

**The Pre-Austrians**

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Transcribed and Donated – Thomas Topp

**Rothbard:**

I guess modern economics as a scientific doctrine begins with [Kantalon], Richard Kantalon, who's a very interesting character too. [unintelligible] Kantalon, who's hardly talked about, but to put in a plug for myself, *General Libertarian Study*, the current issue now out has an old Kantalon issue, [unintelligible] Kantalon, came out of a conference on Kantalon several years ago.

Kantalon has essentially the praxiological methodology, he's got the methodology of abstract reasoning. He starts off with a world of one landlord. In other words, one landlord owns the whole country. Not so far off, because the French situation was you had landlords, and you had farmers.

The landlords, absentee landlords had gotten the land through conquest, and they would lease the land to farmers, and then you had other people. So you'd start off with one landlord, what happens with him? They bring in more people. Sort of like [unintelligible] economics. It's an excellent methodological presentation.

His theory, utility of value, essentially utility theory. He's also the first person to talk about the entrepreneur. The entrepreneur's uncertainty, bearing uncertainty. Brings an entrepreneur into economic thought. Theory of money is magnificent. He has a whole [unintelligible] theory, except with a process analysis—that evil word.

And it was not equilibrium. In other words, equilibrium is a process toward equilibrium. So you have, in British classical economics, you have different equilibrium states—you have this state and that state. You leap somehow magically from one to the other, and talk only about equilibrium state.

With Kantalon, you talk about the process towards equilibrium. For example, when Kantalon talks about what happens when the money

supply increases in a country, he talks about—it's very Misesian, so to speak, pre-Misesian. The first people get it, they get the new money, they spend more, prices go up as they spend it, they have goods they buy, then it percolates to other people and you have sort of a rippling out effect, and each group gets it, until finally you have—say if you double the money supply, finally you wind up with prices more or less doubled, but not completely, because you have a different equilibrium now, you have different wealth effects, etc.

And it's a very sophisticated, excellent analysis of [unintelligible] so-called [Hume's] specie flow analysis, except Kantalon is much better than Hume. Hume is writing about the same time, a little bit later. Actually, no. This is the 1730s, and Hume wrote in the 1750s.

Hume probably read it, and all these guys knew each other. The British knew the French stuff. With Kantalon you have a pre-Austrian analysis, no question about it. The process thing with individuals starting at micro-individuals. They get new money, they spend it, and so you wind up with let's say a doubling of price, but not automatic doubling, you have difference in relative prices.

On the other hand, Hume, who's a Scotsman, part of the British tradition, was a brilliant writer. I have to concede, Hume was one of the few people in the history of thought who was a great writer while a confused thinker. Usually, confusion and good writing, I mean good writing and cloudier thought come together—confusion and bad writing come together.

In the case of Hume, his writing was better than his theory, so to speak. Anyway, with Hume you have a pure pre-Friedmanite, pre-monetarist analysis. In other words, all the equilibrium states. As a matter of fact, there's a famous example which Mises uses, a good first approximation

of what happens with money—what I call the Angel Gabriel model. In other words, you're sleeping overnight.

Overnight, the Angel Gabriel descends to man. They hear that mankind's always bellyaching that we haven't got enough money. The Angel Gabriel is benevolent, but confused, a lousy economist. Says, "Okay, I'll fix these guys up, I'll double their money supply, then they'll shut up, I'll satisfy their complaints."

So overnight everybody's money supply gets doubled magically—your bank account, your wallet, your purse, etc., gets doubled. And Hume talks about that. He doesn't use the words "Angel Gabriel Model," that's basically what it is. Then what happens? Well, everybody rushes out, spends it, and then according to Hume, prices overall double, and that's it.

In other words, you move quickly from one equilibrium state to the other equilibrium state, without talking about the process. With Kantalon, it's very different. You have different people benefit and different people lose out. In this model, for example, the guys who know what's going on rush out at six in the morning or eight in the morning and spend everything immediately.

The other guys who decide to save it, of course, are shafted, because they find that prices have doubled before they get around to spending it. So there are differences in the benefits or burdens. So with Hume, very good analysis is the first approximation of how the money supply increases prices. Already, you blot out the essential pre-Austrian process and the differences at a micro-level and you just talk about the macro.

This is the beginning, by the way, of a disastrous split between micro and macro, which ends with Ricardo, the final classic example.

[unintelligible] sense. In the pre-Austrian analysis, Kantalon, Tourgal and all those people, there's no split between micro and macro. Everything is an individual process which has different social results.

It's only with, as I say, the British, that you have micro, you have things going on in the micro world, and supply and demand, and suddenly in the macro world you have quantity and velocity and all that, it's totally different, no relationship between the two of them. Kantalon, I should say something about Kantalon the man, Richard Kantalon.

He's a fascinating figure. One of the reasons why he's so good about money is he was a great monetary practitioner. He was an Irish Catholic banker who moved to the Jacobite court in France when the [unintelligible] had located. He became a bank—his cousins, it's very confusing, his cousins are all named Richard—there's about eight Richard Kantalons, and it's easy to get confused.

One great Kantalon expert—Antoine Murphy at the University of Dublin, he's a big expert on the Kantalon family, worked the whole thing out, genealogical map. At any rate, Kantalon becomes a banker to Stuart [unintelligible] and a big-shot banker in general, and John Law, who starts off in this period, and is a famous [unintelligible] paper money inflation in history.

See, there was no paper money before—the first government paper money ever was 1690 in Massachusetts. Before that, gold was money. The only way the government could do anything was clip the coins, debase the coin. When paper money comes in, it's a great new invention for the government—means you could just print money ad lib.

Essentially, John Law, the Scottish adventurer, gets a hold of the royal government in Paris and convinces them he should be the central banker, print money, and through unlimited inflation you can wipe out the

public debt, have great prosperity and all the rest of it. So Kantalon—the legend is that Law goes to Kantalon and says, “Look, you’re the only person here that can challenge me. I’ll give you 24 hours to get out, or I’ll throw you in the Bastille.”

Kantalon says, “No, it’s better for us to join forces. I’ll be a Law-industrialization.” He and Law and some other guy named [Beaugade] become a three-man triad running this whole system, except Kantalon knew the whole system was going to collapse.

What Kantalon did was he loaned a lot of money to these guys at very high interest rates, cashed it in, sold the collateral, and then skipped town, skipped the country just before the great collapsed of the Law bubble, and came back to clean up multi-millions to the great distress and resentment of his fellow Law types.

So anyway, he made millions out of this. He wrote his book as sort of a reflective response to this experience. His book was very influential, even, like I say, when it was still unpublished in the early ‘30s. It became published, printed in 1755, after he died, and it was read by everybody in France—all the laissez-faire people, all the intellectuals, etc. It’s extremely influential.

One of the things about Kantalon was he had mansions in every city in Europe. He was probably the only economist in the history of thought who was murdered. I can’t think of anybody else except Stalin’s victims or something like that. He was murdered presumably by his disappointed servant who skipped town with his jewels or something.

At any rate, but Antoine Murphy told me privately—he refuses to publish it because he said he hasn’t got enough data on it yet, but it’s a marvelous story—he claims that Kantalon really didn’t die there. He was

heavily in debt. He skipped town himself and went to Borneo, where his papers or whatever remained, died 20 years later.

At any rate—yeah, great character. The thing about Kantalon, he wasn't a pure free trader, but he was really in matters [unintelligible]. What he said was, "If you bring treasure into the kingdom, when you spend the money, it'll increase prices. So you advise the king not to spend the money." Great advice.

In other words, "All right, get money coming in, don't spend it; sit on it. That means you won't have inflation, you won't have this problem of deficits, balance of trade deficits, etc." After Kantalon, we had the physiocrats in the mid-18<sup>th</sup> century, who are laissez-faire people, but were quite nutty in many ways, and had various deviations. The interesting thing about physiocrats, they were the first probably real sect or school of thought...

We know the date at which the school of thought was founded, because one moment in July 1757, when Dr. Tennay, the founder, the guru of this thing met Mirabeau, Count Mirabeau, who was in those days a Kantalonian, a Kantalon disciple, [unintelligible] shifted to Tennay, and they became a two-man school of thought.

To have a school of thought, you have to have at least two people, and this was it. The thing is they were both very highly placed. Tennay was a physician, distinguished physician. He became the physician of the court, first to the king's top mistress. There is, by the way, [unintelligible] one way to influence the king and try to convert him to laissez-faire was to convert the king's top mistress.

This was done by Archbishop [unintelligible] in the early 18<sup>th</sup> century, late 17<sup>th</sup>. And Tennay was physician to Madame Pompidour, who was the king's top mistress, and then became influential at court. Mirabeau was

influential—first of all, he had just written a massive book called *Friend of Man*. It was a multi-part work which is incomprehensible, but the thing was very popular because it was written in 17<sup>th</sup> century style.

Here it is, a mid-18<sup>th</sup> century guy writing in mid-17<sup>th</sup> century style, so it sort of charmed everybody, and it was a bestseller. So Mirabeau and Kantalon and Marquis [unintelligible] organized the movement. No, excuse me, Tennai. They set up their own school of thought among journals, their own doctrine, they reviewed each other's books favorably, and so forth and so on. All of a sudden they became a sort of cult of personality.

All these guys thought that Tennai was the top guy of all time. For example, his followers claimed that Tennai looked like Socrates—kind of difficult to figure out, because we don't really know what Socrates looked like. And they also referred to him as the Confucius of Europe, the great sage of Europe.

Mirabeau went so far as to proclaim that the three greatest inventions in the history of mankind are lighting, money and Tennai's crazy diagram, a tableau economique for the beginning of input-output analysis, with arrows. [laughter] So anyway, there were laissez-faire, natural rights people and laissez-faire people.

Unfortunately, [unintelligible] deviationists, they were very much in favor of high agricultural prices. One reason I think, Tennai was a farmer and he owned farms, and I think he would've been in favor of farm price supports if anybody proposed it. In those days, farm prices [unintelligible] election, farm prices were kept low, and of course they're very much opposed to that. Maximum price controls on farm products. I think minimum price controls are going to come up.



Anyway, there were laissez-faire people according to their lights, and their strategic objective—the question is, if you're a laissez-faire person, and this came up in the late 17<sup>th</sup> century too, what do you do about it? Obviously, you have absolute monarchy by this time in France. The thing is convert the king—if you can convert the king, you can establish laissez-faire from the top—revolution from the top, so to speak, and that'll be it. So the strategic perspective of [unintelligible] and the physiocrats, convert the king, he will establish laissez-faire and that's it. How do you convert the king? First of all, you convert the mistress—one route. How do you convert the king?

You have to convince the king it's really in his interest to have a laissez-faire system. So they tended to become utilitarian in that sense. In other words, even though physiocrats are natural rights people, they tend to stress that, "It's for your benefit too, sire, if the kingdom is prosperous." The thing is I'm not sure they're right. You could make a good case for saying the king's self-interest is to crush his inhabitants, loot every penny, so forth and so on.

So I think you have a problem right there from a strategic perspective. What happened is [Eva Turgot], who was a friend of the physiocrats politically, although not economically—a laissez-faire person politically—Turgot was a top bureaucrat, finally gets in as finance minister in 1774, this is it, this is the key. "We'll win out." And as soon as he starts [unintelligible] laissez-faire, he's kicked out, of course, by the vested interests. At that point, physiocracy sort of disappears. Also, Turgot was losing interest in economics—he was not interested in economics until in his 60s, then he got interested in [unintelligible].

By his 80s or whatever he was when he finally died, he got into mathematics; he claimed to have squared the circle, which is of course impossible. Anyway, he claimed to have solved the problem of squaring

the circle. [unintelligible] and Turgo I think really did them in. Turgo I refer you to is a magnificent person. I've written a pamphlet on this thing, which is available in here [unintelligible].

Turgo is magnificent, just great, my favorite character in the history of thought. Considering also the fact that he was, first of all he spent very little time in economics. He was a busy top bureaucrat, [unintelligible] governor, and most of his time intellectually was spent on other things—history, linguistics, he's an all around type.

Wrote and read a lot on that topic. On economic topics he's only sort of good offhand, when he was pressed into it, when he had to tell somebody something. For example, his *Reflections on Wealth*, his longest book was about 50 pages, was written under severe time pressure. He was trying to form questions to ask two Chinese students in France about the Chinese economy, or preparing them to ask about French economy.

So he wrote this as sort of an outline to himself, as a memorandum to himself of what, preparing questions to ask. This is a great work on wealth and capital theory, etc. So he wrote all this stuff under severe time pressure, sort of dashed it off, and it's absolutely magnificent. He has the whole Austrian stuff in there—not only laissez-faire; complete laissez-faire, without any of Smith's evasions, qualifications, etc.

But also he's got Austrian time preference theory, he's got Austrian [cap Bombaverte] and capital theory. He's got money and process analysis, he's got the whole business. And done with brilliance just sort of in passing, almost, a few clauses. And I would strongly recommend to any of you, all of Turgo's economic writings have been translated into English by P.T. [Gonavagen], the Dutch Turgo-ian expert in New Zealand, I think. It's called *Economics of ARJ Turgo*.

It's one of these things, a Dutch paperback cost me about \$60, insanely expensive, but it's worth it. It's got very good notes and introductions and annotations by Gonavagen, *Economics of Turgo*. It's just remarkable. Schumpeter's very good on Turgo. Turgo, for example, is really the originator of [unintelligible] law, [unintelligible] capital, the whole thing about the [unintelligible] constitutes the man, etc.

All these things are in Turgo. Just fantastic. It's difficult to overestimate his importance and his brilliance in this area. He's also got the entrepreneur in there. As a matter of fact, in a sense he's a little bit better than Kantalon because he stresses that capitalist [unintelligible] being particularly important.

He's got the whole so-called Smithian capital theory of investment and all that, savings and investment theory. He says, "Well, the important thing is the capitalist entrepreneur, the person who commits resources and capital in an uncertain world to entrepreneurship." He's phenomenal, and again, extremely influential.

As I say, he's got expectations, he's got the whole thing in there. He's also got, by the way, the law of diminishing returns, beautifully presented. Schumpeter says no presentation of the law of diminishing returns equal it until about 1920. It was written about 1760, 1770. All this is forgotten.

Turgo drops out of knowledge. Again, talk about lost paradigms. Totally lost until right now, until recently, until 1967 or something. [unintelligible] an interesting story. By the way, along with Turgo you have Condulac, [unintelligible] the utility theorist and philosopher, who points out very clearly, even more clearly than Turgo, that change comes from doubling equality of wealth, doubling equality of utility.

In other words, the reversing equality of exchange that I mentioned. Sets that down with absolute clarity. There's others, like Galliani, who wrote a great book on money at the age of 23 in 1751, Abay Galliani, a great character. He was Neapolitan, but loved France and spent most of his time in France as a diplomat. His book on money is super. Only parts of it have been translated, unfortunately, yet.

By the way, Galliani was an interesting character. Erratic, witty and erudite, and was four and a half feet tall. Became a social [unintelligible] in the Paris salons. As soon as he got to Paris, he began to sell out. In other words, began to get witty and became a social lion, he has to become anti-laissez-faire, and gives up the utility theory and becomes in favor of protection, protective tariff.

Anyway, his great work was written before his Parisian experience. All this, I should say the founding of mathematical economics comes in about 1720, first misfortune on the road to mathematical economics by Bernulli, [unintelligible] whole bunch of Bernullis, all of whom are French mathematicians, probability theorists, inventors of the calculus, things like that. Bernulli arrives with the mathematical theory of the diminishing utility of money purely out of left field.

In other words, he wasn't interested in economics at all either before or since. He just arrived at this as part of his probability calculations, and he's got a whole series of fallacies, of course, wrapped up in this. The diminishing marginal utility of money had already been arrived at by a couple of the Spanish scholastics in the 16<sup>th</sup> century.

What he does, of course he immediately says, "Well, if VEUDX was the supply of money is X, and utility is U, as soon as you do that, you have at least two major fallacies right there." One is that life is not like the calculus. There's no infinitesimally small actions in life; everything is

discrete. Everything is qualitatively different, and therefore, and there's no infinitely small steps that we can take. He really crosses that out, crosses out calculus right there.

And the UX thing is a ratio. And since utility, we know, is ordinal and not cardinal, there's no such thing as a ratio. I don't know if you can have a ratio of utility to money anyway. Doesn't make much sense. But since utility is ordinal and therefore not cardinal, you can't put it into a ratio. You can't equate it to anything either.

So the whole series about, fallacy piled on fallacy—he also says, with no proof or no evidence whatsoever, that the utility of money is in inverse proportion, declines in inverse proportion to the quantity of money. First of all, what does it mean, inverse proportion? Second, there's no evidence whatsoever.

Some other mathematician said, “No, it's not inverse proportion to the quantity of money. It's inverse proportion to the square root of the quantity of money,” even more silly. What does this mean? What are you talking about? Much less what's the evidence for it?

Just hot air is the only way to describe this. All he knows about utility of money is it declines. In other words, you have a stock of money, you have a falling demand curve, so to speak, falling utility, and it declines as each unit, the utility of each unit declines as you add more, that's it, [unintelligible].

There's no ratio, there's no inverse nothing. And then of course he thought it was measurable between people—even more fallacious, that somehow you can compare everybody's utility of money and sum it up and add it up and divide it. All these things are precursors to mathematical economics which we know and love today. It's the beginning of this stuff, and what we say about it.

Speculation here—why does the knowledge of Kantalon and Turgo drop out? And the whole French utility, laissez-faire, time preference, whatever, tradition. Entrepreneurship. And why do people then think that Adam Smith founded economics? They all preceded Adam Smith. All these guys wrote before *The Wealth of Nations*.

Condulac wrote the same year [unintelligible] government. Of course, it was forgotten in the great Smithian wave. Why did Smith, as Cotter says, make waste and rubbish of 2,000 years of economic thought? And why was he allowed to get away with it? Why did nobody even say that he was doing this?

For one thing, [JB Say], who succeeds Turgo in the French tradition, never referred to Turgo or any of these people. He knew them. He was a disciple basically of Turgo and Condulac, all these people. He was a classical liberal laissez-faire person, carrying on the battle through the French Revolution and after it.

He's not just an economist; he's also a political thinker and activist. The question is why did Say say that Smith founded economics? Say was one of the people responsible for the myth. Why doesn't he talk about the French tradition? He really disagreed with Smith on almost everything. Read the book—there was nothing Smithian about it.

No cost of production theory, no labor theory. It's all utility and productivity and hardcore laissez-faire. I think there's only two explanations, and I puzzled over this for quite some time, how the Smith myth originated and why these guys, the knowledge of the French theorists got lost.

They were discredited in France itself. Discredited for two reasons—one because Turgo was locked in with the physiocrats, even though he really wasn't. He was a political ally of the physiocrats, he was not an

economic—way beyond the physiocrats, who thought that agriculture was the only productive factor of production, and crazy tableau economique. Turgo didn't believe any of this stuff.

But he was linked with the physiocrats politically, and politically the physiocrats were linked up with the absolute monarchy, because their strategic perspective was [unintelligible] because it's simple—you convert the king and that's it, you get laissez-faire. Why mess around with democracy and mass movements? Convert the king.

And in fact, they tried to convert a whole bunch of kings. A great story about Catherine the Great, who had very interesting ideas, Western ideas, and she called all these people to Russia. [unintelligible] Riviere, the great French physiocrat political theorist, natural rights theorist, "Explain to me, M. Riviere, about what this physiocracy's all about," and he said, "Well, Madam, essentially the laws of nature govern natural rights and [unintelligible]."

She said, "What room is there for the king?" "Well, the king just follows the laws of nature," and she said, "Thank you, Monsieur," then ran lightning out, didn't want to hear this. There's no role for the king whatsoever. As a matter of fact, there's one loveable guy [unintelligible] called Margret of Baden, who was a physiocrat convert, and he speaks, I think, to not Maurissier, but some other, Mirabeau or somebody.

He says, "Gee, it seems to me there's role for government at all in your system. It could all be laissez-faire, sort of anarchistic." The guy [unintelligible] back, "No, no, we need the government for the framework," and blah blah blah, etc. And of course, Margret was perfectly direct. The implications of laissez-faire natural rights, you don't need the government at all.

But at any rate, they were [unintelligible] with absolute monarchy, the physiocrats, and so after absolute monarchy disappeared, after the French Revolution they were politically discredited. Nobody wanted to listen to anybody in favor of absolute monarchy. And also, of course, the physiocrats, nobody really believed by this time agriculture is the only productive factor, because there was a lot of industry growing at the time.

So for those two reasons, I think, the physiocrats and Turgo got discredited, unfortunately, in France, and nobody referred to them, and the knowledge drops out. Paradigms lost. [laughter] The whole thing drops out, a real tragedy for economic thought, because then we're stuck for a century with the British.

Essentially [unintelligible] begins with Grotius, the same guys I mentioned, the Dutch Protestant scholastic, who are Protestants, but natural law people. Grotius were heavily influenced by the Spanish scholastic, by Suarez, etc. What happened is that Puffendorf, who's a Lutheran Grotian—this is early 17<sup>th</sup> century; Puffendorf was mid—so Grotius was early 17<sup>th</sup> century, and Puffendorf was middle and late.

Puffendorf was sort of a popularizer of Grotius. People would start reading Puffendorf and not Grotius. Grotius mentioned the Spanish scholastics, hailed them as being his predecessor. Puffendorf, being a hardcore Lutheran, hated Catholics, refused to mention any Catholics.

As a result, knowledge of scholastic economics drops out, scholastic political theory drops out almost forever. Since Puffendorf didn't mention it, and Puffendorf was read by the Scottish enlightenment people. One reason, by the way, why knowledge of scholastic economics drops out is the Latin drops out.



Scholastics usually wrote in Latin. There are not too many Latinists around. And the fact that [unintelligible] and Schumpeter and these people actually read Latin is one of the reasons why they were able to bring them back. So Puffendorf brings the natural law doctrine and semi—I wouldn't saw laissez-faire—sort of semi-free-market, it's very vague, but at least it's something. The first Scottish enlightenment person, the first professor—I forget whether it's Edinburgh or Glasgow, one or the other—was Grisham Carmichael, he was only a professor for about two years before he died, but he's a professor, from the beginning of the professorial—before they were readers or whatever they were, and he translates Puffendorf and writes a commentary.

He was a founder of a political economic wing of the Scottish Enlightenment. So you get Puffendorf, Carmichael, and Carmichael's the teacher of Francis Hutcheson, who in turn teaches Adam Smith. Carmichael-Hutcheson-Smith connection. By the way, Smith, the famous phrase, talks about the never forgotten teacher of Francis Hutcheson, phrases it—however, he only plays in a private letter to the university in Edinburgh. He never talks about Hutcheson [unintelligible] or anyplace else.

Part of Smith's Columbus complex, that he originated almost everything. At any rate, these guys are really natural law people, Carmichael, Hutcheson, etc., more or less free market and natural rights, more or less. Not hardcore, but sort of soft-core classical liberals, I would say. Hutcheson, by the way, has a very good attack—one of the places I differ with Hayek strongly in the history of thought is the status of Mandeville. Bernard Mandeville was a Dutch physician who lived in London with his wife, who wrote a fable of the bees and other such fables, which Hayek claims are the original idea of spontaneous order in the free market, how the free market works and so forth and so on. I disagree with that totally.

I think the Weiner position, which is the Hutcheson position, which was that essentially Mandeville was not only a statist, but also the fable of the bees is really a sort of pre-Keynesian plea for the glory of consumption. Saving is really bad, you benefit the market, benefit society by consuming a lot.

Hutcheson basically pointed out, Hutcheson was a man who was really against consumption, in favor of libertinism, a libertinist rather than a libertarian, so to speak. I think that's the correct interpretation. Weiner points out Mandeville wrote a follow-up, a book called "Letters From Xelon" or something like that, becomes explicit, even more explicit than the fable of the bees.

Both Carmichael and Hutcheson were essentially utility theorists or utility-scarcity theorists. Value, economic value is brought about by demand, demand and supply, and demand is caused by utility, and diminishing utility and scarcity. In other words, essentially the scholastic position, that they were Protestant scholastics.

If this is true, where does the labor theory of value come in? The cost theory, how does [unintelligible]? It's not Hutchesonian, it's not Carmichaelian or whatever. And not only that, but Smith himself, in his lectures, gives the correct version—in other words, the famous paradox of value, which [unintelligible] economic thought.

The paradox of value, which is quite famous, is that how come, if diamonds, if bread or water, whichever you want to use, is necessary to life, bread is good, the staff of life, or water is good how come it's very cheap on the market, whereas diamonds, which are a fricary and a luxury, how come they're so expensive?

In other words, you have this famous split between use value—when you get to use value, diamonds are terrible and bread is great, but economic

value somehow violates that. Smith allegedly couldn't solve this, Ricardo couldn't solve it. It's all about consumption, consumption just drops out. You have a disastrous split between use value and economic value, which results in Marx and Weber and the whole thing is a production for use versus production for profit, really stems from this idea.

Somehow the market values fripperies over important stuff like bread, [unintelligible] in real terms, are much more valuable. So the usual story that Smith enunciated this paradox of value, and the Austrians finally solved it—it's not really that Smith—Hutcheson had solved it, the scholastics had solved it, there was no problem, when they realized what the problem was: Diamonds are very scarce, and there's lots of bread around, it's very simple.

You have an enormous amount of bread, enormous amount of water. Each unit of water or bread is going to be worth much less than diamonds, which are philosophically weaker, are much more scarce. So relative scarcity and utility, that's the whole bit. Not only did Hutcheson solve it, but Smith himself had solved it in his lectures, his unpublished lectures at the time.

Smith realized, in *The Wealth of Nations* he totally changes it and poses a paradox of value, which then ruins classical economics from then on. And you might say, "Well, after all, the lectures were 20 years before; maybe he's assuming everybody knows the lectures, and then he goes on." That's not true because his lectures were never published in his lifetime, only published very recently, 20<sup>th</sup> century.

It's quite bizarre. We have in Smith not only a decline, a loss of economic thought from the French [unintelligible], Hutcheson, and even from himself in a previous persona 20 years before. This was true not only of the paradox of value; it's also true of the Hume international

money flow stuff. He doesn't even have that; that drops out. The whole idea of an international money equilibrium and all that stuff drops out. It's very strange, *The Wealth of Nations* is a weird book.

Not only is it not true that he did not create economics, but he lost a lot of economics even from his own previous 20 years ago, his own previous being, whatever you want to call it, before.

Smith was growing up, when Smith was a young man in the 1750s, Scottish Enlightenment hit Scotland. So the University of Edinburgh and Glasgow become the shining lights, intellectual lights in Europe, firstly in Britain. At this point Oxford and Cambridge had degenerated into sort of rich man's playthings, they're not intellectually important or good or useful at that time.

So as a result, Edinburgh and Glasgow become key centers, and people come from all over Europe to study there. Smith started off as a club man. Clubs were very important in 18<sup>th</sup> century social life and intellectual life. He was a member of about eight different clubs, each of which had a weekly meeting, and things like that.

There was one club, by the way, his friend David Hume was president. The two were very different, they never spoke—kind of odd, since they were the smartest... There were disagreements with them, they were certainly the brightest people in the club. As a result, so there's a big club life, intellectual life developing, plus the fact that you have titanic struggle between, and within the Church of Scotland, which was the established church, in typical British compromise. Anglicanism was the established church in England; Presbyterian was the established church in Scotland, which angered the Anglicans in Scotland, of course, tremendously, and threw them into the Jacobite camp in a way.

And of course, the pure Calvinists or whatever, the dissident faction broke off and established the free Kirk of Scotland. As a result, they established the Scottish Presbyterian Church. There was a titanic struggle between the Moderates, as they were called, and the Evangelicals. The Moderates consisted of all the bright people and wealthy types in Glasgow and Edinburgh, and the Evangelicals everybody else, the oppressed [unintelligible] masses. As a result of fantastic maneuvering, even though the Moderates were in the minority, they were able to control the church until about 1800, which was ultimately 50 years or so, headed by Principal Robertson, William Robertson. A whole bunch of other people, and Smith was a member. They all knew each other and they were all friends and compatriots. Even though the Moderates were not as hardcore Calvinists, obviously, as the Evangelicals, they were still pretty Calvinistic, especially Smith. Hume was the least, Hume I guess was tending toward deism or atheism or whatever. Hume couldn't find an academic post in Scotland, by the way, an interesting commentary on academia, the guy couldn't find a university post, because of his religious views.

He was not impoverished, however, since he was a high aristocrat, independently wealthy aristocrat, a member of a huge family, which I think merged [unintelligible], it's all the same group. So Smith starts off in this environment, however, was also deeply Calvinist, even though moderate.

His mother wanted him to become an Anglican minister and send him to Oxford, I believe, in order to, probably an Anglican fellowship. When he graduates, he's supposed to become an Anglican minister, and he said to heck with that, and he became a Glasgow professor. He had to sign a Westminster Confession, which was one of the requisites, and he had no difficulty, apparently, signing it.

I think this accounts not only for the adoption of the labor theory of value late in the game, and discarding the utility theory—also for other things. One of his deviations from laissez-faire, one of his many deviations, which we'll get into in a minute, was his favor of usury laws. In other words, he was in favor of maximum interest rate laws restricting the supply of credit.

Eddie West, who's a friend of mine, is a biographer of Smith and worships Smith, Edwin G. West, couldn't understand this. We had a session in the Kantalon Conference, where Smith of course came in as a general object of attention. West said, "Gee, Smith deviated, he should've understood that if you have a maximum price control, if you have a maximum interest rate, it will restrict the supply of credit," and so forth, and he didn't seem to realize that, a hole in his doctrine.

Roger Garrison gave a comment on that, an Austrian, pointed out quite the contrary, Smith understood all too well the consequences. He wanted to restrict the supply of credit. That's the whole point. He understood that the usury laws would restrict supply of credit, and he loved it. He wanted to do it, why? Because he hated consumption. He wanted credit to be channeled to the prime borrowers who will take prime interest rates.

He wanted to exclude from credit, he wanted to ration credit so that speculators and high consumer types—in other words, non-Calvinist types—would not get credit. He wanted to channel credit away from dissolute types, and it was quite conscious on his part, and I think it's absolutely correct. Even when he gets to the diamond, water/bread or diamond paradox, the way he talks about it is kind of interesting.

He doesn't say that diamonds are a luxury, and therefore of lesser value. He said diamonds are of no value. No value. There's a constant thing

with Smith, is an attack on consumption and an attack on material... One of the reasons I think why he adopts the idea that some labor is productive, labor which embodies material objects, and other labor which is unproductive—in other words, services—he wasn't so much interested in material objects, he was interested in capital, he wanted capital investment.

In other words, he disagreed with the saving-consumption preference of the market. He wanted more saving and less consumption, basically. And one of the ways, a usury law is one way to channel consumption into prime borrowers. And in general, he disliked consumption, fripperies, he wanted to tax consumption.

He wanted all sorts of ways by which he would, I say restructure the preferences of the market. And it all fits in with what I say is the Calvinist approach to all this, where luxury becomes evil. Anything beyond moderate consumption becomes wicked. So that was one of the—the idea of productive labor fits right into that, and building up capital investment.

So the opposite deviation from the physiocratic Mandeville one, where only consumption is good and saving is evil, this is the opposite. A lot of free market economists, by the way, still hold this. As a matter of fact, read any economic literature, financial literature. The supply-siders, for example, will say, "We have to lower marginal tax rates because we want people to save and invest more, saving and investment is good," but if savings and investment is good, then consumption must be, in some way, bad.

People are adjusting their own proportions. So if you read a lot of this, you'll get the same sort of, even now, the same sort of idea that saving is good, and of course consumption is bad, is not explicitly stated, but it's

part of the paradigm. In other words, very few people are willing to allow individuals in the market to decide their own saving/investment preferences.

In addition to the fact that it leaves out productive labor stuff, creates a lot of problems. Theory of value is totally confused, he's a very confused writer. The theory of value has about three or four independent, coexisting theories of value in there. On one hand, he puts too much emphasis on division of labor to the neglect of investment in capital.

On the other hand, in his later books, toward the end of the book he attacks the division of labor, calls it alienation and all that sort of stuff, the pre-Marxian, anti-alienation... One of the reasons, by the way, that he worries about the division labor, is it weakens the martial spirit of the people.

If you're making parts of a pin or you're tightening bolts, you'll somehow lose the spirit of running out and conquering, and in that sense he's very pro-war, something that's really overlooked. His theory of money leaves out even the Hume stuff, much less than Kantalon stuff, on money and prices. He leaves out a lot of stuff, he leaves out a lot of stuff that either he had or Hutcheson had previously.

I have a list of, a compilation of deviations from laissez-faire in Smith, it's pretty long, I'll tell you that. Of course, there's the navigation acts, there's national defense, which include practically everything. The martial spirit decay. He's in favor of government-run education. "In order to inculcate obedience to the state among the populous." Scarcely a laissez-faire doctrine.

According from Smith, "An instructed and intelligent people besides are always more decent and orderly than an ignorant and stupid one. They feel themselves more respectable, more likely to obtain the respect of



their lawful superiors,” says Smith, “and they’re therefore more disposed to respect those superiors. They’re less apt to be misled in any wanton or unnecessary opposition to the measures of government.”

That’s why he’s in favor of government-run education. Kind of a statist, let’s face it [unintelligible] laissez-faire person. He’s in favor of regulating bank paper, allowing fractional reserve banking, which most of his predecessors were against, by the way, including Hume. Hume is a hardcore 100% gold person. He thought fractional reserve banking was fraud.

Most of his friends and predecessors did. It’s only Smith who starts bringing in bank credit. He’s in favor of public works, including highways, bridges and harbors under the rationale that private enterprise “would not have the incentive,” to maintain them properly, a rather odd position to take.

And particularly a lengthy list of taxes which he advocated, each of which interfere in the free market. For example, he was sort of a pre-Georgist, as Ricardo was definitely a pre-Georgist. All these guys, including Smith, believed that the landlord had no function. Farmers had a function, but landlords, just ownership of land was functionless, and therefore can be taxed. It’s a tax on rent. The whole smearing of rent, the whole vicious smear of rent, which really starts with Smith, and Ricardo maximizes it.

What they didn’t understand, for example, is that landlords performed a very important function, namely allocating scarce land. It’s an extremely important function, which they did not—because they didn’t think in terms of allocation. He also favored taxes on imported farm manufactures, moderate taxes, taxes on the export of raw wool. There’s a lot even in the free trade thing, he had a lot of deviations on that.

And heavy taxes on luxurious consumption, as I mentioned. Taxes on luxury carriages, specifically to tax the indolence and vanity of the rich. Once again, the Calvinist thrust. He also, again, has a puritanical hostility to liquor, which even though he's not a post-Millennialist, but the anti-liquor thing was already there.

He called for heavy tax on distilleries in order to crack down on hard liquor, and induce people to drink instead the wholesome and invigorating liquor of beer and ale. Somehow that was okay. [laughter] Whereas hard liquor was evil sin. He was in favor of a high retail tax on retail sales of all liquor to discourage alehouses.

He was also in favor of a soak the rich policy of progressive income taxation, let it never be forgotten with Smith. Who would wear a Smith tie after this? [laughter] As I said, usury laws, even though Turgot and Kantalon already blasted usury laws off the face of the map. Even Bentham was against usury laws, even Bentham, who's one of my least favorite people also. An interesting thing about Smith, one of the most interesting, charming things, there's an article by Anderson, Gary Anderson, I think Tellison is involved in this thing, right?

A marvelous article called "Adam Smith and the Custom House." One interesting thing about Smith, he was a great free trade, laissez-faire person—how come he spent the last 12 years of his life as a customs official? Not just a customs official, but a member of the customs commissioners, running the whole customs system. Extracting tariffs and all that, cracking down on smugglers.

How do you square this? The usual whitewash of Smith is, "Well, he just used it as a sinecure," it's called a no-show job, like in the Bronx we have pothole inspectors.

For \$8,000 a year, you find a pothole and report it, you call in. Because there's a pothole every five yards, it's very easy to do this. But it turns out, however, it was not a no-show job, he worked hard at it, he was there three days a week and was full-time, and he loved it—not only that—had no qualms about it, he loved it.

He was writing letters to people saying, “Boy oh boy, we got another smuggler today,” they're cracking down on these people, sort of like Reagan claiming he was against income taxes and maximizing IRS funds and power. You ask yourself which is he really in favor? You look at his actions, they speak louder than the words here.

Some people claim, “Well, it's too bad Smith didn't do any more academic work, intellectual work after *Wealth of Nations*,” but he said he loved this. He could've gotten a top academic post with almost as much money. He liked this stuff, he thought it was great. Somebody went to Scotland, Anderson or someone, found the minutes of a customs house and actually found out what he was saying and doing, cracking down.

Just one quote from Smith: He writes to a fellow customs official in December 1785, and he says, “May perhaps give a gentleman pleasure,” the guy he's writing to, “to inform of the net revenue arising from the customs in Scotland is at least four times greater than it was seven or eight years ago,” when he took over.

“Has been increasing rapidly these four or five years past, and the revenue of this year [unintelligible] one half the revenue of the latest former year. I [unintelligible] myself that it's likely to increase, though, further.” Well, God bless him. [laughter] Hardly, however, a champion of laissez-faire and free trade.

He gets this reputation as being the founder of economics, and the other guys are lost. And we come to some Smithians now. I think [Dougall

Stuart], for example, was Smith's descendent at the University of Glasgow. Very few people studied under Smith himself, but everybody you can think of studied under Stuart.

For about 10 or 15 years he was a big shot professor of political economy at Glasgow. James Mill studied under him, and a whole bunch of other people, McCullough and a whole group, whole Scottish group. When we get to the labor theory of value, it's pretty clear that the preponderers of the labor theory of value are not only Smith, but also his direct descendants, James Mill, who was Scottish, originally a top Scottish Calvinist who was studying for the Presbyterian ministry, and as somebody said, when James Mill went to London, he lost his Calvinist faith, he became an atheist, but he continued the same zeal for world salvation and crushing the enemy or whatever they had before, cadre doctrines continued apace.

As a matter of fact, there's a great quote about James Mill, is that when he was a hardcore Calvinist, he hated Hume for his skepticism, and when he was an atheist, he also hated Hume for the same reason. Hume was too level-headed and skeptical, and wasn't hardcore enough. Kind of a charming doctrine.

Bentham was a Smithian, started off life as a Smithian, a devoted Smithian, and he wrote a very good, his only good book, I think, *In Defense of Usury*, in which he attacked Smith for selling out on the usury question. He wrote that in the 1790s when he was a devoted Smithian. Bentham of course was not the founder, but probably the big systematizer of utilitarianism, a bitter opponent of natural rights, natural law or whatever.

When you had to cut through the Benthamite movement, a whole bunch of Benthamites around, you cut through, you find the real core of

Benthamism, which is pretty monstrous. And of course, Bentham is really the founder of modern economics, in the sense of welfare economics, cost-benefit analysis, it all comes in with Bentham.

These people, James Mill and John Stuart Mill are essentially Benthamites and bring in the Benthamite, replacing whatever natural law doctrine there was, and I think it's all fallacious. Personal utilitarianism is fallacious, and certainly social utilitarianism, where you try to add up personal utilities and personal benefits and figure out what the maximum general greatest good for the greatest number is. It's, to me, obvious nonsense—you can't add them up, since all utilities are subjective and ordinal.

Bentham's famous phrase, "the greatest good for the greatest number," which is the cornerstone of his doctrine, one of the problems with that, of course, one of the many problems is suppose you're in the lesser number, then what? What happens then? Utilitarianism can justify almost everything.

I think Benthamites would admit this. In other words, since there's no justice, no such thing as natural rights, justice or anything else, [unintelligible] manipulate everything for alleged cost-benefit arguments. For example, take the idea, say punishment theory, which is an arcane part of libertarian doctrine, Benthamites are pure deterrence theorists—they don't believe in justice, it's all deterrence.

Well, deterrence—for example, to deter—take for example this sort of situation: Most people don't want to commit murder for whatever reason, they don't like it, they're against it, they're reluctant to commit murder. On the other hand, a lot of people are willing to steal an apple from a pushcart or from a food store. Therefore, according to pure deterrence theory, punishment for murder should be very light and punishment for

apple stealing should be capital punishment, preferably in public, to make an example of the stealer.

Most of us think there's something wrong with this, it's what the philosophers would call counterintuitive—in other words, nutso. Most of us have a view of justice, even if we don't have an articulate theory of it. Bentham throws that all out. Benthamites are also in favor, for example, of punishing the innocent, execute the innocent, provided the public doesn't know they're innocent.

If the public thinks they're guilty, it's good enough. No moral principles and whatever. What I want to talk about with Bentham is the Panopticon, the key to his thought, which Benthamites don't like to talk about. This was Bentham's great project, he was a great projector. He wrote millions of words, much of which fortunately have not been published yet, because he had a fleet of secretaries, he was a very wealthy aristocrat, so he employed secretaries to take them down, copy them—there was no, of course, Xerox machine or typewriter in that epoch.

He was sort of living *reducto absurdum* in his own—his Panopticon, living *reducto absurdum* in his own thought. He used to be a Tory, a Tory aristocrat, and he converted to democracy, actually converted by James Mill, because the Tories wouldn't adopt his doctrine, his Panopticon. He figured nothing would be worse than that, maybe democracy will adopt my Panopticon. Panopticon was a theory which Benthamite apologists claim only applied to prisons; it did not apply only to prisons.

There's an excellent, very amusing article—Douglas Long has a book called *Bentham and Liberty*, a very good scholarly work. Gertrude Himmelfarb, usually not one of my favorite people, being

neoconservative, has an excellent critique of Bentham called *The Haunted House of Jeremy Bentham* in her book on Victorian minds.

Panopticon was a scheme not just for the prisons; for almost everybody—for the poor, for children, for vagrants. Everybody would be rounded up. It's been estimated by Bentham [unintelligible] from a third to two-thirds of the population would be incarcerated in Panopticons, which were essentially compulsory concentration camps.

It was scientific. There's no such thing as justice or privacy; it's all cost-benefit, right? You maximize surveillance. So you have one guy sitting in the center of a circle, and all the prisoners and kids and whatever, paupers, all lined up, so you can see into them at any quick—this is before the age of television and all that.

A brilliant prophesy of the Orwellian future. Even though you couldn't see everybody every time, nobody would know when you're seeing them, so everybody would feel he's under surveillance. It doesn't follow the utilitarian—it's very important for everybody to feel at all times he's under surveillance by Big Brother, by the Panopticon leadership.

And so this would keep them, not only keep them on the straight and narrow, keep them working, you want to get maximum production out of them. 12.5 hours a day of forced labor, so forth and so on. And he had everything beautifully worked out. The idea of course to have maximum production by slave labor, which is essentially what it was.

Panopticon by the way is Greek for "all-seeing," it's the controller who sees everything. Sounds like the Big Brother. Also, "inspection house" was another way to put it. This is a big reform. Himmelfarb puts it very neatly. He said Bentham was an atheist, but she says Bentham did not believe in God, but he did believe in a quality that [unintelligible] by in God. The Panopticon was a realization of a divine ideal, spying out the

ways or the transgressor or potential transgressor by means of an ingenious architectural scheme, turning night into day with artificial light and reflectors, holding men captive by an intricate system of inspection.

The Panopticon becomes omniscient and omnipotent, omnipresence of the inspector. This of course makes things most efficient, the goals of the inspectors. At one point Bentham says, "There might be some drawing back to adopt my scheme because it might be said that these people become robots instead of people."

As he says, "[unintelligible] of an imbecility, for the formerly free man would not longer, in a deep sense, be human." And he asks himself whether the result of this [unintelligible] contrivance might not be constructing a set of machines out of the similitude of men. And to this critical question, he gives the utilitarian reply—brutal, brusque and utilitarian—namely, who cares? Who cares if they're just machines?

The only real question is would happiness be most likely to increase or diminish by this discipline? Of course, he being a scientist of happiness, could answer the question very neatly. Namely, as he said, they'll be happy almost by definition. Call them soldiers, call them monks, call them machines, he says, so [unintelligible] but happy ones I should not care.

This is what Patterson would call the humanitarian with the guillotine or the slave pen. So economy and productivity were what he was trying to maximize. As he put it, industry is a blessing. Seven and a half hours a day is enough for sleep, an hour and a half total for meals, the rest of the time working in a forced labor regime.

The punch line of this whole thing, whole Panopticon scheme, is that he would run it. In other words, it would be a privately owned Panopticon, giant Panopticon. Slave labor would be owned by him. He, Bentham.



He'd extract the profits from the slave laborers. In this way we have a unity of private and public institutions. So he tried to lobby the parliament, lobby the court, and never get it through, fortunately for Great Britain.

Bentham had a group of secretaries. The most interesting secretary was James Mill, [unintelligible] out of turn, who in a sense was the founder of the Ricardian system. I really think more and more we find out about— Mill I think is a fascinating character. Not John Stuart, not [Olumpo], but James Mill, the father.

James Mill, I call him the radical with Lenin, a real cadre type, a real Bolshevik type in every sense. Personally, ideologically, whatever. Although he was semi-libertarian, and he basically had this kind of mindset. I'd say he was originally a Scottish Presbyterian minister. Comes to London, makes a precarious living as a freelance writer, which is always precarious, and he latches onto Bentham. Bentham has a lot of money. And he's writing all the time, becomes his secretary. He's always trying to organize everybody. He was a cadre-type person.

He's organizing his kid, John Stuart, organizing everybody, his friends, his wife. Everybody's being organized in a cadre manner. So he's trying to organize Bentham. Bentham was very unsystematic, would scribble all night or whatever. He kept saying, "Bentham, why don't you work on this? Complete this book, and then we'll get you the next book."

Bentham was writing, "This young whipper-snapper is trying to organize me." So there was a clash of temperament. It was Mill who talked Bentham into being a democrat. Mill had his own reasons for being in favor of democracy and universal suffrage. He adopted Bentham's utilitarianism and believed in laissez-faire much more than Bentham at this point, but he felt that he was a true Benthamite.

He's a very creative thinker, one of the most creative thinkers of this whole modern period. But he always pretended, in contrast with Smith and a lot of other people, "No, I'm just the number two man, I'm a faithful Benthamite, I'm a faithful Ricardian. I'm just a mouthpiece of the great Bentham and the great Ricardo."

Actually, he was contributing much to the doctrine. He was one of the few people in history who underplayed his own role. I was talking to my old friend [Runaligia] about this. "It's rather strange." He said, "There might be an economic explanation for this," which usually I'm quick to... I wasn't quick enough on the mark.

An economic explanation being that Mill was impoverished and a freelance writer, whereas Bentham was very wealthy and Ricardo was very wealthy. So this pretension of being a humble number two man might have a personal economic financial motive. "Yes, master," you know, as a source of a lot of...

In fact, Bentham kept Mill going for many years until Mill wrote his history of British India, history of India. At any rate, he does the same thing with Ricardo. He finds Ricardo, who's a retired stockbroker, really a bond dealer or whatever it was. Ricardo's whole ambition was to retire and become a country squire. Forget it, a young retired person.

And Mill keeps nagging him, "No, no, you've got to be a great economist," and he keeps "forcing" Ricardo to write this book, and he keeps correcting every chapter. Every chapter Ricardo gives to Mill, Mill corrects and adds stuff to it—important thing—rewrites it and gets him to publish it, and then he said, "Okay, now you gotta be our cadre leader in parliament of the philosophical radicals."

Mill organized the philosophic radical cadre, he had about 20 or 30 MPs by the 1830s, which had a balance of power position, quite powerful.

And it turns out more and more that Mill really originated much of the Ricardian system. For example, one of the few good things in the Ricardian system is the law of comparative advantage—that international trade—that even if one country or one person, of course, is terrible in everything, is unproductive in almost everything, it could still be an advantage to trade with it, because it's to the advantage of everybody to concentrate on the least unproductive area, and trade with somebody else who concentrates on the most productive areas.

So you don't have to have an absolute advantage at anything, you can just have a comparative advantage. Ricardo turns out not only didn't originate it; James Mill originated it and forced Ricardo to put it in, because Ricardo wasn't interested in it. Ricardo had one interest in life, namely crush the landlord, the unproductive landlord class.

Since he believed that landlords were an unproductive weight, and rent will inexorably increase and mess everything up, he tried to postpone the inevitable by lowering rents, and the way to lower rents was import wheat, or corn, as they called it. You import wheat. At least for a few years you'll keep down rental value and lower the price of wheat, and keep the economy going until the whole thing cracks.

So Ricardo's only interest in free trade was free trade in the importation of wheat, because of his rent theory. Mill was also Ricardian, but he also had a general free trade position, plus comparative advantage, which apparently he wrote and he put into Ricardo's book, which stands out like a sore thumb, like a page or two pages, which Ricardo never referred to anywhere else.

Ricardo's real interest was monetary theory, of course, money and banking, which I haven't got time to go into. And the rest of it might well have been—we don't know how much Mill contributed—Mill had endless

correspondence, endless [work] through Ricardo, giving him the line, and we don't really know how much this stuff was James Mill. Ricardo said, "James Mill changed my life," and all that sort of stuff. James Mill was a fantastic, very charismatic figure, changed everybody's life who was around him and so forth and so on.

So, much of it might be the Millian system. An interesting thing about Mill is the fact that he was one of the inventors of libertarian class analysis, class conflict theory. Before the Saint Simonians. About the same time as [Cump and Dunley], I'm not sure who was first. I'm not sure whether it was independent on Mill's part or whether he learned it from Say. Charles Cump was JB Say's son-in-law and a libertarian analyst. They were much more sophisticated in their historical approach, which Mill didn't have, so I presume he probably got it from them.

Basically, libertarian class conflict analysis says, contrast of Marx, which, where capitalists and workers are an inexorable class conflict, the only class conflict comes from the state. In other words, the state exists and does something, there's a ruling class and a ruled class right away. Taxation, tax consumers and taxpayers, the people get benefits from the state, the people lose by the state, that creates class conflict.

Everything else, on the free market there's harmony; class conflict comes about through the state. So Cump and Dunley had this, and they said, "Industrialization requires free markets and free trade, and as the state withers away, class conflict will be eliminated, we'll have a classless society," not in the sense of a communist society, but in the sense of a free market. That was the Cump and Dunley approach.

Mill had something similar to this, it was narrower. Basically, Mill said there were two classes in society, the ruling few and the ruled many. There's always a ruling class. Ruling class is exploiting the public

through taxes and control, etc., and his object was to eliminate it and have pure laissez-faire.

The reason why he was in favor of democracy is he felt that if you had pure democracy and universal suffrage, the public can't exploit themselves because there's always a minority; therefore the public will guard against the emergence of a ruling class. Of course, as we now know, it's an incorrect theory.

It made a certain amount of sense in that period, before democracy was tried. At any rate, that was his objective, and he convinces Bentham that it was Bentham's idea, which it really wasn't. And then he starts cadre activity in that direction, for pure democracy and laissez-faire.

He thought democracy was more important than laissez-faire, because democracy is the key thing. If you had universal suffrage, then laissez-faire would flow from it inexorably. He then arrange his followers on a cadre basis, using, for example, organized deception. There's a very good book, Joseph Hamburger, very good books on James Mill.

One is called *John Stuart Mill and the Intellectuals*, it's really about James Mill mostly. The other one's called *James Mill and the Art of Revolution*. James Mill wrote books and journal articles all the time, wrote books on practically everything—wrote a book on logic, a book on psychology, a book on utilitarianism and economics, books on everything, plus journal articles, plus organizing his friends, kid and wife, and plus organizing a cadre in parliament.

I don't know how the hell he did it, unbelievable. He also organized the reform campaign of 1832, a reform bill, which of course opened suffrage to the middle-class in England, which to him was a way station on the road to universal suffrage. He really pushed it through by an organized campaign of cadre deceit.

In other words, he got control of most of the press by various means, most of the top newspapers, he got them to lie about the idea that there was a revolution out there. If you don't pass the reform bill, the masses will revolt—pure fiction. No revolution, no nothing. And he got the Whig government, he scared the Whig government into thinking there was going to be a revolution if they didn't pass the bill.

He also worked out a theory about why lying is good. First of all, some people don't deserve the truth, and secondly that politically they don't necessarily deserve the truth, and lying is a high utilitarian good.

Anyway, he did this and was successful. It was only discovered ten years later, when his aide-de-camp, his chief aide, John Roebuck wrote a history of the reform bill and how it was put through. And the whole cadre was devoted to Mill, they figured he's the guy, and they'd take orders from him at all times, etc.

The reason why he brainwashed his good—and a very famous thing, John Stuart Mill gets brainwashed, learns Latin at the age of two days or whatever it was—but he didn't do it just for the hell of it. He didn't do it to try out his theories of education on his kid; he did it because the kid was supposed to be his successor as cadre leader. The kid had a world historical responsibility to carry forward leadership of the cadre. Wasn't just an ordinary kid.

That was his basis, and of course he flopped. Actually, John Stuart was the cadre leader until the old man died. John Stuart Mill, who lived in deception, was not only muddle-headed, John Stuart, but also engaged in total deceit almost at all times. For example, he wrote an article praising Bentham, this was when his father was still alive and a Benthamite, praising Bentham, writing it publicly, and at the same time, writing an anonymous article attacking Bentham.

He's messed up, at the very least. [unintelligible] the fact he was no longer cadre leader until his father died, that was about eight years later or something. Anyway, what happens, Ricardianism, I think, again, it's very difficult, first of all, to understand what Ricardo's talking about. Both Ricardo and J.B. Say are trying to understand Smith. Smith is very confusing. As I said, about three or four different theories of value at the same time, using words in an obscure manner, so forth and so on.

[unintelligible] said this is a great book. We know it's a great book, but we don't know what the hell he's saying. [laughter] So they're trying to systematize Smith. Say does it really as a Turgo disciple, really not a Smithian, and Say's whole book—I recommend, by the way, Say's treatise on Turgo, it's a marvelous book.

It's still in the 1860 edition or something. The translation is 1821 or something. It's a marvelous book. It's straight Turgo, it's entrepreneurs, productivity, not marginal, but productivity, explanation of factor of prices is there, utility theory is there, entrepreneurs are there very heavily. The whole thing is a Turgoian book. It's not a Smithian, though he says Smith is the greatest.

The only thing Smithian is what's picked out from Turgo, namely Say's law—essentially, the old Turgo thing, saving is okay [unintelligible] investment, no problem of overproduction and all that. It's really Turgo law, which Smith gets, and Say gets from Smith or Turgo. And Smith is also the classical liberal libertarian leader of the movement, in addition to being an economist of note. In addition to that, Say was very hardcore on banking, was 100% banking gold theorist, and all the people, Clump [unintelligible] all these people were essentially Say in the same movement, they were all disciples, descendents of J.B. Say. A marvelous book, great stuff.

The only thing bad about it is he says Smith originated all that. I can't believe he really meant it. Meantime, Ricardo is writing what I can only call verbal mathematics. The only thing worse than mathematics is verbal mathematics. In other words, we're writing mathematical equations in linguistic form.

The whole thing becomes, it's an equilibrium analysis where you're trying to set some things constant, other things variable, by putting it in words, which makes it almost incomprehensible. Of course, the theory of rent not only says that landlords are unproductive; it also says that rent is not really a part of cost because rent is differential, that the poorest land earns zero rent, and therefore any rent is really just a differential, it's not really earned, so to speak.

You could say the same thing about wages. Wages are not a part of cost, because anything above unskilled labor [unintelligible] differential should be taxed away or whatever. Ricardo leads directly, not himself, but his followers, Henry George is a state Ricardian, Marx is a Ricardian on the labor theory of value, which Ricardo lifted from Smith.

In other words, Ricardo systematized Smith by taking the worst stuff in Smith and making a system out of it. And Say systematized by taking his best stuff. That's, I think, the difference. They only agree, Say and Ricardo, on Say's law. Again, Ricardo [unintelligible] Turgo-Smith tradition.

The thing that happens to Ricardo, the whole system, labor theory of value, theory of rent, etc., again is a myth, which I'm sure you've all read, namely that Ricardianism dominated English economics until [Yeben], until 1870 or even 1880 with Marshall. It's not true. We now know that Ricardianism died out by about 1830.



In other words, he died about 1822, and in six or seven years Ricardianism had been smashed by all sorts of people—by utility theorists like Samuel Bailey, by anti-rent people like Thompson, anti-Ricardian rent theory. So by 1830, [Colonel Torrens] was addressing the political economy [unintelligible] said nobody's a Ricardian anymore. The Ricardian system is finished.

So you had a whole bunch of things going on, very interesting stuff. The Irish theorists, the Trinity College, Dublin had a whole bunch of utility theorists, objective utility theorists who were excellent, including Archbishop Weightley, a very interesting character, who was English, and gets a, was a professor at Oxford, a master at Oriole College, and he was fighting the fight against the high churchmen in Oxford, high Tory. He was a [Lautunarian] type.

He becomes the archbishop of Dublin, immediately sets up a Weightley chair of political economy, and puts in, for the rest of his life, selects the [unintelligible] of it, every one of them is a utility theorist, until he dies. It carries on, Longfield and Bretton, all these people. Of course, they're sort of outside the English mainstream. The English don't care what's going on in Ireland, so they're not that influential.

But still and all, adding the whole thing up, Nassau Sr. has some excellent stuff. Nassau Sr. was very anti-Ricardian without explicitly saying it. And of course, again, something which I should've gone into, but I haven't got the time, is the Malthusian thing, which comes from Smith.

Malthus gets his anti-population stuff of course from Smith, landlord wages and all that, it's derived from it. Ricardo of course was a big Malthusian on population, not on other things. And Sr. essentially smashes that without saying so, and essentially demolishes...

What's strange about Malthus, by the way, here's a guy growing up after 50 years of the Industrial Revolution, an explosion, a fantastic explosion of standard of living, and worrying about population increase. It was much more apropos 100 years before when nobody was a Malthusian. But he waits, so to speak, until the Malthusian problem was over, and sets it up as a real problem, a big problem of population pressure.

So what happens is that basically Ricardianism was finished until John Stuart Mill resurrected it in his monstrous work of 1848. In other words, from 1823 to 1848, there was no Ricardian [unintelligible] in English economics. There was a free flow of utility theorists, there were anti-Ricardian rent theorists, etc.

There's one very interesting character I can't omit in this thing, a fascinating character named John Rae, who was a Scotsman, and one person [Bombavrey] does acknowledge as being a pre-Bombavrean, pre-time preference, pre-Austrian capital theorist. And he's a very strange duck. He's a Scottish physician who's unemployed and doesn't do well, and he has a marital problem, and anyway he leaves Scotland for Canada.

He's a very contentious character. Anyway, he gets involved in Canadian Calvinist politics between, I forget now which faction he was in. Anyway, he was in the losing faction. He was essentially kicked out of Canada, and leaves for, I think it was Hawaii, some minor Hawaiian island, he stays there for the rest of his life as a village physician. Anyway, he writes this thing.

His passion in life was geography. He wrote the definitive work on Canadian geography, geology and all that. He's a big protectionist, he's pro-protection. He hates Adam Smith. So he writes a book in the 1840s designed to attack Adam Smith and free trade. Then he says, "Well,

before I talk about protection, I have to deal with capital theory,” and he works out a whole Austrian capital theory—had no relationship with free trade whatsoever, protection.

It's a fantastic thing, and he works this whole thing out, and he publishes... But the publisher was a New England protectionist, who publishes a good, firm anti-Jacksonian, anti-free trade book. He publishes this book, nobody can understand what he's talking about, and he says, “Gee, this says nothing about protection, really, it's worthless.”

So nobody reads it, and the guy disappears, goes to Hawaii or something. And anyway, John Stuart Mill read it, because he read almost everything anyway, and somebody showed it to him and reads it, “This is a good book” and he praises Rae's book for the wrong reason. He didn't understand it too well. Doesn't get the pre-Bombaverk stuff at all. So he praises it, and poor Rae gets a clipping, I think, from Mill, this is many years after the book was written. “Gee, thank you, Mr. Mill, you're the only person to ever talk about my book, and you like it,” kind of pathetic. The poor guy's writing as a Hawaii village physician.

That was it. Nobody referred to it until about 1900, when Mixtor, Theodore Mixtor discovered it, and Bombaverk said, “You're right,” Bombaverk [unintelligible] either and praised it. So anyway, he's a very interesting character. So all this was going on, and Mill's book comes in and reestablishes Ricardo, Ricardianism.

And Mill had such tremendous prestige by this time as a philosopher, logician, intellectual, etc., and everybody just fell for it, and sort of toppled over and adopted this. The whole utility stuff drops out, and non-Ricardian rent theory drops out, and the whole thing just sort of caves in. J.S. Mill becomes dominant from 1848 'til the 1880s, let's say.

That's really the dominance. It's the resurgence of Ricardianism. Also, in addition to that, Mill establishes positivism as a self-conscious methodology for the first time. The previous classical economists—Say was explicitly what we call a praxiologist. He's a deductive—you start with [unintelligible] axioms and deduce economic theory.

Senior was definitely a self-conscious praxiologist. And Mill said, “No, no,” Mill talks about the idea of false assumption, a pre-Friedmanite view of... You have to have false assumptions which you then reduce and test and all that sort of stuff. It really begins with Mill.

And Mill, having great prestige, which the others, of course, didn't have, essentially wins out. Then of course was Alfred Marshall, sort of the same thing marginal utility theory. Marginal utility theory comes in in the 1870s, [unintelligible] in England and [Byar] in Switzerland and Minger in Austria.

Marshall's function in life was to bury marginal utility theory with faint praise. In other words, to reestablish Ricardo and Mill. That was his whole goal in life. Unfortunately, he succeeded in Britain. When I went to college, I read Marshall's *Principles of Economics* straight through. We had a seminar, and we read Marshall's *Principles*. It was great, much better than reading Keynes or something. That's what we did.

First of all, if you read Marshall, you see Evangelicalism, you see the pietism shining through. He's constantly making pietist moral arguments throughout, in the midst of talking about a representative firm and all that. But more important here is that what he's doing, he talks marginal utility and he trivializes it.

In other words, confines it to consumption. “Okay, it's true about consumption, and you get the diminishing marginal utility, and that's it.” True, he saw the value paradox. And from then on he talks about

production and he talks about cost. Cost is the key thing. So the real essence of the utility theory drops out.

And since when I was going to graduate school or college in the '40s, the general view was that Marshall hadn't integrated anything of value in the Austrians, that was it. Any good stuff was in Marshall, and the rest of the stuff doesn't have to be read. The view here is that, Marshall's famous phrase, "Value is determined by scissors, the scissors of supply and demand."

You have the demand scissors [unintelligible] rising supply curve, which is the cost, determined by cost, allegedly, and these two scissors determine market price. However, and this is really starts with Smith, by the way, and of course Ricardo emphasized it.

The key thing is not market price. Who cares about market price? The key thing is long-run normal pricing—in other words, equilibrium prices, which you never get at anyway. That's much more important. And long-run normal, Marshall claimed the supply blade or the cost blade was triumphant; demand sort of drops out, and the really important part of the scissors, the important blade is cost, objective cost determined by labor disutility and whatever.

So what he does is he brings back a sophisticated version of Ricardianism. You don't worry about market price; you worry about long-run cost. And of course, one of the—the two basic problems—one is the long-run cost never arrives, so it can't be really the key thing. After all, the key thing, you want to explain the market, the real market, and not the long run which never shows up.

And secondly, what do you do about goods that have no cost? Rembrandts, for example. Rembrandt painted the thing and then corked off. The price of Rembrandts fluctuates. Where's the supply cost,

where's the supply part of the blade? It ain't there, of course; there's only demand.

They had to admit, well, it doesn't work for non-reproducible products. Well, after all, non-reproducible is important. That's part of pricing too. Isn't it better to have a price theory where you have a general explanation of all prices, and one which only explains reproducible goods? And so that of course is not discussed. [unintelligible] goods are just tossed in the wastebasket, along with consumption with Ricardo.

All this is brought back, as I say, in a very sophisticated manner, and [unintelligible] having tremendous prestige as a Cambridge professor, dominates all English economics from the 1880s until the 1920s. Jebins was sort of a maverick semi-Austrian, so to speak, maverick, doesn't get any hearing, and he dies young too, so that pulled against his influence.

So what you have is the reestablishment of Ricardianism with Mill and Marshall. Essentially, a more sophisticated form. That really ushers in the 20<sup>th</sup> century.

**end of transcript.**