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.