

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.’<sup>30</sup>

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 Galapagos’, 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.<sup>31</sup> The final push for Pareto on the road to 'Galapagos' 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.<sup>32</sup>

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'.<sup>33</sup> 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.<sup>34</sup>

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!'<sup>35</sup>

#### 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!<sup>136</sup>

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.<sup>37</sup>

#### **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.<sup>38</sup> 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.<sup>39</sup> 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 'catalactics' 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 catalactic 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'.<sup>40</sup>

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.<sup>41</sup>

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 catalactician 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...'.<sup>42</sup>

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.<sup>43</sup>

#### 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 catalactic 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.<sup>44</sup> ‘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 catalactics, or exchange.<sup>45</sup>

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.<sup>46</sup>

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 withholding 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.<sup>47</sup>

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.<sup>48</sup>

#### 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)<sup>49</sup> 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.<sup>50</sup> 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.<sup>51</sup>

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.<sup>52</sup>

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 been 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...*'<sup>53</sup>

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.<sup>54</sup> 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.<sup>55</sup>

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'.<sup>56</sup>

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.<sup>57</sup>

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'.<sup>58</sup> 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.<sup>59</sup>

#### **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 dehomogenized in recent years, inspired by the classic article of William Jaffé two decades ago,<sup>60</sup> 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.