark Weinburg, 'The Social Analysis of Three Early 19th Century French Liberals: Say, Comte, and Dunoyer', *The Journal of Libertarian Studies*, 2 (Winter 1978), pp. 45–63. Also see Charles Hunter Van Duzer, *Contribution of the Ideologues to French Revolutionary Thought* (Baltimore: The Johns Hopkins University Press, 1935). Some connections between the Ideologues, and Storch, Brown, and Mill can be found in Cheryl B. Welch, *Liberty and Utility: The French Idéologues and the Transformation of Liberalism* (New York: Columbia University Press, 1984). Welch, however, overstresses the alleged utilitarianism of the French school. On the conflict between the ideologues and Napoleon, see Lewis A. Coser, 'Napoleon and the Idéologues', in George B. de Huszar (ed.), *The Intellectuals* (Glencoe, Ill.: The Free Press, 1960), pp. 80–86.

On Jefferson's monetary views and his plan to eliminate bank paper, see Murray N. Rothbard, *The Panic of 1819: Reactions and Policies* (New York: Columbia University Press, 1962), p. 140. Also see Clifton B. Luttrell, 'Thomas Jefferson on Money and Banking: Disciple of David Hume and Forerunner of Some Modern Monetary Views', *History of Political Economy*, 7 (Spring 1975), pp. 156–73.

On Say as a Smithian, see J. Hollander, 'The Founder of a School', in J.M. Clark et al., *Adam Smith*, 1776–1926 (Chicago: University of Chicago Press, 1928) and on the influence of Say's *Treatise* in Europe, see Palyi, 'The Introduction of Adam Smith', in *ibid.*, pp. 180–233. On the influence of the *Treatise* in the United States, see Michael J.L. O'Connor, *Origins of Academic Economics in the United States* (New York: Columbia University Press, 1944), pp. 120–35.

A discussion of Say's critique of statistics is to be found in Claude Ménard, 'Three Forms of Resistance to Statistics: Say, Cournot, Walras', *History of Political Economy*, 12 (Winter, 1980), pp. 524–9. Ménard is incorrect, however, in believing that the last English translation of the *Traité* was the 1821 version based on the 4th French edition. For the currently available translation was based on the 5th French edition of 1826, and therefore includes Say's excellent Introduction presenting his critique of the statistical method.

A trenchant comparison and contrast between Say's and Ricardo's theories of value, and a critique of Say's rebuff of Condillac and Genovesi on the gains of exchange, is to be found in the excellent chapter, 'Ricardo versus

Say. Cost or Utility the Foundation of Value?', in Oswald St Clair, *A Key to Ricardo* (1957, New York: A. M. Kelley, 1965), pp. 260–96.

Say's theory of the entrepreneur is discussed, not totally satisfactorily, in J.A. Schumpeter's *History of Economic Analysis* (New York: Oxford University Press, 1954), and Robert F. Hébert and Albert N. Link, *The Entrepreneur: Mainstream Views and Radical Critiques* (New York: Praeger, 1982), pp. 29–35. For an excellent discussion of Say on the entrepreneur and a contrast with the treatments of Smith and Ricardo, see G. Koolman, 'Say's Conception of the Role of the Entrepreneur', *Economica*, 38 (August 1971), pp. 269–86. On Say's pre-Austrian view of the values of the factors of production being derived from their products instead of vice versa, see the passage in Marian Bowley, *Studies in the History of Economic Theory Before 1870* (London: Macmillan, 1973), p. 127.

The best place to read about Say's law of markets is in the bulk of his *Letters to Malthus* and in his *Treatise*. Most of the voluminous modern literature on Say's law has little to offer; but see Schumpeter, *History of Economic Analysis*, pp. 615–25; Henry Hazlitt, (ed.), *The Critics of Keynesian Economics* (1960, 2nd ed., New Rochelle, NY: Arlington House, 1977), pp. 11–45; and especially the grievously neglected William H. Hutt, *A Rehabilitation of Say's Law* (Athens, Ohio: Ohio University Press, 1974). Keynes's notorious attack on Say's law may be found in John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (New York: Harcourt, Brace, 1936), p. 23.

On Say's unique attitude of implacable hostility toward taxation, see Murray N. Rothbard, 'The Myth of Neutral Taxation', *Cato Journal*, 1 (Autumn, 1981), pp. 551–4. On Say and his followers as libertarians, see Weinburg, 'Social Analysis', pp. 54–63. On Say's methodology, see Murray N. Rothbard, *Individualism and the Philosophy of the Social Sciences* (1973, San Francisco: Cato Institute, 1979), pp. 45–49.

Jeremy Bentham

On Bentham and the Benthamites, see the classic work by Élie Halevy, *The Growth of Philosophic Radicalism* (1928, Boston: Beacon Press, 1955). For an excellent critique of the utilitarians, see John Plamenatz, *The English Utilitarians* (2nd ed., Oxford: Basil Blackwell, 1958); Bentham is discussed in Chapter 4. For a discussion of Bentham, the Benthamite circle, and the radicals, see William E.S. Thomas, *The Philosophic Radicals: Nine Studies in Theory and Practice, 1817–1841* (Oxford: The Clarendon Press, 1979). On Bentham as a weak reed as a *laissez-fairist*, see Ellen Frankel Paul, *Moral Revolution and Economic Science* (Westport, Conn.: Greenwood Press, 1979), pp. 45–80. The classic article on Bentham as a statist economist is T.W. Hutchison, 'Bentham as an Economist', *Economic Journal*, 66 (June 1956), pp. 288–306, reprinted in J. Spengler and W.R. Allen, *Essays in Economic Thought* (Chicago: Rand McNally, 1960), pp 330–48. On Bentham as a pre-Skinnerite, see Douglas C. Long, *Bentham on Liberty* (Toronto: University of Toronto Press, 1977). Gertrude Himmelfarb's blistering critique of Bentham as panopticon planner is in her *Victorian Minds* (1968, Gloucester, Mass.: Peter Smith, 1975), and in her 'Bentham's Utopia', in Himmelfarb, *Marriage and Morals Among the Victorians* (New York: Knopf, 1986), pp. 111–43. For a critique of utilitarianism as a basis for *laissez-faire* , see Murray N. Rothbard, *The Ethics of Liberty* (Atlantic Highlands, NJ: Humanities Press, 1982), pp. 201ff. Also see Rothbard, 'Praxeology, Value Judgments, and Public Policy', in E. Dolan (ed.), *The Foundations of Modern Austrian Economics* (Kansas City: Sheed & Ward, 1976), pp. 89–111.

For Bentham's economic writings, see the definitive three-volume edition by Werner Stark, *Jeremy Bentham's Economic Writings* (London: George Allen & Unwin, 1952–54).

James Mill

A perceptive study of James Mill and his pervasive influence on Ricardo and Ricardian economics is T.W. Hutchison, 'James Mill and Ricardian Economics: A Methodological Revolution?', in *On Revolutions and Progress in Economic Knowledge* (Cambridge: Cambridge University Press, 1978). Also see the earlier version of that article, Hutchison, 'James Mill and the Political Education of Ricardo', *Cambridge Journal*, 7 (Nov. 1953), pp. 81–100. The superb article by William O. Thweatt, 'James Mill and the Early Development of Comparative Advantage', *History of Political Economy*, 8 (Summer 1976), pp. 207–34, shows that Mill originated the important law of comparative advantage and that Ricardo lacked interest in the law for reasons implicit in his own Ricardian system. Also see William O. Thweatt, 'James and John Stuart Mill on Comparative Advantage: Sraffa's Account Corrected', in H. Visser and E. Schoorl (eds), *Trade in Transit* (Doordrecht: Martinus Nijhoff, 1987); Denis P. O'Brien, 'Classical Reassessments', in Thweatt (ed.), *Classical Political Economy; A Survey of Recent Literature* (Boston: Kluwer, 1988), pp. 188–93; and Thweatt, 'Introduction', *ibid.*, pp. 8–9.

For James Mill as the first 'Georgist', see William J. Barber, 'James Mill and the Theory of Economic Policy in India', *History of Political Economy*, 1 (Spring 1969), pp. 85–100. Mill's cadre activity and outlook is brilliantly and lucidly portrayed in two works by Joseph Hamburger, *James Mill and the Art of Revolution* (New Haven: Yale University Press, 1963), and *Intellectuals in Politics: John Stuart Mill and the Philosophic Radicals* (New Haven: Yale University Press, 1965). The first book shows how Mill manipulated public and government opinion behind the scenes, using systemic duplicity, to drive through the Reform Bill of 1832. The second, despite its title, deals more with James and his Millians than with John Stuart, and portrays and explains the rise and decline of the Millian radicals as a political force in Parliament in the 1830s. *Intellectuals in Politics* is also unique in setting forth and discussing James Mill's libertarian two-class theory of class conflict based on where a group stands in relation to the state. William Thomas's *Philosophic Radicals* should also be consulted on the Mills and the radicals. The standard, but very old, life is Alexander Bain, *James Mill: A Biography* (1882, New York: A.M. Kelley, 1967). As in so many areas of early nineteenth century social thought, Élie Halévy's *Growth of Philosophic Radicalism,* provides keen insights; indeed, it was this work that inaugurated the modern upward reevaluation of the contributions of James Mill.

On James Mill's central role in founding the highly influential Political Economy Club of London, see James P. Henderson, 'The Oral Tradition in British Economics: Influential Economists in the Political Club of London', *History of Political Economy,* 15 (Summer 1983), pp. 149–79.

For a recent discovery of the central role of James Mill in fostering the unfortunate real bills–banking school doctrine, see Morris Perlman, 'Adam Smith and the Paternity of the Real Bills Doctrine', *History of Political Economy,* 21 (Spring 1989), pp. 88–9.

David Ricardo and the Ricardian system

The literature on Ricardo and Ricardianism is almost as enormous as on Smith, and so it must be winnowed judiciously here. All of Ricardo's works and correspondence are collected in the definitive eleven-volume labour-of-love edition edited by the left–Ricardian neo-Marxist Piero Sraffa, *The Works and Correspondence of David Ricardo* (Cambridge: Cambridge University Press, 1951–55). There are no satisfactory biographies of Ricardo; the only one available is the chatty family history by David Weatherall, *David Ricardo* (The Hague: Martinus Nijhoff, 1976). The best explanation and critique of the Ricardian system is Oswald St Clair, *A Key to Ricardo* (1957, New York: A.M. Kelley, 1965). There are brilliant insights into Ricardo and Ricardianism scattered, in disorganized fashion, throughout Schumpeter's *History of Economic Analysis;* indeed, much of his *History* may be interpreted as a devastating assault on Ricardianism. For a properly acidulous view of Ricardianism, see also Frank H. Knight, 'The Ricardian Theory of Production and Distribution', in *On the History and Method of Economics* (Chicago: University of Chicago Press, 1956), pp. 37–8. Not surprisingly, some of the critiques of Adam Smith's theory apply also to Ricardo; see, in particular, Cannan's subtle *A History of the Theories of Production & Distribution* (3rd ed., London: Staples Press, 1917); Gray's sardonic and delightful *The Development of Economic Doctrine* (London: Longmans, Green, 1931); Douglas's lucid and trenchant 'Smith's Theory of Value and Distribution'; Ellen Paul's forceful and perceptive *Moral Revolu-*

tion and Economic Science (Westport: Conn.: Greenwood Press, 1979); and Richard H. Timberlake Jr's 'The Classical Search for an Invariable Measure of Value', *Quarterly Review of Economics and Business*, 6 (Spring 1966), pp. 37–44. For a demonstration of the crucial importance to the Ricardian system – in contrast to Smith – of the quantity-of-labour theory of value, see L.E. Johnson, 'Ricardo's Labor Theory of the Determinant of Value', *Atlantic Economic Journal*, 12, (March 1984), pp. 50–59.

Unlike Adam Smith, David Ricardo has fortunately not been the recent recipient of a centennial-type boost to his reputation. But the indefatigable Samuel Hollander was of course there, as in the case of Smith, torturing Ricardo into the mould of a modern general-equilibrium theorist. Samuel Hollander, *The Economics of David Ricardo* (Toronto: The University of Toronto Press, 1979).

In recent articles Terry Peach has set forth a masterful defence of the 'traditionalist' view of Ricardo presented in this work, as well as a critique of the 'corn model' interpretation of Ricardo offered by Sraffa, and of the opposing Hollander proto-general equilibrium approach. In particular, Peach shows that Ricardo was marked by an increasingly intensified labour theory of value, an overriding concentration on the long-run equilibrium 'natural price', on very rapid increases of population returning the economy to long-run equilibrium, and by a total neglect of the role of demand in price as well as of the role of scarcity in determining the supply of reproducible goods. See in particular, Terry Peach, 'David Ricardo: A Review of Some Interpretative Issues', in William O. Thweatt, (ed.), *Classical Political Economy: A Survey of Recent Literature* (Boston: Kluwer, 1988) pp. 103–31. Also see Peach, 'David Ricardo's Treatment of Wages', in R.D.C. Black (ed.), *Ideas in Economics* (London: Macmillan, 1986).

The last effusion of the orthodox Keynesian view of the alleged triumph of Ricardianism in Britain is Sydney G. Checkland, 'The Propagation of Ricardian Economics in England', *Economica*, n.s., 16 (Feb. 1949), pp. 40–52. Revisionism of this view began with Ronald L. Meek, 'The Decline of Ricardian Economics in England', *Economica*, n.s. 17 (Feb., 1950), pp. 43–62, continued through Schumpeter's *History* and culminated in two excellent articles: Frank W. Fetter, 'The Rise and Decline of Ricardian Economics', *History of Political Economy*, 1 (Spring 1969), pp. 67–84; and Barry Gordon, 'Criticism of Ricardian Views on Value and Distribution in the British Periodicals, 1820–1850', *History of Political Economy*, 1 (Autumn 1969), pp. 370–87. The anti-Say's law underworld in Britain is explored in Barry J. Gordon, *Non-Ricardian Political Economy: Five Neglected Contributions* (Boston: Harvard Graduate School Baker Library, 1967).

Whenever any hint appears deprecating either the wisdom or the majesty of David Ricardo we can depend upon Samuel Hollander to enter the fray in combat; and, sure enough, Hollander weighs in with the maverick view that simply everyone was a Ricardian. Samuel Hollander, 'The Reception of Ricardian Economics', *Oxford Economic Papers,* 29 (July 1977), pp. 221–57.

The anti-Ricardians

Perhaps the best place to begin a study of the host of important non- or anti-Ricardian economists in nineteenth century Britain is with the pioneering article that resurrected them from the oblivion in which they had been cast by the triumph of John Stuart Mill: Edwin R.A. Seligman's 'On Some Neglected British Economists, I', and 'On Some Neglected British Economists, II', in the *Economic Journal*, 13 (Sept. 1903), especially pp. 347–63, and in *Economic Journal*, 13 (Dec. 1903), pp. 511–35, reprinted in his *Essays on Economics* (New York: Macmillan, 1925). Seligman is particularly good on Craig, Longfield, Ramsay and Lloyd. R.C.D. Black's brief but highly important article on the Irish economists is his 'Trinity College, Dublin, and the Theory of Value, 1832–1863', *Economica*, n.s. 12 (August 1945), pp. 140–48. Also see J.G. Smith, 'Some Nineteenth Century Irish Economists', *Economica*, n.s. 2 (Feb. 1935), pp. 20–32. On Richard Whately, see Salim Rashid, 'Richard Whately and Christian Political Economy at Oxford and Dublin', *Journal of the History of Ideas*, 38 (Jan. – March 1977), pp. 147–55. On Whately, Lawson and catallactics, see Israel M. Kirzner, *The Economic Point of View* (Princeton, NJ: Van Nostrand, 1960), pp. 72–5; and Murray N. Rothbard, 'Catallactics', *The New Palgrave: Dictionary of Economics* (London: Macmillan, 1987), I, p. 377.

We are fortunate enough to have some comprehensive works on individual economists of this era. Particularly outstanding is Marian Bowley's *Nassau Senior and Classical Economics* (1937, New York: A.M. Kelley, 1949; Octagon Books, 1967). Miss Bowley deals not only with Senior but also with many of his confrères. S. Leon Levy's chatty and uncomprehending *Nassau W. Senior, 1790–1864* (New York: A.M. Kelley, 1970) provides useful information on Senior's life and genealogical background. Unfortunately, Miss Bowley's later collection of essays accomplishes little, reflecting a falling away from the previously perceptive Austrian position of herself and of her mentor Lord Robbins, and a wish to rejoin the Ricardians in the historiographical mainstream of economic thought. Marian Bowley, *Studies in the History of Economic Theory Before 1870* (London: Macmillan, 1973). Also excellent is Robert M. Rauner, *Samuel Bailey and the Classical Theory of Value* (Cambridge, Mass.: Harvard University Press, 1961). Rauner's book, however, unfortunately omits the Austrian orientation of Bailey's philosophy and methodology as expounded in Rauner's preceding doctoral dissertation at the University of London, 'Samuel Bailey and Classical Economics' (1956).

See Denis P. O'Brien, 'Critical Reassessments', in Thweatt (ed.), *Classical Political Economy*, pp. 199–200. Again, Laurence S. Moss, *Mountifort Longfield: Ireland's First Professor of Political Economy* (Ottawa, Ill: Green Hill Publishers, 1976), has the merit of dealing with other economists of the day in addition to Longfield, and contains an up-to-date bibliography. The definitive work on Colonel Torrens is Lionel Robbins, *Robert Torrens and the Evolution of Classical Economics* (London: Macmillan, 1958). The important work demonstrating that even the allegedly arch-Ricardian J.R. McCulloch was not really a Ricardian for very long, is Denis P. O'Brien, *J.R. McCulloch: A Study in Classical Economics* (New York: Barnes & Noble, 1970).

On Nassau Senior's notable exchange on population theory with T. Robert Malthus, see Bowley, *Nassau Senior*, pp. 117–22; Cannan, *History*, pp. 133–4; and Schumpeter, *History*, pp. 580–81.

Primary sources particularly rich in rewards for the reader are: Samuel Bailey's excellent *A Critical Dissertation on the Nature, Measure, and Causes of Value* (1825, New York: A.M. Kelley, 1967); Nassau W. Senior's *Outline of the Science of Political Economy* (1836, New York: A.M. Kelley, 1965); and *The Economic Writings of Mountifort Longfield* (R.D.C. Black, ed., Clifton, NJ: A.M. Kelley, 1972).

Useful journal articles are Thor W. Bruce, 'The Economic Theories of John Craig, a Forgotten English Economist', *Quarterly Journal of Economics*, 52 (August 1938), pp. 697–707; Laurence S. Moss, 'Isaac Butt and the Early Development of the Marginal Utility Theory of Imputation', *History of Political Economy*, 6 (Winter 1974), pp. 405–34; and Richard M. Romano, 'William Forster Lloyd – a Non-Ricardian?' *History of Political Economy*, 9 (Autumn 1977), pp. 412–41. Also on Lloyd, see Emil Kauder, *A History of Marginal Utility Theory* (Princeton, NJ: Princeton University Press, 1965), pp. 38–41.

On the life of Thomas Perronet Thompson, see the account by Norma H. McMullen, 'Thomas Perronet Thompson', in J. Baylen and N. Gossman (eds.), *Biographical Dictionary of Modern British Radicals, Vol I: 1770–1830* (Atlantic Highlands, NJ: Humanities Press, 1979), pp. 475–9. For Thompson on rent, see Robbins, *Robert Torrens*, pp. 43–4; on Thompson's critique of the cost theory of value, see Gordon, 'Criticism', p. 374. Also see Schumpeter, *History*, pp. 672–3, 713–4. On Thompson and the calculus, see Spiegel, *Growth*, pp. 293–4, 507–08.

The definitive study, biography, and collected works of John Rae (all that are still extant except the bulk of his geological papers), are to be found in R. Warren James's two-volume *John Rae: Political Economist* (Toronto: University of Toronto Press, 1965). Also see the discussion of Rae in Joseph Dorfman, *The Economic Mind in American Civilization, 1606–1865* (New

York: Viking Press, 1946), II, pp. 779–89; and Joseph J. Spengler, 'John Rae on Economic Development: A Note', *Quarterly Journal of Economics*, 73 (August 1979), pp. 393–406. The best critique of Rae's *New Principles* is in Eugen von Böhm-Bawerk, *Capital and Interest, Vol. I History and Critique of Interest Theories* (South Holland, Ill.: Libertarian Press, 1959), pp. 208–40.

For the isolated and remarkable case of the American subjective utility theorist Amos Kendall, developing his views in his Kentucky newspaper, see the full text of his articles in the *Autobiography of Amos Kendall*, ed., W. Stickney (1872, New York: Peter Smith, 1949), pp. 227–36. Also see Murray N. Rothbard, *The Panic of 1819: Reactions and Policies* (New York: Columbia University Press, 1962), p. 55.

For Nassau Senior, John Stuart Mill, and the early praxeology *vs* positivism debate, see Marian Bowley, *Nassau Senior*, pp. 27–65. Also see Rothbard, *Individualism*, pp. 49–51. For a contrasting view of the debate, see Fritz Machlup, 'The Universal Bogey', in M. Peston and B. Corry (eds.), *Essays in Honour of Lord Robbins* (White Plains, NY: International Arts & Sciences Press, 1973), pp. 99–117. On Dickens's *Hard Times* and its caricature of economics and utilitarianism, see Ludwig von Mises, *Socialism* (1922, Indianapolis: Liberty Classics, 1981), p. 422.

The bullionist controversy

Despite the importance and renown of the bullionist controversy for the emergence of monetary and banking thought in the early nineteenth century, there is no fully satisfactory account and analysis. A good chronological account can be found in Frank Whitson Fetter, *Development of British Monetary Orthodoxy, 1797–1875* (Cambridge: Mass.: Harvard University Press, 1965), which should be supplemented by the classic analytical discussion in Jacob Viner, *Studies in the Theory of International Trade* (New York: Harper & Bros, 1937), Chapters III–IV. Also see the brief but valuable treatment in Chi-Yuen Wu, *An Outline of International Price Theories* (London: George Routledge & Sons, 1939), still the best published history of theories of international money and prices. Edwin Cannan's 'Introduction' to the Bullion Report, both contained in *The Paper Pound of 1797–1821* (2nd ed., London, P.S. King & Son, 1925), is a classic discussion of the events of the restriction era.

Also useful is Lloyd W. Mints, *A History of Banking Theory in Great Britain and the United States* (Chicago: University of Chicago Press, 1945), which is however marred by his exclusive concentration on the evils of the real bills doctrine; and Charles Rist, *History of Monetary and Credit Theory From John Law to the Present Day* (1940, A.M. Kelley, 1966), which on the contrary, suffers from devotion to the real bills doctrine, at least under a gold standard.

By far the best treatment of the bullionist writers is by Joseph Salerno, 'The Doctrinal Antecedents of the Monetary Approach to the Balance of Payments' (doctoral dissertation, Rutgers University, 1980). Salerno's paradigm of classifying the variants of bullionists is a path-breaking one, from which all future discussion must start. His emphasis is on the international monetary aspect of the controversy.

Jacob H. Hollander's path-breaking article, 'The Development of the Theory of Money from Adam Smith to David Ricardo', *Quarterly Journal of Economics*, 25 (May 1911), pp. 429–70, is still indispensable. *The Dictionary of National Biography's* articles on the various writers and statements involved in the controversy often provide excellent background information.

Henry Thornton's contribution has been well served, perhaps too much so, by later historians. In particular, see F.A. von Hayek's extremely favorable 'Introduction' to the reprint of Thornton's *Inquiry* (New York: Farrar & Rienhart, 1939). Also see David A. Reisman, 'Henry Thornton and Classical Monetary Economics', *Oxford Economic Papers*, n.s. 23 (March 1971), pp. 70–89. For a biography, see Standish Meacham, *Henry Thornton of Clapham, 1760–1815* (Cambridge, Mass.: Harvard University Press, 1964); and on his banking activities, see E.J.T. Acaster, 'Henry Thornton – the Banker, Part I', *The Three Banks Review*, no. 104 (December 1974), pp. 46–57. For an opposing position, see Salerno, 'Doctrinal Antecedents'. On Francis Horner, see Frank W. Fetter, 'Introduction' to Fetter (ed.), *The Economic Writings of Francis Horner* (London: London School of Economics, 1957). And on John Wheatley, see Frank W. Fetter, 'The Life and Writings of John Wheatley', *Journal of Political Economy*, 50 (June 1942), pp. 357–76. Salerno, 'Doctrinal Antecedents', has single-handedly brought back into focus the notable achievements of Peter Lord King, in elaborating the complete bullionist position.

Thornton's crucial role in provoking David Ricardo into a mechanistic bullionism in opposition to the former's muddled approach, is brought out in the excellent and important article by Charles F. Peake, 'Henry Thornton and the Development of Ricardo's Economic Thought', *History of Political Economy*, 10 (Summer 1978), pp. 193–212. Also see Salerno, 'Doctrinal Antecedents'. On Ricardo, see also R.S. Sayers, 'Ricardo's Views on Monetary Questions', *Quarterly Journal of Economics* (1953), in T.S. Ashton and R.S. Sayers (eds.), *Papers in English Monetary History* (Oxford: The Clarendon Press, 1953), pp. 76–95. David Weatherall, *David Ricardo*, has a considerable discussion of Ricardo's monetary views. On the bullion committee report itself, see Fetter, *Development*; Frank W. Fetter, 'The Bullion Report Reexamined' (1942), in Ashton and Sayers, *Papers*, pp. 66–75, and especially the definitive Frank W. Fetter, 'The Politics of the Bullion Report', *Economica*, n.s. 26 (May 1959), pp. 99–120.

On the resumption of specie payment, see, in addition to many of the above sources, Cecil C. Carpenter, 'The English Specie Resumption of 1821', *Southern Economic Journal*, 5 (July 1938), pp. 45–54. Salim Rashid makes a notable contribution in uncovering the important influence of Edward Copleston on the return to gold, in Salim Rashid, 'Edward Copleston, Robert Peel, and Cash Payments', *History of Political Economy*, 15 (Summer 1983), pp. 249–59.

On the response to banking and the panic of 1819 in the United States, see Rothbard, *The Panic of 1819*. Also see Mark Skousen, *Economics of a Pure Gold Standard* (1977, 2nd ed., Auburn, Ala.: Ludwig von Mises Institute of Auburn University, 1988). On Jefferson, also see Luttrell, 'Thomas Jefferson', and on Busch and Storch, see the interesting discovery of Peter Bernholz, 'Inflation and Monetary Constitutions in Historical Perspective', *Kyklos*, 36, no. 3 (1983), pp. 406–9.

We are fortunate to have the Swedish controversy of the mid-eighteenth century era of fiat money brought recently to our notice. For an illuminating survey, see Robert V. Eagly (ed.), *The Swedish Bullionist Controversy* (Philadelphia: American Philosophic Society, 1971), in his 'Introductory Essay'. The remainder of the book translates Pehr Niclas Christiernin's 1761 tract for the first time, *Summary of Lectures on the High Price of Foreign Exchange in Sweden*. Also see the lengthy and fascinating article by Carl G. Uhr, 'Anders Chydenius, 1729–1803, A Finnish Predecessor to Adam Smith', *Western Economic Journal*, 2 (Spring 1964), pp. 85–116.

Currency and banking schools

The best overall summary of the currency and banking school controversy is Marion R. Daugherty, 'The Currency-Banking Controversy, Part I', *Southern Economic Journal*, 9 (Oct. 1942), pp. 140–55; and 'The Currency-Banking Controversy: II', *Southern Economic Journal*, 9 (Jan. 1943), pp. 241–50. The fullest and indispensable account is Frank W. Fetter, *Development of British Monetary Orthodoxy, 1797–1875* (Cambridge, Mass.: Harvard University Press, 1965). Also see Jacob Viner, *Studies in the Theory of International Trade* (New York: Harper & Bros, 1937), Chap. V, and, on the United States as well as Britain, Lloyd Mints, *A History of Banking Theory in Great Britain and the United States* (Chicago: University of Chicago Press, 1945). Elmer Wood, *English Theories of Central Banking Control, 1819–1858* (Cambridge, Mass.: Harvard University Press, 1939), is particularly good on the theoretical controversies in the aftermath of Peel's Act.

On the background of Peel's Act, see J.K. Horsefield, 'The Origins of the Bank Charter Act, 1844', in T.S. Ashton and R.S. Sayers (eds.), *Papers in English Monetary History* (Oxford: The Clarendon Press, 1953), pp. 109–25. Peel himself is re-evaluated in an important article by Boyd Hilton, 'Peel: A

Reappraisal', *Historical Journal*, 22 (Sept. 1979), pp. 585–614. Hilton is responsible for reinterpreting Peel as a statesman with increasingly fixed classical liberal principles, within which he used superb tactics to put his principles into effect. But Hilton, on the other hand, who does not understand economic theory, misconstrues who beats whom in economic argument, and sneers at Peel as being an inflexible dogmatist in contrast to the previous historical interpretation of Peel as unprincipled opportunist.

James Pennington is collected, brought to the fore, and analysed by R.S. Sayers in his edition of the *Economic Writings of James Pennington* (London: London School of Economics, 1963). Robert Torrens, his theories, and his controversies, are annotated and treated in a superb work by Lionel Robbins, *Robert Torrens and the Evolution of Classical Economics* (London: Macmillan, 1958). The best discussion of Thomas Tooke is still T.E. Gregory, 'Introduction', to Thomas Tooke and William Newmarch, *A History of Prices and of the State of the Circulation from 1792 to 1856* (New York: Adelphi Printing Co., 1928). Arie Arnon absurdly tries to make a key to Tooke's thought the latter's non-existent conversion to free banking. Arie Arnon, 'The Transformation in Thomas Tooke's Monetary Theory Reconsidered', *History of Political Economy*, 16 (Summer 1984), pp. 311–26. James Wilson's business cycle theory is illuminated in Robert G. Link, *English Theories of Economic Fluctuations, 1815–1848* (New York: Columbia University Press, 1959), which also has a good discussion of John Stuart Mill's cycle theory. For an elaboration of Wilson's thesis, see H.M. Boot, 'James Wilson and the Commercial Crisis of 1847', *History of Political Economy*, 15 (Winter 1983), pp. 567–83.

Vera C. Smith, *The Rationale of Central Banking* (1936, Indianapolis: Liberty Press, 1990) is a pioneering and excellent work on free and central banking school controversies in Britain, the United States, France and Germany, and is still by far the best work on the subject.

On Johann Louis Tellkampf, see, in addition to Smith, Joseph Dorfman, *The Economic Mind in American Civilization* (New York, 1946), II, pp. 833–5. Smith not only highlights important but otherwise obscure writers such as Cernuschi and Modeste, but also presents a good summary of the history of banking in the four countries in the nineteenth century. Particularly important is Smith's classifying her theorists on a two-dimensional, and therefore four-term, grid, i.e. where they stand on currency principle *vs* banking principle, and free *vs* central banking. Lawrence H. White, *Free Banking in Britain: Theory, Experience, and Debate, 1800–1845* (Cambridge: Cambridge University Press, 1984), performs the service of reviving emphasis on free banking thought, pro and con, after a 50-year hiatus. But while he adds more names to Smith's account for Great Britain, he is seriously misleading in shifting to a three-term classification and category mistake: free banking, banking school, and currency school. This new taxonomy ignores the fact that his free bankers are scarcely a united school, being seriously split into currency and banking men. Furthermore, the free bankers in Britain scarcely deserve being elevated to the dignity of a school of thought, since almost all of them were commercial bankers swaying to their economic interests of the moment, and not interested in consistent free banking. Moreover, White misleads by hailing Scotland in the first half of the nineteenth century as a land of free banking, when Scottish banks merely pyramided on top of the Bank of England, and were often bailed out by the bank. Neither can the Scottish banks be really said to rest on gold convertibility. They kept very little gold reserve, and greatly resisted any attempts by their customers to demand specie. White's attempt to show that the Scottish banks were superior to the English system makes not even a token effort to demonstrate that they were less inflationary; his sole evidence is a lower failure rate, which by no means shows that the banking system was working better for the economy. Sometimes, a truly competitive industry will have a higher failure rate than a privileged one, and so much the better.

For the fascinating debate among the French laissez-faire thinkers on how to apply libertarian principles to the vexed questions of banking, see, among others, Henri Cernuschi, *Contre le Billet de Banque* (Against Bank Notes) (Paris, 1866); Victor Modeste, 'Le Billet Des Banques D'Emmission et la Fausse Monnaie', (Bank Notes and False Money), *Journal des Économistes*, 3 (August 1866), pp. 188–212; Gustave Du Puynode, 'Le Billet de Banque N'est Ni Monnaie Ni Fausse Monnaie', (A Bank Note is Neither Money Nor False Money); ibid., 3 (Sept. 1866), pp. 392–5; Leon Wolowski, ibid., pp. 438–41; J.G. Courcelle-Seneuil, 'Le Billet De Banque N'est Pas Fausse Monnie', ('Bank Notes Are Not False Money'), ibid., 342–9; Victor Modeste, 'Le Billet Des Banques D'Emmission Est-Il Fausse Monnaie?' ('Are Bank Notes False Money?'), ibid., 4 (Oct., 1866), pp. 73–86; Gustave Du Puynode, 'Le Billet De Banque N'est Ni Monnaie Ni Fausse Monnaie', ('Bank Notes Are Neither Money Nor False Money'), ibid., 4 (Nov. 1866), pp. 261–7; Th. Mannequin, 'L'Emmission Des Billets de Banque' ('Bank Notes'), ibid., 4 (Dec. 1866), pp. 396–410.

John Stuart Mill

It is difficult to think of anyone in the history of thought who has been more egregiously and systematically overestimated, as an economist, as a political philosopher, as an overall thinker, or as a man, than John Stuart Mill. Unfortunately, historians have tended to follow the example of opinion in Mill's own lifetime. Current historians have continued this tradition, even in economics, where his reputation has unfortunately been making a comeback. As a corollary, the over-investment of 'scholarly resources' in Mill, in trying to track, interpret and render coherent his every word and thought, is enormous.

It is hardly possible, still less worthwhile, to ponder it all, and all the more difficult to find the proper assessment of him as a devious and muddled filiopietist. I can only recommend what I have found the most useful in uncovering the essential Mill.

First, of course, for Mill himself: most important for our purposes is his *Principles of Political Economy,* either in the classic Ashley edition (1909, rprt., Penguin, 1970), or in the edition in his *Collected Works* (2 vols, Toronto: University of Toronto Press, 1965). Also important is Mill's *Essays on Some Unsettled Questions on Political Economy* (1844, rprt., London: London School of Economics, 1948).

The standard biography is Michael St John Packe, *The Life of John Stuart Mill* (London: Secker & Warburg, 1954). Iris Wessel Mueller, *John Stuart Mill and French Thought* (Urbana, Ill: University of Illinois Press, 1956) is interesting on the influence of French socialist theorists on Mill. The quarrel (*cherchez la femme*!) over the extent to which Harriet Taylor influenced Mill in a socialist direction is reflected at length in F.A. von Hayek, *John Stuart Mill and Harriet Taylor* (Chicago: University of Chicago Press, 1951) (yes), and H.O. Pappe, *John Stuart Mill and the Harriet Taylor Myth* (Melbourne: Melbourne University Press, 1960) (no). In any case, there is no doubt that Mill suffered, as Gertrude Himmelfarb amusingly put it, from 'excessive uxoriousness'. The best portrayal of the young Mill as leader of the philosophical radicals is in Joseph Hamburger, *Intellectuals in Politics: John Stuart Mill and the Philosophical Radicals* (New Haven: Yale University Press, 1965).

Probably the best of the breed of recent apologia for Mill's economic policy views is Pedro Schwartz, *The New Political Economy of J.S, Mill* (Durham, NC: Duke University Press, 1972). For a sardonic corrective, see Ellen Frankel Paul, 'John Stuart Mill: 1806–1873', in *Moral Revolution and Economic Science* (Westport, Conn.: Greenwood Press, 1979), pp. 146–99.

The most recent, and by far the most grandiose, of the current glorifications of Mill is Samuel Hollander, *The Economics of John Stuart Mill* (2 vols; Toronto: University of Toronto Press, 1986). This work is Part III of Hollander's massive and bizarre project to transform all the classical economists into perfect little propounders of neoclassical, general equilibrium doctrine. A devastating and most welcome demolition of this entire enterprise is the review of the Mill volumes by Terence W. Hutchison, 'Review of *The Economics of John Stuart Mill,* by Samuel Hollander', *Journal of Economic Literature,* 25 (March 1987), pp. 120–22. Calling 'the whole gigantic operation' a 'reunification wrapped in anachronism', Hutchison asks:

> why should 1,037 pages be written – or read – on the economics of J.S. Mill? Why not compile a 1,037-page anthology of Mill's own economic writings with

> some useful notes and an informative introduction? Mill is not a newly discovered writer, and in any case, Hollander has no new biographical information to offer. Nor did Mill write so obscurely and abstrusely that a lot of space might be required to make his meaning clear. In fact, to this reviewer, Mill seems a rather more lucid and orderly writer than Hollander.

Hutchison points out that, since father James Mill cannot be fitted into the proto-Walrasian mould, his influence on his son is seriously underrated. In fact, Hutchison concludes that Hollander's volumes 'display an extraordinary capacity...for dismissing, disregarding, or devaluing evidence, however plain and unambiguous, that conflicts with the Hollander interpretations'. (Hutchison, pp. 120–21.)

Alexander Gray, *The Development of Economic Doctrine* (London: Longmans, Green, 1931), has an incisive discussion of Mill and Cairnes, pp. 277–92. There is a keen technical critique of Mill amidst the other classical economists, in Edwin Cannan's *A History of the Theories of Production & Distribution* (3rd ed., London: Staples Press, 1917).

One of the most valuable, and also one of the most neglected economists and historians of thought, of our time, is William H. Hutt. Hutt's *The Theory of Collective Bargaining 1930–1985* (San Francisco: Cato Institute, 1980), pp. 1–6, straightens out the century-old confusion about the wages fund theory and economists' attitude towards labour unions. And Hutt's *A Rehabilitation of Say's Law* (Athens, Ohio: Ohio University Press, 1974), should be consulted for Mill's ambivalent role in the advancement of that law.

The neo-conservative historian Gertrude Himmelfarb is almost always worth reading, even if we must dissent from her depiction of two Mills, the conservative compulsory moralist (good) and the libertarian (bad). Gertrude Himmelfarb, *On Liberty and Liberalism: The Case of J.S. Mill* (New York: Knopf, 1974). Mill is scarcely that clear-cut; in a sense, there is only one Mill – multi-faceted, self-contradictory, kaleidic, devious, muddled and filiopietistic.

By far the most useful essay on the strategy, reception, and importance of Mill's *Principles* is N.B. de Marchi, 'The Success of Mill's *Principles*', *History of Political Economy*, 6 (Summer 1974), pp. 119–57. Also on Mill as rehabilitating Ricardo, see Frank W. Fetter, 'The Rise and Decline of Ricardian Economics', *History of Political Economy*, 1 (Spring 1969), pp. 80–81. For the indirect impact of Mill's triumph, see J.G. Smith, 'Some Nineteenth Century Irish Economists', *Economica*, n.s. 2 (Feb. 1935), pp. 25–32; and R.D.C. Black, 'Trinity College, Dublin, and the Theory of Value, 1832–1863', *Economica*, n.s. 12 (August 1945), pp. 146–8.

For an excellent article on John Stuart Mill and the shift of classical liberals towards imperialism, see Eileen P. Sullivan, 'Liberalism and Imperialism: J.S. Mill's Defense of the British Empire', *Journal of the History of Ideas*, 44 (Oct. – Dec. 1983), pp. 599–617. On Wakefield, also see Leonard P. Liggio, 'The Transportation of Criminals: A Brief Political-Economical History', In R. Barnett and J. Hagel III (eds), *Assessing the Criminal: Restitution, Retribution, and the Legal Process* (Cambridge, Mass.: Ballinger Publication Co., 1977), pp. 285–91.

In Mill's shadow: Cairnes and the inductivists

On Cairnes's methodology, see John Elliott Cairnes, *The Character and Logical Method of Political Economy* (2nd ed., London: Macmillan, 1875); and Murray N. Rothbard, *Individualism and Philosophy of the Social Sciences* (1973; San Francisco: Cato Institute, 1979), pp. 49–50, On Cairnes and the Australian gold controversy, see Crauford D. Goodwin, 'British Economists and Australian Gold', *Journal of Economic History*, 30 (June 1970), pp. 405–26; and Frank W. Fetter, *Development of British Monetary Orthodoxy, 1797–1875* (Cambridge, Mass.: Harvard University Press, 1965), pp. 240–9.

On the rise of William Whewell and the Baconian inductivists, see N.B. de Marchi and R.P. Sturges, 'Malthus and Ricardo's Inductivist Critics: Four Letters to William Whewell', *Economica*, n.s. 40 (Nov. 1973), pp. 379–93; I. Bernard Cohen, *Revolution in Science* (Cambridge, Mass.: Belknap Press of Harvard University Press, 1985), p 528; and S.G. Checkland, 'The Advent of Academic Economics in England', *The Manchester School of Economic and Social Studies*, 19 (Jan. 1951), pp. 59–66.

Socialist and Marxist thought

On socialism in general, and on Marx and Marxism in particular, literally millions of words have been written, and out of this vast pot pourri and kitchen-midden I can only select those readings and sources which have proved most helpful. For an overall analysis and critique of socialism, the premier work is Ludwig von Mises, *Socialism* (3rd English ed. Indianapolis: Liberty Classics, 1981).

By far the most useful history of socialist thought is the brilliant, witty, perceptive, and properly mordant work by Alexander Gray, *The Socialist Tradition* (London: Longmans, Green, 1947). Also indispensable is the massive, enormously researched, and exciting work by James H. Billington, *Fire in the Minds of Men: Origins of the Revolutionary Faith* (New York: Basic Books, 1980). While not as strong in analysis of theories as Gray, Billington in unique in tracing all the interrelations of a large number of revolutionary and socialist figures, as well as revealing and stressing the numerous irrationalities of their positions. So deep is Billington's contempt for his subjects, however, that once in a while he mistakenly lumps *all* radical advocates of social change in with socialists, such as his big mistake of treating the *laissez-faire* radical J.B. Say as a socialist. These are minor flaws, however, in a monumental book. Also helpful is Igor Shafarevich, *The Socialist Phenomenon* (New York: Harper & Row, 1980).

On the other hand, the highly touted, multi-volume history of socialist thought by G.D.H. Cole, in particular Vol. I, *Socialist Thought: The Forerunners 1789–1850* (London: Macmillan, 1959), and Vol. II, *Socialist Thought: Marxism and Anarchism 1850–1890* (London: Macmillan, 1957), is woefully inadequate, both as history and as analysis.

Unfortunately, Alexander Gray's work omits the vital theme of apocalyptic millennialism in socialist and Marxist thought. On this theme see the amillennial Christian critique in Thomas Molnar, *Utopia: The Perennial Heresy* (New York: Sheed & Ward, 1967), and in the brief but profound article by Molnar, 'Marxism and the Utopian Theme', *Marxist Perspectives* (Winter 1978), pp. 144–58. Also see Molnar's mentor Eric Voegelin, 'The Formation of the Marxian Revolutionary Idea', *Review of Politics*, 12 (July 1950), pp. 275–302; and J.L. Talmon, *Political Messianism: The Romantic Phase* (New York: Praeger, 1960). See also the brief treatment of 'Socialistic Chiliasm', in von Mises, *Socialism*, pp. 249–55.

On the various radical groups during the English Civil War, see the good, up-to-date survey by F.D. Dow, *Radicalism in the English Revolution, 1640–1660* (Oxford: Basil Blackwell, 1985). The Dow book is marred by his taking the egalitarian communist Winstanley as the touchstone for evaluation of the other radical groups.

Theocratic millennialists such as the Rosicrucians are treated in Paul Gottfried, 'Utopianism of the Right: Maistre and Schlegel', *Modern Age*, 24 (Spring 1980), pp. 150–60. See also Gottfried, *Conservative Millenarians; the Romantic Experience in Bavaria* (New York: Fordham University Press, 1979).

The fascinating work by C. Patrides and J. Wittreich (eds.), *The Apocalypse: in English Renaissance Thought and Literature* (Ithaca: Cornell University Press, 1984), far broader than its subtitle, includes two important articles directly relevant to Marxism: Ernest L. Tuveson, 'The Millenarian Structure of *The Communist Manifesto*', pp. 323–41; and M.H. Abrams, 'Apocalypse: Theme and Variations', pp. 342–68.

M.H. Abrams's brilliant book, *Natural Supernaturalism: Tradition and Revolution in Romantic Literature* (New York: W.W. Norton, 1971), demonstrates that Marx's thought is an atheist variant of a pantheistic determinist view of human history. In this view, the collective organism, man, separated and alienated from God–nature–himself by the dialectical act of creation of the universe, is destined some day to return in a mighty cosmic merger into unity with God–nature–himself, thereby putting an end to history. Abrams demonstrates that this bizarre world-view permeated the entire Romantic period, not only in the poetic–philosophic system of Marx's spiritual mentor, Hegel, but also in Hegel's fellow German Romantics, such as Schlegel, Schiller, Schelling, Schleiermacher, Novalis, and in such English Romantics as Wordsworth and Coleridge. Abrams shows that this determined pantheistic–organicist 'upward spiral home' world-outlook continues down into such twentieth century Romantic figures as D.H. Lawrence.

Robert C. Tucker, *Philosophy and Myth in Karl Marx* (New York: Cambridge University Press, 1961) is the crucial, indispensable work in clarifying and illuminating the vital importance of millennial, apocalyptic communism in the Marxian system, as well as explicating Marx's path through Hegelianism to Marxian communism. Tucker's *Philosophy and Myth* is the most important single work on Marx's philosophy of communism, and therefore on Marxism as a whole. Tucker's second edition (Cambridge University Press, 1972), unfortunately adds nothing, even references. All it does is weaken a few of Tucker's anti-Marxian insights in a few passages. The monumental work of Leszek Kolakowski, *Main Currents of Marxism: Its Origins, Growth and Dissolution, I: The Founders* (New York: Oxford University Press, 1981), is particularly significant for its analysis of alienation and the Hegelian-and-Marxian dialectic in Plotinus and the heretical Christian mystics of the Middle Ages. Kolakowski brilliantly traces these concepts to the creatological heresy that God created man and the universe not out of an abundance of love but out of a felt need to remedy God's own imperfections.

The most complete collection of Marx and Engels's work in English is Marx and Engels, *Collected Works* (New York: International Publishers, 1975–), destined to be completed in 51 volumes.

There is also now available a three-volume labour of love by Hal Draper, *The Marx–Engels Cyclopedia* (New York: Schocken Books, 1985), giving every aspect of Marx's and Engels's lives in worshipful and even stupefying detail. Vol. I is the *Marx–Engels Chronicle,* an account of every day in the lives of the two heroes, Vol. II, the *Marx–Engels Register*, and Vol. III, the *Marx–Engels Glossary (and Index)*. Unfortunately, Draper's hagiographical approach leads him to deny the recent but accepted revelation that Marx fathered an illegitimate son, Freddie Demuth, by his housemaid, and then pressured his friend, patron, and patsy Engels into acknowledging the child as his own.

Of the numerous anthologies of Marx–Engels's writing, the best and most penetrating is Robert C. Tucker (ed.), *The Marx–Engels Reader* (2nd ed., New York: W.W. Norton, 1972).

Particularly valuable is Dr David Gordon's splendid annotated bibliographical essay, *Critics of Marxism* (New Brunswick, NJ: Transaction Books, 1986).

The best and most penetrating book on Marxism and Marxian economics is David Conway, *A Farewell to Marx: An Outline and Appraisal of His Theories* (Harmondsworth, England: Penguin Books, 1987). On the other hand, the most spectacularly overrated work on Marxism is Thomas Sowell, *Marxism: Philosophy and Economics* (London: Unwin Paperbacks, 1986), which for most of its length is more a work of Marxian apologetics than of critical analysis. For a devastating review of Sowell, see David Ramsay Steele, 'Review of Thomas Sowell, *Marxism: Philosophy and Economics*', *International Philosophical Quarterly*, 26 (June 1986), pp. 201–3.

There is no completely satisfactory biography of Marx. One of the great merits of the rather stodgy David McLellan, *Karl Marx: His Life and Thought* (New York: Harper & Row, 1973) is that it has at last displaced as the standard life of Marx the outdated and hagiographical Franz Mehring, *Karl Marx: The Story of His Life* (Ann Arbor, Michigan: University of Michigan Press, 1962). Robert Payne's excellent but underrated *Marx* (New York: Simon & Schuster, 1968), uncovered the sordid story of Marx's foisting of his illegitimate son upon the hapless Engels. Payne's work was the first time this important disclosure appeared in English. The original revelation was in the German work by Werner Blumenberg, *Karl Marx...*(Hamburg, 1962), but Payne added considerable new evidence, even tracking down the illegitimate son's birth certificate. Leopold Schwarzchild, *The Red Prussian: The Life and Legend of Karl Marx* (New York: Scribner's, 1947), is refreshingly critical of someone who certainly deserves it, but the work is not only out of date, it is short on scholarship and long on fictional 'thoughts' and 'statements' allegedly and without evidence emitted by Marx.

Fortunately, there is now, at long last, an excellent biography available of Engels, the thorough and vivid W.O. Henderson, *The Life of Friedrich Engels* (2 vols, London: Frank Cass, 1976).

In addition to Tucker, extremely valuable on Marx as a philosophico-religious communist, as well as on Marx's youthful path to communism, is Bruce Mazlish, *The Meaning of Karl Marx* (New York: Oxford University Press, 1984). In this work, Mazlish keeps his propensity toward psychoanalytical history under restraint. On Marx as communist, also see Murray N. Rothbard, 'Karl Marx: Communist as Religious Eschatologist', in Yuri Maltsev (ed.), *Requiem for Marx* (Auburn, Ala.: Ludwig von Mises Institute of Auburn University, 1993), pp. 221–94. Also indispensable on the young Marx, including the translated text of his revealing poetic drama, *Oulanem*, is Robert Payne, *The Unknown Karl Marx* (New York: New York University Press, 1971). For other translations of the poems, also see Pastor Richard Wurmbrand, *Marx and Satan* (Westchester, Ill.: Crossway Press, 1986), although Wurmbrand goes beyond the evidence in claiming that Marx was actually a member of a Satanic cult. On Marx, also see Fritz J. Raddatz, *Karl*

Marx: A Political Biography (Boston: Little, Brown, 1978). An excellent but grievously neglected work on Marx and on the Marxian system is Gary North, *Marx's Religion of Revolution: Regeneration Through Chaos* (1968, 2nd ed., Tyler, Texas: Institute for Christian Economics, 1989). North properly stresses the essence of Marxism as a 'religion', and he was also the first to puncture the myth of Marx as 'poverty-stricken' during his years in London. Instead, North demonstrates that Marx lived high off the hog supplied by Engels and other devoted followers, all the while whining about his money problems, demanding new subventions and constantly in debt. And all the time denouncing 'money fetishism' under capitalism! North also helps correct the common underestimation of Engels and overvaluation of Marx, which he shrewdly attributes to Engels's 'traditional Germanic awe of the academic drudge, [which] colored his own self-evaluation right up until his death'. North, 'Preface', *Religion of Revolution*, p. xliii. For an excellent summation of North's findings about Marx's sponging and other unlovely aspects of his character, see Gary North, 'The Marx Nobody Knows', in Maltsev (ed.), *Requiem for Marx*, pp. 75–124.

On Hegel and on Marx's derivation of his world-outlook from Hegel, Tucker's *Philosophy and Myth* is excellent. Kolakowski's *Main Currents* is indispensable on the origins of the dialectic, and Raymond Plant's *Hegel* (Bloomington, Indiana: University of Indiana Press, 1973) has been particularly helpful and lucid in ploughing through the Hegelian morass, especially on his political philosophy. On Hegel's influence from Sir James Steuart see also Paul Chamley, 'Les origines de la pensée économique de Hegel', *Hegel-Studien*, Band 3 (1965), pp. 225–62. On Hegel's political philosophy, also see the anthology in Walter Kaufmann (ed.), *Hegel's Political Philosophy* (New York: Atherton Press, 1970), especially E.F. Carritt, 'Reply', (1940). For a blistering critique of Hegel, see Karl R. Popper, *The Open Society and Its Enemies* (New York: Harper Torchbooks, 1963), Volume II. On Left revolutionary Hegelianism, see Billington, *Fire in the Minds*, and David McLellan, *The Young Hegelians and Karl Marx* (London: Macmillan, 1969).

On historical materialism and the dialectic in Marx, see the lucid and powerful critique by Ludwig von Mises in *Theory and History* (1957, Auburn, Ala.: von Mises Institute, 1985), pp. 102–58; the detailed rebuttal to Marx by John Plamenatz, in *German Marxism and Russian Communism* (New York: Longmans, Green & Co., 1954), pp. 9–54, supplemented by Plamenatz, *Man and Society, II* (London: Longmans, 1963); and the classic work by M.M. Bober, *Karl Marx's Interpretation of History* (2nd rev. ed., Cambridge, Mass.: Harvard University Press, 1948).

On the Marxian concept of class and class struggle, see the profound critique by Ludwig von Mises, in *Socialism: An Economic and Sociological Analysis* (3rd ed., Indianapolis: Liberty Classics, 1981), pp. 292–313. Von

Mises's brilliant juxtaposition of the concepts of 'class' *vs* 'caste' was introduced here, with the term 'estate' being used for the latter concept. 'Caste' was used, instead, in von Mises, *Theory and History*, pp. 112–47, which also critically analyses the Marxian doctrine of 'ideology'. For an excellent discussion of class and caste, also see Walter Sulzbach, '"Class" and Class Struggle', *Journal of Social Philosophy and Jurisprudence*, 6 (1940–41), pp. 22–34.

On Marx and Engels's occasional confused lapse into the libertarian caste notion of class, particularly in their analyses of contemporary French events, see the little gem of an article by Ralph Raico, 'Classical Liberal Exploitation Theory: A Comment on Professor Liggio's Paper', *The Journal of Libertarian Studies*, 1 (Summer 1977), pp. 179–83. And see in particular the expansion of Raico's analysis in his 'Classical Liberal Roots of the Marxist Doctrine of Classes', in Maltsev (ed.), *Requiem for Marx*, pp. 189–220. On the confusions in the concept of 'bourgeois' which aggravated this muddle, see Raico, 'Classical Liberal Exploitation', p. 179; and the illuminating discussion in Raymond Ruyer, 'The New Bourgeois' (unpublished MS, 8 pp., translated by R. Raico from Ruyer, *Éloge de la societé de la consommation*, Paris: Calmann-Levy, 1969).

On the Saint-Simonians as the carrier of the confused version of the class doctrine, and the relation between Saint-Simon and the libertarians Charles Comte and Charles Dunoyer, see the *locus classicus* of this history in Élie Halévy, 'Saint-Simonian Economic Doctrine', (1907), in his *The Era of Tyrannies* (1938, Garden City, NY: Doubleday Anchor Books, 1965), pp. 21–104. Also see Leonard P. Liggio, 'Charles Dunoyer and French Classical Liberalism', *Journal of Libertarian Studies*, 1 (Summer 1977), pp. 153–78. Mark Weinburg, 'The Social Analysis of Three Early 19th Century French Liberals: Say, Comte, and Dunoyer', 2 (Winter 1978), pp. 45–63; and James Bland Briscoe, 'Saint-Simonianism and the Origins of Socialism in France' (doctoral dissertation in history, Columbia University, 1980). For a modern translation of a work of a leading member of the Comte–Dunoyer school, see Augustin Thierry, *Theory of Classical Liberal 'Industrielisme'* (trans. Mark Weinburg, New York: Center for Libertarian Studies, Feb. 1978).

On the relationship, and contrast, between the *laissez-faire* liberal ideologues, and the scientistic and technocratic Saint-Simonians, see the important work of F.A. von Hayek, *The Counter-Revolution of Science* (Glencoe, Ill.: The Free Press, 1952). A major work of the Saint-Simonians is translated as *The Doctrine of Saint-Simon: An Exposition* (trans. G.G. Iggers, Boston: Beacon Press, 1958). The totalitarianism of the Saint-Simonians is denounced in Georg G. Iggers, *The Cult of Authority* (2nd ed., The Hague: Martinus Nijhoff, 1970); and their follies wittily revealed by Alexander Gray, *The Socialist Tradition*, pp. 136–68; and sometimes hilariously portrayed in

J.L. Talmon, *Political Messianism: The Romantic Phase* (New York: Praeger, 1960), pp. 35–124. The movements of the Saint-Simonians, and their influence on Marx, are traced in Billington, *Fire in the Minds*; and for the Kovalevsky revelation of his childhood mentor Baron Ludwig von Westphalen's Saint-Simonian influence on Marx, see Georges Gurvitch, 'Saint-Simon et Karl Marx', *Revue Internationale de Philosophie*, 14 (1960), p. 400.

The best discussion of the Ricardian socialists: William Thompson, John Gray, and John Francis Bray, is in the always scintillating Alexander Gray, *The Socialist Tradition* (London: Longmans, Green, 1947), pp. 269–96. On these three, and especially on Bray, also see G.D.H. Cole, *Socialist Thought: The Forerunners, 1789–1850* (London: Macmillan, 1959), pp. 112–9, 132–9. Also on Bray, see Joseph Dorfman, *The Economic Mind in American Civilization, 1606–1865* (New York: Viking Press, 1946), II, pp. 686–9, 961–2.

On Thomas Hodgskin, we are fortunate enough to have a superbly written biography, by the great Élie Halévy, *Thomas Hodgskin* (1903, London: Ernest Benn Ltd, 1956). It is now all the more true what Alexander Gray first wrote in 1948: 'It is rather extraordinary, and not wholly creditable to us, that we should be indebted to a Frenchman for the only biography of Hodgskin; it is even more extraordinary that we should have to rely for our knowledge of a large part of Hodgskin on such extracts from his unpublished papers as M. Halevy has elected to translate into French.' Gray, *Socialist Tradition*, p. 278n. The great improvement, however, is that the Halevy book is now translated into English.

Also on Hodgskin, see Gray, *Socialist Tradition*, pp. 277–83; Gray, a hard taskmaster, is appreciative of Hodgskin's talents, praising his 'intellectual eminence and distinction', and adding that Hodgskin 'leaves most acutely a feeling that here was one designed for greatness which, owing to the misfits of time and of life, was never attained' (p. 277).

For a valuable article on Hodgskin and the *Economist*, which, however, overrates the influence of Hodgskin on Herbert Spencer, see Scott Gordon, 'The London *Economist* and the High Tide of Laissez Faire', *The Journal of Political Economy*, 63 (Dec. 1955), pp. 461–88.

On Marx and the economics of capitalism, see Conway, *A Farewell to Marx;* and the classic refutation of Marx's theory of value by Eugen von Böhm-Bawerk, *Karl Marx and the Close of His System* (Sweezy ed., New York: Kelley, 1949). On Marx and the iron law of wages, see Ludwig von Mises, 'The Marxian Theory of Wage Rates', in Eugen von Böhm-Bawerk, *The Exploitation Theory of Socialism–Communism* (3rd ed., South Holland, Ill.: Libertarian Press, 1975), pp. 147–51. On Marx's concept of alienation as grounded in the division of labour, and not simply in the wage system, see Paul Craig Roberts, *Alienation and the Soviet Economy* (1971, 2nd ed., New

York: Holmes & Meier, 1990); and Paul Craig Roberts and Matthew A. Stephenson, *Marx's Theory of Exchange, Alienation and Crisis* (2nd ed., New York: Praeger, 1983). On Marx and impoverishment, see Gary North, *Marx's Religion of Revolution* (Nutley, NJ: The Craig Press, 1968), pp. 140–41; Bober, *Karl Marx's Interpretation of History*, pp. 213–21; Mises, *Socialism*, pp. 381–4; and Schumpeter, *History*, p. 686n. On Marx's cycle theory, see Bober, *Marx's Interpretation*. On Tugan-Baranowsky's non-monetary over-investment, or disproportionality, variant of Marxian cycle theory, see Sergio Amato, 'Tugan-Baranowsky...', in I.S. Koropeckyj (ed.), *Selected Contributions of Ukrainian Scholars to Economics* (Cambridge, Mass.: Harvard University Press, 1984), pp. 1–59; and Gottfried Haberler, *Prosperity and Depression* (4th ed., Cambridge, Mass.: Harvard University Press, 1958), pp. 72–85.

The latest group of 'analytical Marxists' in England, headed by John Roemer and Jon Elster, are highly fashionable, possibly because they have virtually abandoned Marxism altogether, having embraced methodological individualism. The analytical Marxists have abandoned the labour theory of value, redefining 'exploitation' as consisting only in income and wealth inequality – a leftist but most un-Marxian doctrine. For a critique of this school by an orthodox Marxist, see Michael A. Lebowitz, 'Is "Analytical Marxism" Marxism?', *Science and Society*, 52 (Summer 1988), pp. 191–214. For a definitive demolition of analytical Marxism, see David Gordon, *Resurrecting Marx: The Analytical Marxists on Freedom, Exploitation, and Justice* (New Brunswick, NJ: Transaction Books, 1990).

The French *laissez-faire* school and its influence

On the French *laissez-faire* school and its influence in Europe and the United States in the nineteenth century, see the seminal article by Joseph T. Salerno, 'The Neglect of the French Liberal School in Anglo-American Economics: A Critique of Received Explanations', *Review of Austrian Economics*, 2 (1988), pp. 113–56. In this important and subtle essay, Salerno corrects the conventional historical deprecation of the theoretical acumen of Bastiat and the French liberals, and demonstrates their considerable influence on nineteenth century economic theory, including the marginalists.

The only satisfactory biography of Bastiat is Dean Russell, *Frédéric Bastiat: Ideas and Influence* (Irvington-on-Hudson: Foundation for Economic Education, 1965). Although Russell is an admirer of Bastiat, he undervalues Bastiat's economic theory, as grossly inferior from the point of view of the Austrian School. Russell fails to take into account that Bastiat's emphasis on immaterial *services* rather than material goods, as well as his emphasis on consumer wants, were great *steps forward* toward Austrian theory as compared to dominant British classicism. More material on Bastiat's career as legislator can be found in George Charles Roche III, *Frédéric Bastiat: A Man Alone* (New Rochelle, NY: Arlington House, 1971), pp. 82–122. See also the discussion of Bastiat in Israel M. Kirzner, *The Economic Point of View* (Princeton, NJ: D. Van Nostrand, 1960), pp. 82–4. Also see Robert F. Hébert, 'Claude Frédéric Bastiat', *New Palgrave Dictionary*, I, pp. 204–5. On the international congress of economists held in Brussels, see Joseph Garnier, 'Économistes (Congrès des)', in C. Coquelin and C. Guillaumin (eds.), *Dictionnaire d'Économie Politique* (Paris: Guillaumin, 1852), I, pp. 671–2. There is no substitute for reading the delightful work of Bastiat directly; see the translations of his volumes *Economic Harmonies, Economic Sophisms,* and *Selected Essays of Political Economy*, all published by Princeton, NJ.: D. Van Nostrand, 1964.

The best discussion of Molinari is the three-part article by David M. Hart, 'Gustave de Molinari and the Anti-statist Liberal Tradition: Part I', *Journal of Libertarian Studies,* V (Summer 1981), pp. 263–90; 'Gustave de Molinari and the Anti-statist Liberal Tradition: Part II', *Journal of Libertarian Studies,* V (Autumn, 1981), pp. 399–434; and 'Gustave de Molinari and the Anti-statist Liberal Tradition: Part III', *Journal of Libertarian Studies,* VI (Winter 1982) pp. 83–104.

There are English translations of Molinari's path-breaking anarcho-capitalist work: *The Production of Security* (New York: Center for Libertarian Studies, May 1977) (with preface by M. Rothbard); and his Eleventh Soirée in Hart, 'Molinari, Part III', pp. 88–104. The only book of Molinari's translated into English came when he had already retreated from anarcho-capitalism: *The Society of Tomorrow* (New York: G.P. Putnam's Sons, 1904).

For an appreciative discussion of Molinari and private protection by a modern economist, see Bruce L. Benson, 'Guns for Protection and Other Private Sector Responses to the Fear of Rising Crime', in D. Kates (ed.), *Firearms and Violence: Issues of Public Policy* (San Francisco: Pacific Institute for Public Policy Research, 1984), pp. 346–56.

On the influence of Bastiat and Francesco Ferrara in Italy, and on the spread of historicism and socialism in the 1870s, see Luigi Cossa, *An Introduction to the Study of Political Economy* (London: Macmillan, 1893).

For an overall discussion of French academic economics in the nineteenth century, see Alain Alcouffe, 'The Institutionalization of Political Economy in French Universities, 1819–1896', *History of Political Economy*, 21 (Summer 1989), pp. 313–44.

On Francesco Ferrara and the Italian *laissez-faire* school, also see Ugo Rabbeno, 'The Present Condition of Political Economy in Italy', *Political Science Quarterly*, 6 (Sept. 1891), pp. 439–73; and Piero Barucci, 'The Spread of Marginalism in Italy, 1871–1890', in R.D.C. Black, A.W. Coats, C.D.W.

Goodwin (eds.), *The Marginal Revolution in Economics: Interpretation and Evaluation* (Durham, NC: Duke University Press, 1973), pp. 246–66.

The best discussion of Pareto, combined with English translations of many of his articles and excerpts from his works, is in Placido Bucolo (ed.), *The Other Pareto* (London: Scolar Press, 1980). Also important is S.E. Finer's introduction, as well as the compilation in, Vilfredo Pareto, *Sociological Writings* (ed. S. Finer, London: Pall Mall Press, 1966), and S.E. Finer, 'Pareto and Pluto-Democracy: The Retreat to Galapogos', *American Political Science Review*, 62 (1968), pp. 440–50. For a current discussion see Salerno, 'Neglect'.

On Bastiat and *laissez-faire* views in Sweden, see Eli F. Heckscher, 'A Summary of Economic Thought in Sweden, 1875–1950', *The Scandinavian Economic History Review*, 1 (1953), pp. 105–25. On the libertarian, *laissez-faire* economist John Prince Smith in Germany, see the illuminating article by Ralph Raico, 'John Prince Smith and the German Free Trade Movement', in W. Block and L. Rockwell (eds.), *Man, Economy, and Liberty: Essays in Honor of Murray N. Rothbard* (Auburn University, Ala.: The Ludwig von Mises Institute, 1988), pp. 341–51. Also see W.O. Henderson, 'Prince Smith and Free Trade in Germany', *Economic History Review*, 2nd ser., 2 (1950), rprt. in Henderson, *Britain and Industrial Europe, 1750–1870* (Liverpool, 1954). On Prince Smith's associate Julius Faucher, see Andrew R. Carlson, *Anarchism in Germany, Vol. I: The Early Movement* (Metuchen, NJ: The Scarecrow Press, 1972), pp. 65–6. On Karl Heinrich Rau, see Keith Tribe, *Governing Economy: The Reformation of German Economic Discourse 1750–1840* (Cambridge: Cambridge University Press, 1988), pp. 183–201. On Rau, also see H.C. Recktenwald, 'Rau, Karl Heinrich', *The New Palgrave*, IV, p. 96.

On German liberalism generally, see Donald G. Rohr, *The Origins of Social Liberalism in Germany* (Chicago: University of Chicago Press, 1963); and James J. Sheehan, *German Liberalism in the Nineteenth Century* (Chicago: University of Chicago Press, 1978).

On British *laissez-faire* theorists heavily influenced by Bastiat, Henry Dunning Macleod's work is of interest. In particular, see his *The Elements of Political Economy* (London: Longman, Brown, 1857); *The History of Economics* (New York: Putnam, 1896); and his *Dictionary of Political Economy, Vol. I* (London: 1863). His view of *laissez-faire* and of the history of economic thought is nicely summed up in his 'On the Science of Economics and Its Relation to Free Exchange and Socialism', in Thomas Mackay (ed.), *A Policy of Free Exchange* (London: John Murray, 1894), pp. 3–46. For appreciative discussions of Macleod, see Salerno, 'Neglect', pp. 130–32; Charles Rist, *History of Monetary and Credit Theory* (1940, NY: A.M. Kelley, 1966); Israel M. Kirzner, *The Economic Point of View* (New York: Van Nostrand, 1960), pp. 73, 202–3; and Murray N. Rothbard, 'Catallactics', *The New Palgrave*, II, p. 377.

The unjustly neglected Wordsworth Donisthorpe's work in *laissez-faire* economics consists of *Individualism, A System of Politics* (London: Macmillan, 1889), and his *Law in a Free State* (London: Macmillan, 1895); his waffling chapter on 'The Limits of Liberty' in the latter work was reprinted from his article of the same name in Thomas Mackay (ed.), *A Plea for Liberty* (NY: D. Appleton & Co., 1891), pp. 63–106. For a history of Donisthorpe and the British *laissez-faire* movement, see W.H. Greenleaf, *The British Political Tradition* (London: Methuen, 1983), II, pp. 263–87. Also see Edward Bristow, 'The Liberty and Property Defence League and Individualism', *The Historical Journal*, 18 (Dec. 1975), pp. 761–89; and John W. Mason, 'Thomas Mackay: The Anti-Socialist Philosophy of the Charity Organization Society', in K.D. Brown (ed.), *Essays in Anti-Labour History* (London: Macmillan, 1974), pp. 307–9. For Donisthorpe's plutology, see his *Principles of Plutology* (London: Williams & Norgate, 1876). Also on Donisthorpe, see Peter Newman, 'Donisthorpe, Wordsworth', *New Palgrave*, I, pp. 916–7.

On William E. Hearn and economics in Australia, see Hearn, *Plutology, or the Theory of the Efforts to Satisfy Human Wants* (London: Macmillan, 1864); Salerno, 'Neglect', pp. 125–9; J.A. LaNauze, *Political Economy in Australia* (Melbourne: Melbourne University Press, 1949); and D.B. Copland, *William E. Hearn, First Australian Economist* (Melbourne: Melbourne University Press, 1935).

Joseph Dorfman's magisterial multi-volume *Economic Mind in American Civilization* is indispensable for any coverage of American economic thought; relevant to *laissez-faire* thought influenced by Bastiat are *Volume II: 1606–1865* (New York: Viking, 1946), and *Volume III: 1865–1918* (New York: Viking, 1949). Also important for the nineteenth century after the Civil War is Sidney Fine, *Laissez Faire and the General-Welfare State* (Ann Arbor, Michigan: University of Michigan Press, 1956). Also see Salerno, 'Neglect', pp. 133–8; Kirzner, *Economic Point of View*, pp. 75–77. Amasa Walker's most important work was his *The Science of Wealth* (3rd ed., Boston: Little Brown, 1867); and Arthur Latham Perry's was his *Political Economy* (21st ed., New York: Scribner, 1892). Also see the illuminating collection of essays by Perry, *Miscellanies* (Williamstown, Mass.: published by author, 1902), published for the semi-centennial celebration of the Williams College class of 1852.

Charles Holt Carroll's collected essays are published in Edward C. Simmons (ed.), *Organization of Debt into Currency, and Other Essays* (Princeton NJ: Van Nostrand, 1964). Simmons's Introduction, ibid., pp. v–xxiv, is outstanding. Also see the reprint of Carroll's essays *Congress and the Currency* (James Turk, ed., Greenwich, CT: Committee for Monetary Research and

Education, Sept. 1977), from *Hunt's Merchant's Magazine* of July 1864. For Carroll and other 100 per cent gold writers, see Skousen, *Economics of a Pure Gold Standard*. As Simmons points out, even Dorfman omits Carroll, while the standard histories of monetary thought in America: Mints, *History of Banking Theory*; and Harry E. Miller, *Banking Theories Before 1860* (Cambridge Mass.: Harvard University Press, 1932), make no reference to any of Carroll's writings after the start of the Civil War.

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Here is the last masterpiece by Murray N. Rothbard (1926–1995), the result of a lifetime of research and his crowning achievement.

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