

= Richard Cantillon =

Richard Cantillon (French : [k ? ? tij ? ?] ; 1680s ? May 1734) was an Irish @-@ French economist and author of *Essai sur la Nature du Commerce en Général* (Essay on the Nature of Trade in General) , a book considered by William Stanley Jevons to be the " cradle of political economy " . Although little information exists on Cantillon 's life , it is known that he became a successful banker and merchant at an early age . His success was largely derived from the political and business connections he made through his family and through an early employer , James Brydges . During the late 1710s and early 1720s , Cantillon speculated in , and later helped fund , John Law 's Mississippi Company , from which he acquired great wealth . However , his success came at a cost to his debtors , who pursued him with lawsuits , criminal charges , and even murder plots until his death in 1734 .

Essai remains Cantillon 's only surviving contribution to economics . It was written around 1730 and circulated widely in manuscript form , but was not published until 1755 . His work was translated into Spanish by Gaspar Melchor de Jovellanos , probably in the late 1770s , and considered essential reading for political economy . Despite having much influence on the early development of the physiocrat and classical schools of thought , *Essai* was largely forgotten until its rediscovery by Jevons in the late 19th century . Cantillon was influenced by his experiences as a banker , and especially by the speculative bubble of John Law 's Mississippi Company . He was also heavily influenced by prior economists , especially William Petty .

Essai is considered the first complete treatise on economics , with numerous contributions to the science . These contributions include : his cause and effect methodology , monetary theories , his conception of the entrepreneur as a risk @-@ bearer , and the development of spatial economics . Cantillon 's *Essai* had significant influence on the early development of political economy , including the works of Adam Smith , Anne Turgot , Jean @-@ Baptiste Say , Frédéric Bastiat and François Quesnay .

= = Biography = =

While details regarding Richard Cantillon 's life are scarce , it is thought that he was born sometime during the 1680s in County Kerry , Ireland . He was son to land @-@ owner Richard Cantillon of Ballyheigue . Sometime in the middle of the first decade of the 18th century Cantillon moved to France , where he attained French citizenship . By 1711 , Cantillon found himself in the employment of British Paymaster General James Brydges , in Spain , where he organised payments to British prisoners of war during the War of Spanish Succession . Cantillon remained in Spain until 1714 , cultivating a number of business and political connections , before returning to Paris . Cantillon then became involved in the banking industry working for a cousin , who at that time was lead @-@ correspondent of the Parisian branch of a family bank . Two years later , thanks in large part to financial backing by James Brydges , Cantillon bought his cousin out and attained ownership of the bank . Given the financial and political connections Cantillon was able to attain both through his family and through James Brydges , Cantillon proved a fairly successful banker , specialising in money transfers between Paris and London .

At this time , Cantillon became involved with British mercantilist John Law through the Mississippi Company . Based on the monetary theory proposed by William Potter in his 1650 tract *The Key of Wealth* , John Law posited that increases in the money supply would lead to the employment of unused land and labour , leading to higher productivity . In 1716 , the French government granted him both permission to found the *Banque Générale* and virtual monopoly over the right to develop French territories in North America , named the Mississippi Company . In return , Law promised the French government to finance their debt at low rates of interest . Law began a financial speculative bubble by selling shares of the Mississippi Company , using the *Banque Générale* 's virtual monopoly on the issue of bank notes to finance his investors .

Richard Cantillon amassed a great fortune from his speculation , buying Mississippi Company shares early and selling them at inflated prices . Cantillon 's financial success and growing influence

caused friction in his relationship with John Law , and sometime thereafter Law threatened to imprison Cantillon if the latter did not leave France within twenty @-@ four hours . Cantillon replied : " I shall not go away ; but I will make your system succeed . " To that end , in 1718 Law , Cantillon , and wealthy speculator Joseph Gage formed a private company centred on financing further speculation in North American real estate .

In 1719 , Cantillon left Paris for Amsterdam , returning briefly in early 1720 . Lending in Paris , Cantillon had outlying debt repaid to him in London and Amsterdam . With the collapse of the " Mississippi bubble " , Cantillon was able to collect on debt accruing high rates of interest . Most of his debtors had suffered financial damage in the bubble collapse and blamed Cantillon ? until his death , Cantillon was involved in countless lawsuits filed by his debtors , leading to a number of murder plots and criminal accusations .

On 16 February 1722 , Cantillon married Mary Mahony , daughter of Count Daniel O 'Mahony ? a wealthy merchant and former Irish general ? spending much of the remainder of the 1720s travelling throughout Europe with his wife . Cantillon and Mary had two children , a son who died at an early age and a daughter , Henrietta , who would go on to marry William Howard Earl of Stafford in 1743 . Although he frequently returned to Paris between 1729 and 1733 , his permanent residence was in London . In May 1734 , his residence in London was burned to the ground , and it is generally assumed that Cantillon died in the fire . While the fire 's causes are unclear , the most widely accepted theory is that Cantillon was murdered . One of Cantillon 's biographers , Antoine Murphy , has advanced the alternative theory that Cantillon staged his own death to escape the harassment of his debtors , appearing in Suriname under the name Chevalier de Louvigny .

= = Contributions to economics = =

Although there is evidence that Richard Cantillon wrote a wide variety of manuscripts , only his *Essai Sur La Nature Du Commerce En Général* (abbreviated *Essai*) survives . Written in 1730 , it was published in French in 1755 , and was translated into English by Henry Higgs in 1932 . Evidence suggests that *Essai* had tremendous influence on the early development of economic science , Cantillon 's treatise was largely neglected during the 19th century . In the late 19th century and it was " rediscovered " by William Stanley Jevons , who considered it the " cradle of political economy " . Since then , Cantillon 's *Essai* has received growing attention . *Essai* is considered the first complete treatise on economic theory , and Cantillon has been called the " father of enterprise economics " .

One of the greatest influences on Cantillon 's writing was English economist William Petty and his 1662 tract *Treatise on Taxes* . Although Petty provided much of the groundwork for Cantillon 's *Essai* , Anthony Brewer argues that Petty 's influence has been overstated . Apart from Petty , other possible influences on Cantillon include John Locke , Cicero , Livy , Pliny the Elder , Pliny the Younger , Charles Davenant , Edmond Halley , Isaac Newton , Sébastien Le Prestre de Vauban , and Jean Boisard . Cantillon 's involvement in John Law 's speculative bubble proved invaluable and likely heavily influenced his insight on the relationship between increases in the supply of money , price , and production .

= = Methodology = =

Cantillon 's *Essai* is written using a distinctive causal methodology , separating Cantillon from his mercantilist predecessors . *Essai* is peppered with the word " natural " , which in the case of Cantillon 's treatise is meant to imply a cause and effect relationship between economic actions and phenomena . Economist Murray Rothbard credits Cantillon with being one of the first theorists to isolate economic phenomena with simple models , where otherwise uncontrollable variables can be fixed . Cantillon made frequent use of the concept of *ceteris paribus* throughout *Essai* in an attempt to neutralise independent variables . Furthermore , he is credited with employing a methodology similar to Carl Menger 's methodological individualism , by deducing complex phenomena from simple observations .

A cause and effect methodology led to a relatively value @-@ free approach to economic science , in which Cantillon was uninterested in the merit of any particular economic action or phenomenon , focusing rather on the explanation of relationships . This led Cantillon to separate economic science from politics and ethics to a greater degree than previous mercantilist writers . This has led to disputes on whether Cantillon can justly be considered a mercantilist or one of the first anti @-@ mercantilists , given that Cantillon often cited government @-@ manipulated trade surpluses and specie accumulation as positive economic stimuli . Others argue that in instances where Cantillon is thought to have supported certain mercantilist policies , he actually provided a more neutral analysis by explicitly stating possible limitations of mercantilist policies .

= = = Monetary theory = = =

Differences between prior mercantilists and Cantillon arise early in Essai , regarding the origins of wealth and price formation on the market . Cantillon distinguishes between wealth and money , considering wealth in itself " nothing but the food , conveniences , and pleasures of life . " While Cantillon advocated an " intrinsic " theory of value , based on the input of land and labour (cost of production) , he is considered to have touched upon a subjective theory of value . Cantillon held that market prices are not immediately decided by intrinsic value , but are derived from supply and demand . He considered market prices to be derived by comparing supply , the quantity of a particular good in a particular market , to demand , the quantity of money brought to be exchanged . Believing market prices to tend towards the intrinsic value of a good , Cantillon may have also originated the uniformity @-@ of @-@ profit principle ? changes in the market price of a good may lead to changes in supply , reflecting a rise or fall in profit .

In Essai , Cantillon provided an advanced version of John Locke 's quantity theory of money , focusing on relative inflation and the velocity of money . Cantillon suggested that inflation occurs gradually and that the new supply of money has a localised effect on inflation , effectively originating the concept of non @-@ neutral money . Furthermore , he posited that the original recipients of new money enjoy higher standards of living at the expense of later recipients . The concept of relative inflation , or a disproportionate rise in prices among different goods in an economy , is now known as the Cantillon effect . Cantillon also considered changes in the velocity of money (quantity of exchanges made within a specific amount of time) influential on prices , although not to the same degree as changes in the quantity of money . While he believed that the money supply consisted only of specie , he conceded that increases in money substitutes ? or bank notes ? could affect prices by effectively increasing the velocity of circulating of deposited specie . Apart from distinguishing money from money substitute , he also distinguished between bank notes offered as receipts for specie deposits and bank notes circulating beyond the quantity of specie ? or fiduciary media ? suggesting that the volume of fiduciary media is strictly limited by people 's confidence in its redeemability . He considered fiduciary media a useful tool to abate the downward pressure that hoarding of specie has on the velocity of money .

Addressing the mercantilist belief that monetary intervention could cause a perpetually favourable balance of trade , Cantillon developed a specie @-@ flow mechanism foreshadowing future international monetary equilibrium theories . He suggested that in countries with a high quantity of money in circulation , prices will increase and therefore become less competitive in relation to countries where there is a relative scarcity of money . Thus , Cantillon also held that increases in the supply of money , regardless of the source , cause increases in the price level and therefore reduce the competitiveness of a particular nation 's industry in relation to a nation with lower prices . However , Cantillon did not believe that international markets tended toward equilibrium , and instead suggested that government hoard specie to avoid rising prices and falling competitiveness . Furthermore , he suggested that a favourable balance of trade can be maintained by offering a better product and retaining qualitative competitiveness . Cantillon 's preference towards a favourable balance of trade possibly stemmed from the mercantilist belief in exchange being a zero @-@ sum game , in which one party gains at the expense of another .

A relatively advanced theory of interest is also presented . Cantillon believed that interest originates

from the need of borrowers for capital and from the fear of loss of the lenders , meaning that borrowers have to recompense lenders for the risk of the possible insolvency of the debtor . In turn , interest is paid out of earned profits originating from the return on invested capital . While previously it was believed that the rate of interest varied inversely to the quantity of money , Cantillon posited that the rate of interest was determined by the supply and demand on the loanable funds market ? an insight usually attributed to Scottish philosopher David Hume . As such , while saved money impacts the rate of interest , new money that is instead used for consumption does not ; Cantillon 's theory of interest is therefore similar to John Maynard Keynes 's liquidity preference theory .

= = = Other contributions = = =

Traditionally it is Jean @-@ Baptiste Say who is credited for coining the word and advancing the concept of the entrepreneur , but in fact it was Cantillon who first introduced the term in Essai . Cantillon divided society into two principal classes ? fixed income wage @-@ earners and non @-@ fixed income earners . Entrepreneurs , according to Cantillon , are non @-@ fixed income earners who pay known costs of production but earn uncertain incomes , due to the speculative nature of pandering to an unknown demand for their product . Cantillon , while providing the foundations , did not develop a dedicated theory of uncertainty ? the topic was not revisited until the 20th century , by Ludwig von Mises , Frank Knight , and John Maynard Keynes , among others . Furthermore , unlike later theories of entrepreneurship which saw the entrepreneur as a disruptive force , Cantillon anticipated the belief that the entrepreneur brought equilibrium to a market by correctly predicting consumer preferences .

Spatial economics deal with distance and area , and how these may affect a market through transportation costs and geographical limitations . The development of spatial economics is usually ascribed to German economist Johann Heinrich von Thünen ; however , Cantillon addressed spatial economics nearly a century earlier . Cantillon integrated his advancements in spatial economic theory into his microeconomic analysis of the market , describing how transportation costs influence the location of factories , markets and population centres ? that is , individuals strive to lower transportation costs . Conclusions on spatial economics were derived from three premises : cost of raw materials of equal quality will always be higher near the capital , due to transportation costs ; transportation costs vary on transportation type (for example , water transportation was considered cheaper than land @-@ based transportation) ; and larger goods that are more difficult to transport will always be cheaper closer to their area of production . For example , Cantillon believed markets were designed as they were to decrease costs to both merchants and villagers in terms of time and transportation . Similarly , Cantillon posited that the locations of cities were the result in large part of the wealth of inhabiting property owners and their ability to afford transportation costs ? wealthier property owners tended to live farther from their property , because they could afford the transportation costs . In Essai , spatial economic theory was used to derive why markets occupied the geographical area they did and why costs varied across different markets .

Apart from originating theories on the entrepreneur and spatial economics , Cantillon also provided a dedicated theory on population growth . Unlike William Petty , who believed there always existed a considerable amount of unused land and economic opportunity to support economic growth , Cantillon theorised that population grows only as long as there are economic opportunities present . Specifically , Cantillon cited three determining variables for population size : natural resources , technology , and culture . Therefore , populations grow only as far as the three aforementioned variables allowed . Furthermore , Cantillon 's population theory was more modern than that of Malthus in the sense that Cantillon recognised a much broader category of factors which affect population growth , including the tendency for population growth to fall to zero as a society becomes more industrialised .

= = Influence = =

While Essai was not published until 1755 as a result of heavy censorship in France , it did widely

circulate in the form of an unpublished manuscript between its completion and its publication . It notably influenced many direct forerunners of the classical school of thought , including Turgot and other physiocrats . Cantillon was a major influence on physiocrat François Quesnay , who may have learned of Cantillon 's work through Marquis of Mirabeau . While it is evident that *Essai* influenced Quesnay , to what degree remains controversial . There is evidence that Quesnay did not fully understand , or was not completely aware of , Cantillon 's theories . Many of Quesnay 's economic beliefs were elucidated previously in *Essai* , but Quesnay did reject a number of Cantillon 's premises , including the scarcity of land and Cantillon 's population theory . Also , Quesnay recognised the scarcity of capital and capital accumulation as a prerequisite for investment . Nevertheless , Cantillon was considered the " father of physiocracy " by Henry Higgs , due to his influence on Quesnay . It is also possible that Cantillon influenced Scottish economist James Steuart , both directly and indirectly .

Cantillon is one of the few economists cited by Adam Smith , who directly borrows Cantillon 's sustenance theory of wages . Large sections of Smith 's economic theory were possibly directly influenced by Cantillon , although in many respects Adam Smith advanced well beyond the scope of Cantillon . Some economic historians have stated that Adam Smith provided little of value from his own intellect , notably Schumpeter and Rothbard . In any case , through his influence on Adam Smith and the physiocrats , Cantillon was quite possibly the pre -@-@ classical economist who contributed most to the ideas of the classical school . Illustrative of this was Cantillon 's influence on Say , which is noticeable in the methodology employed in the latter 's *Treatise on Political Economy* .