

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...'.⁴⁷

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 Gazeteer*. 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-Daventian 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 Bearly. 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 Raghuvir 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.
45. Rashid points out that several leading scholarly libraries have erroneously attributed authorship of this pamphlet to Townshend's son. Rashid, op. cit., p. 73.
46. Tucker to Townshend, 22 April 1752. Rashid, op. cit., note 44, p. 73.
47. 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.
48. The Townshend bill was introduced in 1753, but no action was taken on it. Rashid, op. cit., note 44, pp. 71, 73.
49. 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

| | | |
|-------|-----------------------------------|-----|
| 12.1 | Cantillon the man | 345 |
| 12.2 | Methodology | 347 |
| 12.3 | Value and price | 349 |
| 12.4 | Uncertainty and the entrepreneur | 351 |
| 12.5 | Population theory | 352 |
| 12.6 | Spatial economics | 354 |
| 12.7 | Money and process analysis | 354 |
| 12.8 | International monetary relations | 358 |
| 12.9 | The self-regulation of the market | 359 |
| 12.10 | Influence | 360 |
| 12.11 | Notes | 361 |

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 (1671–1729), 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 renais-

sance 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 land-owner 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