



JE KINDLE-NOTITIES VOOR:

Austrian Perspective on the History of Economic Thought

door Murray N. Rothbard

Gratis directe Kindle-preview: <https://a.co/fKmsl1C>

339 Highlights

Highlight (Geel) | Locatie 151

On the contrary, Smith actually took the sound, and almost fully developed, proto-Austrian subjective value tradition, and tragically shunted economics on to a false path, a dead end from which the Austrians had to rescue economics a century later. Instead of subjective value, entrepreneurship, and emphasis on real market pricing and market activity, Smith dropped all this and replaced it with a labour theory of value and a dominant focus on the unchanging long-run 'natural price' equilibrium, a world where entrepreneurship was assumed out of existence. Under Ricardo, this unfortunate shift in focus was intensified and systematized. If

Highlight (Geel) | Locatie 159

It turns out that, rather than someone who should be venerated as creator of modern economics or of laissez-faire, Smith was closer to the picture portrayed by Paul Douglas in the 1926 Chicago commemoration of the Wealth of Nations: a necessary precursor of Karl Marx.

Highlight (Geel) | Locatie 308

Plato's and Plotinus's views of man's allegedly alienated state were highly influential, as we shall see, in the writings of Karl Marx and his followers. Another Greek philosopher, emphatically different from the Aristotelian tradition, who prefigured Hegel and Marx was the early pre-Socratic philosopher Heraclitus of Ephesus (c.535–475 BC). He was pre-Socratic in the sense of predating Plato's great teacher Socrates (470–399 BC), who wrote nothing but has come down to us as interpreted by Plato and by several other followers. Heraclitus, who was aptly given the title 'The Obscure' by the Greeks, taught that sometimes opposites, a and non-a, can be identical, or, in other words, that a can be non-a. This defiance of elemental logic can perhaps be excused in someone like Heraclitus, who wrote before Aristotle developed classical logic, but it is hard to be so forbearing to his later followers.

Highlight (Geel) | Locatie 344

For Plato and Aristotle, 'the good' was naturally not to be pursued by the individual but by the polis. Virtue and the good life were polis- rather than individual-oriented. All this means that Plato's and Aristotle's thought was statist and elitist to the core, a statism which unfortunately permeated 'classical' (Greek and Roman) philosophy as well as heavily influencing Christian and medieval thought. Classical 'natural law' philosophy therefore never

arrived at the later elaboration, first in the Middle Ages and then in the seventeenth and eighteenth centuries, of the 'natural rights' of the individual which may not be invaded by man or by government. In the more strictly economic

Highlight (Geel) | Locatie 398

Democritus contributed two important strands of thought to the development of economics. First, he was the founder of subjective value theory. Moral values, ethics, were absolute, Democritus taught, but economic values were necessarily subjective. 'The same thing', Democritus

Highlight (Geel) | Locatie 402

Democritus also pointed out that if people restrained their demands and curbed their desires, what they now possess would make them seem relatively wealthy rather than impoverished. Here again, the relative nature of the subjective utility of wealth is recognized. In addition, Democritus was the first to arrive at a rudimentary notion of time preference: the Austrian insight that people prefer a good at present to the prospect of the good arriving in the future. As Democritus explains, 'it is not sure whether the young man will ever attain old age; hence, the good on hand is superior to the one still to come'.

Highlight (Geel) | Locatie 414

There, and later in *The Laws*, Plato sets forth the outline of his ideal city-state: one in which right oligarchic rule is maintained by philosopher-kings and their philosophic colleagues, thus supposedly ensuring rule by the best and wisest in the community. Underneath the philosophers in the coercive hierarchy are the 'guardians' – the soldiers, whose role is to aggress against other cities and lands and to defend their polis from external aggression. Underneath them are to be the body of the people, the despised producers: labourers, peasants and merchants who produce the material goods on which the lordly philosophers and guardians are to live. These three broad classes are supposed to reflect a shaky and pernicious leap if there ever was one – the proper rule over the soul in each human being. To Plato, each human being is divided into three parts: 'one that craves, one that fights, and one that thinks', and the proper hierarchy of rule within each soul is supposed to be reason first, fighting next, and finally, and the lowest, grubby desire.

Highlight (Geel) | Locatie 422

The two ruling classes – the thinkers and the guardians – that really count are, in Plato's ideal state, to be forced to live under pure communism. There is to be no private property whatsoever among the elite; all things are to be owned communally, including women and children. The elite are to be forced to live together and share common meals. Since money and private possessions, according to the aristocrat Plato, only corrupt virtue, they are to be denied to the upper classes. Marriage partners among the elite are to be selected strictly by the state, which is supposed to proceed according to the scientific breeding already known in animal husbandry. If any of the philosophers or guardians find themselves unhappy about this arrangement, they will have to learn that their personal happiness means nothing compared to the happiness of the polis as a whole – a rather murky concept at best. In fact, those who are not seduced by Plato's theory of the essential reality of ideas will not believe that there is such a real living entity as a polis. Instead, the city-state or community consists only of living, choosing individuals.

Highlight (Geel) | Locatie 430

To keep the elite and the subject masses in line, Plato instructs the philosopher–rulers to spread the ‘noble’ lie that they themselves are descended from the gods whereas the other classes are of inferior heritage. Freedom of speech or of inquiry was, as one might expect, anathema to Plato. The arts are frowned on, and the life of the citizens was to be policed to suppress any dangerous thoughts or ideas that might come to the surface.

Highlight (Geel) | Locatie 433

Remarkably, in the very course of setting forth his classic apologia for totalitarianism, Plato contributed to genuine economic science by being the first to expound and analyse the importance of the division of labour in society. Since his social philosophy was founded on a necessary separation between classes, Plato went on to demonstrate that such specialization is grounded in basic human nature, in particular its diversity and inequality. Plato has Socrates say in *The Republic* that specialization arises because ‘we are not all alike; there are many diversities of natures among us which are adapted to different occupations’.

Highlight (Geel) | Locatie 438

Since men produce different things, the goods are naturally traded for each other, so that specialization necessarily gives rise to exchange. Plato also points out that this division of labour increases the production of all the goods. Plato saw no problem, however, in morally ranking the various occupations, with philosophy of course ranking highest and labour or trade being sordid and ignoble.

Highlight (Geel) | Locatie 440

The use of gold and silver as money greatly accelerated with the invention of coinage in Lydia in the early seventh century BC and coined money quickly spread to Greece. In keeping with his distaste for money-making, trade and private property, Plato was perhaps the first theorist to denounce the use of gold and silver as money. He also disliked gold and silver precisely because they served as international currencies accepted by all peoples. Since these precious metals are universally accepted and exist apart from the imprimatur of government, gold and silver constitute a potential threat to economic and moral regulation of the polis by the rulers. Plato called for a government fiat currency, heavy fines on the importation of gold from outside the city-state, and the exclusion from citizenship of all traders and workers who deal with money.

Highlight (Geel) | Locatie 454

Most of Xenophon's adumbrations were the usual Hellenic scorn for labour and trade, and admiration for agriculture and the military arts, coupled with a call for a massive increase in government operations and interventions in the economy. These included improving the port of Athens, building markets and inns, establishing a governmental merchant fleet and greatly expanding the number of government-owned slaves.

Highlight (Geel) | Locatie 471

Although Aristotle, in the Greek tradition, scorned moneymaking and was scarcely a partisan of laissez-faire, he set forth a trenchant argument in favour of private property. Perhaps influenced by the private-property

arguments of Democritus, Aristotle delivered a cogent attack on the communism of the ruling class called for by Plato.

Highlight (Geel) | Locatie 474

He denounced Plato's goal of the perfect unity of the state through communism by pointing out that such extreme unity runs against the diversity of mankind, and against the reciprocal advantage that everyone reaps through market exchange. Aristotle then delivered a point-by-point contrast of private as against communal property. First, private property is more highly productive and will therefore lead to progress. Goods owned in common by a large number of people will receive little attention, since people will mainly consult their own self-interest and will neglect all duty they can fob off on to others. In contrast, people will devote the greatest interest and care to their own property.

Highlight (Geel) | Locatie 478

Second, one of Plato's arguments for communal property is that it is conducive to social peace, since no one will be envious of, or try to grab the property of, another. Aristotle retorted that communal property would lead to continuing and intense conflict, since each will complain that he has worked harder and obtained less than others who have done little and taken more from the common store. Furthermore, not all crimes or revolutions, declared Aristotle, are powered by economic motives. As Aristotle trenchantly put it, 'men do not become tyrants in order that they may not suffer cold'.

Highlight (Geel) | Locatie 483

Third, private property is clearly implanted in man's nature: His love of self, of money, and of property, are tied together in a natural love of exclusive ownership. Fourth, Aristotle, a great observer of past and present, pointed out that private property had existed always and everywhere. To impose communal property on society would be to disregard the record of human experience, and to leap into the new and untried. Abolishing private property would probably create more problems than it would solve. Finally, Aristotle wove together his economic and moral theories by providing the brilliant insight that only private property furnishes people with the opportunity to act morally, e.g. to practise the virtues of benevolence and philanthropy. The compulsion of communal property would destroy that opportunity.

Highlight (Geel) | Locatie 500

The confusion in Aristotle's thought between the analytic and the 'moral' is also shown in his discussion of money. On the one hand, he sees that the growth of money greatly facilitated production and exchange. He sees also that money, the medium of exchange, represents general demand, and 'holds all goods together'. Also money eliminates the grave problem of 'double coincidence of wants', where each trader will have to desire the other man's goods directly. Now each person can sell goods for money. Furthermore, money serves as a store of values to be used for purchases in the future.

Highlight (Geel) | Locatie 504

Aristotle, however, created great trouble for the future by morally condemning the lending of money at interest as 'unnatural'. Since money cannot be used directly, and is employed only to facilitate exchanges, it is 'barren' and cannot itself increase wealth. Therefore the charging of interest, which Aristotle incorrectly thought to imply a direct productivity of money, was strongly condemned as contrary to nature.

Highlight (Geel) | Locatie 510

Aristotle, like Plato, was hostile to economic growth and favoured a static society, all of which fits with his opposition to money-making and the accumulation of wealth. The insight of old Hesiod into the economic problem as the allocation of scarce means for the satisfying of alternative wants was virtually ignored by both Plato and Aristotle, who instead counselled the virtue of scaling down one's desires to fit whatever means were available.

Highlight (Geel) | Locatie 616

Aristotle was the culmination of ancient economic thought as he was of classical philosophy. Economic theorizing collapsed after the death of Aristotle, and later Hellenistic and Roman epochs were virtually devoid of economic thought. Again, it is impossible to explain fully the disappearance of economic thought, but surely one reason must have been the disintegration of the once proud Greek polis after the time of Aristotle. The Greek city-states were subjected to conquest and disintegration beginning with the empire of Alexander the Great during the life of his former mentor Aristotle. Eventually Greece, much diminished in wealth and economic prosperity, became absorbed by the Roman Empire.

Highlight (Geel) | Locatie 620

Small wonder, then, that the only references to economic affairs should be counsels of despair, with various Greek philosophers futilely urging their followers to solve the problem of aggravated scarcity by drastically curbing their wants and desires. In short, if you're miserable and poverty-stricken, accept your lot as man's inevitable fate and try to want no more than you have. This counsel of hopelessness and despair was preached by Diogenes (412–323 BC) the founder of the school of Cynics, and by Epicurus (343–270 BC), the founder of the Epicureans. Diogenes and the Cynics pursued this culture of poverty to such length as to adopt the name and the life of dogs; Diogenes himself made his home in a barrel. Consistent with his outlook, Diogenes denounced the hero Prometheus, who in Greek myth stole the gift of fire from the gods and thus made possible innovation, the growth of human knowledge, and the progress of mankind. Prometheus, wrote Diogenes, was properly punished by the gods for this fateful deed.

Highlight (Geel) | Locatie 669

But despite their important contributions to moral and legal philosophy, neither the Stoics nor other Romans contributed anything else of significance to economic thought. Roman law, however, heavily influenced and pervaded later legal developments in the West. Roman private law elaborated, for the first time in the West, the idea of property rights as absolute, with each owner having the right to use his property as he saw fit. From this

stemmed the right to make contracts freely, with contracts interpreted as transfers of titles to property. Some Roman jurists declared that property rights were required by the natural law. The Romans also founded the law merchant, and Roman law strongly influenced the common law of the English-speaking countries and the civil law of the continent of Europe.

Highlight (Geel) | Locatie 677

The three main schools of political thought: the Legalists, the Taoists, and the Confucians, were established from the sixth to the fourth centuries BC. Roughly, the Legalists, the latest of the three broad schools, simply believed in maximal power to the state, and advised rulers how to increase that power. The Taoists were the world's first libertarians, who believed in virtually no interference by the state in economy or society, and the Confucians were middle-of-the-roaders on this critical issue. The towering figure of Confucius (551–479 BC), whose name was actually Ch'iu Chung-ni, was an erudite man from an impoverished but aristocratic family of the fallen Yin dynasty, who became Grand Marshal of the state of Sung.

Highlight (Geel) | Locatie 682

In practice, though far more idealistic, Confucian thought differed little from the Legalists, since Confucianism was largely dedicated to installing an educated philosophically minded bureaucracy to rule in China.

Highlight (Geel) | Locatie 687

For Lao Tzu worked out the view that the individual and his happiness was the key unit of society. If social institutions hampered the individual's flowering and his happiness, then those institutions should be reduced or abolished altogether. To the individualist Lao Tzu, government, with its 'laws and regulations more numerous than the hairs of an ox', was a vicious oppressor of the individual, and 'more to be feared than fierce tigers'. Government, in sum, must be limited to the smallest possible minimum; 'inaction' became the watchword for Lao Tzu, since only inaction of government can permit the individual to flourish and achieve happiness. Any intervention by government, he declared, would be counterproductive, and would lead to confusion and turmoil. The first political economist to discern the systemic effects of government intervention, Lao Tzu, after referring to the common experience of mankind, came to his penetrating conclusion: 'The more artificial taboos and restrictions there are in the world, the more the people are impoverished... The more that laws and regulations are given prominence, the more thieves and robbers there will be'.

Highlight (Geel) | Locatie 701

Two centuries later, Lao Tzu's great follower Chuang Tzu (369–c.286 BC) built on the master's ideas of laissez-faire to push them to their logical conclusion: individualist anarchism.

Highlight (Geel) | Locatie 703

The influential Chuang Tzu, a great stylist who wrote in allegorical parables, was therefore the first anarchist in the history of human thought. The highly learned Chuang Tzu was a native of the state of Meng (now probably in Honan province), and also descended from the old aristocracy. A minor official in his native state, Chuang

Tzu's fame spread far and wide throughout China, so much so that King Wei of the Ch'u kingdom sent an emissary to Chuang Tzu bearing great gifts and urging him to become the king's chief minister of state. Chuang Tzu's scornful rejection of the king's offer is one of the great declarations in history on the evils underlying the trappings of state power and the contrasting virtues of the private life:

Highlight (Geel) | Locatie 715

Chuang Tzu was also the first to work out the idea of 'spontaneous order', independently discovered by Proudhon in the nineteenth century, and developed by F.A. von Hayek of the Austrian School in the twentieth. Thus, Chuang Tzu: 'Good order results spontaneously when things are let alone'.

Highlight (Geel) | Locatie 794

More specifically, the Theodosian Code was crystal-clear: any price set by free and voluntary bargaining is just and legitimate, the only exception being a contract made by children. Force or fraud, as infringements on property rights, were of course considered illegal. The code held explicitly that ignorance of the value of a good by either buyer or seller was insufficient ground for authorities to step in and rescind the voluntarily agreed contract. The Theodosian Code was carried forward in western Europe, e.g. the Visigothic law set forth in the sixth and seventh centuries, and the Bavarian law of the early eighth century. Bavarian law added the explicit provision that a buyer may not rescind a sale because he later decides that the agreed price was too high. This laissez-faire aspect of the Theodosian Code later became incorporated into Christian canon law by being included in the collection of 'capitularies' (decrees) by St Benedictus Diaconus in the ninth century AD.

Highlight (Geel) | Locatie 809

Economic matters were of course scarcely central to either the Old or New Testament, and scattered economic pronouncements are contradictory or subject to ambivalent interpretation. Fulminations against excessive love of money do not necessarily imply hostility to commerce or wealth. One remarkable aspect of the Old Testament, however, is its repeated, almost pre-Calvinist, extolling of work for its own sake. In contrast to the contemptuous attitude toward labour of the Greek philosophers, the Old Testament is filled with exhortations in favour of work: from the 'be fruitful and multiply' of Genesis to 'Enjoy life in your toil at which you toil under the sun' of Ecclesiastes. Oddly, these calls to labour are often accompanied by admonitions against the accumulation of wealth. Later, in the second century BC, the Hebrew scribe who wrote the Apocryphal book Ecclesiasticus goes so far as to extol labour as a sacred calling. Manual workers, he writes, 'keep stable the fabric of the world, and their prayer is in the practice of their trade'. Yet the pursuit of money is condemned, and merchants are habitually treated with deep suspicion: 'A merchant can hardly keep from wrong doing, and a tradesman will not be declared innocent of sin'. And yet, in the same book of Ecclesiasticus, the reader is instructed not to be ashamed of profit or success in business. The attitude of the early Christians, including Jesus and the Apostles, toward work and trade was coloured by their intense expectation of the imminent end of the world and of the coming of the Kingdom of God. Obviously, if one expects the impending end of the world, one is inclined to have little patience for such activities as investing or accumulating wealth; rather the tendency is to act as the lilies of the field, to follow Jesus, and forget about mundane matters. It was in this context that we must understand St Paul's famous 'the love of money is the root of all evil.' By

Highlight (Geel) | Locatie 1009

The canon lawyers adopted the same criterion for the just price. Influenced by Carolingian practice, and by hints from the sixth century Rule of St Benedict, the late twelfth century canonist and student of Gratian, Simon of Bosignano, first described the true value of goods as the price for which they commonly sold. The same position was then taken by the decretalists in the thirteenth century. Canonists and Romanists alike were now agreed on the common price of a good as the just one.

Highlight (Geel) | Locatie 1029

The great relaxation of moral and legal restrictions and prohibitions against trade that permeated the canonists and Romanists in the Middle Ages, unfortunately did not apply to the stern prohibitions levelled against usury. Modern people think of 'usury' as very high interest rates charged on a loan, but this was by no means the meaning until recent times. Classically 'usury' means any rate whatsoever charged on a loan, no matter how low. The prohibition of usury was a prohibition against any interest charge on a loan. With one exception, no one in the ancient world – whether in Greece, China, India or Mesopotamia – prohibited interest. That exception was the Hebrews who, in an expression of narrow tribal morality, permitted charging interest to non-Jews but prohibited it among Jews.

Highlight (Geel) | Locatie 1035

The fierce medieval Christian assault on usury is decidedly odd. For one thing, there is nothing in the Gospels or the early Fathers, despite their hostility to trade, that can be construed as urging the prohibition of usury. In fact, the parable of the talents in Matthew (25:14–30) can easily be taken as approval for earning interest on commercial loans. The campaign against usury begins with the first Church council, in Nicaea in 325, which itself prohibited only the clergy from charging interest on a loan. But the Nicene council grabbed on to one phrase of Psalm 14 in the Old Testament, 'Lord, who shall dwell in thy tabernacle? He that hath not put out his money to usury', and this was to become the favourite – and virtually the only – biblical text against usury during the Middle Ages. The Nicene injunctions were repeated in later fourth century councils at Elvira in Spain and at Carthage, and then in the fifth century Pope Leo I extended the prohibition to the laity as well, condemning lay usurers as indulging in turpe lorum. Several local councils in Gaul in the seventh century repeated Leo's denunciation, as did Pope Adrian and several English church synods in the eighth century.

Highlight (Geel) | Locatie 1043

But the prohibition of all usury enters secular legislation for the first time in the all-embracing totalitarian regime of the Emperor Charlemagne. At the fateful imperial synod of Aachen in 789, Charlemagne prohibited usury to everyone in his realm, lay and cleric alike. The prohibition was renewed and elaborated in the later council at Nijmegen in 806, where usury is defined for the first time, as an exchange where 'more is demanded back than what is given'. So that, from the time of Charlemagne, usury was intensely held to be a special and particularly malevolent form of turpe lorum, and attempts to relax this ban were fiercely resisted. The sweeping definition, 'more demanded than what is given', was repeated intact by canonists from the tenth century Regino of Prum through Ivo of Chartres to Gratian.

Highlight (Geel) | Locatie 1129

Unfortunately, in dealing with the concept of 'just price', the theologians did not follow the Romanists and canonists in the sensible view that the free bargaining or market price is legitimate so long as it stays within a broad zone of the 'just price'. To the Paris theologians, it was immoral, sinful and illicit for the market price to be anything other than the just price. This of course meant that the just price became a weapon of compulsion instead of a broadly held standard. Ardens included a just price as a crucial criterion of a 'just sale'. More emphatically, his colleague and author of the first constitution of the University of Paris, the Englishman and later Cardinal Robert of Courçon (d. 1219), writing about 1204, termed selling goods above the just price an illicit practice, and the eminent Stephen Langton sternly called any seller who accepts more than the just price guilty of a mortal sin.

Highlight (Geel) | Locatie 1301

St Thomas's stress on consumption of money led to a curious shift on the usury question. In contrast to all theorists since Gratian, the sin now became not charging interest on a loan per se, but only on a good – money – that disappears. Therefore, for Aquinas, charging interest on a loan of goods in kind would not be condemned as 'usury'.

Highlight (Geel) | Locatie 1325

Finally, Aquinas was a firm believer in the superiority of private to communal property and resource ownership. Private ownership becomes a necessary feature of man's earthly state. It is the best guarantee of a peaceful and orderly society, and it provides maximum incentive for the care and efficient use of property. Thus, in the Summa, St Thomas keenly writes: 'every man is more careful to procure what is for himself alone than that which is common to many or to all since each one would shirk the labour and leave to another that which concerns the community, as happens where there are a great number of servants'.

Highlight (Geel) | Locatie 1329

Furthermore, developing the Roman law theory of acquisition, Aquinas, anticipating the famous theory of John Locke, grounded the right of original acquisition of property on two basic factors: labour and occupation. The initial right of each person is to ownership over his own self, in Aquinas's view in a 'proprietary right over himself'. Such individual self-ownership is based on the capacity of man as a rational being. Next,

Highlight (Geel) | Locatie 1338

This 'homesteading' theory of property has been held by many historians to be the ancestor of the Marxian labour theory of value. But this charge confuses two very different things: determination of the economic value or price of a good, and a decision on how unused resources are to go over into private hands. The Aquinas–John of Paris–Locke view is the 'labour theory' (defining 'labour' as the expenditure of human energy rather than working for a wage) of the origin of property, not a labour theory of value. In

Highlight (Geel) | Locatie 1432

In addition to his monumental achievement in being the first to discover subjective utility theory, Olivi was the first to bring into economic thought the concept of capital (*capitale*) as a fund of money invested in a business venture. The term ‘capital’ had appeared in numerous business records since the mid-twelfth century, but this is the first time it was conceptualized. The concept of capital was used by Olivi to show that it was possible to use money in a fruitful way, to gain a profit. Olivi retained the usury ban where capital was invested without being altered in some way by the labour and industry of the investor. However, Olivi was one of the minority of scholastics to adopt the Hostiensis allowance of *lucrum cessans* – permitting an interest charge on a loan wherever the profit on an investment was foregone in the process. Unfortunately, Olivi continued Hostiensis’ careful limitation of confining *lucrum cessans* to loans granted out of charity, so that the activities of a professional money-lender could still in no way be justified.

Highlight (Geel) | Locatie 2371

During the 1570s, a satellite group of theologian-economists arose at Valencia, grounding themselves on their studies at Salamanca. The most important was Francisco Garcia who, in his *Tratado utilismo* (Valencia, 1583) expanded and developed the subjective utility theory of value. In a notable advance in discussions of utility, Garcia pointed out that the utility or value of a thing may vary because: one good may have many uses and serve more purposes than another, may serve a more important service than another, and/ or may perform a given service more efficiently than another.

Highlight (Geel) | Locatie 2390

Finally, Garcia arrived at the most integrated utility theory of the value of money to date: the value of money on the market is determined by the supply of money available, the intensity of the demand for money, and the safety of the money itself (called by later economists the ‘quality’ of the money in the minds of people in the market).

Highlight (Geel) | Locatie 2476

Suarez’s theory, of course, held radical implications indeed. For if the people or the community confer state power on a king or a set of rulers, may they not then take it away? Here, Suarez fumbled; he was certainly not prepared to go all the way to a truly radical or revolutionary position. No, he declared inconsistently, once the sovereign power is conferred by the people on a king, it is his forever; the people cannot take it back. But then Suarez shifts once more, adopting the traditional Thomist doctrine of the right of the people to resist tyrants. If a king lapses into tyranny, then the people may rise up and resist, and even assassinate the king. But Suarez, like his forbears, hedged this powerful right of ‘tyrannicide’ with a thicket of restrictions; in particular, tyranny must be manifest, and a private person cannot rise up himself and kill the king. The act must in some way be mandated by the people or community acting as a whole.

Highlight (Geel) | Locatie 2515

Furthermore, Mariana added – in phrases anticipating Locke’s and the Declaration of Independence’s justification of the right of rebellion – that we need not worry about the public order being greatly disrupted by

too many people taking up the practice of tyrannicide. For this is a dangerous enterprise, Mariana sensibly pointed out, and very few are ever ready to risk their lives in that way. On the contrary, most tyrants have not died a violent death, and tyrannicides have almost always been greeted by the populace as heroes. In contrast to the common objections to tyrannicide, he concluded, it would be salutary for rulers to fear the people, and to realize that a lapse into tyranny might cause the people to call them to account for their crimes. Mariana

Highlight (Geel) | Locatie 2530

This 'erudite and grave man', Juan de Mariana, left no doubt what he thought of the most recent famous tyrannicide: that of the French King Henry III. In 1588, Henry III had been prepared to name as his successor Henry of Navarre, a Calvinist who would be ruling over a fiercely Catholic nation. Facing a rebellion by the Catholic nobles, headed by the duc de Guise, and backed by the devoted Catholic citizens of Paris, Henry III called the duke and his brother the cardinal to a peace parley into his camp, and then had the two assassinated. The following year, on the point of conquering the city of Paris, Henry III was assassinated in turn, by a young Dominican friar and member of the Catholic League, Jacques Clement. To Mariana, in this way 'blood was expiated with blood' and the duc de Guise was 'avenged with royal blood'. 'Thus perished Clement', concluded Mariana, 'an eternal ornament of France'. The assassination had similarly been hailed by Pope Sixtus V, and by the fiery Catholic preachers of Paris. The French authorities were understandably edgy about Mariana's theories and at his book *De Rege*. Finally, in 1610, Henry IV (formerly Henry of Navarre, who had converted from Calvinism to the Catholic faith in order to become king of France), was assassinated by the Catholic resister Ravaillac, who despised the religious centrism and the state absolutism imposed by the king. At that point, France erupted in an orgy of indignation against Mariana, and the parlement of Paris had *De Rege* burned publicly by the hangman. Before executing Ravaillac, the assassin was questioned closely as to whether reading Mariana had driven him to murder, but he denied ever having heard of him. While the king of Spain refused to heed French pleas to suppress this subversive work, the general of the Jesuit Order issued a decree to his society, forbidding them to teach that it is lawful to kill tyrants. This truckling, however, did not prevent a successful smear campaign in France against the Jesuit Order, as well as its loss of political and theological influence.

Highlight (Geel) | Locatie 2601

One of the last great Salamancans was a Jesuit but not a Spaniard. Leonard Lessius (1554–1623) was a Fleming, born at Brecht near the great city of Antwerp. During the sixteenth century, Antwerp had become the outstanding commercial and financial centre of northern Europe, a focus of trade from the Mediterranean. Lessius's parents had originally planned for him to become a merchant, but he entered the University of Louvain, and was received into the Jesuit Order in 1572. He taught philosophy for six years at the English college at Douai, in France, and then went to Rome for two years to study under Francisco Suarez. It was at Rome that Lessius became a Salamancan in spirit, and from then on struck up a friendship with Luis de Molina. Returning to Flanders, Lessius assumed a chair in philosophy and theology at the University of Louvain. In theology, Lessius took up the great Molinist cause of free will against a pro-determinist wing of theologians at Louvain. There he confronted the crypto-Calvinist Dr Michael de Bay, chancellor of the University of Louvain, who had adopted the concept of predestination and salvation of the elect. Lessius also advanced the Suarezian view that original political power was conferred by God on the people, and hence he attacked the growing adherence to the divine right of kings, especially as put forth by King James I of England.

Highlight (Geel) | Locatie 2615

On the theory of price, Lessius, like his scholastic forbears, held the just price to be that determined by the common estimate of the market.

Highlight (Geel) | Locatie 2625

Leonard Lessius had an insight into how all economic markets are interrelated, and he analysed and defended in turn the workings of foreign exchange, speculation, and the value of money and prices. In particular, Lessius engaged in the most sophisticated analysis yet achieved of the workings of wages and the labour market. Like other scholastics, he saw that wages were governed by the same supply and demand principles, and therefore by the same canons of justice, as any price. In asking what is the 'minimum justifiable wage' for any given occupation, Lessius declared that the existence of other people willing to perform the work at any given wage shows that it is not too low. In short, if a supply exists for the labour at that wage, how can it be unjust?

Highlight (Geel) | Locatie 2630

Lessius also discovered and set forth the concept of psychic income as part of a money wage. A worker can be paid in psychic benefit as well as money: 'if the work brings with it social status and emoluments, the pay can be low because status and associated advantages are, so to say, a part of the salary'. Lessius also advanced the view that workers are hired by the employer because of the benefits gained by the latter, and those benefits will be gauged by the worker's productivity. Here are certainly the rudiments of the marginal productivity theory of the demand for labour and hence of wages, which was set forth by Austrians and other neoclassical economists at the end of the nineteenth century. Indeed, Lessius's sophisticated analysis of wages and the labour market were lost to mainstream economics until they were independently rediscovered in the late nineteenth century.

Highlight (Geel) | Locatie 2636

Lessius also stressed the importance of entrepreneurship in determining income. This quality of entrepreneurial 'industry', of efficiently combining jobs, is rare, and therefore the able entrepreneur can acquire a much higher income than his fellows. Lessius also provides a sophisticated analysis of money, demonstrating that the value of money is dependent on its supply and demand. More abundant money will make it less valuable either for buying goods or foreign exchange, and a greater demand for money will cause the value of the currency to rise: 'For example, if great princes are in urgent need of money for war or other public purposes, or if a large quantity of goods come on to the market; for whenever money is urgently needed for matters of great moment, so is it more highly esteemed in terms of goods.'

Highlight (Geel) | Locatie 2652

But this meant that Leonard Lessius justified not only businessmen or investors planning to invest their money, but also any people with liquid funds, including professional money-lenders. For the first time among scholastics, all loans by money-lenders were now justified. With Leonard Lessius, then, the last of the barriers to interest or usury were smashed, and only the hollow shell of the formal prohibition remained.

Highlight (Geel) | Locatie 2750

On the deeper level of the question of how we know what we know, or 'epistemology', Thomism and scholasticism suffered from the contrasting but allied assaults by the champions of 'reason' and 'empiricism'. In Thomist thought, reason and empiricism are not separated but allied and interwoven. Truth is built up by reason on a solid groundwork in empirically known reality. The rational and empirical were integrated into one coherent whole. But in the first part of the seventeenth century, two contrasting philosophers managed between them the fatal sundering of the rational and the empirical that continues to plague the scientific method until the present day. These were the Englishman Francis Bacon (1561–1626) and the Frenchman Rene Descartes (1596–1650). Descartes was the champion of a dessicated mathematical and absolutely certain 'reason' divorced from empirical reality, while Bacon was the advocate of sifting endlessly and almost mindlessly through the empirical data. Both the distinguished English lawyer who rose to become Lord Chancellor (Lord Verulam), Viscount of the Realm, and corrupt judge, and the shy and wandering French aristocrat, agreed on one crucial and destructive point: the severing of reason and thought from empirical data. Hence, from Bacon there stemmed the English 'empiricist' tradition, steeped mindlessly in incoherent data, and from Descartes the purely deductive and sometimes mathematical tradition of continental 'rationalism'. All this was of course an assault on natural law, which had long integrated the rational and the empirical.

Highlight (Geel) | Locatie 2908

On the just price, Luther tends to revert to the minority medieval view that a just price is not the market price but a cost of production plus expenses and profit for labour and risk of the merchant. On usury in particular, Luther tended to revert to the drastic prohibition that the Catholic Church had long left behind. The census contract he would ban, as he would *lucrum cessans*; money was sterile; there should be no increase in price for time as against cash payments for goods, etc. All the old nonsense, which the scholastics had spent centuries burying or transforming, was back intact. It is certainly fitting that, as we have seen, one of Luther's great theological opponents in Germany was his former friend, Johann Eck, a Catholic theologian and friend of the great Fugger banking family, who was even ahead of his time in arguing in thoroughgoing fashion in favour of usury.

Highlight (Geel) | Locatie 2945

The focus, then, both in Catholic countries and in scholastic thought, became very different from that of Calvinism. The scholastic focus was on consumption, the consumer, as the goal of labour and production. Labour was not so much a good in itself as a means toward consumption on the market. The Aristotelian balance, or golden mean, was considered a requisite of the good life, a life leading to happiness in keeping with the nature of man. And that balanced life emphasized the joys of consumption, as well as of leisure, in addition to the importance of productive effort. In contrast, a rather grim emphasis on work and on saving began to be stressed in Calvinist culture. This de-emphasis on leisure of course fitted with the iconoclasm that reached its height in Calvinism – the condemnation of the enjoyment of the senses as a means of expressing religious devotion. One of the expressions of this conflict came over religious holidays, which Catholic countries enjoyed in abundance. To the Puritans, this was idolatry; even Christmas was not supposed to be an occasion for sensate enjoyment.

Highlight (Geel) | Locatie 2952

There has been considerable dispute over the ‘Weber thesis’, propounded by the early twentieth century German economic historian and sociologist, Max Weber, which attributed the rise of capitalism and the Industrial Revolution to the late Calvinist concept of the calling and the resulting ‘capitalist spirit’. For all its fruitful insights, the Weber thesis must be rejected on many levels. First, modern capitalism, in any meaningful sense, begins not with the Industrial Revolution of eighteenth and nineteenth centuries but, as we have seen, in the Middle Ages and particularly in the Italian city-states. Such examples of capitalist rationality as double-entry bookkeeping and various financial techniques begin in these Italian city-states as well. All were Catholic. Indeed, it is in a Florentine account book of 1253 that there is first found the classic pro-capitalist formula: ‘In the name of God and of profit’. No city was more of a financial and commercial centre than Antwerp in the sixteenth century, a Catholic centre. No man shone as much as financier and banker as Jacob Fugger, a good Catholic from southern Germany. Not only that: Fugger worked all his life, refused to retire, and announced that ‘he would make money as long as he could’. A prime example of the Weberian ‘Protestant ethic’ from a solid Catholic! And we have seen how the scholastic theologians moved to understand and accommodate the market and market forces.

Highlight (Geel) | Locatie 2963

On the other hand, while it is true that Calvinist areas in England, France, Holland and the north American colonies prospered, the solidly Calvinist Scotland remained a backward and undeveloped area, even to this day.⁶ But even if the focus on calling and labour did not bring about the Industrial Revolution, it might well have led to another outstanding difference between Calvinist and Catholic countries – a crucial difference in the development of economic thought. Professor Emil Kauder's brilliant speculation to this effect will inform the remainder of this work. Thus Kauder: Calvin

Highlight (Geel) | Locatie 2972

In their extolling of work, the Calvinists concentrated on systematic, continuing industriousness, on a settled course of labour. Thus the English Puritan divine Samuel Hieron opined that ‘He that hath no honest business about which ordinarily to be employed, no settled course to which he may betake himself, cannot please God’. Particularly influential was the early seventeenth century Cambridge University academic, the Rev. William Perkins, who did much to translate Calvinist theology into English practice. Perkins denounced four groups of men who had ‘no particular calling to walk in’: beggars and vagabonds; monks and friars; gentlemen who ‘spend their days in eating and drinking’; and servants, who allegedly spent their time waiting. All these were dangerous because unsettled and undisciplined. Particularly dangerous were wanderers, who ‘avoided the authority of all’. Furthermore, believed Perkins, the ‘lazy multitude was always inclined... to popish opinions, always more ready to play than to work; its members would not find their way to heaven’.⁸

Highlight (Geel) | Locatie 2985

Hence, Great Britain, heavily influenced by Calvinist thought and culture, and its glorification of the mere exertion of labour, came to develop a labour theory of value, while France and Italy, still influenced by Aristotelian and Thomist concepts, continued the scholastic emphasis on the consumer and his subjective

valuation as the source of economic value. While there is no way to prove this hypothesis conclusively, the Kauder insight has great value in explaining the comparative development of economic thought in Britain and in the Catholic countries of Europe after the sixteenth century. 5.4

Highlight (Geel) | Locatie 3043

Given that creed, there were two ways that Anabaptism could and did go. Most Anabaptists, like the Mennonites or Amish, became virtual anarchists. They tried to separate themselves as much as possible from a necessarily sinful state and society, and engaged in non-violent resistance to the state's decrees. The other route, taken by another wing of Anabaptists, was to try to seize power in the state and to shape up the majority by extreme coercion: in short, ultra-theocracy. As Monsignor Knox incisively points out, even when Calvin established a theocracy in Geneva, it had to pale beside one which might be established by a prophet enjoying continuous, new, mystical revelation. As

Highlight (Geel) | Locatie 3056

The first leader of the ultra-theocrat wing of the Anabaptists was Thomas Müntzer (c. 1489–1525). Born into comfort in Stolberg in Thuringia, Müntzer studied at the Universities of Leipzig and Frankfurt, and became highly learned in the scriptures, the classics, theology, and in the writings of the German mystics. Becoming a follower almost as soon as Luther launched the Reformation in 1520, Müntzer was recommended by Luther for the pastorate in the city of Zwickau. Zwickau was near the Bohemian border, and there the restless Müntzer was converted by the weaver and adept Niklas Storch, who had been in Bohemia, to the old Taborite doctrine that had flourished in Bohemia a century earlier. This doctrine consisted essentially of a continuing mystical revelation and the necessity for the elect to seize power and impose a society of theocratic communism by brutal force of arms. Furthermore, marriage was to be prohibited, and each man was to be able to have any woman at his will.

Highlight (Geel) | Locatie 3063

The passive wing of Anabaptists were voluntary anarcho-communists, who wished to live peacefully by themselves; but Müntzer adopted the Storch vision of blood and coercion. Defecting very rapidly from Lutheranism, Müntzer felt himself to be the coming prophet, and his teachings now began to emphasize a war of blood and extermination to be waged by the elect against the sinners. Müntzer claimed that the 'living Christ' had permanently entered his own soul; endowed thereby with perfect insight into the divine will, Müntzer asserted himself to be uniquely qualified to fulfil the divine mission. He even spoke of himself as 'becoming God'. Abandoning the world of learning, Müntzer was now ready for action. In

Highlight (Geel) | Locatie 3119

Thomas Müntzer and his signs may have been defeated, and his body may have mouldered in the grave, but his soul kept marching on. Not only was his spirit kept alive by followers in his own day, but also by Marxist historians from Engels to the present day, who saw in this deluded mystic an epitome of social revolution and the class struggle, and a forerunner of the chiliastic prophecies of the 'communist stage' of the supposedly inevitable Marxian future.

Highlight (Geel) | Locatie 3212

With high consistency, the Anabaptists of Münster made no pretence about preserving intellectual freedom while communizing all material property. For the Anabaptists boasted of their lack of education, and claimed that it was the unlearned and the unwashed who would be the elect of the world. The Anabaptist mob took particular delight in burning all the books and manuscripts in the cathedral library, and finally, in mid-March 1534, Matthys outlawed all books except the Good Book – the Bible. To symbolize a total break with the sinful past, all privately and publicly owned books were thrown upon a great communal bonfire. All this ensured, of course, that the only theology or interpretation of the scriptures open to the Münsterites was that of Matthys and the other Anabaptist preachers.

Highlight (Geel) | Locatie 3229

The totalitarianism in Münster was now complete. Death was now the punishment for virtually every independent act, good or bad. Capital punishment was decreed for the high crimes of: murder, theft, lying, avarice, and quarrelling(!). Also death was decreed for every conceivable kind of insubordination: the young against their parents, wives against their husbands and, of course, anyone at all against the chosen representatives of God on earth, the totalitarian government of Münster. Bernt Knipperdollinck was appointed high executioner to enforce the decrees. The

Highlight (Geel) | Locatie 3496

John Calvin, fully as much as Luther, preached the doctrine of absolute obedience and non-resistance to duly constituted government, regardless of how evil that government may be. But Calvin's embattled followers, enjoying rising aspirations against non-Calvinist rulers, developed justifications for resistance to evil rulers. These were first set forth in the 1550s by the English 'Marian exiles' in Switzerland and Germany during the reign of the last Catholic monarch in England, Queen Mary. This radical tradition, including the people's right to tyrannicide, was carried on by the Huguenots in the following decades.

Highlight (Geel) | Locatie 3726

The defenders of the old oligarchic republics countered the rise of the signori with a pro-republican absolutism of their own. This development began in the teaching of rhetoric. By the early twelfth century, the University of Bologna, and other Italian centres for training lawyers, had developed courses in rhetoric, originally the art and style of writing letters, to which was later added the art of public speaking. By the first half of the thirteenth century, the professors of rhetoric were including direct political commentary in their lessons and handbooks. One popular form was a propagandistic history of their particular cities, glorifying the city and its rulers, and expressly devoted to inculcating the ideology of support for the ruling elite of the city. The most prominent early master of this genre was the Bolognese rhetorician Boncampagno da Signa (c. 1165–1240), whose most popular work was *The Siege of Ancona* (1201–2). Another prominent form, developed by Italian rhetoricians in the second half of the thirteenth century, was advice-books for rulers and city magistrates, in which political advice was directed to the rulers. The most important early advice-book was John of Viterbo's *The Government of Cities*, which he wrote in the 1240s after serving as a judge under the elected ruler, or podesta of Florence. John of Viterbo, however, was not a full absolutist, since his determinedly moral approach counselled the ruler always to pursue virtue and justice and to avoid vice and crime.

Highlight (Geel) | Locatie 3974

For, as Machiavelli knew full well, in taking on their role of adviser to the rulers of state, the ‘value-free scientist’ is willy-nilly, committing himself to the end, and therefore to the overriding morality, of strengthening the power of those rulers. In advocating public policy, if nowhere else, value-freedom is a snare and a delusion; Old Nick was either too honest or too much of a realist even to consider thinking otherwise.

Highlight (Geel) | Locatie 3977

Niccolò Machiavelli, therefore, was both the founder of modern political science and a notable preacher of evil. In casting out Christian or natural law morality, however, he did not presume to claim to be ‘value-free’ as do his modern followers; he knew full well that he was advocating the new morality of subordinating all other considerations to power and to the reasons of state. Machiavelli was the philosopher and apologist par excellence for the untrammelled, unchecked power of the absolute state.

Highlight (Geel) | Locatie 3981

Some historians like to contrast the ‘bad’ Machiavelli of *The Prince* with the ‘good’ Machiavelli of his later though less influential *Discourses*. Failing to convince the Medicis of his change of heart, Machiavelli reverted, in the *Discourses*, to his republican leanings. But the Old Nick of the *Discourses* is in no sense transformed by goodness; he is simply adapting his doctrine to a republican as against a monarchical polity.

Highlight (Geel) | Locatie 4003

Machiavelli's views, and the essential unity with his outlook in *The Prince*, are shown in his discussion in *The Discourses* of Romulus, the legendary founder of the city of Rome. The fact that Romulus murdered his brother and others is justified by Machiavelli's view that only one man should impose the founding constitution of a republic. Machiavelli's wily conflation of the ‘public good’ with the private interests of the ruler is shown in the following mendacious passage: ‘A sagacious legislator of a republic, therefore, whose object is to promote the public good, and not his private interests [sic]... should concentrate all authority in himself. In such concentration, the end of establishing the state excuses any necessary means: ‘a wise mind will never censure any one for taking any action, however extraordinary, which may be of service in the organizing of a kingdom or the constituting of a republic’. Machiavelli concludes with what he calls the ‘sound maxim’ that ‘reprehensible actions may be excused by their effects, and that when the effect is good, as it was in the case of Romulus, it always excuses the action’.

Highlight (Geel) | Locatie 4033

Humanism penetrated England beginning with Pietro del Monte (d.1457) who, from 1435 to 1440, was a collector of papal revenues in England, and more importantly, was a literary adviser to Duke Humphrey of Gloucester, brother to King Henry V, who became the first English patron of humanism. Gloucester brought an Italian rhetorician into his household, and he collected a remarkable library, including all the major humanist texts, many of which he later presented to Oxford University. Oxford and Cambridge also served as the home for Italian humanist scholars in the later fifteenth century. The Milanese scholar Stefano Surigone (fl. 1430–80),

taught grammar and rhetoric at Oxford between 1454 and 1471, and Cornelio Vitelli (c. 1450–1500) became the first professor of Greek at an English university, coming to teach at New College, Oxford in the 1470s. The Italian humanist Lorenzo da Savona taught at Cambridge in the 1470s, and published a handbook on rhetoric in 1478, which went into two printings by the end of the century. And Caio Auberino (fl. 1450–1500) became official professor of rhetoric at Cambridge, and taught Latin literature there in the 1480s.

Highlight (Geel) | Locatie 4041

Humanism also came to northern Europe because many young scholars, often inspired by Italian professors in their country, travelled to Italy to learn the new humanism at its source. Thus, Robert Gaguin (1435–1501), after being converted to humanism by the lectures of Gregorio da Tiferna, paid two extended visits to Italy in the late 1460s, and returned to become a distinguished French humanist at the Sorbonne in 1473, where he lectured on rhetoric and Latin literature, translated Livy, and published a treatise on Latin verse and the first history of France to be written in full rhetorical style. From England came William Grocyn (c.1449–1519), a student of Vitelli at Oxford, who studied humanism in Florence in the late 1480s. Grocyn returned to Oxford to become its first professor of Greek in 1491. William Latimer (c. 1460–1545), another young Oxford student, accompanied his friend Grocyn on his trip to Italy, and then went to the University of Padua to perfect his Greek studies. Soon after Grocyn's initial Oxford post, Latimer was appointed teacher at Magdalen College, Oxford, inaugurating Magdalen as a centre of humanist studies. The most eminent of the Oxford travellers to Italy was John Colet (c. 1467–1519), a student of Grocyn at Oxford, who spent the years 1493 to 1496 in Italy. On his return from Italy, Colet, too, was appointed a professor at Oxford, and he delivered before the entire university a famous series of lectures on the Epistles of St Paul from 1498 to 1499.

Highlight (Geel) | Locatie 4053

At about the same time that Machiavelli was writing his defence of the new pragmatic morality in *The Prince*, the greatest humanist of the age was penning a famous advice-book to princes, sternly reiterating the Christian virtues. Desiderius Erasmus (c. 1466–1536), a Dutch Augustinian canon persuaded to study theology by John Colet, dedicated his account of *The Education of a Christian Prince* to the future Emperor Charles V in 1516. While Old Nick was proclaiming that no consideration must stand in the way of maintaining the ruler in state power, Erasmus warned the prince that he must never do anything, regardless of his motives, which may harm the cause of justice.

Highlight (Geel) | Locatie 4086

The overall view of Botero is that a prince must be guided primarily by ‘reason of state’, and that actions so guided ‘cannot be considered in the light of ordinary reason’. The morality and justification for actions of the prince is diametrically opposed to the principles that must guide the ordinary citizen. Botero's work touched off a raft of similar works in Italy over the next 40 years, all of which had the same title, *The Reason of State*.

Highlight (Geel) | Locatie 4089

In addition to being a leading theorist of political pragmatism and reason of state, Giovanni Botero has the notable but dubious distinction of being the first ‘Malthusian’, the first bitter complainer about the alleged evils

of population growth. In his *On the Cause of the Greatness of Cities* (1588), translated into English in 1606, Botero laid out almost the entire thesis of Malthus's famous essay on population two centuries later. The analysis was, therefore, highly mechanistic: human population tends to increase without limit, or rather the only limit is the maximum possible degree of human fertility. The means of subsistence, on the contrary, can only be increased slowly. Therefore, the growth of population always – to use Malthus's famous words – tends to 'press on the means of subsistence', with the result being ever-present poverty and starvation. Population growth, then, can only be checked in two ways. One is the dying of large numbers of people through starvation, plague, or wars over scarce resources (Malthus's 'positive' check). Second is the only element of free will or active human response permitted by Botero's theory: that starvation and poverty may induce some people to abstain from marriage and procreation (Malthus's 'preventive' or 'negative' check). In

Highlight (Geel) | Locatie 4168

The fanatic, convinced of the certainty of his views, will trample on the rights of others; the sceptic, convinced of nothing, will not. But the truth is precisely the opposite: the sceptic has no ground on which to stand to defend his or others' liberty against assault. Since there will always be men willing to aggress against others for the sake of power or pelf, the triumph of scepticism means that the victims of aggression will be rendered defenceless against assault. Furthermore, the sceptic being unable to find any principle for rights or for any social organization, will probably cave in, albeit with a resigned sigh, to any existing regime of tyranny. Faute de mieux, he has little else to say or do.

Highlight (Geel) | Locatie 4184

If Montaigne knew nothing, he could scarcely know enough to advocate setting one's face against the burgeoning absolutist tyranny of his day. On the contrary, stoic resignation, a submission to the prevailing winds, became the required way of confronting the public world. Skinner sums up Montaigne's political counsel, as holding 'that everyone has a duty to submit himself to the existing order of things, never resisting the prevailing government and where necessary enduring it with fortitude'.

Highlight (Geel) | Locatie 4196

The finest achievement of the Christian religion, according to Montaigne, was its insistence on 'obedience to the magistrates and maintenance of the government'.

Highlight (Geel) | Locatie 4197

Considering Montaigne's fundamental outlook, it is no wonder that he warmly embraced the Machiavellian concept of 'reason of state'. (May we say that he held the reason of man to be worthless, but the reason of state to be overriding?) Characteristically, while Montaigne writes that he personally likes to keep out of politics and diplomacy because he prefers to avoid lying and deceit, he also asserts the necessity of 'lawful vice' in the operations of government. Deceit in a ruler may be necessary, and furthermore, such vices are positively needed 'for sewing our society together, as [are] poisons for the preservation of our health'. Montaigne then goes on to integrate his defence of deceit in a prince with his seemingly paradoxical defence of reason of state while having no use for human reason at all. For in following reason of state, the prince has simply 'abandoned his own

reason for a more universal and powerful reason', and this mystical super-reason has shown him that an ordinarily evil action needed to be done.

Highlight (Geel) | Locatie 4204

Michel de Montaigne made a notable and highly influential contribution to mercantilism – the strictly economic aspect of state absolutism – as well. Although he claimed that he knew nothing, on one thing he certainly asserted truth, his much vaunted scepticism suddenly vanishing: in what Ludwig von Mises was later to call the 'Montaigne fallacy', he insisted, as in the title of his famous Essay Number 22, that 'The Plight of One Man is the Benefit of Another'. There is the essence of mercantilist theory, in so far as mercantilism has a theory at all; in contrast to the fundamental truth well known to the scholastics that both parties benefit from an exchange, Montaigne opined that in a trade, one man can only benefit at the expense of another. By analogy, in international trade, one nation must benefit at the expense of another. The implication is that the market is a ravaging jungle, so why should not a Frenchman urge the French state to grab as much from others as it can?

Highlight (Geel) | Locatie 4244

is hardly far-fetched to conclude that Bodin, court politician and jurist, saw himself as one of the sages running government from behind the scenes. Plato's ideal of combined philosopher-king had now been transformed into the more realistic and, for Bodin, more self-serving goal of philosopher guiding the king. And all this cloaked in the illusory assumption that such a court philosopher has no self-interest in money or power in his own right.

Highlight (Geel) | Locatie 4247

Bodin also envisaged a broad role for various groups to participate in the government of the commonwealth, as well as a wide scope for bureaucrats and administrators. The crucial point is that all be subordinated to the power of the king.

Highlight (Geel) | Locatie 4606

London as the great export centre for the new draperies – largely to Antwerp – partially accounted for the enormous growth of this city during the sixteenth century. London's population grew at three times the rate of England as a whole over the century, specifically from 30–40 000 at the beginning of the sixteenth century to a quarter of a million early in the next. The London merchants were not, however, content with free market development, and power began to move in on the market. Specifically, the London merchants began to reach for export monopoly. In 1486 the City of London created the Fellowship of the Merchant Adventurers of London, which claimed exclusive rights to the export of woollens to its members. For provincial merchants (outside of London) to join required a stiff fee. Eleven years later the king and parliament decreed that any merchant exporting to the Netherlands had to pay a fee to the Merchant Adventurers and obey its restrictionist regulations.

Highlight (Geel) | Locatie 4627

Prominent in English mercantilism was the pervasive creation by the Crown of grants of monopoly privilege: exclusive power to produce and sell in domestic and in foreign trade. The creation of monopolies reached its

climax in the reign of Queen Elizabeth (1558–1603), in the latter half of the sixteenth century. In the words of historian, Professor S.T. Bindoff: '... the restrictive principle had, like some giant squid, fastened its embracing tentacles round many branches of domestic trade and manufacture', and 'in the last decade of Elizabeth's reign scarcely an article in common use – coal, soap, starch, iron, leather, books, wine, fruit – was unaffected by patents of monopoly'.⁶ In sparkling prose, Bindoff writes how lobbyists, using the lure of monetary gain, obtained royal courtiers to sponsor their petitions for grants of monopoly: 'their sponsorship was usually a mere episode in the great game of place-and-fortune-hunting which swayed and swirled incessantly around the steps of the throne'. Once granted their privileges, the monopolists got themselves armed by the state with powers of search-and-seizure to root out all instances of now illegal competition.

Highlight (Geel) | Locatie 4641

England was pre-eminently the home of foreign trade companies receiving grants of monopoly for trade with portions of the globe. The granddaddy of the English foreign trade companies was the Muscovy Company, chartered in 1553, and granted a monopoly of all English trade with Russia and Asia through the White Sea port of Archangel. In the late 1570s and early 1580s, Queen Elizabeth granted trading privileges to a spate of new monopoly companies including the Barbary, Eastland, and Levant Companies. A small group of politically powerful men, centred originally in the Muscovy Company, was at the core of every one of these monopoly companies. The Muscovy Company, for a while, held a monopoly on all exploration and trade with North America. Further, when in the 1580s the Muscovy Company's trade with Russia was severely injured by the Cossacks' disruption of the Volga trade route from Asia, Muscovy Company leaders formed both the Turkey Company and the Venice Company in 1581 for trading with India. The two companies merged in 1592 into the Levant Company, which enjoyed a monopoly grant trade with India through the Levant and Persia.

Highlight (Geel) | Locatie 4694

The key to English history in the seventeenth and eighteenth centuries is the perpetual wars in which the English state was continually engaged. Wars meant gigantic financial requirements for the Crown. Before the advent of the central bank and government paper, any government not willing to tax the country for the full cost of war relied on an ever more extensive public debt. But if the public debt continues to rise, and taxes are not increased, something has to give, and the piper must be paid.

Highlight (Geel) | Locatie 4698

Before the seventeenth century, loans were generally made by banks, and 'banks' were institutions in which capitalists lent out funds that they had saved. There was no deposit banking; merchants who wanted a safe place to keep their surplus gold deposited them in the King's Mint in the Tower of London – an institution accustomed to storing gold. This habit, however, proved highly costly, for King Charles I, needing money shortly before the outbreak of the civil war in 1638, simply confiscated the huge sum of 200 000 pounds in gold stored at the Mint – announcing it to be a 'loan' from the depositors. Understandably shaken by their experience, merchants began depositing their gold in the coffers of private goldsmiths, who were also accustomed to the storing and safe keeping of precious metals. Soon, goldsmiths' notes began to function as private bank notes, the product of deposit banking.

Highlight (Geel) | Locatie 4937

The king, or rather the regent, Marie de Medici, was impressed, and in 1616 recreated the old Commission of Commerce, formerly headed by Laffemas, with instructions to study the du Noyer project in detail. The commission met, and the following year approved the plan of the Royal Company, and urged that all persons carrying on trade be forced to invest their money exclusively in it. In short, the Royal Company would be the monopoly company to end all companies. The delighted du Noyer, in the meanwhile, seeing his cherished scheme close to fruition, published a longer pamphlet on the plan, urging his one big company upon France. Like the king himself, the Royal Company would be unique and universal, and its capital would come from both private and royal sources.

Highlight (Geel) | Locatie 4969

An interesting new variant was Richelieu's candid attitude towards the mass of Frenchmen as simply animals to be prodded or coerced in ways that were optimal for the French state. Thus taxes should not be so high that commerce and industry are discouraged, but neither should they be so low as to leave the public too well off. For if the people were too comfortable and complacent, it would be impossible to 'contain them in the rules of their duty'. Richelieu added the revealing comment that 'It is necessary to compare them [the people] to mules, who, being accustomed to burdens, are spoiled by a long rest more than by work'.

Highlight (Geel) | Locatie 5017

Furthermore, that swelling the coffers of the king and the state was the simple reason for the otherwise silly 'bullionist' doctrines of the mercantilists can be seen in this revealing statement of Colbert's to the king: 'The universal rule of finances should be always to watch, and use every care, and all the authority of Your Majesty, to attract money into the kingdom, to spread it out into all the provinces so as to pay their taxes'. Like other mercantilists, Colbert warmly embraced the 'Montaigne fallacy' about trade. Trade was war and conflict. The total amount of trade in the world, the total number of ships, the total production of manufacturing, was fixed. One nation could only improve its trade, or shipping or manufactures, by depriving some other country of this fixed quantum. One nation's gain must be another's loss. Colbert gloried in the fact that French trade was growing, allegedly at the expense of misery inflicted on other nations. As Colbert wrote to King Louis XIV in 1669, 'This state is flourishing not only in itself, but also by the want which it has inflicted upon all the neighbouring states'.

Highlight (Geel) | Locatie 5069

Colbert was well rewarded for his life of hard work and abject sycophancy in the service of the king. Apparently only the interests of individual merchants and citizens were narrow and 'petty'. Colbert had little difficulty in identifying the lucrative feathering of his own nest with the 'public interest', national glory, and the common weal. A stream of offices, benefices, pensions and grants streamed into his coffers from the ever grateful king. In addition, Colbert received special bonuses or 'gratifications' from the king; thus, in one order, in February 1679, Colbert received a gratification of no less than 400 000 livres. The overall sum poured into Colbert's coffers was immense, including lands, and bribes for subsidies and exemptions from grateful lobbyists and economic interests. All in all, he amassed at least 10 million livres, notable to be sure, but not the enormous extent of

Cardinal Mazarin's boodle as prime minister. Colbert also did extremely well by his extensive family. Brothers, cousins, sons and daughters of Colbert were showered with favours, and became bishops, ambassadors, military commanders, intendants, and abbesses of leading convents. The Colbert family certainly did well by doing 'good' on behalf of the sovereign and the 'public interest' of France.

Highlight (Geel) | Locatie 5078

After Colbert's death in 1683, his successors under Louis XIV developed and strengthened the policy of Colbertisme. Protective tariffs were greatly increased, imports of various goods limited to specific ports, quality regulations strengthened, and innovations hobbled for the protection of the industrial and occupational status quo. Colbertisme was frozen into the French political economy. 8.8

Highlight (Geel) | Locatie 5445

Belesbat also anticipated the later view that Montaigne-type scepticism about reason, rather than providing support for going along with state absolutism, teaches men humility so that they will accept liberty and the free market. Reason, however, is not the sole, and not even the main, motive for the drive for the exercise of power: acquisition of wealth and privilege would seem to be motive enough. And since there will always be people and groups who will seek to seize and aggrandize state power for their own purposes, scepticism towards reason and a rational political philosophy seems more likely to subvert any determined opposition to statism than to hinder any statist drive for power.

Highlight (Geel) | Locatie 5626

Probably the most intelligent and surely the most influential of the absolutist order-theorists in seventeenth century England was Sir Robert Filmer (1588–1653). Towards the end of his life, this obscure Kentish nobleman published a series of royal absolutist essays in the late 1640s and early 1650s. Then, three decades later, a Filmer revival took place, his collected essays being published in 1679 and his most famous work, *Patriarcha or the Natural Power of Kings*, written in the late 1630s or early 1640s, was printed for the first time the following year. Filmer immediately and posthumously became the leading defender of royal absolutism from the older perspective of order theory.

Highlight (Geel) | Locatie 5631

Filmer angrily rejected the idea that 'by law of nature all men are born free' as 'heathen' doctrine. Linking individualism and self-direction to sinful rebellion against God, Filmer warned against the 'very desire for freedom which caused Adam's fall from grace.'² Most notable in Filmer was his searching critique of the rising contractarian doctrine, which laid the foundation of, and therefore justified, the state in some original social contract. Thomas Hobbes (1588–1679) had spent all his life in service as a tutor, companion, and intellectual guide to the Cavendishes, who were related to the royal Stuart family. Hobbes had worked out a contractarian justification for royal absolutism during the 1640s.

Highlight (Geel) | Locatie 5710

Gresham, fiscal agent of the Crown in Antwerp, himself adhered to 'Gresham's law', which was set forth by the royal commission of 1560 that he heavily influenced. Gresham was also a full-fledged statist and architect of Tudor monopoly privilege. A member of the monopoly wool cloth export company, the Merchant Adventurers, Gresham was the chief architect of England's tightening of that monopoly during the 1550s and 1560s: banning Hanseatic merchants from exporting English cloth, increasing tariffs on foreign cloth and, finally, making the Adventurers far more oligarchic and tightly controlled from the top.

Highlight (Geel) | Locatie 5715

Influenced greatly by the Memorandum, and echoing its Gresham's law position, was the younger Sir Richard Martin (1534–1617), goldsmith, warden and master of the Mint during all of Queen Elizabeth's reign. Trained as a goldsmith from youth, Martin also served as prime warden of the Worshipful Company of Goldsmiths, alderman of London for many years and was twice Lord Mayor. In the royal commission of 1576 on currency and the exchanges, whose members were hand-picked by Sir Thomas Smith, then principal secretary to the queen, Gresham and Martin, as well as Cecil, were all included. The commission did not include Smith himself, who had fallen ill. Their backing of Gresham's law was echoed a generation later by the royal commission of 1600, on which Martin served, and prepared the principal memoranda.

Highlight (Geel) | Locatie 5737

In general, Sir Edward Coke had no quarrel with government regulation and control of trade, or with the creation of monopolies; what he objected to was the king doing the regulating or monopolizing, rather than Parliament. Coke favoured the detailed regulation and cartellization of industry, the wage controls, and compulsory employment, imposed by the Statute of Artificers of 1563. He supported the laws against 'forestalling and engrossing' which, under the guise of attacks on monopoly and high prices, were actually price-raising and cartellizing devices prohibiting speculation in food products and prohibiting sales outside officially designated local 'markets'. Laws against forestalling were lobbied for by privileged owners of local markets trying to exclude competitors and to raise their own prices.

Highlight (Geel) | Locatie 5834

Taking up the torch in defence of the Merchant Adventurers was one of its members, Edward Misselden (d. 1654). In a tract entitled *Free Trade or the Means to Make Trade Flourish* (1622), following service on a Privy Council committee of inquiry on the depression of trade, Misselden advanced somewhat beyond Malynes's analysis. He acknowledged that bullion was exported from England, not due to the machinations of wicked exchange dealers, but from imports exceeding exports, from what would later be called an 'unfavourable balance of trade'. Misselden, then, was not concerned with regulating the exchanges. But he did want the state to force a favourable balance into being by subsidizing exports, restricting or prohibiting imports, and cracking down on the export of bullion. In short, he called for the usual set of mercantilist measures. Misselden was largely concerned to defend his Merchant Adventurers. Like Wheeler a generation earlier, he maintained that his company was not at all a monopolist, but simply the organization of orderly and structured competition. Besides, wrote Misselden, his Merchant Adventurers exported cloth to Europe and therefore fitted in with the interests of

England. The truly evil firm was the privileged East India Company, which had a decidedly unfavourable balance of trade of its own with the Indies, and which continually exported bullion abroad.

Highlight (Geel) | Locatie 5851

The outstanding defender of the East India Company in the early seventeenth century was one of its prominent directors, Sir Thomas Mun (1571– 1641). Mun was early engaged as a merchant in the Mediterranean trade, especially with Italy and the Middle East. In 1615, Mun was elected a director of the East India Company, and after that he ‘spent his life in actively promoting its interests’. He entered the lists on behalf of the company in 1621, with his tract, *A Discourse of Trade from England unto the East-Indies*. The following year he and Misselden were both members of the Privy Council committee of inquiry. Mun's second and major work, *England's Treasure by Forraign Trade, or the Balance of Forraign Trade is the Rule of our Treasure*, taking a broader view of the economy, was written about 1630 and published posthumously by Mun's son John in 1664. When published, it carried the stamp of approval of Henry Bennett, secretary of state in the Restoration government, and also an architect of England's mercantilist policy against the Dutch. The pamphlet was highly influential and was reprinted in several editions, the last being published in 1986.

Highlight (Geel) | Locatie 5859

Thomas Mun set forth what would become the standard mercantilist line. He pointed out that there was nothing particularly evil about the East India Company trade. The company imported valuable drugs, spices, dyes and cloth from the Indies, and it re-exported most of these products to other countries. Overall, in fact, the company has actually imported more specie than it has exported. In any case, the focus of English policy should not be on the specific trade of one company or with one country, but on the overall or general balance of trade. There it must make sure that the country exports more than it purchases from abroad, thereby also increasing the wealth of the nation. As Mun succinctly put it at the beginning of *England's Treasure*: ‘The ordinary means to increase our wealth and treasure is by foreign trade, wherein we must ever observe this rule: to sell more to strangers yearly than we consume of theirs in value’. To that end, Mun advocated sumptuary laws banning consumption of imported goods, protective tariffs, and subsidies and directives to consume domestic manufactures. Mun, on the other hand, opposed any direct restrictions on the export of bullion, such as conducted by the East India Company. Mun

Highlight (Geel) | Locatie 5874

Neither did Mun bend his energies towards an export surplus because he was enamoured of the idea of accumulating specie in England. Adhering to the quantity theory of money, Mun realized that such accumulation would simply drive prices up, which would not only be to no avail but would discourage exports. Mun wanted to accumulate specie not for its own sake, nor to drive up prices at home, but to ‘drive trade’, to increase foreign trade still further. An expansion of foreign trade per se seems to be Thomas Mun's main objective. And this overriding goal is not very puzzling from a leader of the great East India Company. Furthermore,

Highlight (Geel) | Locatie 5882

In an odd prefigurement of the Keynesian view that national debt held at home is immaterial because ‘we only owe it to ourselves’, Mun and his fellow mercantilists considered internal trade unimportant because there we

only transfer wealth among ourselves. The export balance in foreign trade then becomes of crucial importance, so that the export merchant becomes by far the most productive occupation in the economy.

Highlight (Geel) | Locatie 5913

Francis Bacon was the prophet of primitive and naive empiricism, the guru of fact-grubbing. Look at 'the facts', all 'the facts', long enough, he opined, and knowledge, including theoretical knowledge, will rise phoenix-like, self-supporting and self-sustained, out of the mountainous heap of data.

Highlight (Geel) | Locatie 5919

This sort of 'accomplishment' is dubious at best. Not only was it a prolegomenon to knowledge rather than knowledge itself; it was completely wrong about how science has ever done its work. No scientific truths are ever discovered by inchoate fact-digging. The scientist must first have framed hypotheses; in short, the scientist, before gathering and collating facts, must have a pretty good idea of what to look for, and why. Once in a while, social scientists get misled by Baconian notions into thinking that their knowledge is 'purely factual', without presuppositions and therefore 'scientific', when what this really means is that their presuppositions and assumptions remain hidden from view.

Highlight (Geel) | Locatie 5924

The mystery, then, is why Sir Francis Bacon's dubious achievement garnered so much praise. One reason is that he succeeded in capturing the Zeitgeist: he was the right man for his notions at the right time. For Bacon came after two centuries of sniping at scholasticism, which was now ripe for an open and all-out assault. Echoing many other thinkers of past generations but putting it squarely and bluntly, Bacon divided all knowledge into two parts, divine and natural. Man's knowledge of supernatural and spiritual matters came from divine revelation, and that was that. On the other hand, knowledge of material affairs, man and the world around him, was wholly empirical, inductive, arrived at through the senses. In neither case was there any room for human reason, that great conduit of knowledge lauded by classical philosophy from the Greeks to the scholastics. Knowledge of spiritual and divine matters was purely fideistic, the product of faith in divine revelation. Earthly knowledge was purely sensate and empirical; there was no room for reason there either. In ethical and political philosophy,

Highlight (Geel) | Locatie 5982

After three years in the nation's highest political post, however, Sir Francis Bacon was laid low. Charges of systematic bribery and corruption against him were proved and he then confessed his guilt, retiring to private life and to pursuing his publishing career. Characteristically, while Bacon admitted to taking bribes, he claimed that they never affected his judgement, and that his 'intentions' had remained forever 'pure'. Judging him by his own empirical method, however, one may be permitted to be sceptical of such 'metaphysical' claims.

Highlight (Geel) | Locatie 6070

The Baconians, it must be understood, though flourishing under Cromwell, were never truly committed to any particular form of government. Like Bacon himself, they could flourish under an absolute monarchy. Monarchy,

republic, Parliament, Crown, Church – all these forms of government made no particular difference to these ‘scientific’, ‘value-free’ would-be rulers of the nation. So long as the regime was sufficiently statist, and at least nominally Protestant, the polity could afford ample scope for the dreams of power and ‘science’ held by these Baconian philosophers and men of affairs.

Highlight (Geel) | Locatie 6126

So little was Petty, like most mercantilists, concerned for the labouring classes that he denounced them for becoming more idle and drunken whenever their real wages rose. Petty, in fact, was more imaginative than his mercantilist confrères in proposing a governmental price-support scheme for keeping up the price of corn – specifically in order to prevent real wage rates from ever rising and thereby keeping the workers’ noses to the grindstone and preventing them from enjoying more idleness (or leisure). Petty, indeed, denounced these labourers as ‘the vile and brutish part of mankind’. Sometimes Petty’s imagination ran away with him, his zeal for increasing the labouring population of England leading him to recommend, in the *Political Arithmetic*, forcibly moving the bulk of the population of Scotland and Ireland to England, allegedly in ‘their own interests’, so as to increase English productivity and to raise rents in England.²¹

Highlight (Geel) | Locatie 6141

William Letwin writes perceptively of this metrophrenic phenomenon among the Baconians of England during the Stuart Restoration period. The ‘scientific revolution’ of this period, writes Letwin, ‘owed much of its vigor to faith... the simple belief that many things in nature, as yet mysterious, could and should be measured precisely’. Unfortunately, ‘Hand in hand with this revolutionary ideal went a devout but misplaced notion that to measure and to understand were one and the same. Restoration scientists believed that to cast a mathematical mantle over a problem was tantamount to solving it’. As a result, Letwin goes on, The

Highlight (Geel) | Locatie 6267

Davenant would be a forgotten and no-account minor mercantilist writer, except for the extravagant praise lavished by modern quantophrenic historians of thought upon a previously unknown and alleged ‘economic law’ discovered by Davenant and by his quiet political arithmetical and political ally, the accountant Gregory King (1648–1712). This ‘law of demand’ is now hailed as the origin of econometrics, predating Bernoulli’s alleged law of the diminishing utility of money of 1738 (see below). Embarrassing adulation has been heaped upon this absurd ‘law’ by modern economists zealously trying to find prefigurements of econometric ‘science’. There has been much confusion on the precise credit for authorship of this alleged law, how attribution should be shared between King and Davenant, and even, solemnly, whether it should be called the ‘Davenant–King’ or the ‘King–Davenant’ law, as valueless a piece of scholarly disputation as has appeared in many a moon. The law first appeared in Davenant’s *Essay upon... the Balance of Trade* of 1699, citing an unpublished manuscript by King, the *Natural and Political Observations... written in 1696*.³ The ‘law’ states baldly, and without evidence, that the following will happen when the supply of the harvest of corn (wheat) is reduced below the usual amount: not simply, as has been known since the scholastics, that a lower supply of a product will tend to raise the price, but that the effect will be a definite quantitative relation, as follows: Modern economists have generally, pace Alfred Marshall, grievously misinterpreted this quantitative statement as a ‘demand schedule’, or tabular basis for a demand curve, and as a pioneering attempt to ‘measure’ the elasticity of such a curve. But the grave fallacy here

is that this quantitative relation has nothing whatever to do with the consumer demand schedule that plays such a deservedly important part in modern economics. The genuine demand schedule is hypothetical, subjective, and instantaneous: all it says is that at a given moment, at price x , consumers would purchase a certain quantity y of the product. And the point of this schedule is precisely that we don't know and can't know this subjective relation, that there is no way to find out, and that the only point of the demand schedule is to show that, at any given time, the demand curve is 'falling', that is, as the price falls the quantity demanded increases, and vice versa. Properly, the law is qualitative and never quantitative, and there is never any way to establish such quantities. What the pro-Davenant 'law' economists fail to realize, then, is that even if this Davenant table were based on historical fact, all it would establish is not a demand schedule or curve, but only the factual 'equilibrium' points each year, that is, each year's price and quantity produced. These points have nothing to do with any genuine demand schedule or 'law of demand', which is strictly qualitative and subjective to the minds of consumers. Second, even if these historical data were correct, they would only establish a relation for the particular years and particular markets in question; they would in no sense establish any sort of 'law' for the same continuing quantitative relationship between supply and price in any other year or place. But finally, there is no evidence that this table is based on any factual evidence at all! Thus, despite the solemn repetition of this table from the late nineteenth century onwards, and despite its alleged pioneering of econometric science, this Davenant–King table has no value whatever either as factual data, as statistics, as econometrics, or as economic theory. It is testimony only to the quantophrenic folly of modern economics.⁴ And yet economists, striving desperately to maintain that the Davenant–King 'law' must have clothes, have taken one of two contradictory directions in presuming the importance of the law, and sometimes have taken both stances at once. Thus Jevons (1871), without any evidence at all, simply assumed that the Davenant–King table was 'accurate' and pronounced it a scandal that economists and statisticians hadn't yet matched these numbers in accuracy. On the other hand, William Whewell, an odd combination of expert Cambridge mathematician and arch-empiricist in the philosophy of science and economics had, two decades earlier (1850), sensed that the Davenant table was really the mere working out of a mathematical formula, and yet he still assumed that it must have been based on empirical observations. Similarly, in his recent careful study, Professor Creedy has convincingly shown that the King–Davenant numbers were the working out of the mathematical formula of 'factorial expansion of a polynomial', a method first discovered by the English mathematician James Gregory and then used by Isaac Newton for his great work in physics. But, after usefully pointing out how King could have rapidly discovered and used the new Gregory–Newton method Creedy, instead of concluding sensibly that the statistical or econometric soundness of the Davenant–King 'law' lies in ruins, blithely proceeds to save the theory by simply asserting that it 'was quite possible' that the polynomial formula 'was fitted to actual observations'. 'Quite possible', but there is no evidence whatever, and, since this 'law' was never replicated, and was even changed by King, it is far more likely that, enchanted with the new maths as Creedy himself concedes, 'hypothetical values of coefficients were used with an arbitrarily chosen polynomial in order to generate the basic "data"'; in other words, that King and/or Davenant made it all up, as part of their 'new science'.⁵

11.2 Liberty and property: the Levellers and Locke

The turmoil of the English Civil War in the 1640s and 1650s generated political and institutional upheaval, and stimulated radical thinking about politics.

Highlight (Geel) | Locatie 6358

Despite or perhaps because of Locke's puritan background and patronage, he clearly came under the influence of the Baconian scientists at Oxford, notably including Robert Boyle, and hence he tended to adopt the 'scientific', empiricist, low-key absolutist viewpoint of his friends and mentors. While at Oxford, Locke and his colleagues

enthusiastically welcomed the restoration of Charles II, and indeed the king himself ordered Oxford University to keep Locke as medical student without having to take holy orders. While at Oxford, Locke adopted the empiricist methodology and sensate philosophy of the Baconians, leading to his later Essay Concerning Human Understanding. Moreover, in 1661, Locke, this later champion of religious toleration, wrote two tracts denouncing religious tolerance, and favouring the absolute state enforcing religious orthodoxy. In 1668, Locke was elected to the Royal Society, joining his fellow Baconian scientists.

Highlight (Geel) | Locatie 6364

Something happened to John Locke in the year 1666, however, when he became a physician and in the following year when he became personal secretary, advisor, writer, theoretician, and close friend of the great Lord Ashley (Anthony Ashley Cooper), who in 1672 was named the first Earl Shaftesbury. It was due to Shaftesbury that Locke, from then on, was to plunge into political and economic philosophy, and into public service as well as revolutionary intrigue. Locke adopted from Shaftesbury the entire classical liberal Whig outlook, and it was Shaftesbury who converted Locke into a firm and lifelong champion of religious toleration and into a libertarian exponent of self-ownership, property rights, and a free market economy. It was Shaftesbury who made Locke into a libertarian and who stimulated the development of Locke's libertarian system. John Locke, in short, quickly became

Highlight (Geel) | Locatie 6377

Professor Ashcraft also shows how Locke and Shaftesbury began to build up, even consciously, a neo-Leveller movement, elaborating doctrines very similar to those of the Levellers. Locke's entire structure of thought in his Two Treatises of Government, written in 1681–82 as a schema for justifying the forthcoming Whig revolution against the Stuarts, was an elaboration and creative development of Leveller doctrine: the beginnings in self-ownership or self-proprietty, the deduced right to property and free exchange, the justification of government as a device to protect such rights, and the right of overturning a government that violates, or becomes destructive of, those ends. One of the former Leveller leaders, Major John Wildman, was even close to the Locke–Shaftesbury set during the 1680s.

Highlight (Geel) | Locatie 6397

In Locke's brilliant and very sensible theory, property is brought out of the commons, or out of non-property, into one's private ownership, in the same way that a man brings non-used property into use: that is, by 'mixing his self-owned labour', his personal energy, with a previously unused and unowned natural resource, thereby bringing that resource into productive use and hence into his private property. Private property of a material resource is established by first use. These two axioms: self-ownership of each person, and the first use, or 'homesteading', of natural resources, establishes the 'naturalness', the morality, and the property rights underlying the entire free market economy. For if a man justly owns material property he has settled in and worked on, he has the deduced right to exchange those property titles for the property someone else has settled in and worked on with his labour. For if someone owns property, he has a right to exchange it for someone else's property, or to give that property away to a willing recipient. This chain of deduction establishes the right of free exchange and free contract, and the right of bequest, and hence the entire property rights structure of the market economy.

Highlight (Geel) | Locatie 6406

Many historians, especially Marxists, have taken glee in claiming that John Locke is thereby the founder of the Marxian 'labour theory of value' (which Marx in turn acquired from Smith and especially Ricardo). But Locke's is a labour theory of property, that is, how material property justly comes into ownership by means of labour exertion or 'mixing'. This theory has absolutely nothing to do with what determines the value or price of goods or services on the market, and therefore has nothing to do with the later 'labour theory of value'.

Highlight (Geel) | Locatie 6512

Locke superbly put his finger on the supposed function of the Mint: to maintain the currency as purely a definition, or standard of weight of silver; any debasement, any change of standards, would be as arbitrary, fraudulent, and unjust as the government's changing the definition of a foot or a yard. Locke put it dramatically: 'one may as rationally hope to lengthen a foot by dividing it into fifteen parts instead of twelve, and calling them inches...'.

Highlight (Geel) | Locatie 6626

is not surprising that mercantilists, with their concentration on greater revenues and power to the state, should fasten on inflationist schemes of creating bank paper and credit, as well as government paper money. Such proposals and schemes, however, had to wait for the discovery of printing in the fifteenth century, for the development of bank paper and fractional reserves in sixteenth century Italy, and finally, for the invention of government paper money and central banking, both dubious innovations of Britain in the 1690s.

Highlight (Geel) | Locatie 6669

John Law, as his subtitle states, proposed to 'supply the nation' with a sufficiency of money. The increased money was supposed to vivify trade, increase employment and production – the 'employment' motif providing a nice proto-Keynesian touch. Law stressed, in opposition to the scholastic hard-money tradition, that money is a mere government creation, that it has no intrinsic value as a metal. Its only function is to be a medium of exchange, and not any store of value for the future.

Highlight (Geel) | Locatie 6687

Interestingly enough, one of Law's talking points about the need for more money was, as in the case of low interest, based on a striking misinterpretation of the reasons for the prosperity of the Dutch, whom all other nations envied in the seventeenth century. We have seen that everyone saw that the Dutch had low interest rates, leading English mercantilists to put the cart before the horse and attribute Dutch prosperity to low interest rates, instead of realizing that high savings and higher standards of living had brought about these low interest rates. Hence the mercantilists suggested that England force the maximum usury rate still lower.

Highlight (Geel) | Locatie 6691

Similarly, John Law saw that prosperous Holland enjoyed a plenty of metallic money; he attributed the prosperity to the abundance of money, and proposed to supply paper money instead. Again, he overlooked the

point that it was Dutch property and high production and export that brought a plenitude of coin into the country. The export surplus and abundant coin was a reflection of Dutch prosperity, not its cause.²⁸

Highlight (Geel) | Locatie 6694

Not that John Law neglected the low interest argument for Dutch prosperity. But instead of direct usury laws, Law proposed to arrive at low interest rates in what would become the standard inflationist manner: expanding bank credit and bank money and thereby pushing down the rate of interest. Indeed, Law worked out a proto-Keynesian mechanism: increasing the quantity of money would lower interest rates, thereby expanding investment and capital accumulation and assuring general prosperity. To Law, as to Potter before him and Keynes after him, the main enemy of his scheme was the menace of 'hoarding', a practice which would defeat the purpose of greater spending; instead, lower spending would diminish trade and create unemployment. As in the case of the late nineteenth century German money crank Silvio Gesell, Law proposed a statute that would prohibit the hoarding of money.²⁹

Highlight (Geel) | Locatie 6713

The cataclysm of John Law's experiment and his Mississippi bubble provided a warning lesson to all reflective writers and theorists on money throughout the eighteenth century. As we shall see below, hard-money doctrines prevailed easily throughout the century, from Law's former partner and outwiter Richard Cantillon down to the founding fathers of the American Republic. But there were some who refused to learn any lessons from the Law failure, and whose outlook was heavily influenced by John Law.³¹

Highlight (Geel) | Locatie 6717

Perhaps the most prominent of the post-Law inflationists in the eighteenth century was the eminent Anglo-Irish idealist philosopher, Bishop George Berkeley (1685–1753). Berkeley studied at Trinity College, Dublin, the intellectual centre of the Anglo-Irish Establishment, and his great philosophical works were all written in his 20s, while he was a fellow at Trinity. Berkeley then spent several years in the late 1720s vainly trying to establish a Christian college in Newport, Rhode Island. After that, Berkeley was appointed dean of Derry and then bishop of Cloyne.

Highlight (Geel) | Locatie 7122

Cantillon engaged in the first sophisticated modern analysis of market pricing, showing in detail how demand interacts with existing stock to form prices. In contrast to the later Smith–Ricardo classicists, and foreshadowing the Austrians, Cantillon was largely interested in price formation in the real world, i.e. actual market prices, rather than in the chimera of long-run 'normal' pricing. In an important recent interchange on Cantillon, Professor Vincent Tarascio interprets him as a classicist or neoclassicist, at least in so far as holding that market prices tend in the long run to approach the 'intrinsic value' of a good, that is, the cost of production, in terms of land and labour inputs, of the product. This was the Smith–Ricardo theory of 'equilibrium' pricing, which has been basically expanded into Walrasian 'general equilibrium' theory.

Highlight (Geel) | Locatie 7150

Cantillon, then, did not foreshadow the classical equilibrium theory that cost of production constituted the long-run, and presumably therefore the most important, determinant of market price. On the contrary, for Cantillon, cost of production had a very different function: deciding whether a business could make profits or else have to suffer losses and go out of business. If consumer value and therefore the selling price of a product is high enough to more than cover costs, the firm makes a profit; if not high enough, it suffers losses and eventually has to go out of business. This is an important part of the Austrian view of the role of costs. Thus Cantillon discusses costs and prices in the manufacture of Brussels lace: If

Highlight (Geel) | Locatie 7158

Hence the movement toward long-run equilibrium is not a process of adjusting market prices to intrinsic long-run costs of production, but one of labourers and entrepreneurs moving in and out of various lines of production until costs of production and selling prices are equal.

Highlight (Geel) | Locatie 7192

Bizarre it may well be, but there is a method to the madness. For, as Professor O'Mahony himself understands full well, modern economics is a set of formal models and equations purporting to fully determine human behaviour, at least in the economic realm. And there is no way that uncertainty can be compressed into determinate mathematical models. As O'Mahony puts it, one might 'ask if entrepreneurial activity can in the nature of things be made the subject of formal representations or models at all. If they could, would there be any room for uncertainty, in the true sense of the term, and, therefore, any room for entrepreneurship itself?' Economic theory, in short, must choose between formally elegant but false and distorting mathematical models, and the 'literary' analysis of real human life itself.

Highlight (Geel) | Locatie 7199

Cantillon's long-run wage theory depends on the supply of labour, which in turn depends on levels and growth of population.

Highlight (Geel) | Locatie 7200

In contrast to the later Malthus, however, Cantillon engaged in a sophisticated analysis of the determinants of population growth. Natural resources, cultural factors, and the state of technology he diagnosed as particularly important. He saw prophetically that the colonization of North America would not be a simple displacement of one people by another, but that new agricultural technology would support a far larger population per acre of land. Hence the extent to which existing resources, land and labour, can be utilized depends on the existing state of technology. Thus pre-colonial North America was not 'overpopulated' by Indians, as some had believed; instead, the Indian population level had adjusted to the given resources and technology available. In short, Cantillon foreshadowed the modern theory of 'optimum' population, in which the size of population tends to adjust to the most productive level given the resources and technology available.

Highlight (Geel) | Locatie 7368

The Essai, then, was widely read from its writing in the early 1730s, and still more so after its publication in 1755. It was read eagerly and thoroughly by the first school of economists, the physiocrats, and by their great associate, or fellow-traveller, A.R.J. Turgot. In that cosmopolitan eighteenth century society where British and French intellectuals intermingled, the Essai was certainly read and echoed by the eminent Scottish philosopher, David Hume. And it has the honour of being one of the very few books cited by Hume's close friend Adam Smith – a man whose hyperdeveloped sense of his own originality prevented him from citing or recognizing many predecessors. Cantillon was thus highly influential among Continental and British economists until the publication of the Wealth of Nations in 1776. After the publication of that work, however, the knowledge and influence of Cantillon fell prey to the general post-Smithian custom of ignoring any and every economist preceding Adam Smith. The general nineteenth century habit of obliterating knowledge of economists before Adam Smith committed grave injustice against earlier economists and gave rise to the erroneous – and still widely held – illusion that economic science sprang full-blown out of the head of one Great Man, much as Athena was supposed to have sprung, fully grown and fully armed, from the brow of Zeus. But the most malignant aspect of this Smith-worship is that the lost economists were in many respects far sounder than Adam Smith, and in forgetting them, much of sound economics was lost for at least a century. In many ways, as we shall see, Adam Smith deflected economics, the economics of the Continental tradition beginning with the medieval and later scholastics and continuing through French and Italian writers of the eighteenth century, from a correct path, and on to a very different and fallacious one. Smithian ‘classical economics’, as we have come to call it, was mired in aggregative analysis, cost-of-production theory of value, static equilibrium states, artificial division into ‘micro’ and ‘macro’, and an entire baggage of holistic and static analysis.

Highlight (Geel) | Locatie 7668

Dr Quesnay's Tableau économique has been hailed for anticipating many of the most cherished developments of twentieth century economics: aggregative concepts, input–output analysis, econometrics, depiction of the ‘circular flow’ of equilibrium, Keynesian stress on expenditure and consumer demand, and the Keynesian ‘multiplier’. In recent years tens of thousands of words have been lovingly expended on trying to piece together what the Tableau had to say, and to reconcile it with its own figures and with the economy of the real world.

Highlight (Geel) | Locatie 7672

To the extent that Quesnay's Tableau anticipates all these developments, so much the worse for both the forerunner and the later product! It is true that the Tableau shows that ultimately real goods exchange for real goods, with money as an intermediary, and that everyone is both a consumer and a producer in the market. But these simple facts were known for centuries, and charts, lines (Quesnay's cherished ‘zig-zags’), and numbers can only obscure rather than highlight their importance. At best the chart elaborates spending and income patterns to no purpose.⁶ Furthermore, the Tableau is holistic, aggregative, and macroeconomic, with no solid grounding in the methodological individualism of sound microeconomics.

Highlight (Geel) | Locatie 7677

The Tableau not only introduced ungrounded and unsound macro thinking into economics; it also laid up mischief for the future by anticipating Keynesianism. For it glorified expenditures, including consumption, and

worried about savings, which it tended to regard as crippling the economy by ‘leaking’ out of the constant circular flow of spending. This stress on the vital importance of maintaining spending was faulty and superficial in ignoring two fundamental considerations: saving is spent on investment goods, and the key to harmony and equilibrium is price – lower spending can always be equilibrated easily on the market by a fall in prices. It can be laid down as a veritable law that any picture or analysis of the economic system that omits prices from consideration can only be crackpot; and the Tableau économique was the first – but alas not the last – economic model which did precisely that.

Highlight (Geel) | Locatie 7684

Dr Quesnay of course gave to his circular flow model his own physiocratic twist: it was particularly important to keep up spending on ‘productive’ agricultural products, and to avoid diversion of spending to ‘sterile’ and ‘unproductive’ products, i.e. to anything else. Keynes, of course, was to avoid the physiocratic bias when he resurrected a similar analysis.

Highlight (Geel) | Locatie 7778

What evidence does Bernoulli have for this preposterous assumption, for his assertion that an increase in utility will be ‘inversely proportionate to the quantity of goods already possessed’? None whatever, for this allegedly precise scientist has only pure assertion to offer.⁹ There is no reason, in fact, to assume any such constant proportionality. No such evidence can ever be found, because the entire concept of constant proportion in a non-existent entity is absurd and meaningless. Utility is a subjective evaluation, a ranking by the individual, and there is no measurement, no extension, and therefore no way for it to be proportional to itself. After coming up with this egregious fallacy, Bernoulli topped it by blithely assuming that every individual’s marginal utility of money moves in the very same constant proportion, b. Modern economists are familiar with the difficulty, nay the impossibility, of measuring utilities between persons. But they do not give sufficient weight to this impossibility. Since utility is subjective to each individual, it cannot be measured or even compared across persons. But more than that; ‘utility’ is not a thing or an entity; it is simply the name for a subjective evaluation in the mind of each individual. Therefore it cannot be measured even within the mind of each individual, much less calculated or measured from one person to another. Even each individual person can only compare values or utilities ordinally; the idea of his ‘measuring’ them is absurd and meaningless.

Highlight (Geel) | Locatie 7789

From this multi-illegitimate theory, Bernoulli concluded fallaciously that ‘there is no doubt that a gain of one thousand ducats is more significant to a pauper than to a rich man though both gain the same amount’. It depends, of course, on the values and subjective utilities of the particular rich man or pauper, and that dependence can never be measured or even compared by anyone, whether by outside observers or by either of the two people involved.¹⁰ Bernoulli’s

Highlight (Geel) | Locatie 8571

Mandeville not only defended the importance of luxury but also of fraud, as providing work for lawyers, and theft, for having the virtue of employing locksmiths. And then there was Mandeville’s classically imbecilic defence, in his Fable of the Bees, of the Great Fire of London:

Highlight (Geel) | Locatie 8577

Mandeville's defence of the 'vice' of luxury was enough to outrage both the rational economist and the Presbyterian in Francis Hutcheson. In rebuttal, in a prefigurement of Say's law, he pointed out that 'income not spent in one way will be spent in another and if not wasted in luxury will be devoted to useful prudent purposes'. Luxurious spending, then, is scarcely necessary for economic prosperity. In fact, he went on, it is the thrifty and the industrious who provide prosperity by supplying goods to the public. Declared Hutcheson: the 'good arising to the public is in no way owing to the luxurious, intemperate or proud but to the industrious, who must supply all customers'. Ridiculing Mandeville, the ordinarily sober Hutcheson riposted: 'Who needs to be surprised that luxury or pride are made necessary to public good, when even theft and robbery are supposed by the same author [Mandeville] to be subservient to it, by employing locksmiths?' The money saved by not spending on luxury (or locks) would be profitably employed elsewhere, unless all other wants had been totally saturated, that is, 'unless all men be already so well provided with all sorts of convenient utensils... that nothing can be added...'.

Highlight (Geel) | Locatie 8642

Hume's Treatise was pivotal in its corrosive and destructive scepticism, managing unfairly to discredit the philosophy of natural law, to create an artificial split between fact and value, and therefore to cripple the concept of natural rights on behalf of utilitarianism and indeed to undermine the entire classical realist analysis of cause and effect. There is no figure more important in the unfortunate discrediting of the classical philosophical tradition of natural law realism, a tradition that had lasted from Plato and Aristotle at least through Aquinas and the late scholastics. In a sense, Hume completed the corrosive effect of the seventeenth century French philosopher René Descartes's influential view that only the precisely mathematical and analytic could provide certain knowledge. Hume's sceptical and shaky empiricism was the other side of the Cartesian coin.

Highlight (Geel) | Locatie 8680

But David Hume, on the contrary, in a pre-Keynesian fashion, hailed the allegedly vivifying effects of increases in the quantity of money upon prosperity, and called upon the government to make sure that the supply of money is always at least moderately increasing. The two contradictory prescriptions of Hume for the supply of money are actually presented in two successive sentences:

Highlight (Geel) | Locatie 8686

Hume goes on, in proto-Keynesian fashion, to claim that the invigorating effect of increasing the supply of money occurs because employment of labour and other resources increases long before prices begin to rise. But Hume stops (as Keynes did) just as the problem becomes interesting: for then, it must be asked, why were resources underemployed before, and what is there about an increase in the money supply that might add to their employment? As W.H. Hutt was to point out in the 1930s, deeper reflection would show that the only possible reason for unwanted unemployment of resources is if the resource-owner demands too high a price (or wage) for its use. And more money could only reduce such unemployment when selling prices rise before wages or the price of resources, so that workers or other resource-owners are fooled into working for a lower real though not lower money wage.

Highlight (Geel) | Locatie 8692

Furthermore, why should idle resources, as Hume implicitly postulates, reappear after the effects of new money have been fully digested in the economy in the form of higher prices? The answer can only be that after the price increases are accomplished and a new equilibrium attained, wages and other resource prices have caught up and the ‘money illusion’ has evaporated. Real resource prices return to being excessively high for the full employment of resources.⁶

Highlight (Geel) | Locatie 8726

reality, as the Austrians have emphasized, the situation is precisely the reverse of the Hume–British classical assumptions. Rather than the long-run equilibrium state being the fundamental reality, it never exists at all. Long-run equilibrium provides the tendency towards which the market is ever moving, but is never reached because the underlying data of supply and demand – and therefore the ultimate equilibrium point – are always changing. Hence a full step-by-step analysis of a given change in the data is precisely what is needed to explain the process of successive short-run states which tend towards but never reach equilibrium. In the real world, the ‘long run’ is not equilibrium at all, but a series of such short-run states, which will keep changing direction as underlying data are altered.

Highlight (Geel) | Locatie 8737

Hume's thoughts on interest are illuminating, if only in contrast to the profundity and brilliance of Turgot's exposition 20 years later. Since money's impact is ultimately on prices only, Hume shows that interest can only be a phenomenon of real capital rather than of money. He discusses the relation between interest rates and profit rates (i.e. the fundamental rates of return on investment). Here he points out correctly that ‘no man will accept of low profits, where he can have high interest; and no man will accept of low interest where he can have high profits’. In short, interest and profit rates tend to be equal on the market. Very true, but which causes which, or what is the underlying cause of both? Hume characteristically abandons the search for cause, and says that ‘both arise from an extensive commerce, and mutually forward each other’. Böhm-Bawerk is surely right when he says that this view is ‘somewhat superficial’.⁹ But more than that: it is incorrect and reverses cause and effect by stating that ‘extensive commerce, by producing large stocks (capital), diminishes both interest and profits’. For there is no reason why larger stocks of capital should lower interest or profit rates; what they do lower is the prices of capital goods and consumer goods. The casual chain is the other way round: lower time-preference rates, which usually but not always attend higher standards of living and greater prosperity, will cause both capital to accumulate and profit and interest rates to fall. The two, as the Austrian School would later point out, are different sides of the same coin.¹⁰

Highlight (Geel) | Locatie 8936

is appropriate to begin a discussion of Smith's *Wealth of Nations* with the division of labour, since Smith himself begins there and since for Smith this division had crucial and decisive importance. His teacher Hutcheson had also analysed the importance of the division of labour in the developing economy, as had Hume, Turgot, Mandeville, James Harris and other economists. But for Smith the division of labour took on swollen and gigantic importance, putting into the shade such crucial matters as capital accumulation and the growth of

technological knowledge. As Schumpeter has pointed out, never for any economist before or since did the division of labour assume such a position of commanding importance.

Highlight (Geel) | Locatie 8941

But there are more troubles in the Smithian division of labour than his exaggerating its importance. The older and truer perception of the motive power for specialization and exchange was simply that each party to an exchange (which is necessarily two-party and two-commodity) benefits (or at least expects to benefit) from the exchange; otherwise the trade would not take place. But Smith unfortunately shifts the main focus from mutual benefit to an alleged irrational and innate 'propensity to truck, barter and exchange', as if human beings were lemmings determined by forces external to their own chosen purposes. As Edwin Cannan pointed out, Smith took this tack because he rejected the idea of innate differences in natural talents and abilities, which would naturally seek out different specialized occupations. Smith instead took the egalitarian-environmentalist position, still dominant today in neoclassical economics, that all labourers are equal, and therefore that differences between them can only be the result rather than a cause of the system of the division of labour.

Highlight (Geel) | Locatie 8948

In addition, Smith failed to apply his analysis of the division of labour to international trade, where it would have provided powerful ammunition for his own free trade policies. It was to be left to James Mill to make such an application in his excellent theory of comparative advantage.

Highlight (Geel) | Locatie 8950

Furthermore, domestically, Smith placed far too much importance on the division of labour within a factory or industry, while neglecting the more significant division of labour among industries.

Highlight (Geel) | Locatie 8952

But if Smith had an undue appreciation of the importance of the division of labour, he paradoxically sowed great problems for the future by introducing the chronic modern sociological complaint about specialization that was picked up quickly by Karl Marx and has been advanced to a high art by socialist grippers about 'alienation'. There is no gainsaying the fact that Smith totally contradicted himself between Book I and Book V of the *Wealth of Nations*. In the former, the division of labour alone accounts for the affluence of civilized society, and indeed the division of labour is repeatedly equated with 'civilization' throughout the book. And yet, while in Book I the division of labour is hailed as expanding the alertness and intelligence of the population, in Book V it is condemned as leading to their intellectual as well as moral degeneration, to the loss of their 'intellectual, social and martial virtues'. There is no way that this contradiction can be plausibly reconciled.⁶

Highlight (Geel) | Locatie 8987

Smith's use of an example of a small French pin-factory rather than a larger British one highlights a curious fact about his celebrated *Wealth of Nations*: the renowned economist seems to have had no inkling of the Industrial Revolution going on all about him. Although he was a friend of Dr John Roebuck, the owner of the Carron iron

works, whose opening in 1760 marked the beginning of the Industrial Revolution in Scotland, Smith showed no indication that he knew of its existence. Although he was at least an acquaintance of the great inventor James Watt, Smith displayed no knowledge whatever of some of Watt's leading inventions. He made no mention in his famous book of the canal boom which had begun in the early 1760s, of the very existence of the burgeoning cotton textile industry, or of pottery or of the new methods of making beer. There is no reference to the enormous drop in travel costs that the new turnpikes were bringing about.

Highlight (Geel) | Locatie 9005

But as Professor Roger Garrison has pointed out, and as we shall see further on the question of usury laws, Adam Smith's Presbyterian conscience led him to value the expenditure of labour per se, for its own sake, and led him to balk at free market time-preferences between consumption and saving. Clearly, Smith wanted far more investment towards future production and less present consumption than the market was willing to choose. One of the contradictions of this position, of course, is that accumulating more capital goods at the expense of present consumption will eventually result in a higher standard of living – unless Smith prepared to counsel a perpetual and accelerated shift toward more and more never-to-be-consumed means of production.

Highlight (Geel) | Locatie 9060

Adam Smith's Calvinistic scorn of consumption can be seen in his attack on dancing as 'primitive and rude'. As we shall see, in his 'paradox of value' Smith dismissed diamonds in an excessive way as having 'scarce any value in use'. He also puritanically denounced luxury as being biologically harmful, reducing the birth rate of the upper classes: 'Luxury in the fair sex, while it inflames perhaps the passion for enjoyment, seems always to weaken, and frequently to destroy altogether the powers of generation'.

Highlight (Geel) | Locatie 9064

Smith, furthermore, favoured low and criticized high profits, because high profits induce capitalists to engage in excessive consumption. And since large capitalists set an influential example for others in society, it is all the more important for them to keep to the path of thrift and industry. Thus:

Highlight (Geel) | Locatie 9075

But if Adam Smith was excessively in favour of capital investment as against consumption, he at least was sound in realizing that capital investment was important in economic development and that saving was the necessary and sufficient condition of such investment. The only way to increase capital, then, is by private savings or thrift. Thus, Smith wrote, 'Whoever saves money, as the phrase is, adds proportionately to the general mass of capital.... The world can augment its capital only in one way, by parsimony'.

Highlight (Geel) | Locatie 9079

Savings, and not labour, is the cause of accumulation of capital, and such savings promptly 'puts into motion an additional quantity of industry [labour]'. The saver, then, spends as readily as the spendthrift, except that he does so to increase capital and eventually benefit the consumption of all; hence 'every frugal man is a public

benefactor'. All this was a pale shadow of the scintillating and creative work of Turgot, with his emphasis on time, the structure of production, and time-preference. And it was probably cribbed from Turgot to boot. But at least it was sound, and it stamped its imprint indelibly on classical economics. As Schumpeter put it, in discussing

Highlight (Geel) | Locatie 9113

And that is that. No mention of the solution of the value paradox by stressing relative scarcities. Indeed, 'scarcity' - that concept so fundamental and crucial to economic theory - plays virtually no role in the *Wealth of Nations*. And with scarcity gone as the solution to the value paradox, subjective utility virtually drops out of economics as well as does consumption and consumer demand. Utility can no longer explain value and price, and the two sundered concepts will reappear in later generations as left-wingers and socialists happily prate about the crucial difference between 'production for profit' and 'production for use', the heir of the Smithian emphasis on the alleged gulf between 'value in use' and 'value in exchange'.¹⁴ And since economic science was reborn after Adam Smith, since all previous economists were cast into limbo by prevailing fashions of thought, the entire tradition of subjective utility - scarcity as determinants of value and price, a tradition dominant since Aristotle and the medieval and Spanish scholastics, a tradition that had continued down through writers in eighteenth century France and Italy - that great tradition gets poured down the Orwellian memory hole by Adam Smith's fateful decision to discard even his own previous concepts. Although Samuel Bailey almost restored it, the great tradition was not to be fully resurrected until its independent rediscovery by the Austrians and other marginalists in the 1870s. Adam Smith has a lot to answer for at the bar of history.

Highlight (Geel) | Locatie 9145

Another terrible loss inflicted on economic thought by Adam Smith was his dropping out of the concept of the entrepreneur, so important to the contributions of Cantillon and Turgot. The entrepreneur disappeared from British classical thought, never to be resurrected until some of the continental thinkers and especially the Austrians. But the point is that there is no room for the entrepreneur, if the focus is to be on the unchanging, certain world of long-run equilibrium.

Highlight (Geel) | Locatie 9167

In equilibrium, which Smith seems to have believed was more real and hence far more important than the actual market price, the wage rate equals the 'average' or the 'natural' rate: and the other returns similarly equal the 'natural' rent and the long-run average rate of profit. There is one striking fallacy in his analysis of cost that Adam Smith shared, though in an aggravated fashion, with earlier writers. Whereas market price is changeable and ephemeral, 'cost' is somehow determined objectively and exogenously, i.e. from outside the world of market economic activity. But cost is not intrinsic or given; on the contrary, it itself is determined, as the Austrians were later to point out, by the value foregone in using resources in production. This value, in turn, is determined by the subjective valuations that consumers place on those products. In brief, rather than cost in some 'fundamental' sense determining value, cost at any and all times is itself determined by the subjective value, or expected value, that consumers place on the various products. So that, even if we might say that prices will equal cost of production in long-run equilibrium, there is no reason to assume that such costs determine long-run price; on the contrary, expected consumer valuation determines what the value of costs will be on the market. Cost is strictly dependent on utility, in the short and long runs, and never the other way around.

Highlight (Geel) | Locatie 9178

Another grave problem with all cost-of-production theory is that it necessarily abandons any attempt to explain the pricing of goods and services that have no cost because they are not produced, goods that are simply there, or were produced in the past but are unique and not reproducible, such as art works, jewellery, archaeological discoveries, etc. Similarly, immaterial consumer services such as the prices of entertainment, concerts, physicians, domestic servants, etc., can scarcely be accounted for by costs embodied in a product. In all these cases, only subjective demand can explain the pricing or the fluctuations in those prices. But this analysis scarcely exhausts Smith's sins in discussing the central concept in economics – the theory of value. For side by side with the standard cost-of-production analysis as equalling wages + rents + profits, another, new, and far more bizarre theory was set forth. In this alternative view, the relevant cost of production that determines equilibrium price is simply the quantity of labour embodied in its production. It was, indeed, Adam Smith who was almost solely responsible for the injection into economics of the labour theory of value.¹⁷ And hence it was Smith who may plausibly be held responsible for the emergence and the momentous consequences of Marxism.

Highlight (Geel) | Locatie 9199

How does this crucial equating take place? According to Smith, 'by the higgling and bargaining of the market' bringing them into a 'rough sort of equality'. Yet here Smith fell into an iron trap of circular reasoning. For, like Ricardo and Marx after him, he attempted to explain prices and values by the quantity of labour, and then appealed to the settling of values on the market to determine what the 'quantity of labour' is, by weighting it by differences in the degree of labour hardship and toil.¹⁸ Smith tried to escape such circularity by his egalitarian assumption – still held in orthodox neoclassical economics – that all labourers are equal, and that hence wages, at least in the natural long run, will all be equal, or rather will be equal for equal quantities of labour toil among all the workers. According to Smith, competition on the market will tend to equate wages per unit of sacrifice or labour toil. As Douglas put it, 'Smith believed he had established the fact that equal units of labor in the sense of disutility were at any one time compensated for by equal amounts of money wages'.

Highlight (Geel) | Locatie 9209

There are no unique individuals and irreducible differences between people; in this reductionist view now active again in the twentieth century, the mind of a human being is merely a tabula rasa on which external environment fills in the content. Hence, according to Smith, skilled labour earns more than unskilled merely to compensate for years of apprenticeship and training when earnings were much lower: so that their labour hours and toil and hence wages would be equalized over a lifetime. Wages in occupations which are active in only part of the year should be higher to compensate for the fewer days of work – so that annualized incomes would be equal. Other things being equal, furthermore, workers in unpleasant or dangerous occupations would receive higher wages to compensate them for the higher labour sacrifice, while prestigious occupations would receive lower wages since their sacrifice or unpleasantness is lower.

Highlight (Geel) | Locatie 9219

As it is, Smith ran into considerable difficulty in explaining why prestigious occupations, far from earning low wages in the real world, actually earn higher wages than the average. When discussing the high-income

physician or attorney, for example, he lamely fell back on the implication that they were positions of great trust, and therefore presumably faced onerous and painful responsibilities to their clients and were compensated thereby. His other attempt to rationalize the high incomes of attorneys was to make the dubious assumption that the average income in such occupations was lower than in others, since a flood of people are attracted by the glittering prizes of very high incomes accruing to the few top people in the profession.

Highlight (Geel) | Locatie 9224

Adam Smith, in addition, muddled the waters still further by putting forward, side by side with the labour-cost theory of value, the very different 'labour-command' theory. The labour-command theory states that the value of a good is determined not by the quantity of labour units contained in it (the labour theory of value), but by the amount of labour that can be purchased by the good. Thus: 'The value of any commodity to the person who possesses it... is equal to the quantity of labour which it enables him to purchase or command'. If, in the real world, the price of every commodity precisely equalled the amount of labour units 'contained' in its production, then the two quantities – the labour cost and the labour command of a good – would indeed be identical. But if rents and profits (i.e. interest) are included in cost, then the price, or relative purchasing power, of each good would not be equal to the labour cost. Labour cost and labour command for each good would differ. In his typically purblind way, Adam Smith did not perceive the contradiction between these two labour theories in a world where rent and profits exist (as indeed he did not seem to see the difference between the labour and the cost-of-production theories of value). Ricardo was to see the problem and struggle with it in vain, while Marx tried to resolve it by his theory of 'surplus value' going to the non-workers in the form of rent and profits, a theory that foundered on Marx's attempt to reconcile two contradictory propositions: the labour-cost (or quantity of labour) theory of value, and the acknowledged tendency toward an equalization of profit rates on the market. For, as we shall see further in the treatment of Marx (Chapters 9–13 in Volume II), the 'surplus value' of profits out of labour should be greater in labour-intensive than in capital-intensive industries, and yet profits tend to equalize everywhere. Paul Douglas properly and with rare insight noted that Marx was, in this matter, simply a Smithian-Ricardian trying to work out the theory of his masters:

Highlight (Geel) | Locatie 9245

Adam Smith also gave hostage to the later emergence of socialism by his repeatedly stated view that rent and profit are deductions from the produce of labour. In the primitive world, he opined, 'the whole produce of labour belongs to the labourer'. But as soon as 'stock' (capital) is accumulated, some will employ industrious people in order to make a profit by the sale of the materials. Smith indicates that the capitalist (the 'undertaker') reaps profits in return for the risk, and for interest on the investment for maintaining the workers until the product is sold – so that the capitalist earns profit for important functions. He adds, however, that 'In this state of things the whole produce of labour does not always belong to the labourer. He must in most cases share it with the owner of the stock who employs him'. By using such phrases, and by not making clear why labourers might be happy to pay capitalists for their services, Smith left the door open for later socialists who would call for restructuring institutions so as to enable workers to capture their 'whole product'. This hostage to socialism was aggravated by the fact that Smith, unlike the later Austrian School, did not demonstrate logically and step by step how industrious and thrifty people accumulate capital out of savings. He was content simply to begin with the alleged reality of a minority of wealthy capitalists in society, a reality which later socialists were of course not ready to endorse.

Highlight (Geel) | Locatie 9294

Adam Smith's theory of distribution was fully as disastrous as his theory of value. Though he was aware of the functions performed by the capitalist, his only venture in explaining the rate of long-run profit was to opine that the greater the 'amount of stock' the lower the rate of profit. He arrived at this highly dubious conclusion from his perfectly valid observation that capitalists tend to move out of low-profit and into high-profit industries, their competition tending to equalize the rates of profit throughout the economy. But more production, lowering selling price and raising costs in a particular industry, is scarcely the same causal claim as more capital throughout the economy lowering profit rates. Indeed, the rate of interest, or long-run rate of profit, is related, not to the quantity of accumulated capital, but to the amount of annual saving, and moreover falling profit rates are not caused by increasing saving. On the contrary, as the Austrians would point out, both are the results of lower rates of time-preference in the society. It is perfectly possible for a highly capitalized economy to experience rising rates of time-preference, which in turn would bring about higher rates of interest. Smith

Highlight (Geel) | Locatie 9306

Moreover, if the supply of labour increases to absorb the increase in demand, wage rates will then fall. At this point, Adam Smith provided the Malthusian hook, for, as we shall see further, the Rev. Malthus was a devoted follower of Adam Smith. Smith, indeed, was picking up a theme common in the eighteenth century: that the population of a species tends to press on the means of its subsistence. As Smith put it: 'Every species of animals naturally multiplies in proportion to the means of its subsistence'. So that Smith saw the secular trend of the economy as capital increasing, wages rising, and the rise in wages calling forth an increase in population: The liberal reward of labour, by enabling them to provide better for their children, and consequently to bring up their number, naturally tends to widen and extend those limits [the means of subsistence]... If this demand [for labour] is continually increasing, the reward of labour must necessarily encourage in such a manner the marriage and multiplications of labourers as may enable them to supply that continually increasing demand by a continually increasing population. In this way, wages tend to settle at the minimum subsistence level for the existing population. A fall in wages below subsistence will forcibly reduce the population and hence the supply of labour, raising wages to the subsistence rate; and if wages should rise above subsistence, the 'excessive multiplication' of workers 'would soon lower it to this necessary rate'. One of the many problems of this 'Malthusian' approach is that it assumes that human beings will not be able to act on their own to limit population growth in order to preserve a newly achieved standard of living.²²

Highlight (Geel) | Locatie 9319

In addition to Smith's erroneous Malthusian view that long-run wage rates are at the means of subsistence, he also introduced into economics the unfortunate fallacy that wages, at least in the shorter run, are determined by the relative 'bargaining power' of employers and workers. It was a simple leap from that position to the view that employers have greater bargaining power than workers, thus setting the stage for later pro-union propagandists claiming erroneously that unions can raise overall wage rates throughout the economy.

Highlight (Geel) | Locatie 9409

Adam Smith failed to realize that the stock of gold and silver was far from 'dead'; on the contrary, it performed the vital function of being a money commodity, among other functions providing to every member of society an

insurance against paper money inflation, whether launched by government or banks. The stock of gold, in short, performs a 'store of value' service which Smith totally overlooks. Smith's critique of specie as 'dead stock' also stems from his belief that money is not a commodity serving as a medium of exchange, but a claim, a sign, a 'voucher to purchase'. The French economist Charles Rist is justly highly critical of the dead stock approach and its influence on later generations:

Highlight (Geel) | Locatie 9456

Despite the undoubted importance of these passages, however, Adam Smith's championing of laissez-faire was scarcely consistent. In the first place, Smith retreated from the absolutist, natural law position that he had set forth in his ethical work, *The Theory of Moral Sentiments* (1757). In this book, free interaction of individuals creates a harmonious natural order which government interference can only cripple and distort. In *Wealth of Nations*, on the other hand, laissez-faire becomes only a qualified presumption rather than a hard-and-fast rule, and the natural order becomes imperfect and to be followed only 'in most cases'. Indeed, it is this deterioration of the case for laissez-faire that German scholars were to label *Das AdamSmithProblem*. Indeed, the list of exceptions Smith makes to laissez-faire is surprisingly long. His devotion to the militarism of the nation-state, for example, induced him to take the lead in the pernicious modern view of excusing any government intervention that might plausibly be labelled for 'the national defence'. On that basis, Smith supported the navigation acts, that bulwark of British mercantilism and systemic subsidy for British shipping. One of Smith's reservations about the division of labour, indeed, is that it leads to a decay of the 'martial spirit', and Smith goes on at length about the decay of the martial spirit in modern times, and about the great importance of restoring and sustaining it. '(T)he security of every society must always depend, more or less, upon the martial spirit of the great body of the people.' It was an anxiety to see government foster such a spirit that led Smith into another important deviation from laissez-faire principle: his call for government-run education. It is also important, opined Smith, to have governmental education in order to inculcate obedience to it among the populace – scarcely a libertarian or laissez-faire doctrine. Wrote Smith:

Highlight (Geel) | Locatie 9473

In addition to navigation acts and public education, Adam Smith advocated the following forms of government intervention in the economy: Regulation of bank paper, including the outlawing of small denomination notes – after allowing fractional-reserve banking. Public works – including highways, bridges and harbours, on the rationale that private enterprise would not 'have the incentive' to maintain them properly(!?) Government coinage. The Post Office, on the simple grounds – which will draw a bitter laugh from modern readers – that it is profitable! Compulsory building of fire walls. Compulsory registration of mortgages. Some restrictions on the export of 'corn' (wheat). The outlawing of the practice of paying employees in kind, forcing all payment to be in money. There is also a particularly lengthy list of taxes advocated by Adam Smith, each of which interferes in the free market. For one thing, Smith paved the way for Henry Georgism and the 'single tax' by urging higher taxes on uncultivated land, displaying his animus against the landlord. He also favoured moderate taxes on the import of foreign manufactures, and taxes on the export of raw wool – thus gravely weakening his alleged devotion to freedom of international trade.

Highlight (Geel) | Locatie 9483

Adam Smith's Calvinist abhorrence of luxury is also seen in his proposals to levy heavy taxes on luxurious consumption. Thus he called for heavier highways tolls on luxury carriages than on freight wagons, specifically to tax the 'indolence and vanity of the rich'. His puritanical hostility to liquor also emerges in his call for a 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'.

Highlight (Geel) | Locatie 9486

His devotion to ale, however, was minimal, for Smith also advocated a tax on the retail sale of all liquor in order to discourage the multiplication of small alehouses. And finally, Adam Smith advocated the soak-the-rich policy of progressive income taxation.

Highlight (Geel) | Locatie 9488

Perhaps Smith's most flagrant violation of laissez-faire was his strong advocacy of rigid usury laws, a sharp contrast to the opposition to such laws by Cantillon and Turgot. Smith did not indeed wish to adhere to the medieval prohibition of all credit.

Highlight (Geel) | Locatie 9492

Driven by Calvinist hostility to luxurious consumption, Smith tried to skew the economy in favour of more 'productive labour' in capital investment and less in consumption. By forcing interest rates below the free market level, Smith hoped to channel credit into the sober hands of prime borrowers, and away from credit into the hands of speculators and of 'prodigal' consumers. As Professor West admits, Adam Smith condemned the demand for loans by 'prodigals and projectors', in which the prodigal 'dissipates in the maintenance of the idle, what was destined for the support of the industrious'. In that way, the ceiling on interest rates, as West notes, 'would reallocate credit into the most productive hands'. Yet,

Highlight (Geel) | Locatie 9515

Perhaps most important of all, how do we square Smith's alleged role as champion of free trade and laissez-faire with his spending the last 12 years of his life as a commissioner of Scottish customs, cracking down on smugglers violating Britain's extensive mercantilist laws and evading import taxes? Did he treat the job as a sinecure? No: recent studies show that his role as a top enforcer of mercantilist laws and tariffs was active and hard-working. Was he driven by penury? Hardly, since, with his great reputation, he probably could have commanded an equivalent sum in a top academic post.³⁴ Did he suffer from qualms of conscience? Apparently not, since he not only approached his job with enthusiasm, but was also particularly, vigilant and hard-nosed in trying to enforce the onerous restrictions and tariffs to the hilt.

Highlight (Geel) | Locatie 9832

The 1790s was the era of the outburst of the French Revolution, and it was a decade when ideas of liberty, equality, Utopia, and revolution were very much in the air. One of the most popular and influential radical works

in England was William Godwin (1756–1836)‘s Enquiry Concerning Political Justice (1793), which was for a time the talk of England. Godwin, son and grandson of dissenting ministers, had himself been a dissenting minister when he lapsed into secularism and became a radical theorist and writer. In his Utopian belief in the perfectibility of man, Godwin has been generally bracketed with the distinguished French philosopher and mathematician, Condorcet, whose great paean to optimism and progress, Esquisse d'un tableau historique des progrès de l'esprit humain (Sketch for an Historical Picture of the Progress of the Human Mind) (1794) was, remarkably, written while in hiding from the Jacobin Terror and in the shadow of his arrest and death. But the two optimists were very different. For Condorcet, close friend of Turgot and admirer of Adam Smith, was an individualist and a libertarian, a firm believer in free markets and in the rights of private property. William Godwin, on the other hand, was the world's first anarcho-communist, or rather, voluntary anarcho-communist. For Godwin, while a bitter critic of the coercive state, was an equally hostile critic of private property. But in contrast to late nineteenth century anarcho-communists such as Bakunin and Kropotkin, Godwin did not believe in the imposition of rule by a coercive commune or collective in the name of anarchistic ‘no-rule’. Godwin believed, not that private property should be expropriated by force, but that individuals, fully using their reason, should voluntarily and altruistically divest themselves of all private property to any passer-by. This system of voluntary abasement, brought about by the perfectibility of human reason, would result in total equality without private property. In his voluntarism, Godwin was thus the ancestor of both the coercive communist and the individualist strains of nineteenth century anarchist thought.

Highlight (Geel) | Locatie 9933

In On Population (1820), Godwin came to the cogent and sensible conclusion that population growth is not a bogey, because over the decades the food supply would increase and the birth rate would fall. Science and technology, along with rational limitation of birth, would solve the problem.

Highlight (Geel) | Locatie 10011

By the 1930s, in fact, economists and politicians were howling about the imminence of ‘race suicide’, and an excessively falling birth rate. The Great Depression, as we shall see, was blamed by some economists on a birth rate which had started falling decades before. Governments such as France, mindful also of their need for cannon fodder, gave bounties to large families. Then, by the 1960s and 1970s, anti-population hysteria arose again, with ever more strident calls for voluntary or even compulsory zero population growth, and countries such as India and China experimented with compulsory sterilization or compulsory abortion. Characteristically, the height of the hysteria, in the early 1970s, came after the 1970 census in the United States noted a significant decrease in the birth rate and the beginnings of an approach toward a stationary state of population. It was also observed that various Third World countries were beginning to see a marked slowing of the birth rate, a few decades after the fall in death rate due to the infusion of Western advances in medicine and sanitation. It looked again as if people's habituation to higher living standards will lead them to lower the birth rate after a generation of enjoying the fruits of lower death rates. Population levels will, indeed, tend to adapt to maintain cherished standards of living. It looks as if Godwin was right that given freedom, individuals in society and the marketplace will tend to make the correct birth decisions.

Highlight (Geel) | Locatie 10130

fascinating aspect of August Lueder is that he was driven both by Smithian methodology and by his devotion to freedom to repudiate his beloved life work, the investigation into national statistics. For not only would statistics mislead government policy makers, but government planners could scarcely hope to plan at all without a raft of statistics at their command. Statistics is not only misleading, therefore; it becomes a necessary condition for the very government intervention which must be repudiated. Lueder levelled his criticisms in two volumes on statistics, Kritik der

Highlight (Geel) | Locatie 10220

Smith's stress on the economy-in-perpetual-equilibrium also led him to discard his old friend David Hume's important insight (even if inferior to Cantillon's) into the international specie-flow-price mechanism, and to the important business cycle analysis that lies clearly implicit in that doctrine. For if the world economy is always in equilibrium, then there is no need to consider or worry about increases in money supply causing price rises and outflows of gold or silver abroad, or to consider the subsequent contraction of money and prices.

Highlight (Geel) | Locatie 12903

The mathematical method was not the only system of abstraction to suffer a trenchant demolition by J.B. Say. For Say was also sharply critical of verbal methods of logic that took off into the empyrean without continuing groundwork in, and repeated checking by, reference to general and universal facts. This was Say's main methodological stricture against the physiocrats. 'Instead of first observing the nature of things, or the manner in which they take place, of classifying these observations, and deducing from them general propositions' – that is, instead of being praxeologists, the physiocrats commenced by laying down certain abstract general propositions, which they styled axioms, from supposing them to contain inherent evidence of their own truth. They then endeavoured to accommodate the particular facts to them and to infer from them their laws; thus involving themselves in the defence of maxims evidently at variance with common sense and universal experience... In short, a system of economic theory must not only be axiomatic-deductive; it must always make sure to ground those axioms in 'common sense and universal experience'.

Highlight (Geel) | Locatie 12943

Costs, of course, are intimately related to the pricing of factors of production. One question that cost-value theorists have difficulty answering is if, indeed, costs are determining, where do they come from? Are they mandated by divine revelation? One of the anomalies of Say's discussion is that, even though a subjective value and utility theorist, he uncomprehendingly rejected the insight of Genovesi and of his own ideologue forbear Condillac, that people exchange one thing for another because they value the thing they acquire more than what they give up – so that exchange always benefits both parties. And in denying this mutual gain, Say is inconsistent with much of his own position on utility.

Highlight (Geel) | Locatie 12965

One of Say's great contributions was to apply utility theory to the theory of distribution, in brief by discovering the productivity theory of the pricing, and hence the income, accruing to factors of production. In the first place,

Say pointed out that, in contrast to Smith, all labour, not just labour embodied in material objects, is 'productive'. Indeed, Say brilliantly pointed out that all the services of factors of production, whether they be land, labour, or capital, are immaterial, even though they might result in a material product. Factors, in short, provide immaterial services in the process of production. That process, as Say pointed out clearly for the first time, was not the 'creation' of material products. Man cannot create matter; he can only transform it into different shapes and moulds, in order to satisfy his wants more fully. Production is this very transformation process. In the sense of such transformation, all labour is productive 'because it concurs in the creation of a product', or, metaphorically, in the creation of 'utilities'. If, as can happen, labour has been expended to no ultimate benefit, then the result is error: 'folly or waste in the person bestowing' the labour. One example of unproductive labour is crime, not only a non- but an anti-market activity: there 'trouble [effort] is directed to the stripping another person of the goods in his possession by means of fraud or violence...[it] degenerates to absolute criminality and there results no production, but only a forcible transfer of wealth from one individual to another'.

Highlight (Geel) | Locatie 12993

The causal chain, for Say as for the later Austrians, is from consumer valuations to consumer goods prices to the pricing of productive factors (i.e. to costs of production). In contrast, the Smithian, and especially the Ricardian, causal chain is from cost of production, and especially labour cost, to consumer goods prices. By speaking of the 'proportionate' value of each factor, Say once again comes to the edge of a marginal productivity theory of imputation of consumer to factor valuations, and to the edge of a variable proportions analysis. But he does not reach it. Say did not rest content with a

Highlight (Geel) | Locatie 13016

Thus, in grappling with the problem of interest, Say criticizes Smith and the Smithians for focusing on labour as the sole factor of production, and neglecting the cooperating role of capital. Tackling the Smith-Ricardian (and what would later be the Marxian) riposte: that capital is simply accumulated labour, Say replies yes, but the services of capital, once built, are there and continue anew and must be paid for. While satisfactory enough on one level, the answer does not solve the problem of where the net return on capital funds comes from, a return which Turgot and then the Austrians explained as the price of time-preference, of the fact, in short, that capital is not only accumulated labour but also 'accumulated time'.

Highlight (Geel) | Locatie 13029

Say follows Smith in his discussion of the division of labour, and in pointing out that the degree of that division is limited by the extent of the market. But Say's discussion is far sounder. He shows, first, that expanding the division of labour needs a great deal of capital, so that investment of capital becomes the crucial point rather than its division per se. He also points out that, in contrast to Smith, the crucial specialization of labour is not simply within a factory (as in Smith's famous pin factory) but ranges over the entire economy, and forms the basis for all exchange between producers.

Highlight (Geel) | Locatie 13049

Turning to wages and the labour market, Say pointed out that wages will be highest relative to the price of capital and land, where labour is scarcest relative to the other two factors.

Highlight (Geel) | Locatie 13091

Say also appreciated entrepreneurship as the driving force of the allocations and adjustments of the market economy. He summed up those workings of the market by stating that the wants of consumers determine what will be produced: 'The product most wanted is most in demand; and that which is most in demand yields the largest profit to industry, capital, and land, which are therefore employed in raising this particular product in preference; and, vice versa, when a product becomes less in demand, there is a less profit to be got by its production; it is, therefore, no longer produced'.

Highlight (Geel) | Locatie 13104

Say's law is simple and almost truistic and self-evident, and it is hard to escape the conviction that it has stirred up a series of storms only because of its obvious political implications and consequences. Essentially Say's law is a stern and proper response to the various economic ignoramuses as well as self-seekers who, in every economic recession or crisis, begin to complain loudly about the terrible problem of general 'overproduction' or, in the common language of Say's day, a 'general glut' of goods on the market. 'Overproduction' means production in excess of consumption: that is, production is too great in general compared to consumption, and hence products cannot be sold in the market. If production is too large in relation to consumption, then obviously this is a problem of what is now called 'market failure', a failure which must be compensated by the intervention of government. Intervention would have to take one or both of the following forms: reduce production, or artificially stimulate consumption. The American New Deal in the 1930s did both, with no success in relieving the alleged problem. Production can be reduced, as in the case of the New Deal, by the government's organizing compulsory cartels of business to force a cut in their output.

Highlight (Geel) | Locatie 13113

Stimulating consumer demand has long been the particularly favoured programme of interventionists. Generally, this is done by the government and its central bank inflating the money supply and/or by the government incurring heavy deficits, its spending passing for a surrogate consumption. Indeed, government deficits would seem to be ideal for the overproduction/ underconsumptionists. For if the problem is too much production and/or too little consumer spending, then the solution is to stimulate a lot of unproductive consumption, and who is better at that than government, which by its very nature is unproductive and even counter productive?

Highlight (Geel) | Locatie 13118

Say understandably reacted in horror to this analysis and to the prescription.¹⁴ In the first place, he pointed out, the wants of man are unlimited, and will continue to be until we achieve genuine general superabundance – a world marked by the prices of all goods and services falling to zero. But at that point there would be no problem of finding consumer demand, or, indeed, any economic problem at all. There would be no need to produce, to work, or to worry about accumulating capital, and we would all be in the Garden of Eden.

Highlight (Geel) | Locatie 13122

Thus Say postulates a situation where all costs of production are at last reduced to zero: 'in which case, it is evident there can no longer be rent for land, interest upon capital, or wages on labour, and consequently, no longer any revenue to the productive classes'. What will happen then?

Highlight (Geel) | Locatie 13128

Since, apart from the Garden of Eden, production always falls short of man's wants, this means that there is no need to worry about any lack of consumption. The problem that limits wealth and living standards is a deficiency of production. On the market, Say points out, producers exchange their products for money and they use the money to buy the products of others. That is the essence of the exchange, or market, economy. Therefore the supply of one good constitutes, at bottom, the demand for other goods. Consumption demand is simply the embodiment of the supply of other products, whose owners are seeking to purchase the products in question. Far better to have demand emerging from the supply of other products, as on the free market, than for the government to stimulate consumer demand without any corresponding production.

Highlight (Geel) | Locatie 13135

Since genuine demand only comes from the supply of products, and since the government is not productive, it follows that government spending cannot truly increase demand:

Highlight (Geel) | Locatie 13139

But if there can be no general overproduction short of the Garden of Eden, then why do businessmen and observers so often complain about a general glut? In one sense, a surplus of one or more commodities simply means that too little has been produced of other commodities for which they might exchange. Looked at in another way, since we know that an increased supply of any product lowers its price, then if any unsold surplus of one or more goods exists, this price should fall, thereby stimulating demand so that the full amount will be purchased. There can never be any problem of 'overproduction' or 'underconsumption' on the free market because prices can always fall until the markets are cleared. While Say did not always put the matter in these precise terms, he saw it clearly enough, particularly in his Letters to Malthus, in his controversy with the Rev. Thomas Robert Malthus over Say's law. Those who complain about overproduction or underconsumption rarely talk in terms of price, yet these concepts are virtually meaningless if the price system is not always held in mind. The question should always be: production or sales at what price! Demand or consumption at what price! There is never any genuine unsold surplus, or 'glut', whether specific or general over the whole economy, if prices are free to fall to clear the market and eliminate the surplus.

Highlight (Geel) | Locatie 13152

The policy implications of attending to the price system are crucial. It means that to cure a glut, whether specific or pervasive, the remedy is not for the government to spend or create money; it is to allow prices to fall so that the market will be cleared.

Highlight (Geel) | Locatie 13179

The reason why labour is more expensive, say, in the United States or other industrialized country, is that other American industries have bid up these labour costs. These industries are therefore more efficient than the industry suffering from competition, and hence the latter should cut back or shut down and allow resources to shift to more efficient and productive fields.

Highlight (Geel) | Locatie 13300

In short, the problem centres on a general failure of entrepreneurial forecasting and ‘calculation’ leading to what turns out to be an excessive bidding up of costs. Unfortunately, Say does not pursue this crucial point to query why such an unusual entrepreneurial failure should have taken place. But he does go on to anticipate von Hayek’s important point about entrepreneurs and producers employing the market as a learning experience, to become better at estimating costs and demands on the market.

Highlight (Geel) | Locatie 13306

With the recovery of Europe from the postwar depression, Say’s law – at least in the rather vulgarized form adopted by the British classical school¹⁶ – became absorbed into the mainstream of economic thought and was challenged only by cranks and crackpots who properly constituted what Keynes later called ‘the underworld’ of economics. These denizens were resurrected by John Maynard Keynes in his General Theory, which, written during the depths of another and even more intense depression (1936), hailed them all – from Malthus to later underconsumptionists and to the egregious German-Argentinian merchant Silvio Gesell (1862–1930), who urged that the government force everyone to spend money in a brief period of time after receiving it. Gesell’s objective, as in the case of all the most flagrant money cranks, was to lower the rate of interest to zero, a goal Keynes was later to echo in his call for the ‘euthanasia of the rentier [bond-holder]’. It is perhaps fitting that this Gesell, whom Keynes called ‘the strange, unduly neglected prophet’, capped his dubious career by becoming the finance minister of the short-lived revolutionary Soviet republic of Bavaria in 1919. Keynes’s own doctrine followed in the line of Malthus and the others, except that underspending in general was substituted for underconsumption as the allegedly critical economic problem. Keynes made a denunciation of Say’s law the centrepiece of his system. In stating it, Keynes badly vulgarized and distorted the law, leaving out the central role of price adjustments¹⁷, and had the law saying simply that total spending on output will equal total incomes received in production¹⁸. Since

Highlight (Geel) | Locatie 13715

In either case, utilitarianism is self-refuting in violating its own axiom of not going beyond given emotions and valuations. Furthermore, it is common human experience, once again, that subjective desires are not absolute, given and unchanging. They are not hermetically sealed off from persuasion, whether rational or otherwise. One’s own experience and the arguments of others can and do persuade people to change their values. But how could that be if all individual desires and valuations are pure givens and therefore not subject to alteration by the intersubjective persuasion of others? But if these desires are not givens, and are changeable by the persuasion of moral argument, it would then follow that, contrary to the assumptions of utilitarianism, supra-subjective ethical principles do exist that can be argued and can have an impact on others and on their valuations and goals.

Highlight (Geel) | Locatie 13722

Jeremy Bentham added a further fallacy to the utilitarianism that had grown fashionable in Great Britain since the days of David Hume. More brutally, Bentham sought to reduce all human desires and values from the qualitative to the quantitative; all goals are to be reduced to quantity, and all seemingly different values – e.g. pushpin and poetry – are to be reduced to mere differences of quantity and degree. The drive to reduce quality drastically to quantity again appealed to the scientific passion among economists. Quantity is uniformly the object of investigation in the hard, physical sciences; so doesn't concern for quality in the study of human action connote mysticism and a sloppy, unscientific attitude? But, once again, economists forgot that quantity is precisely the proper concept for dealing with stones or atoms; for these entities do not possess consciousness, do not value and do not choose; therefore their movements can be and should be charted with quantitative precision. But individual human beings, on the contrary, are conscious, and do adopt values and act on them. People are not unmotivated objects always describing a quantitative path. People are qualitative, that is, they respond to qualitative differences, and they value and choose on that basis. To reduce quality to quantity, therefore, gravely distorts the actual nature of human beings and of human action, and by distorting reality, proves to be the reverse of the truly scientific.

Highlight (Geel) | Locatie 13773

Finally, in addition to the problems of the pleasure-pain calculus, personal utilitarianism counsels that actions be judged not on their nature but on their consequences. But, in the non-Benthamite, mere cost-benefit (rather than 'objective' pleasure-pain) analysis, how is anyone to gauge the consequences of any action? And why is it considered easier, let alone more 'scientific', to judge consequences than to judge an act itself by its nature? Furthermore, it is often very difficult to figure out what the consequences of any contemplated action will be. How we are to find the secondary, tertiary, etc. consequences, let alone the more immediate ones? We suspect that Herbert Spencer, in his critique of utilitarianism, was correct: it is often easier to know what is right than what is expedient.

Highlight (Geel) | Locatie 13782

The first question is the powerful one of self-refutation: for if each man is necessarily governed by the rule of maximizing pleasure, then why in the world are these utilitarian philosophers doing something very different – that is, calling for an abstract social principle ('the greatest happiness of the greatest number')?⁷ And why is their abstract moral principle – for that is what it is – legitimate while all others, such as natural rights, are to be brusquely dismissed as nonsense? What justification is there for the greatest happiness formula? The answer is none whatever; it is simply assumed as axiomatic, above and beyond challenge. In

Highlight (Geel) | Locatie 13791

Must we then say that it is 'good', after making our social felicific calculus, for the vast majority to cheerfully slaughter redheads, and thereby maximize their pleasure or happiness? And if not, why not? As Felix Adler wryly put it, utilitarians 'pronounce the greatest happiness of the greatest number to be the social end, although they fail to make it intelligible why the happiness of the greater number should be cogent as an end upon those who happen to belong to the lesser number'.⁸

Highlight (Geel) | Locatie 13797

Finally, while utilitarianism falsely assumes that the moral or the ethical is a purely subjective given to each individual, it on the contrary assumes that these subjective desires can be added, subtracted, and weighed across the various individuals in society so as to result in a calculation of maximum social happiness. But how in the world can an objective or calculable 'social utility' or 'social cost' emerge out of purely subjective desires, especially since subjective desires or utilities are strictly ordinal, and cannot be compared or added or subtracted among more than one person? The truth, then, is the opposite of the core assumptions of utilitarianism. Moral principles, which utilitarianism claims to reject as mere subjective emotion, are intersubjective and can be used to persuade various persons; whereas utilities and costs are purely subjective to each individual and therefore cannot be compared or weighed between persons. Perhaps the reason why Bentham quietly shifts from 'maximum

Highlight (Geel) | Locatie 13807

Bentham's utilitarianism led him to an increasingly numerous 'agenda' for government intervention in the economy. Some of this agenda we have seen above. Others items include: a welfare state; taxation for at least a partial egalitarian redistribution of wealth; government boards, institutes and universities; public works to cure unemployment as well as to encourage private investment; government insurance; regulation of banks and stockbrokers; guarantee of quantity and quality of goods.

Highlight (Geel) | Locatie 13814

In the name of a spurious science, 'efficiency' often becomes a mask for exploitation, for plundering one set of people for the benefit of another. Often, utilitarian economists have been accused of being willing to advise 'society' on how to build the most efficient 'concentration camps'. Those who have held this charge to be an unfair *reductio ad absurdum* should contemplate the life and thought of the prince of utilitarian philosophers, Jeremy Bentham. In a profound sense, Bentham was a living *reductio ad absurdum* of Benthamism, a living object lesson of the results of his own doctrine.

Highlight (Geel) | Locatie 13840

Consistent with utilitarianism, the social arrangement was decided upon by the social despot, who acts 'scientifically' in the name of the greatest happiness of all. In that name, his rule maximizes 'efficiency'. Thus, in Bentham's original draft, every inmate would be kept in solitary confinement, since this would maximize his being 'safe and quiet', without chance of unruly crowds or planning of escape. In

Highlight (Geel) | Locatie 13886

That Bentham scarcely aimed to confine the panopticon to the class of prisoners is shown particularly by his panopticon poorhouse scheme. Written originally in 1797 and reissued in 1812, Bentham's Pauper Management Improved envisioned a joint-stock company, like the East India Company, contracted by the government to operate 250 'Industry Houses', each to house 2 000 paupers subject to the 'absolute' authority of a contractor-inspector-governor, in a building and suffering under a regimen very similar to the panopticon prison.

Highlight (Geel) | Locatie 13924

'Newton of the moral world'. The philosophic radicals, despite their proclaimed devotion to laissez-faire, adopted not only Bentham's later democratic creed, but also his devotion to the panopticon. John Stuart Mill, even when most anti-Benthamite in the course of his eternally wavering career, never criticized the panopticon. More starkly, Bentham's brilliant 'Lenin', James Mill, despite his eagerness to bury Bentham's statist economic views, admired the panopticon with the extravagance of the Master himself. In an article on 'Prisons and Prison Discipline', written for the Encyclopedia Britannica in 1822 or 1823, Mill praised the panopticon to the skies, as 'perfectly expounded and proved' on the great principle of utility. Every aspect of the panopticon received Mill's plaudits: the architecture, the hammocks instead of beds, the all-seeing inspection, the labour system, the contract system, the perpetual slavery of the 'released prisoners'. Mill's lavish praise was private as well as public, for in a letter to the editor of the Encyclopedia, Mill insisted that the panopticon 'appear(s) to me to approach perfection'.

Highlight (Geel) | Locatie 13996

Mill's stance is surely unique in the history of social thought. Very often theorists and writers are anxious to proclaim their alleged originality to the skies (Adam Smith being an aggravated though not untypical case). But what other instance is there of a man far more original or creative than he liked to claim; how many others have insisted on appearing to be a mere Number 2 man when in many ways they were Number 1? It is possible, it should be noted, that the explanation for this curious fact is simple and materio-economic rather than depth-psychological. Mill, son of a Scottish shoemaker, was an impoverished Scot without steady employment trying to make his way and raise a family in London.. Bentham was a wealthy aristocrat who functioned as Mill's patron; Ricardo was a wealthy retired stockbroker. It is certainly possible that Mill's posture as devoted disciple was a function of a poor man keeping his wealthy mentor-disciples happy as well as maximizing the public's reception for their common doctrines.

Highlight (Geel) | Locatie 14006

On a scholarly level, he wrote important tomes on the history of British India, on economics, on political science, and on empiricist psychology. He also wrote numerous scholarly reviews and articles. But strongly committed, as Marx would be, to changing the world as well as understanding it, Mill also wrote countless newspaper articles and strategic and tactical essays, as well as tirelessly organizing the philosophic radicals, and manoeuvring in Parliament and in political life. With all that, he had the energy to preach and instruct everyone around him, including his famous and failed attempt to brainwash his young son John. But it must be noted that Mill's fierce and fervent education of John was not simply the crotchet of a Victorian father and intellectual; the education of John Stuart was designed to prepare him for the presumptively vital and world-historical role of James's successor as leader of the radical cadre, as the new Lenin. There was a method in the madness.

Highlight (Geel) | Locatie 14238

The price of corn, in its turn, is determined according to Ricardo's famous theory of rent. Rent served as the linchpin of the Ricardian system. For, according to Ricardo's rather bizarre theory, only land differed in quality. Labour, as we have seen, was assumed to be uniform, and therefore wage rates are uniform, and, as we shall see,

profits are also assumed to be uniform because of the crucial postulate of the economy's always being in long-run equilibrium. Land is the only factor which miraculously is allowed to differ in quality. Next, Ricardo assumes away any discovery of new lands or improvements in agricultural productivity. His theory of history therefore concludes that people always begin by cultivating the most fertile lands, and, as population increases, the Malthusian pressure on the food supply forces the producers to use ever more inferior lands. In short, as population and food production rise, the cost of growing corn must inexorably rise over time.

Highlight (Geel) | Locatie 14245

Rent, in Ricardo's phrase, is payment for the 'use of the original and indestructible powers of the soil'. This hints at a productivity theory, and indeed Ricardo did see that more fertile and productive lands earned a higher rent. But unfortunately, as Schumpeter put it, Ricardo then 'embarks upon his detour'. In the first place, Ricardo made the assumption that at any moment the poorest land in cultivation yields a zero rent. He concluded from that alleged fact that a given piece of land earns rent not because of its own productivity, but merely because its productivity is greater than the poorest, zero-rent, land under cultivation. Remember that, for Ricardo, labour is homogeneous and hence wages uniform and equal, and, as we shall see, profits are also uniform and equal. Land is unique in its permanent, long-run structure of differential fertility and productivity. Hence, to Ricardo, rent is purely a differential, and Land A earns rent solely because of its differential productivity compared to Land B, the zero-rent land in cultivation.

Highlight (Geel) | Locatie 14252

To Ricardo, several important points followed from these assumptions. First, as population inexorably increases, and poorer and poorer lands are used, all the differentials keep increasing. Thus, say that, at one point of time, corn lands (which sums up all land) range in productivity from the highest, Land A, through a spectrum down to Land J, which, being marginal, earns a zero rent. But now population increases and farmers have to cultivate more and poorer lands, say K, L, and M. M now becomes the zero-rent land, and Land J now earns a positive rent, equal to the differential between its productivity and that of M. And all the previous infra-marginal lands have their differential rents raised as well. It becomes ineluctably true, therefore, that over time, as population increases, rents, and the proportion of income going to rent, increase as well. Yet, though rent keeps increasing, at the margin it always remains zero, and, as Ricardo put it in a crucial part of his theory, being zero rent does not enter into cost.

Highlight (Geel) | Locatie 14260

Put another way: quantity of labour cost, being allegedly homogeneous, is uniform for each product, and profits, being uniform and fairly small throughout the economy, form a part of cost that can be basically neglected. Since the price of every product is uniform, this means that the quantity of labour cost on the highest-cost, or zero-rent, land, uniquely determines the price of corn and of every other agricultural product. Rent, being infra-marginal in Ricardo's assumptions, cannot enter into cost. Total rental income is a passive residual determined by selling prices and total income, and selling prices are determined by quantity of labour cost and (to a small extent) the uniform rate of profit. And since the quantity of labour needed to produce corn keeps rising as more and more inferior lands are put into production, this means that the cost of producing corn and hence the price of corn keep rising over time. And, paradoxically, while rent keeps rising over time, it remains zero at the margin, and therefore without any impact on costs.

Highlight (Geel) | Locatie 14267

There are many flaws in this doctrine. In the first place, even the poorest land in cultivation never earns a zero rent, just as the least productive piece of machinery or worker never earns a zero price or wage. It does not benefit any resource owner to keep his resource or factor in production unless it earns a positive rent. The marginal land, or other resource, will indeed earn less of a rent than more productive factors, but even the marginal land will always earn some positive rent, however small. Second, apart from the zero-rent problem, it is simply wrong to think that rent, or any other factor return, is caused by differentials. Each piece of land, or unit of any factor, earns whatever it produces; differentials are simple arithmetic subtractions between two lands, or other factors, each of which earns a positive rent of its own. The assumption of zero rent at the margin allows Ricardo to obscure the fact that every piece of land earns a productive rent, and allows him to slip into the differential as cause.

Highlight (Geel) | Locatie 14276

Third, in discussing the rise in cost of producing corn, Ricardo reverses cause and effect. Ricardo states that increasing population 'obliges' farmers to work land of inferior quality and then causes a rise in its price. But as any utility theory analyst would realize, the causal chain is precisely the reverse: when the demand for corn increases, its price would rise, and the higher price would lead farmers to grow corn on higher-cost land. But this realization, of course, eliminates the Ricardian theory of value and with it the entire Ricardian system.

Highlight (Geel) | Locatie 14280

And fourth, as numerous critics have pointed out, it is certainly not true historically that people always start using the highest-quality land and then sink gradually and inevitably down to more and more inferior land. Historically, there have always been advances, and enormous ones, in the productivity of agriculture, in the discovery and creation of new lands, and in the discovery and application of new and more productive agricultural techniques and types of products. Defenders of Ricardo counter that this is a purely historical argument, ignoring the logical beauty of the Ricardian theory. But the whole point is that Ricardo was, after all, advancing a historical theory, a law of history, and he certainly claimed historical accuracy for past and future predictions for his theory. And yet it is all a purely arbitrary, and hence largely untrue, assumption of his logical doctrine in the guise of a theory of history. Ricardo's basic problem throughout was making cavalier and untrue historical or empirical generalizations the building blocks of his logical system, from which he drew self-confident and seemingly apodictically true empirical and political conclusions. Yet from false assumptions only false conclusions can be drawn, regardless how imposing the logical structure may or may not be.

Highlight (Geel) | Locatie 14300

Rents are in effect zero, and wage rates, always at subsistence, must rise over time as the cost of food increases, in order to keep precise pace with the rising cost of subsistence. But, then -voila! – we have finally determined all the variables except profits (at least to Ricardo's satisfaction), and, since total income is 'given' or kept frozen, this means that profits are the residual from total income. With rents out of the picture, if wage rates have to keep rising over time, this necessarily means that profits, or profit rates, have to keep falling. Hence the Ricardian doctrine of the ever-falling rate of profit (i.e. long-term rate of interest). Note that this is not the same

as Adam Smith's view that the profit rate falls over time because and in so far as capital continues to accumulate; profit was supposed to be an inverse function of the stock of capital. Ricardo's doctrine of the falling rate of profit follows by triumphant tautology from his attempt to determine the other factor shares of total income. When profits fall to zero, or at any rate to a low level, capital will cease to accumulate and we arrive at Ricardo's 'stationary state'.

Highlight (Geel) | Locatie 14378

Ricardo's system is both gloomy and rife with allegedly inherent class conflict on the free market. First, there is tautological conflict because, given the fixed total, the income shares of one macro-group can only increase at the expense of another. But the point of the free market in the real world is that generally production increases, so that the total pie tends to keep rising. And, second, if we focus on individual factors and on how much they earn, as does the later marginal productivity theory (and as did J.B. Say), then each factor tends to earn its marginal product, and we need not even concern ourselves with the alleged but non-existent laws and conflicts of macro-class income distribution. Ricardo kept his eye unerringly on the radically wrong problem – or rather, problems. But there is even more class conflict here than implied by Ricardo's tautological macro-approach. For if value is the product solely of labour hours, then it becomes easy for Marx, who was after all a neo-Ricardian, to call all returns to capital exploitative deductions from the whole of 'labour's' product. The Ricardian socialist call for turning over all of the product to labour follows directly from the Ricardian system – although Ricardo and the other orthodox Ricardians did not of course make that leap. Ricardo would have countered that capital represents embodied or frozen labour; but Marx accepted that point and simply riposted that all labour producers of capital, or frozen labour, should obtain their full return. In fact, neither was right; if we wish to consider capital goods as frozen anything, we would have to say, with the great Austrian Böhm-Bawerk, that capital is frozen labour and land and time. Labour, then, would be earning wages, land would earn rent, and interest (or long-run profits) would be the price of time.

Highlight (Geel) | Locatie 14391

Recent analysts, in an attempt to mitigate the crude fallacy of Ricardo's labour theory of value, have maintained, as in the case of Smith but even more so, that he was attempting not so much to explain the cause of value and price but to measure values over time, and labour was considered an invariable measure of value. But this hardly mitigates Ricardo's flaws; instead, it adds to the general fallacies and vagaries of the Ricardian system another important one: the vain search for a non-existent chimera of invariability. For values always fluctuate, and there is no invariable, fixed base of value from which other value changes can be measured.

Highlight (Geel) | Locatie 14539

Meanwhile, at the very time when this comparative cost ferment was taking place among his friends and colleagues, David Ricardo displayed no interest whatever in this important line of thought. To be sure, Ricardo weighed in to second his mentor Mill's attack on Malthus's support for the Corn Laws, in his Essay on... Profits, published in February 1815. But Ricardo's line of argument was exclusively 'Ricardian', that is, based solely on the distinctive Ricardian system. In fact, Ricardo displayed no interest in free trade in general, or in the arguments for it; his reasoning was solely devoted to the importance of lowering or abolishing the tariff on corn. This conclusion, as we have noted, was deduced from the distinctive Ricardian system, which was to be fully set

forth two years later in his Principles. For Ricardo the key to the stifling of economic growth in any country, and especially in developed Britain, was the 'land shortage', the contention that poorer and poorer lands were necessarily being pressed into use in Britain. In consequence, the cost of subsistence kept increasing, and hence the prevailing (which must be the subsistence) money wage kept increasing as well. But this inevitable secular increase of wages must lower profits in agriculture, which in turn brings down all profits. In that way, capital accumulation is increasingly dampened, finally to disappear altogether. Lowering or abolishing the tariff on corn (or other food) was, for Ricardo, an ideal way of postponing the inevitable doom. By importing corn from abroad, diminishing fertility from corn land is deferred. The cost of corn, and therefore of subsistence, will fall sharply, and therefore money wage rates will fall *pari passu*, thereby raising profits and stimulating capital investment and economic growth. There is no hint in any of this discussion of the doctrine of comparative cost or anything like it.

Highlight (Geel) | Locatie 14553

But how about the mature Ricardo, the Ricardo of the Principles! Once again, except for the three paragraphs on comparative advantage, Ricardo displays no interest in it, and he instead repeats the Ricardian system argument for repeal of the Corn Laws. Indeed, his discussion in the rest of the chapter on international trade is couched in terms of the Smithian theory of absolute advantage rather than of the comparative advantage found in Torrens and especially in Mill.

Highlight (Geel) | Locatie 14561

If Ricardo had no interest in the theory of comparative advantage, and never wrote about it except in this single passage in the Principles, what was it doing in the Principles at all? Professor Thweatt's convincing hypothesis is that the law was injected into the Principles by Ricardo's mentor James Mill, whom we know wrote the original draft, as well as the revisions, for many parts of Ricardo's magnum opus. We know also that Mill prodded Ricardo on including a discussion of comparative cost ratios. As we have seen, Mill originated the doctrine of comparative cost, and led in developing it eight years later.

Highlight (Geel) | Locatie 14708

To the Marxian Ronald Meek, this wholesale desertion of Ricardianism comprised a capitalist plot against the labour theory of value, whose socialistic implications had been drawn out during the 1820s by the Ricardian socialists. At any rate, by 1829–31, there were no adherents of the labour theory of value left in mainstream British economics; to Meek, the only exception was McCulloch, who in turn had abandoned Ricardo on many other issues, including the idea of productive vs unproductive labour, the theory of profit, and the theory of class conflict on the market implicit in the Ricardian theory of distribution.⁹ Only Say's law, with its strong laissez-faire implications, had survived what Meek laments as 'the purge'.

Highlight (Geel) | Locatie 15242

Tastes and desires are ever-changing, and so therefore is value; hence it can have no measure or standard. Kendall then concludes his devastating critique – one that we might wish Ricardo and his epigones had read and understood:

Highlight (Geel) | Locatie 15468

Schumpeter paid high tribute to Rae's achievement, calling his work a 'theory of capital, conceived in unprecedented depth and breadth', although, oddly enough, he doesn't mention Rae's stress on inventions. Schumpeter does add, however, that given 'ten additional years of quiet work, graced by an adequate income', Rae's *New Principles* 'could have grown into another -and more profound – *Wealth of Nations*'. And Böhm-Bawerk, who had not known of Rae's achievement in the first edition of his *History and Critique of Interest Theories*, for once was very generous in his glowing account in later editions, calling Rae's work 'exceedingly original and remarkable'.

Highlight (Geel) | Locatie 15530

To Rae himself the connections were clear, if too remote for those interested in public policy. He believed that economic development depended jointly on new inventions and their application in capital investment, and most of his proposed government policies were subsidies and bounties to new inventions and industries, to be financed by heavy tariffs on the imports of 'luxuries'. In that way, Rae's Calvinist soul would be satisfied, for the government would be imposing moral principles by promoting thrift, invention and industry, while discouraging sinful luxuries, especially, in a prefiguration of Thorstein Veblen, where 'consumption is... conspicuous' and therefore particularly wasteful. Rae's denunciation of luxurious consumption, which Rae boldly called 'a loss to the society, in proportion to their amount', did not sit very well with Everett, but his main criticism was that the country needed a 'well-written and well-reasoned essay on this [protectionist] question', a work of 'sufficient compass and authority to serve as a textbook'. Clearly, John Rae's work did not fill the bill. The

Highlight (Geel) | Locatie 16160

To sum up: the correct analysis of complete bullionism (such as presented by Boyd and later by Lord King) stresses monetary factors leading to monetary equilibrium, while showing that real factors can only have temporary effects. The analysis of real factors is integrated with, and at all times subordinated to, the monetary factors, and short-run and long-run monetary processes are integrated as well. In Thornton's moderate anti-bullionist position (often misnamed 'moderate bullionist'), however, both real and monetary causal factors and processes are presented as separate and independent of each other, with real factors presented as empirically more important. Short-run factors are similarly stressed, to the neglect of long-run forces.

Highlight (Geel) | Locatie 16268

Next, King was the first to see the importance of Thornton's devastating critique of his fellow anti-bullionists' extension of Smithian real-bills doctrine, and he put the critique even more strongly. Putting their discount rates below the free market interest rate can permit unlimited extension of bank credit on real bills. Furthermore, the bank possesses no real means of distinguishing between 'real' and 'fictitious' bills, and merchants can always be induced to borrow far beyond real demands of the public by artificially low interest charged by the banks.

Highlight (Geel) | Locatie 16544

To accomplish his impressive if unbalanced task, David Ricardo had to concentrate exclusively on long-run equilibrium states, and to ignore the market processes towards them. In that way, Ricardo set the stage for his later approach to all economic questions.⁴ Ricardo summarized his methodology in the course of his famous correspondence with Thomas Robert Malthus on monetary questions from 1811 to 1813: ‘You always have in mind the immediate and temporary effects...[I] fix my whole attention on the permanent state of things which will result from them’.⁵

Highlight (Geel) | Locatie 16548

For money to be strictly neutral to everything except a general level of prices, Ricardo had to assert a strict, radical dichotomization between the monetary and the real worlds, with values, relative prices, production and incomes determined only in the ‘real’ sphere, while overall prices were set exclusively in the monetary sphere. And never the two spheres could meet. And here began the fateful and all-pervasive modern fallacy of a severe split between two hermetically sealed worlds: the ‘micro’ and the ‘macro’, each with its own determinants and laws. Furthermore, as Salerno writes, ‘it was Ricardo’s strong affirmation of the neutral-money doctrine in his bullionist writings that was to serve as the source of the classical conception of money as merely a “veil” hiding the “real” phenomena and processes of the economy’.⁶ In particular, if money is neutral, then value, or relative prices, had to have only ‘real’ determinants, which Ricardo discovered in embodied quantities of labour.

Highlight (Geel) | Locatie 16556

In the macro area, in contrast, Ricardo set forth a mechanistic, strictly proportional causal relation between the quantity of money and the level of prices, a strictly proportionate ‘quantity theory of money’. Again,

Highlight (Geel) | Locatie 18394

Mill’s most conspicuous defection from classical political economy in general, and from Ricardianism in particular, was his numerous concessions to socialism and his apostasy from laissez-faire. In general, the British classical economists had not exactly been consistent laissez-faire stalwarts, in contrast to J.B. Say and his school in France, including such people as Charles Comte, Charles Dunoyer, Frederic Bastiat, Gustave de Molinari, and their numerous followers. In Britain, consistent laissez-faire advocates were to be found rather among writers, intellectuals, and businessmen in Manchester, such as Richard Cobden, John Bright and the recently successful Anti-Corn Law League. They were also to be found in *The Economist*, edited by James Wilson, particularly in its editorial staff writers, Thomas Hodgskin (1787–1869) and young Herbert Spencer (1820–1903). But while the classical economists were not hard-core free market men, they at least tended strongly in that direction; if not a principle, laissez-faire was for them at least a guide or tendency to which they could at least partially orient their position. But Mill sharply broke with all that. Steeped in a high moral tone at all times, Mill originated the unfortunate intellectual tradition of conceding that socialism and indeed communism was the ‘ideal’ social system, and then drawing back by lamenting that it probably could not be attained in this cruel practical world. Pro-capitalists who begin by conceding the moral ground to their opponents are bound to lose the long-run war, if not the short-run battle, to socialism. Small

Highlight (Geel) | Locatie 18504

Among the British classical liberals, non-intervention and anti-imperialism were the dominant tradition. Colonialism and special privileges to investment abroad were properly seen as part of the monopoly privileges and controls imposed by mercantilism, none of which confers advantage – in fact, imposes considerable disadvantage – on the home population. Jeremy Bentham, James Mill and the others were generally solidly anti-imperialist, and advocated that Britain give up its colonies and grant them independence. Bentham originally included India in this emancipation, but was talked out of it by James Mill, a high official in the governing organization of India, the British East India Company. The James Mill exception for India was based on a utilitarian ‘white man’s burden’ argument that, even though England was losing economically from governing India, it must continue doing so for the sake of the Indians, who were too savage to be able to govern themselves. In that way, James Mill was able to cast an altruist-utilitarian patina over England’s often bloody repression in India and over his own role in that oppression.

Highlight (Geel) | Locatie 18550

Thus, by being converted to Wakefield’s fallacy of the inevitable accumulation of surplus capital in advanced capitalist countries, John Stuart Mill lent his great prestige to the notion that capitalism economically requires empire in order to invest, to get rid of, allegedly surplus savings or capital. In short, Mill was one of the ultimate founders of the Leninist theory of imperialism.

Highlight (Geel) | Locatie 18567

Bagehot was particularly happy to see Mill weaken the laissez-faire precepts of political economy by making his mischievous distinction between ‘production’ and ‘distribution’. It is particularly unfortunate that this cynical semi-statist, an attorney who joined the business of his banker-father, became the son-in-law of James Wilson, and succeeded Wilson as editor of The Economist shortly before he died in 1860. This change meant a fateful shift from a militant laissez-faire policy to a statist advocacy of, among other things, the aggrandizement of the Bank of England over the monetary system. Along with the abandonment of laissez-faire by Bagehot came an increasing abandonment on his part of even Millian economic theory, and a shift toward a nihilistic and historicist institutionalism.

Highlight (Geel) | Locatie 19062

The key to the intricate and massive system of thought created by Karl Marx (1818–83) is at bottom a simple one: Karl Marx was a communist. A seemingly banal or trite statement set alongside Marxism’s myriad of jargon-ridden concepts in philosophy, economics, history, culture et al. Yet Marx’s devotion to communism was his crucial point, far more central than the dialectic, the class struggle, the theory of surplus value, and all the rest. Communism was the goal, the great end, the desideratum, the ultimate end that would make the sufferings of mankind throughout history worthwhile. History is the history of suffering, of class struggle, of the exploitation of man by man. In the same way as the return of the Messiah, in Christian theology, would put an end to history and establish a new Heaven and a new Earth, so the establishment of communism would put an end to human history. And just as for post-millennial Christians, man, led by God’s prophets and saints, would establish a Kingdom of God on Earth (and, for pre-millennials, Jesus would have many human assistants in

establishing such a Kingdom), so for Marx and other schools of communists, mankind, led by a vanguard of secular saints, would establish a secularized kingdom of heaven on earth.

Highlight (Geel) | Locatie 19072

Marx emphatically rejected those Utopians who aimed to arrive at communism through a gradual and evolutionary process, through a steady advancement of the good. No, Marx harked back to the apocalypics, the post-millennial coercive German and Dutch Anabaptists of the sixteenth century, to the millennial sects during the English Civil War, and to the various groups of pre-millennial Christians who foresaw a bloody Armageddon at the Last Days, before the millennium could be established. Indeed, since the immediatist post-mils refused to wait for gradual goodness and sainthood to permeate among men, they joined the pre-mils in believing that only a violent apocalyptic final struggle between good and evil, between saints and sinners, could establish the millennium. Violent, worldwide revolution, in Marx's version made by the oppressed proletariat, would be the instrument of the advent of his millennium, communism.

Highlight (Geel) | Locatie 19084

In contrast to the various groups of Utopian socialists, and in common with religious messianists, Karl Marx did not sketch the features of his future communism in any detail. Not for Marx, for example, to spell out the number of people in his Utopia, and the shape and location of their houses, the pattern of their cities. In the first place, there is a quintessentially crazy air to Utopias that are mapped by their creators in precise detail. But more importantly, spelling out the details of one's ideal society removes the crucial element of awe and mystery from the allegedly inevitable world of the future. In the same way, science fiction movies lose their glamour and excitement when, in the second half of the film, the mysterious, powerful and previously invisible monsters become concretized into slow-moving green blob-like creatures that have lost their mysterious aura and have become almost commonplace.

Highlight (Geel) | Locatie 19114

socialists and communists, Marx sought in communism the apotheosis of the collective species – mankind as one new super-being, in which the only meaning possessed by the individual is as a negligible particle of that collective organism. One incisive portrayal of Marxian collective organicism – what amounts to a celebration of the New Socialist Man to be created during the communizing process – was that of a top Bolshevik theoretician of the early twentieth century, Alexander Alexandrovich Bogdanov (1873–1928). Bogdanov, like Joachim of Fiore, spoke of ‘three ages’ of human history: first was a religious, authoritarian society and a self-sufficient economy. Next came the ‘second age’, an exchange economy, marked by diversity and the emergence of ‘autonomy’ of the ‘individual human personality’. But this individualism, at first progressive, later becomes an obstacle to progress as it hampers and ‘contradicts the unifying tendencies of the machine age’. But then there will arise the third age, the final stage of history, communism, though not as with Joachim, an age of the Holy Spirit. This last stage will be marked by a collective self-sufficient economy, and by

Highlight (Geel) | Locatie 19138

Let us turn to some of the main features of communism. In the typical communal millennial future, an epoch of bliss and harmony, work, the necessity to labour, becomes de-emphasized or disappears altogether. Labour, at

least labour in order to maintain and advance one's living standards, does not ring true with very many people as a feature of Utopia. Thus, in the vision of Joachim of Fiore, perhaps the first medieval millennialist, no work would be required to disturb the endless round of celebration and prayer, because mankind would have achieved the status of immaterial objects. If man were pure spirit, it is true that the economic problem – the problem of production and living standards – would necessarily disappear. Unfortunately, however, Marx, being an atheist and materialist, could not exactly fall back on a Fiore-like communism of pure spirit. How could solidly material human beings solve the problem of production and of maintaining and expanding their living standards?

Highlight (Geel) | Locatie 19146

On the one hand, Marx assumed and asserted that goods in the future communist society would be superabundant. If so, there would of course be no need to refer to the universal economic problem of scarcity of means and resources as applied to ends. But by assuming away the problem, Marx bequeathed the puzzle to future generations, and Marxists have been split on the question: will communism itself bring about this magical state of superabundance, or should we wait until capitalism brings superabundance before we establish communism? Generally, Marxist groups have solved this problem, not in theory but in practice (or 'praxis') by cleaving to whatever path would allow them either to conquer or to maintain their power. Thus Marxist vanguards or parties, on seeing an opportunity to seize power, have been invariably willing to skip the 'stages of history' preordained by their Master and exercise their revolutionary will. On the other hand, Marxist elites already entrenched in power have prudentially put off the ultimate goal of communism ever further into a receding future. And so the Soviets were quick to stress hard work and gradualism in persevering toward the ultimate goal.⁶

Highlight (Geel) | Locatie 19160

To Marx, as to Hegel, history necessarily proceeds by this magical dialectic, in which one stage gives rise inevitably to a later and opposing stage. Except that to Marx, the 'dialectic' is material rather than spiritual.⁷ Marx never published his neo-Hegelian Economic and Philosophic Manuscripts of 1844, in which the philosophic basis of Marxism was set forth, and one essay of which, 'Private Property and Communism', contained Marx's fullest exposition of the communist society. One reason for his refusal to publish was that, in later decades, Hegelian philosophy had gone out of fashion, even in Germany, and Marx's followers were interested more in the economic and revolutionary aspects of Marxism.

Highlight (Geel) | Locatie 19192

All in all, Marx's portrayal of raw communism is very like the monstrous regimes imposed by the coercive Anabaptists of the sixteenth century.¹⁰

Highlight (Geel) | Locatie 19196

But if this communism is admittedly so monstrous, a regime of 'infinite degradation', why should anyone favour it, much less dedicate one's life and fight a bloody revolution to establish it? Here, as so often in Marx's thought and writings, he falls back on the mystique of the 'dialectic' – that wondrous magic word by which one social system inevitably gives rise to its victorious transcendence and negation. And, in this case, by which total evil –

which interestingly enough, turns out to be the post-revolutionary dictatorship of the proletariat and not preceding capitalism – becomes transformed into total good. To say the least, Marx cannot and does not attempt to explain how a system of total greed becomes transformed into total greedlessness. He leaves it all to the wizardry of the dialectic, now a dialectic fatally shorn of the alleged motor of the class struggle, which yet somehow transforms the monstrosity of raw communism into the paradise of communism's 'higher stage'.

Highlight (Geel) | Locatie 19207

The key is that man is supposedly freed from the necessity of labour. The elimination of private property frees him from greed, succeeding the orgiastic culmination of greed achieved during raw communism. In particular, man is freed from the division of labour, from specialization, which prevents him from developing 'all' his faculties for the sheer joy of it, and 'forces' him to work for others – either in the market, or under the despotic power of feudalism, or oriental despotism, or under the dictatorship of the proletariat in the first stage of communism. Without the division of labour, and with the evil of exchange of goods and services at last eliminated, man is now freed from the 'alienation' of not consuming his own product. This alienation is not, as many Marxists seem to believe, the result of the capitalists' alleged extraction of the 'surplus' produced by the workers. More deeply, this alienation is the product of the division of labour and of specialization itself. That division eliminated, man, in the neo-Hegelian mystique of Marx, will return 'to himself, will be united with 'himself, and alienation will then be ended. All

Highlight (Geel) | Locatie 19216

For Hegel and for Marx, the history of 'man' is the history, the ups and downs, of what amounts to a single collective organism. If, for Marx, there is a division of labour, specialization and exchange, this means that 'man' is tragically split within 'himself, so that the process of achieving the higher stage of communism, the end of human history in the same way that the Kingdom of God on earth had been an end, is a process by which man is no longer alienated from his collective 'self and achieves unity with himself. At the same time, 'he' also achieves unity with 'nature', for in the Marxian system the only 'nature' is that which has been created by centuries of man's labour and activity.

Highlight (Geel) | Locatie 19234

Particularly important for Marx is that communism does away with the division of labour. By being free of specialization, the division of labour, and working for others (including the consumers) man as labourer is freed from all limits. Thus liberated, 'man produces in order to realize his nature as a being with manifold creative capacities requiring free outlet in a "totality of human life-activities"'.¹⁴ Or, as Engels put it in his *Anti-Dühring*, the disappearance of the division of labour will mean that productive labour will give 'each individual the opportunity to develop all his faculties, physical and mental, in all directions and exercise them to the full'.

Highlight (Geel) | Locatie 19259

The abolition of the division of labour meant also that all differences – and hence 'opposition' – between town and country had to be eliminated, with industry somehow equally diffused throughout the country (the world?). As a result, all large cities would have to be destroyed.

Highlight (Geel) | Locatie 19289

To Marx, all labour in future communism is not economic, but artistic, the free and spontaneous creativity allegedly typical of the artist. For Marx in his economic magnum opus, *Capital*, communist man has been transformed from an alienated man into an aesthetic man who regards everything in artistic terms. Thus, on the factory, industrial production under communism will have no authoritarian direction but rather unity will be achieved as with musicians in a symphony orchestra.

Highlight (Geel) | Locatie 19369

So what is the final stage even beyond communism, the final-final *Aufhebung*, the great transcendence, the ultimate negation? It is a world beyond all ownership and all possession, a world fully liberated for the spontaneous flowering of all faculties in all directions and for the unsullied, totally sensate appreciation of pure beauty. We may be pardoned for concluding that, wittingly or unwittingly – and with Marx it is difficult to know which – the final-final stage is the stage of the graveyard for the human race. After the turmoil and upheaval of all the *Aufhebungen* will come the ‘peace’ of a universal cemetery. For no possession, no use of resources, means rapid and universal starvation. Deprived of all labour for productive goals and of all possessions, mankind will have precious little time left for the appreciation of pure beauty.

Highlight (Geel) | Locatie 19423

To Marx himself, all differences among individuals were ‘contradictions’ to be eliminated under communism, so that presumably the mass of individuals would have to be uniform and interchangeable.³⁴ Whereas Marx apparently postulated normal intellectual capabilities even under communism, to later Marxists, it seems that difficulties could be alleviated by the emergence of superhuman beings. To Karl Kautsky (1854–1938), the German Marxist who assumed the mantle of the top leadership of Marxism upon the death of Engels in 1895, under communism ‘a new type of man will arise... a superman... an exalted man’. Leon Trotsky waxed even more lyrical: ‘Man will become incomparably stronger, wiser, finer. His body more harmonious, his movements more rhythmical, his voice more musical... The human average will rise to the level of an Aristotle, a Goethe, a Marx. Above these other heights new peaks will arise’. If the beyond ultimate stage of communism ever lasts long enough to breed a new super-race, we may safely leave it to the communist theoreticians of that future day to resolve the problem of whether the ‘contradiction’ of ‘permitting’ a super-Aristotle to tower over an Aristotle may be allowed to exist.³⁵

Highlight (Geel) | Locatie 19433

Neither should libertarians be taken in by the Marxian goal of the ‘withering away of the State’ under communism, or in the use of the phrase, borrowed from the cherished aim of the French free market libertarians Charles Comte and Charles Dunoyer: a world where the ‘government of persons is replaced by the administration of things’. There are two major flaws in this formulation from the *laissez-faire* libertarian viewpoint. First, of course, as the Russian anarcho-communist Mikhail Bakunin (1814–76) insistently pointed out: it is absurd to try to reach statelessness via the absolute maximization of state power in a totalitarian dictatorship of the proletariat (or more realistically a select vanguard of the said proletariat). The result can only be maximum statism and hence maximum slavery. As perhaps the first of the ‘new class’ theorists, and

anticipating the iron law of oligarchy of Michels and Mosca, Bakunin prophetically warned that a minority ruling class will once again, after the Marxian revolution, rule the majority:

Highlight (Geel) | Locatie 19448

Indeed, only a believer in the preposterous necromancy of the 'dialectic' could believe otherwise, that is, could believe that a totalitarian state can inevitably and virtually instantly be transformed into its opposite, and that therefore the way to get rid of the state is to work as hard as possible to maximize its power.

Highlight (Geel) | Locatie 19450

But the problem of the dialectic is not the only, indeed not even the main, problem with Marxian communism. For Marxism shares with the anarchists a grave problem of the higher stage of pure communism, assuming for a moment that it could ever be reached. The crucial point is that, both for anarchists and for Marxists, ideal communism is a world without private property, and that all property and resources will be owned and controlled in common. Indeed, the anarcho-communists' major complaint against the state is that it is allegedly the main enforcer and guarantor of private property and therefore that to abolish private property the state must also be eradicated. The truth, of course, is precisely the opposite: the state, through history, has been the main despoiler and plunderer of private property. With private property mysteriously abolished, then, the elimination of the state under communism (of either the Marxian or anarchist variety) would necessarily be a mere camouflage for a new state that would emerge to control and make decisions for communally owned resources. Except that the state would not be called such, but rather renamed something like a 'people's statistical bureau', as has already been done in Khadafy's Libya, and armed with precisely the same powers. It will be small consolation to future victims, incarcerated or shot for committing 'capitalist acts between consenting adults' (to cite a phrase made popular by Robert Nozick), that their oppressors will no longer be the state but only a people's statistical bureau. The state under any other name will smell as acrid. Furthermore, it will be inevitable, under the iron law of oligarchy, that 'world communal decisions' will have to be undertaken by a specialized elite, so that the ruling class will inevitably reappear, under Bakuninite as well as any other form of communism. 37 And, as we have indicated, in the 'beyond-communism' stage, the stage of universal no-ownership and therefore of no action and no use of resources, death for the entire human race would swiftly ensue.

Highlight (Geel) | Locatie 19465

Marx and his followers have never demonstrated any awareness of the vital importance of the problem of allocation of scarce resources. Their vision of communism is that all such economic problems are trivial, requiring neither entrepreneurship nor a price system nor genuine economic calculation – that all problems could be quickly solved by mere accounting or recording. The classic absurdity on this matter was laid down by Lenin, who accurately expressed Marx's view in declaring that the functions of entrepreneurship and of allocation of resources have been 'simplified by capitalism to the utmost' to mere matters of accounting and to 'the extraordinarily simple operations of watching, recording, and issuing receipts, within the reach of anybody who can read and write and knows the first four rules of arithmetic'. Ludwig von Mises wryly and justly comments that Marxists and other socialists have had 'no greater perception of the essentials of economic life than the errand boy, whose only idea of the work of the entrepreneur is that he covers pieces of paper with letters and figures'.³⁸ It is perhaps all too fitting that we now find that the idea of communism as a simple problem of book-

keeping and registration was perhaps originated by the French apocalyptic fantast and inspirer of Marx, Théodore Dézamy.³⁹

Highlight (Geel) | Locatie 19569

All this reveals a spirit that often seems to animate militant atheism. In contrast to the non-militant variety, which expresses a simple disbelief in God's existence, militant atheism seems to believe implicitly in God's existence, but to hate Him and to wage war for His destruction. Such a spirit was all too clearly revealed in the retort of the militant atheist Bakunin to the famous pro-theist remark of the deist Voltaire: 'If God did not exist, it would be necessary to create Him.' To which the demented Bakunin retorted: 'If God did exist, it would be necessary to destroy Him.' It was this hatred of God as a creator greater than himself that apparently inspired Karl Marx.

Highlight (Geel) | Locatie 19574

Also prefiguring the man was a trait that Marx developed early in his youth and never relinquished: a shameless sponging on friends and relatives. Already in early 1837, Heinrich Marx, castigating his son Karl's wanton spending of the money of others, wrote to him that 'on one point... you have wisely found fit to observe an aristocratic silence; I am referring to the paltry matter of money'. Indeed, Marx took money from any source available: his father, mother, and throughout his adult life, his long-suffering friend and abject disciple, Friedrich Engels, all of whom fuelled Marx's capacity for spending money like water.⁴⁷ An insatiable spender of other people's money, Marx continually complained about a shortage of financial means. While sponging

Highlight (Geel) | Locatie 19586

As in the case of many other spongers and cadgers throughout history, Karl Marx affected a hatred and contempt for the very material resource he was so anxious to cadge and use so recklessly.

Highlight (Geel) | Locatie 19588

The difference is that Marx created an entire philosophy around his own corrupt attitudes toward money. Man, he thundered, was in the grip of the 'fetishism' of money. The problem was the existence of this evil thing, not the voluntarily adopted attitudes of some people toward it. Money Marx reviled as 'the pander between... human life and the means of sustenance', the 'universal whore'. The Utopia of communism was a society where this scourge, money, would be abolished.

Highlight (Geel) | Locatie 19591

Karl Marx, the self-proclaimed enemy of the exploitation of man by man, not only exploited his devoted friend Friedrich Engels financially, but also psychologically. Thus, only three months after Marx's wife, Jenny von Westphalen, gave birth to his daughter Franziska in March 1851, their live-in maid, Helene ('Lenchen') Demuth, whom Marx had 'inherited' from Jenny's aristocratic family, also gave birth to Marx's illegitimate son, Henry Frederick. Desperately anxious to keep up haute bourgeois conventions and to hold his marriage together, Karl never acknowledged his son, and, instead, persuaded Engels, a notorious womanizer, to proclaim the baby as his

own. Both Marx and Engels treated the hapless Freddy extremely badly, Engels's presumed resentment at being so used providing him a rather better excuse.

Highlight (Geel) | Locatie 20057

Furthermore, Marx himself, and not only Engels, was also very interested in Darwin and in biological science. Marx wrote to Engels that Darwin's work 'serves me as a basis in natural science for the class struggle in history' and that 'this is the book which contains the basis in natural history for our view'.²⁶ By recasting the dialectic in materialist and atheist terms, however, Marx gave up the powerful motor of the dialectic as it operated throughout history: either Christian messianism or providence or the growing self-consciousness of the world spirit. How could Marx find a 'scientific' materialist replacement, newly grounded in the ineluctable 'laws of history' that would explain the inevitability of the imminent apocalyptic transformation of the world into communism? It is one thing to base the prediction of a forthcoming Armageddon upon the Bible; it is quite another to deduce this event from allegedly scientific laws. Setting forth the specifics of this engine of history was to occupy Karl Marx for the rest of his life. Although Marx found Feuerbach indispensable for adopting a thoroughgoing atheist and materialist positions, Marx soon found that Feuerbach had not gone nearly far enough. Even though Feuerbach was a philosophical communist, he basically believed that if man forswore religion, then his alienation from his self would be over. To Marx, religion was only one of the problems. The entire world of man (the *Menschenwelt*) was alienating, and had to be radically overthrown, root and branch. Only apocalyptic destruction of this world of man would permit true human nature to be realized. Only then would the existing 'un-man' (*Unmensch*) truly become man (*Mensch*). As Marx thundered in the fourth of his 'theses on Feuerbach', 'one must proceed to destroy [the] 'earthly family' [as it is] 'both in theory and in practice'.²⁷

Highlight (Geel) | Locatie 20074

The main problem comes in the private sphere, the market, or 'civil society', in which un-man acts as an egoist, as a private person, treating others as means, and not collectively as masters of their fate. And in existing society, unfortunately, civil society is primary, while the state, or 'political community', is secondary. What must be done to realize the full nature of mankind is to transcend the state and civil society by politicizing all of life, by making all of man's actions collective. Then real individual man will become a true and full 'species being'.²⁸ But only a revolution, an orgy of destruction, can accomplish this task. And here, Marx harkened back to the call for total destruction that had animated his vision of the world in poems of his youth. Indeed, in a speech in London in 1856, Marx was to give graphic and loving expression to this goal of his 'praxis'. He mentioned that in Germany in the Middle Ages there existed a secret tribunal called the *Vehmgericht*. He then explained: 'If a red cross was seen marked on a house, people knew that its owner was doomed by the *Vehm*. All the houses of Europe are now marked with the mysterious red cross. History is the judge – its executioner the proletariat'.²⁹

Highlight (Geel) | Locatie 20083

Marx, in fact, was not satisfied with the philosophical communism to which he and Engels had separately been converted by the slightly older Left Hegelian Moses Hess (1812–75) in the early 1840s. To Hess's communism, Marx, by the end of 1843, added the crucial emphasis on the proletariat, not simply as an economic class, but as

destined to become the 'universal class' when communism was achieved. As we have indicated above, Marx actually acquired his vision of the proletariat as the key to the communist revolution from the 1842 work of Lorenz von Stein, an enemy of socialism, who interpreted the socialist and communist movements as rationalizations of the class interests of the proletariat. Marx discovered in Stein's attack the 'scientific' engine for the inevitable coming of the communist revolution. The proletariat, the most 'alienated' and allegedly 'propertyless' class, would be the key. Marx had now worked out the outline of his secular messianic vision: a material dialectic of history, with the final apocalyptic revolution to be achieved by the proletariat. But how specifically was this to be accomplished? Vision was not enough. What scientific laws of history could bring about this cherished goal? Fortunately, Marx had a crucial ingredient for his attempted solution close at hand: in the Saint-Simonian concept of human history as driven by an inherent struggle among economic classes. The class struggle along with historical materialism was to be an essential ingredient for the Marxian material dialectic.

Highlight (Geel) | Locatie 20098

But a Utopian, and a fierce one, Marx certainly was. A hallmark of every Utopia is a militant desire to put an end to history, to freeze mankind in a static state, to put an end to diversity and man's free will, and to order everyone's life in accordance with the Utopian's totalitarian plan. Many early communists and socialists set forth their fixed Utopias in great and absurd detail, determining the size of everyone's living quarters, the food they would eat, etc. Marx was not silly enough to do that, but his entire system, as Thomas Molnar points out, is 'the search of the Utopian mind for the definitive stabilization of mankind or, in gnostic terms, its reabsorption in the timeless'. For Marx, his quest for Utopia was, as we have seen, an explicit attack on God's creation and a ferocious desire to destroy it. The idea of crushing the many, the diverse facets of creation, and of returning to an allegedly lost unity with God began, as we have seen, with Plotinus. As Molnar sums

Highlight (Geel) | Locatie 20121

The Marxian process towards Utopia, then, is man acquiring insights into his own true nature, and then rearranging the world to accord with that true nature. Engels, in fact, explicitly proclaimed the Hegelian concept of the man-God: 'Hitherto the question has always stood: What is God? – and German [Hegelian] philosophy has resolved it as follows: God is man... Man must now arrange the world in a truly human way, according to the demands of his nature'.³¹ But this process is rife with self-contradictions; for example, and centrally, how can mere matter gain insights into his (its?) nature? As Molnar puts it: 'for how can matter gather insights? And if it has insights, it is not entirely matter, but matter plus'.

Highlight (Geel) | Locatie 20127

In this allegedly inevitable process, of arriving at the proletarian communist Utopia after the proletarian class becomes conscious of its true nature, what is supposed to be Karl Marx's own role? In Hegelian theory, Hegel himself is the final and greatest world-historical figure, the man-God of man-Gods. Similarly, Marx in his view stands at a focal point of history as the man who brought to the world the crucial knowledge of man's true nature and of the laws of history, thereby serving as the 'midwife' of the process that would put an end to history. Thus Molnar: Like

Highlight (Geel) | Locatie 20261

These 'relations of production', also extremely vaguely defined, seem to be essentially legal and property relations. The sum of these relations of production somehow make up the 'economic structure of society'. This economic structure is the 'base' which causally determines the 'superstructure', which includes natural science, legal doctrines, religion, philosophies, and all other forms of 'consciousness'. In short, at the bottom of the base is technology which in turn constitutes or determines modes of production, which in turn determines relations of production, or institutions of law or property, and which finally in turn determine ideas, religious values, art, etc.

Highlight (Geel) | Locatie 20266

How, then, do historical changes take place in the Marxian schema? They can only take place in technological methods, since everything else in society is determined by the state of technology at any one time. In short, if the state of technology is T and everything else is the determined superstructure, S , then to Marx, $T_n \rightarrow S_n$

Highlight (Geel) | Locatie 20269

where n is any point of time. But then, the only way in which social change can take place is via change in technology, in which case $T_n + 1 \rightarrow S_n + 1$

Highlight (Geel) | Locatie 20275

The first grave fallacy in this farrago is right at the beginning: Where does this technology come from? And how do technologies change or improve? Who puts them into effect? A key to the tissue of fallacies that constitute the Marxian system is that Marx never attempts to provide an answer. Indeed he cannot, since if he attributes the state of technology or technological change to the actions of man, of individual men, his whole system falls apart. For human consciousness, and individual consciousness at that, would then be determining material productive forces rather than the other way round.

Highlight (Geel) | Locatie 20287

Machines are embodied ideas. In addition, technological processes do not only require inventions. They must be brought forth from the invention stage and be embodied in concrete machines and processes. But that requires savings and capital investment as well as invention. But, granting this fact, then the 'relations of production', the legal and property rights system in a society, help determine whether or not saving and investment will be encouraged and discouraged. Once again, the proper causal path is from ideas, principles, and the legal and property rights 'superstructure' to the alleged 'base'.

Highlight (Geel) | Locatie 20292

Similarly, machines will not be invested in, unless there is a division of labour of sufficient extent in a society. Once again, the social relations, the cooperative division of labour and exchange in society, determine the extent and development of technology, and not the other way round.⁵

Highlight (Geel) | Locatie 20294

In addition to these logical flaws, the materialist doctrine is factually absurd. Obviously, the hand mill, which ruled in ancient Sumer, did not 'give you' a feudal society there: furthermore, there were capitalist relations long before the steam mill. His technological determinism led Marx to hail each important new invention as the magical 'material productive force' that would inevitably bring about the socialist revolution. Wilhelm Liebknecht, a leading German Marxist and friend of Marx, reported that Marx once attended an exhibition of electric locomotives in London, and delightedly concluded that electricity would give rise to the inevitable communist revolution.⁶

Highlight (Geel) | Locatie 20301

Even granting Marx's thesis momentarily for the sake of argument, his theory of historical change still faces insuperable difficulties. For why can't technology, which somehow develops as an automatic given, simply and smoothly change the 'relations of production' and the 'superstructure' above it? Indeed, if the base at each moment of time determines the rest of the superstructure, how can a change in the base not smoothly determine an appropriate change in the rest of the structure? But, again, a mysterious element enters the Marxian system. Periodically, as technology and the modes of production advance, they come into conflict, or, in the peculiar Hegelian-Marxian jargon, in 'contradiction' to the relations of production, which continue in the conditions appropriate to the past time period and past technology. These relations therefore become 'fetters' blocking technological development. Since they become fetters on growth, the new technology gives rise to an inevitable social revolution that overthrows the old production relations and the superstructure and creates new ones that have been blocked or fettered. In this way, feudalism gives rise to capitalism, which in turn will give way to socialism.

Highlight (Geel) | Locatie 20310

But if technology determines social production relations, what is the mysterious force that delays the change in those relations? It couldn't be human stubbornness or habit or culture, since we have already been informed by Marx that modes of production impel men to enter into social relations apart from their mere wills.

Highlight (Geel) | Locatie 20319

Professor Plamenatz has shown that part of the deep confusion is both generated, and camouflaged, by Marx's failure to define 'relations of production' adequately. This concept apparently includes legal property relations. But if legal property relations were at fault in this dialectical delay in adjustment, thus setting up the 'fetters', then Marx would be conceding that the problem is really legal or political rather than economic. But he wanted the determining base to be purely economic; the political and the ideological had to be merely part of the determined superstructure. So 'social relations of production', allegedly economic, were the fetters; but this can only make sense if this means the property rights or legal system. And so Marx got out of his dilemma by being so fuzzy and ambivalent about the 'relations of production' that these relations could be taken either as including the property structure, as identical with that structure, or else the two might be totally separate entities.

Highlight (Geel) | Locatie 20365

finally, class struggle and the material dialectic bring about an inevitable proletarian revolution, why does the dialectic, as Marx of course maintains, at that point come to an end? For crucial to Marxism, as to other millennial and apocalyptic creeds, is that the dialectic can by no means roll on forever. On the contrary, the chiliast, whether pre- or post-millennial, invariably sees the end of the dialectic, or the end of history, as imminent. Very soon, imminently, the third age, or the return of Jesus, or the Kingdom of God on earth, or the total self-knowledge of the man-God, will effectively put an end to history. Marx's atheist dialectic, too, envisioned the imminent proletarian revolution, which would, after the 'raw communist' stage, bring about a 'high communism' or perhaps a 'beyond communist' stage, which would be a classless society, a society of total equality, of no division of labour, a society without rulers. But since history is a 'history of class struggles' for Marx, the ultimate communist stage would be the final one, so that, in effect, history would then come to an end.

Highlight (Geel) | Locatie 20400

Von Mises also raises the point that it is absurd to believe that the interests of any class, including the capitalists, could ever be served better by a false than by a correct doctrine.¹² To Marx, the point of philosophy was only the achievement of some practical goal. But if, as in pragmatism, truth is only 'what works', then surely the interests of the bourgeoisie would not be served by clinging to a false theory of society. If the Marxian answer holds, as it has, that false theory is necessary to justify the existence of capitalist rule, then, as von Mises points out, from the Marxian point of view itself the theory should not be necessary. Since each class ruthlessly pursues its own interest, there is no need for the capitalists to justify their rule and their alleged exploitation to themselves. There is also no need to use these false doctrines to keep the proletariat subservient, since, to Marxists, the rule or the overthrow of a given social system depends on the material productive forces, and there is no way by which consciousness can delay this development or speed it up. Or, if there are such ways, and the Marxists often implicitly concede this fact, then there is a grave and self-defeating flaw in the heart of Marxian theory itself.

Highlight (Geel) | Locatie 20447

There is a grave inner contradiction at the heart of the Marxian system, in Marx's crucial concept of class. In the Marxian dialectic, two mighty social classes face each other in inherent conflict, the ruling and the ruled. In the first two of history's major conflicts: 'oriental despotism', and 'feudalism', the social classes are defined by Marx in what we have seen to be the libertarian, or Misesian, manner: as classes privileged or burdened by the state. Thus, in 'oriental despotism', or the 'Asiatic mode of production', the emperor and his technocratic bureaucracy run the state, and constitute its 'ruling class'. This class acquires privileges from the state, and taxes and controls the 'ruled' classes, that is, everyone else, largely the peasantry but also craftsmen and merchants. Here Marx adopts the libertarian (as we have seen advanced by James Mill) definition of a two-class system, the ruling Few who have gained control of the state, who are governing and exploiting the ruled Many. Under feudalism, a similar concept applies. The landlord class has acquired territory through war and conquest, and has settled down to oppress the peasantry and the merchants and craftsmen via coerced rents, taxes, controls and serfdom. Once again, Marx's class categories are 'caste' categories: the ruling class is such by virtue of its having gained control of the state, the main social apparatus of coercion.

Highlight (Geel) | Locatie 20457

All well and good. But then, suddenly, when Marx gets to capitalism, the class categories change, without acknowledgement. Now the ruling class is not simply defined as the class that runs the state apparatus. Now, suddenly, the original act of rule or 'exploitation' is the voluntary market wage contract, the very act of a capitalist hiring a worker and a worker agreeing to be hired. This in itself, to Marx, establishes a common 'class-interest' among capitalists, exploiting a 'common class' of workers. It is true that Marx also believed that this 'capitalist class' runs the state, but only as 'the executive committee of the ruling class', that is, of a ruling class that previously existed on the free market, because of the wage system. So that what Marx, as analyst of oriental despotism or feudalism, would consider ruling-class exploitation still exists under capitalism, but only as an addendum to the preexisting capitalist exploitation of the workers through the wage system. Ruling-class exploitation under capitalism is unique in exercising a double exploitation: first, on the market as part of the wage contract, and second, the alleged exploitation by the state as executive committee of the ruling class. It should be evident that Marx's analysis of class is by this point a mishmash, in total disarray; two contradictory definitions of class are jammed together, unfused and unacknowledged. Why should capitalism, of all systems, be able to levy a 'double' exploitation that no other ruling class in Marx's historical schema can ever enjoy?

Highlight (Geel) | Locatie 20469

But the crucial point is that Marx's definition of class and class conflict under capitalism is hopelessly muddled and totally wrong. How can 'capitalists', even in the same industry let alone in the entire social system, have any thing crucial in common? Brahmins and slaves, in a caste system, certainly enjoy a common class-interest, in conflict with other castes. But what is the common 'class-interest' of the 'capitalist class'? On the contrary, capitalist firms are in continual competition and rivalry with each other. They compete for raw material, for labour, for sales and customers. They compete in price and quality, and in seeking new products and new ways to get ahead of their competitors. Marx, of course, did not deny the reality of this competition. So how can all capitalists, or even 'the steel industry', be considered a class with common interests? Again, in only one way: the steel industry only enjoys common interests if it can induce the state to create such interests through special privilege. State intervention to impose a steel tariff, or a steel cartel with restricted output and higher price, would indeed create a privileged 'ruling class' of steel industrialists. But no such class having common interests pre-exists on the market before such intervention comes about. Only the state can create a privileged class (or a subordinate and burdened class) by acts of intervention into the economy or society. There can be no 'capitalist ruling class' on the free market.

Highlight (Geel) | Locatie 20479

Similarly, there can be no 'working class' with common class-interests on the free market. Workers compete with each other, just as capitalists or entrepreneurs compete with each other. Once again, if groups of workers can use the state to exclude other groups, they can become a ruling class as against the excluded groups. Thus, if government immigration restrictions keep out new workers, the native workers can benefit (at least in the short run) at the expense of incomes of immigrants; or if white workers can keep black workers out of skilled jobs by state coercion (as was done in South Africa), the former becomes a privileged or ruling class at the expense of the latter.

Highlight (Geel) | Locatie 20484

An important point here is that any group that can manage to control, or gain privileges from, the state can take its place among the exploiters: this can be specific groups of workers, or businessmen, or Communist Party members, or whatever. There is no reason to assume that only 'capitalists' can acquire such privileges.

Highlight (Geel) | Locatie 20487

In his class analysis, Marx constantly had to struggle with the fact that neither capitalists nor workers act in practice as if they are each members of monolithic, conflicting classes. On the contrary, capitalists persist in competing with each other, and workers likewise. Even in their rousing Communist Manifesto, Marx and Engels had to admit that 'The organization of the proletarians into a class, and consequently into a political party, is continually being upset again by the competition among the workers themselves'. Indeed.

Highlight (Geel) | Locatie 20490

But there are more grave problems. For Marx had his two-class analysis; the essence of each titanic struggle in history is between two great social classes: the ruling vs the ruled, the rising class in tune with the new material productive forces, the declining one out of tune. But it is one thing to employ a two-class ruler vs ruled analysis according to libertarian or Millian definitions; since there are indeed common caste interests and conflicts, this concept is here a simplification, but an important and workable one. But what are we to do in the complex, multi-class world of the capitalist market economy? How can we employ a two-class model there, either for market or political action? And there is no question that Marx is committed to the two-class model: capitalists vs proletarians. All other classes fade away, so that the mighty, exploited immiserated class can and will rise up as a monolith to overthrow 'the capitalist class'. As Marx and Engels say in the Communist Manifesto: 'Our epoch, the epoch of the bourgeoisie, possesses, however, this distinctive feature: it has simplified the class antagonisms: Society as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other: Bourgeoisie and Proletariat'.¹³ But in practice, in analysing recent history or current events, Marx and Engels were forced to talk about many classes and groups, and their interactions – thereby implicitly but definitely betraying their own absurd two-class model. And so we have the problem that Marx's two classes are far from monoliths, that their members compete with each other constantly and collaborate very rarely, and also that in capitalist society in particular it is impossible to analyse historical action by squeezing all human actors into two classes.

Highlight (Geel) | Locatie 20508

Marx himself, and Marxists generally, have devoted many millions of words to the concept and use of the term 'class'. Yet in all his writings, Marx never once defined it. For if he had attempted a definition, the stark inner contradiction in the concept, the slippage between state creation and mere market action, would have become starkly clear, and something would have had to give.

Highlight (Geel) | Locatie 20511

Thus, in Marx's theoretical magnum opus, Capital, there is no attempt at a definition of class. Only an incomplete Volume I was published in Marx's lifetime (1867), at which point he had substantially finished

working on the book. After Marx's death in 1883, Engels worked up, edited and published the remaining manuscript in two further volumes (1885, 1894).¹⁴ Only in the famous very last chapter of the third volume does Marx finally arrive at an attempt to define what he and Engels had been talking and writing about for four decades. It is an unfinished chapter of startling brevity – five short paragraphs. In this chapter, ‘Classes’, Marx begins with the classical Ricardian triad: that the sources of income in the market economy are wages, profits and rents, and that the receivers of such income constitute the ‘three big classes of modern society’ – labourers, capitalists and landlords.¹⁵ So far, so good. But then Marx adds that even England, ‘the most highly and classically developed’ capitalist country, contains ‘middle and intermediate strata [which] even here obliterate lines of demarcation everywhere’. But, he quickly hastens to assure his readers that this problem is irrelevant, since the concentration and polarization of classes is proceeding apace. Marx then begins the third paragraph of this seemingly climactic chapter. ‘The first question to be answered is this: What constitutes a class?’ Indeed. He then adds that the reply to this question ‘follows naturally’ from the reply to a second, related question: ‘What makes wage-labourers, capitalists, and landlords constitute the three great social classes?’ We are now primed for the answer, first to the latter Ricardian question and then to the first, critical query, ‘What constitutes a class?’

Highlight (Geel) | Locatie 20530

Precisely. Marx has said it very well; his cherished two-class monolith model (or three-class, if we throw in the allegedly declining ‘feudal remnant’ – the landlord class) lies totally in ruins.¹⁶ Thus Marxian class theory, and therefore Marxism, lay destroyed by its creator's own hand. But if it is always darkest before the dawn, if the suffering of the oppressed class is greatest just before the apocalyptic revolutionary moment, we would expect Karl Marx to step in and triumphantly save the day. How does he do it? How does the drama unfold? In one of the great anti-climactic moments in the history of social thought, the manuscript ends with the lines we have just quoted. There is just a cryptic footnote from Engels: ‘Here the manuscript breaks off.

Highlight (Geel) | Locatie 20536

The way Engels puts it implies that the Master was struck down just as his pen was ready to wield the Answer that would rescue the crumbling Marxian theory of class and place it on solid foundations. But we know this was not true, for the ‘breaking off’ occurred 16 years before Marx's death. Marx had ample time for his dramatic and conclusive answer. Why didn't he pursue it? We can only conclude that he couldn't, that he was stopped, that he realized that there was no answer, and that Marxism would henceforth have to rely on repetition and bluster to carry it through. 12.6

Highlight (Geel) | Locatie 20704

Oddly, neither Marx nor his critics ever realized that there is one place in the economy where the Marxian theory of exploitation and surplus value does apply: not to the capitalist-worker relation in the market, but to the relation of master and slave under slavery. Since the masters own the slaves, they indeed only pay them their subsistence wage: enough to live on and reproduce, while the masters pocket the surplus of the slaves' marginal product over their cost of subsistence. This surplus value extracted from the slave constitutes the profits of the masters from slave-ownership. In the free society, in contrast, the workers, owning their own bodies and their own labour, pocket their full marginal product (discounted, as an Austrian would add, by the interest return the labourers freely and willingly pay to the capitalists for advancing them the value of their production now rather than wait until after the product is produced and sold).

Highlight (Geel) | Locatie 20717

Marx also found that Ricardo had already treated all labour as homogeneous, with any differences in quality simply weighted by some sort of index to reduce them to quantity of labour hours. One logical path for a radical Ricardian, clearly, was to call for the expropriation of surplus value, and the establishment of a system in which the labourers earn the full value of their product. As we shall see shortly, this was the path taken by the 'Ricardian socialist' writers in Britain. But there was another, more logical path. After all, the Ricardians could and did say that capital earned profits from their supplying workers with capital goods, with 'frozen labour'. Such a service is clear, otherwise the workers would not have had to rely on capitalists for money while working on the product. Marx's reply, that capital goods, being frozen labour, should be owned by the workers misses the point that something, some service must have been added by the capitalists – which, as we have already seen, was essentially savings and, if we may put it that way, who were advancing the workers' 'frozen time'.

Highlight (Geel) | Locatie 20806

Here we have packed into one short compass a number of crucial Marxian fallacies: that only commodities are produced or important (in contrast to allegedly non-productive services); the ancient Aristotelian fallacy that exchange implies equality of value; the labour theory of value; and the idea that in a just world, prices will all be equal to their costs of production, basically the quantity of labour hours expended in production.

Highlight (Geel) | Locatie 20876

From then on, Hodgskin was afflicted by an anomalous combination of laissez-faire anarchism and a Ravenstonian labour theory of value. How square the two? At first, Hodgskin tried to do so by attributing the exploitation, the 'surplus value' of labour, solely to such government intervention as the Combination Laws, which restricted the right to form labour unions. Hence Hodgskin helped found the Mechanics' Magazine, and then its affiliate, the London Mechanics' Institute, an institution for lectures to the working classes. During the course of the successful Ricardian-Benthamite agitation for repeal of the Combination Laws in 1824, Hodgskin wrote his Ravenstonian booklet, *Labour Defended Against the Claims of Capital* (1825), followed by *Mechanics' Institute lectures published as Popular Political Economy* (1827).

Highlight (Geel) | Locatie 20882

Particularly bizarre was Hodgskin's development of the Ravenstonian view that capital is unimportant and non-existent. Hodgskin denies that any savings are involved in capital, any advances from foregone consumption.

Highlight (Geel) | Locatie 20883

Circulating capital, he says sophistically, are not produced in advance; the bread the worker buys is baked each day rather than being stored in advance by the capitalist. In fact, of course, no one claims that the capitalist actually stores the workers' food and other means of subsistence in advance; but his saved money is advanced ahead of production and sale to the worker, which enables the worker to buy his subsistence now instead of having to wait for years. As for fixed capital, not only is it stored-up labour – a general Ricardian socialist argument – but these machines are only 'inert, decaying and dead matter', unless 'guided, directed and applied

by skillful hands'. Hodgskin concludes that 'fixed capital does not derive its utility from previous, but present labour', grotesquely ignoring the fact that just because capital and labour need each other does not make labour the sole factor of production. In the crowning absurdity, Hodgskin declares that 'it is a miserable delusion to call capital something saved'.

Highlight (Geel) | Locatie 20891

There is no question that Hodgskin's ultra labourism influenced Karl Marx, but his extreme labour theory of value does not make him a Ricardian, much less a socialist. In fact, Hodgskin was highly critical of Ricardo and the Ricardian system, denounced Ricardo's abstract methodology and his theory of rent, and considered himself a Smithian rather than a Ricardian. Smith's natural law and harmony-of-interest free market doctrine was also far more congenial to Hodgskin. Although

Highlight (Geel) | Locatie 21027

Marx begins Capital by concentrating on 'the commodity', an object – as we have seen, a material substance – which has utility for satisfying human wants. In this way like Ricardo, he leaves immaterial services out of the picture, and also omits studying the value of non-reproducible products, which have no ongoing costs of production. Like Ricardo, Marx also begins with the necessity of utility, but, like his master, he quickly dismisses this basic fact as of little or no use in explaining 'exchange-value', the proportion in which commodities exchange for one another on the market.

Highlight (Geel) | Locatie 21031

As in Smith and Ricardo, therefore, use-value and exchange-value, or price, of commodities are sundered from each other. How, then, explain exchange-value? How, in short, explain the proportions by which commodities exchange for each other on the market? Marx adds that, superficially, it seems that exchange values are relative, that they fluctuate in relation to each other, and that therefore there is nothing objectively 'intrinsic' in the product that determines its value.

Highlight (Geel) | Locatie 21041

Thus, Marx inserts his crucial error at the very beginning of his system. The fact that two commodities exchange for each other in some proportion does not mean that they are therefore 'equal' in value and can be 'represented by an equation'. As we have learned ever since Buridan and the scholastics, two things exchange for each other only because they are unequal in value to the two participants in the exchange. A gives up to x to B in exchange for y, because A prefers y to x, and B, on the contrary, prefers x to y. An equals sign falsifies the essential picture. And if the two commodities, x and y, were really equal in value in the sight of the two exchangers, why in the world did either of them take the time and trouble to make the exchange? Marx's concentration on 'the commodity' threw him off from the very start, for the focus should have been not on the thing, the material object, but in the individuals, the actors, doing the exchanging, and deciding whether or not to make the trade.

Highlight (Geel) | Locatie 21048

If there is no equality in value, then there is clearly no third ‘something’ to which these values must be equal. Marx compounds his original error with another, assuming that if there were an equality of value, there is therefore necessarily some third tangible thing to which they must be equal and by which they can be measured. There is no warrant for this leap from equality of value to measurement of an objective third entity; the implicit, and fallacious, assumption is that ‘value’ is an objective entity like weight or length which can be scientifically measured against some third, external, standard.

Highlight (Geel) | Locatie 21053

Having made two egregious and fatal mistakes in one paragraph Marx presses on inexorably to his conclusion. Emphasizing by mere assertion that utility can have nothing whatever to do with exchange-values, a point crucial to his case, he claims that use-values have nothing to do with exchange-values or prices. This means that all real attributes of goods, their natures, their varying qualities, etc., are abstracted from, and can have nothing to do with, their values. By tossing out all real-world properties from the discussion, Marx is perforce left with goods as the embodiment of pure, abstract, undifferentiated labour hours, the quantity of allegedly homogeneous labour hours embodied in the product.

Highlight (Geel) | Locatie 21065

To elaborate further: Marx defines ‘labour time socially necessary’ as ‘that required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time’.² This brings up a corollary problem: how to meld a myriad of different qualities and skills of labour into one homogeneous, abstract ‘labour hour’? Here, taking up a hint from Ricardo, Marx inserts the concepts of ‘average’ and ‘normal’. It all averages out. But how is this average obtained? It is done by weights, with higher quality, unusually productive labour weighted more heavily in quantity labour-time units than is the labour of an unskilled worker. But who decides the weights? Once again, Marx’s crucial question-begging methodology comes into play. For Marx acknowledges that it is the market, its relative prices and wages, which determines the weights, i.e. which labour is more productive or higher in quality and in what degree than some other forms of labour. So market values, prices, and productivities are being used to try to explain the determinants of those same values and prices.³

Highlight (Geel) | Locatie 21075

Marx proceeds with his model in a Ricardian socialist manner. In contrast to Ricardo, however, land and rent are simply assimilated into ‘capital’, since man’s labour allegedly created all land anyway, and since the importance of land and feudalism allegedly disappears as capitalism proceeds on its way. Values and prices of land therefore need not be treated or explained. There are, then, two mighty classes under capitalisri: the homogeneous labourers, the proletariat; and ‘the capitalists’ [as in Smith and Ricardo, there are, of course, no entrepreneurs. All is in slowly moving long-run equilibrium]. But the values of goods are the sole creation of quantities of labour-hours. Capitalists, by some sort of coercion, by their imposed set of property relations, extract by force a ‘profit’ from the product of the ‘exploited’ workers. This profit is ‘surplus value’, the value seized by capitalists out of total value produced.

Highlight (Geel) | Locatie 21082

Profit, for Marx, is derived only from exploiting labour; it is the surplus value over the wages necessary for the subsistence of labour. Profits, on the other hand, have nothing to do with the amount of capital invested; for capital is only dead matter, stored or frozen labour, and can therefore no longer be 'exploited' to provide current profits.⁴ Only 'living' labour, then, can be used to provide profit for the capitalist. But if the amount of profit is extracted solely from labour, this means that any accumulation of capital will necessarily reduce the rate of profit earned by the capitalist. Thus, suppose no capital or, in Marxian terms, 'constant' capital is used,⁵ and investment is made solely in the form of 'variable capital' used to pay wages. Suppose that profits from production of the good are \$100, and total variable capital, or wage payment, is \$1 000. In that case, the profit rate is 10 per cent. On the other hand, suppose that there is investment in capital goods amounting to, say, another \$1 000. Total capital investment is then \$2 000, but since profits are only derived from labour they are still the same \$100, so that the profit rate has now fallen to 5 per cent.

Highlight (Geel) | Locatie 21091

What determines wages, the amount grudgingly accorded to the workers by the capitalist class? Here Malthus and the iron law of wages make their vital appearance, determining wages at all times at the means of subsistence. Marx, of course, hastens to clear his future communist Utopia from any Malthusian problems by asserting that Malthus and the iron law only holds sway under capitalism, and would certainly not apply under communism.

Highlight (Geel) | Locatie 21108

There are great problems in Marx's model. His theory implies that, since profits are only derived from the' exploitation of labour, profit rates are necessarily lower in heavily capitalized than in labour-intensive industries. But everyone, including Marx, is forced to acknowledge that this manifestly does, not hold true on the market. The tendency on the market, as Smith and Ricardo well knew, is for rates of profit to tend toward equality in all industries. But how so, if profit rates are necessarily and systematically higher in the labour-intensive industries? Here is surely the most glaring single hole in the Marxian model. Marx acknowledged that, in the real world, profit rates clearly tend toward equality (or, as Marx termed it, an 'average rate of profit'), and that real prices or exchange-values in capitalist markets therefore do not exchange at their Marxian quantity-of-labour values. Marx admitted this crucial problem, and promised that he could solve the problem successfully in a later volume of Capital. He struggled with this problem for the rest of his life, and never solved it – perhaps one of the main reasons that he stopped working early on Capital and never published the later volumes. In the first edition of his great History of the Theories of Capital and Interest published in 1884, the year after Marx's death, the outstanding Austrian theorist Eugen von Böhm-Bawerk, in his critique of Marx, pointed out that 'Marx himself became aware of the fact that there was a contradiction here, and found it necessary for the sake of his solution to promise to deal with it later on. But the promise was never kept, and indeed could not be kept'.⁹

Highlight (Geel) | Locatie 21135

Böhm-Bawerk, in sum, posed the grave inner contradiction of Marxian theory plainly and starkly: Marx claimed that goods exchanged on the market in proportion to the quantities of labour embodied in them (i.e., that their

values are determined by the quantity of labour-hours needed to produce them), and yet also conceded that the rates of profit on all goods tended to be equal. And yet, if the first clause is true, the rates of profit would be systematically lower in proportion to the intensity of capital investment, and higher in proportion to their labour-intensiveness of production. Marx promised to resolve this insoluble contradiction in Volume III and to reconcile these two fundamentally contradictory propositions.

Highlight (Geel) | Locatie 21140

In Karl Marx and the Close of His System, Böhm-Bawerk demonstrated that Marx's proffered 'solution' was a sham, and that actually what Marx did was to throw in the towel and admit that, on the capitalist market, profit rates were equal and therefore that prices were not proportional to or determined by the quantity of labour hours in the production of goods. Instead, Marx in effect embraced standard Ricardian theory and admitted that prices were actually determined by the costs (or, in his terminology, 'prices') of production plus the average rate of profit. In this way, while pretending to have saved his theory by talking grandly about competition transforming 'values into prices of production', Marx had actually abandoned the labour theory of value altogether and had therefore scuttled his entire system.

Highlight (Geel) | Locatie 21169

While official Marxists have all taken this escape-hatch – saving the labour theory of value by rendering it irrelevant – the only full-scale Marxist attempt to rebut Böhm-Bawerk was that of the Austrian Marxist Rudolf Hilferding (1877–1941), Böhm-Bawerk's Critique of Marx, published in 1904, with the English translation being published in 1920. Hilferding's apologetics, taking the fallback line that Marx never meant values to determine prices, is a clumsy and garbled work. It is interesting that Hilferding's friend and fellow leading Austro-Marxist theoretician, Otto Bauer, dismissed Hilferding as never having truly understood the nature of the problem. Bauer enrolled in Böhm-Bawerk's great seminar at the University of Vienna in order to learn enough to be able to refute Böhm-Bawerk's celebrated critique. In the end, Bauer gave up the task, virtually admitting that the Marxian labour theory of value was indefensible.¹⁶ Most modern Marxist scholars hold the labour theory of value to be an embarrassment, and sophisticated Marxists have dropped it altogether, unfortunately without also giving up the system of which it is a crucial and necessary part.¹⁷ A

Highlight (Geel) | Locatie 21229

One Marxian answer to this riddle is 'competition', and Leninists in particular like to explain the allegedly later development of 'monopoly capitalism' and of imperialism as attempts by capitalists to form cartels, or find investment outlets abroad, as attempts to stave off the dread consequences of competition.²³ But the mere citation of 'competition' is scarcely an adequate answer. It is true, for example, that a new discovery or a new industry will cause very high profits at the beginning, and that in the pursuit of these profits new, competing firms will eventually bid down the rate of profit in the industry. But, in the short run, at least, and before equilibrium arrives, these capitalists are still making high and above normal profits. But, in contrast, the Marxian businessman who accumulates capital, loses profits at each step of the way, and not simply in the long run. It is therefore difficult to see why any one capitalist, at any step of the way, would ever be tempted to join in the accumulative parade.

Highlight (Geel) | Locatie 21236

Marx's ultimate answer to this riddle is deceptively simple: capitalists accumulate, despite the immediate and future fall in their profits because, well, they have an irresistible, irrational urge, or 'instinct' to do so. This, of course, is no explanation at all; it abandons any genuine explanation under the cloak of a high-sounding but ultimately meaningless label such as 'drive' or 'instinct'. It makes the same error as the legendary attempt to 'explain' why opium puts people to sleep by solemnly intoning that opium has 'dormitive power'. Note the Leitmotif of irrationality in Marx's analysis of why capitalists accumulate in Volume I of Capital: 'Accumulate, accumulate! That is Moses and the prophets!... Therefore, save, save, i.e., reconvert the greatest possible of surplus-value, or surplus-product into capital! Accumulation for accumulation's sake, production for production's sake'.²⁴

Highlight (Geel) | Locatie 21243

Not for the sake of profits! And a similar theme appears in Marx's earlier essay, *Wage Labor and Capital*: "That is the law which again and again throws bourgeois production out of its old course and which compels capital to intensify the productive forces of labour, because it has intensified them..., the law which gives capital no rest and continually whispers in its ear: "Go on! Go on!"

Highlight (Geel) | Locatie 21248

Marx, indeed, took this road as well as claiming a mystical urge to accumulate 'for its own sake'. In this manifestation, or face, of Marx, capitalist innovators do indeed make an initially high profit above the uniform 'average' rate prevailing in the market; these pioneers make high 'surplus profits', followed by imitators and competitors until the profit rate is eventually driven down to the equilibrium, or average rate. All well and good, and in this variant at least, reality again wins out. However, once again, the price of acknowledging reality is prohibitive: for if this sort of thing happens habitually on the market, why does the rate of profit have to fall at all, much less present us with an inexorable, continuing tendency? Once again, as in the Böhm-Bawerk-Hilferding imbroglio, Marxists can only embrace reality by abandoning the Marxian system. Unfortunately, they of course do not acknowledge this surrender, and continue to proclaim that reality has only required a slight adjustment to the true doctrine.

Highlight (Geel) | Locatie 21261

To Marx, two consequences followed necessarily from the alleged tendency to the accumulation of capital and the advance of technology. The first is the 'concentration of capital', by which Marx meant the inexorable tendency of each firm to grow ever larger in size, for the scale of production to enlarge.²⁶ Certainly, there is a great amount of expansion of scale of plant and firm in the modern world. On the other hand, the law is scarcely apodictic. Why may not the accumulation of capital be reflected in a growth in the number of firms, rather than merely in increasing the size of each? And while many industrial processes grow by increasing the optimal scale, others flourish by being relatively small and flexible in size. Henry Ford's massive automobile factories were economic and profitable for a while; but, later, by the 1920s, they inevitably led to severe losses because such massive investment proved inflexible in meeting changes in the nature and form of consumer demand. And while automobile plants are large-sized, automobile parts plants and firms are typically small in size.

Furthermore, new and small firms have typically outcompeted large Behemoths in introducing inventions and technological innovations—the very area that most interested Marx. Large-scale firms tend to become bureaucratic, hidebound, and mired in intellectual and financial vested interests in existing plants and ways of production. Time after time, only new, small firms can carry out the cutting-edge of technological innovation.²⁷ If Marx's law of the concentration of capital is by no means certain, then his next thesis, the 'law of the centralization of capital', is in even shakier shape. Here Marx asserted an inevitable law by which smaller firms in each industry go to the wall, and are absorbed in fewer and fewer giant firms – in short, a tendency toward the monopolization of industry. For one reason, competition 'always ends in the ruin of many small capitalists, whose capitals partly pass into the hands of their conquerors, and partly vanish completely'. For a second reason for his law, Marx pointed to the recent invention of the joint-stock company, or corporation, and its ability to concentrate masses of small capital into one organization. But this process of centralization or monopolization can be, and has been, counteracted by such developments as the growth of new processes (as we have seen above) and by the spread of geographical competition. Thus, in addition to small innovators we have mentioned, the alleged dominance of the Big Three automobile firms in the US has been eradicated by the growth of foreign (Japanese, West German, etc.) competition. Furthermore, while small 'family' retail groceries were superseded, the alleged monopolization of the retail grocery business by A&P in the 1930s was pulverized by the growth of the new technology of supermarkets. In the meanwhile, the small groceries have returned in the new form of convenience or 24-hour stores. In New York City, in recent years, larger supermarkets have been outcompeted in the quality and variety of fruit and vegetables by small, 24-hour Korean-American family stores. In late nineteenth and early twentieth century America, the Standard Oil monopoly of petroleum refining was rocked by its bureaucratic failure to perceive that the new Texas and Oklahoma oil fields were the wave of the future in crude oil, and by its backwardness in seeing that kerosene would rapidly be giving way to gasoline as the dominant petroleum product. This muscle-bound failure left room for small and vigorous new entrepreneurs such as Gulf and Texaco to leap in and eliminate Standard's dominance in oil.

Highlight (Geel) | Locatie 21289

Thus, no one can predict which way the winds of competition, of creation and decline, of innovation and decay, will blow. Certainly one of the tendencies of capitalism is a greater variety and spectrum of quality of product, and this tendency promotes 'decentralization' rather than Marxian centralization. Suffice it to say that there is no evidence, despite the numerous attempts of the federal government to give artificial impetus to centralization, that American industry is any more centralized now than it was at the turn of the twentieth century.²⁹ Finally, there is another side to the rise of corporations that Marx naturally leaves out. The very instrument by which the joint-stock company can raise otherwise unavailable masses of capital, has transformed the economy from one of a small number of capitalists, to a modern world in which every person, be he or she ever so small, can and does become a capitalist. That is, virtually everyone owns a few shares of stock, or owns shares of pension funds invested in stocks or bonds. 'Every man a capitalist' is, in today's world, a pervasive condition rather than a hopeful slogan for the future.

Highlight (Geel) | Locatie 21341

Now here is a critical and crucial point in the Marxian argument. The increasing impoverishment of the working class is a key to the Marxian system, because on it rests the allegedly inevitable doom of capitalism and its replacement by the proletariat.³⁴ If there is no increasing impoverishment, there is no reason for the working

class to react against their intensifying exploitation and burst asunder their 'capitalist integument', those fetters on the technological mode of production. So how does Marx demonstrate the increasing poverty of the proletariat? At this point, Marx seems to grow desperate, and to come up with a number of varied and contrasting arguments, some of which are mutually contradictory. It's as if Marx wildly tries to multiply the arguments, however feeble, in the hope that at least one will stick, and that he will demonstrate the inevitability of the next, proletarian communist, stage of history. But all of these attempts to prove increasing misery come up, first and foremost, against an insuperable obstacle, an obstacle that only Ludwig von Mises has clearly demonstrated.³⁵ For if workers' wages are already and at all times at the means of subsistence, kept there by the iron law, how can they get any worse off! They have been at maximum poverty level, so to speak, for a long time. But if for that reason they cannot get worse off, where is the dynamic that will lead them to rise up and overthrow the system? We can concede, of course, that the new proletarians, so rudely tossed into the ranks of the working class by their triumphant fellow-capitalists, will be particularly edgy and disgruntled at their new lot in life. But surely Marx would not be content to confine his revolutionary workers to the relatively limited ranks of recently declassé capitalists. Especially since the bulk of the workers simply remain where they have always been: at the margin of subsistence.³⁶

Highlight (Geel) | Locatie 21355

Setting aside for the moment this grave inner contradiction with the iron law of wages, how does Marx propose to establish his alleged law of the increasing impoverishment of the proletariat? In one answer, the eternally falling rate of profits puts a severe pressure on capitalists to find more profit by sweating and exploiting the proletariat more intensively, making them work harder and for longer hours. But aside from the problem of the ever-present iron law, Marx is faced with the problem: why did capitalists allow their rate of exploitation to grow slack until finally spurred on by a falling rate of profit? Don't capitalists always and at all times try to maximize their rates of profit? And if so, and unless we are to assume a sudden intensification of greed, or of eagerness for profit among capitalists, they are never slack or lax in squeezing the greatest possible amount of profit from the workers. But then, how can a falling rate of profit spur them on to ever-greater heights? Surely, it is not simply a desire for profit.

Highlight (Geel) | Locatie 21362

Here Marx falls back on a suggested mechanism for this increased exploitation of labour and falling wage rate: the accelerating growth of a permanent 'industrial reserve army', a growing legion of the unemployed. It is increased competition from the unemployed that forces wage rates downwards, and increasingly continues to do so as capitalism advances.

Highlight (Geel) | Locatie 21365

But how can there be a continuing army of the unemployed, when wages to the unemployed are zero? Why don't the unemployed starve to death before they can ever constitute a competitive threat to the employed proletariat? If Marx answers that the unemployed are rapidly absorbed into the employed ranks, driving down wage rates thereby, then he abandons his requirement for increasing impoverishment: the growth of a permanent, and expanding, army of the unemployed. So how are they supported and how do they continue in existence? Also, where does the industrial reserve army come from? Market economists know that unemployment quickly

eliminates itself by lowering wage rates. Only if wage rates are bolstered above the market equilibrium level does unemployment become permanent; and if, as Marx maintains, the unemployed army lowers wage rates through its competition, then it should rapidly disappear and pose no further problems.

Highlight (Geel) | Locatie 21371

But where does the industrial reserve army come from in the first place? For Marx, it is the old bugaboo, technological unemployment. Industry is mechanized, and workers are thrown, presumably permanently, out of jobs. But what of the expansion of quantity demanded and of production brought about by technological innovation? And what of the increased demand for production and resources in other industries that are freed by cheaper products in the technologically expanding industry? And what, as we have seen above, of lower wage rates as the free market way of maintaining full employment of labour? Technological unemployment is an old and oft-discredited bogey. When automatic dialling for telephones was established, for example, there was a general piteous wail that the poor, beloved telephone operators would be thrown out of work by this productive, but heartless, innovation. And yet, of course, the lower prices of telephone service resulted in an enormous expansion of telephone's market, including a substantial increase in the number of telephone operators. Similarly, the number of workers in the construction industry have been increased not slashed, by the development of cranes, electric shovels, and other construction machinery, as compared to the good old days of hand shovels. All in all, for the technological unemployment argument to work as a way of demonstrating increasing impoverishment, not only would each successive technological innovation have to cause permanent unemployment, but the effect would have to accelerate over time, and thereby more than offset any equilibrating tendencies towards greater employment that the market might possess.

Highlight (Geel) | Locatie 21386

Another Marxian argument for the inevitability of the impoverishment of the working class is found particularly in the Communist Manifesto. As machinery develops and capitalists accumulate capital, Marx and Engels lament, labour loses its variety of skills, and the proletariat gets pushed into ever simpler, more monotonous and unskilled tasks, and this de-skilling lowers the average wage.³⁷ This feeble argument rings particularly hollow nowadays, when left-liberal friends of the working class are pushing the exactly opposite lament: that, in an age when ever greater numbers of labour are going into high-skilled computer and electronics work, what is to happen to the poor, aging unskilled labourer, left behind in the march of progress?

Highlight (Geel) | Locatie 21405

Moreover, and particularly telling in a critique of Marx, that advance of the working class has been particularly striking precisely in the advanced capitalist countries of the West, those that were supposed to herald the growing impoverishment of the proletariat. Here is a stern and unrelenting fact that every Marxist must face, and one that by itself can and should destroy the Marxian system. How have the Marxists dealt with this grave problem?

Highlight (Geel) | Locatie 21411

Marxists have tried to save the phenomenon, salvage the theory, by various fallback positions or forms of evasion. One popular tactic asserts that the underlying tendency toward impoverishment still exists, but has been

‘temporarily’ (one or two centuries?) offset by counteracting factors. A popular but bizarre Leninist variant is that workers in the West have benefited from imperialist western exploitation of, or investment in, the Third World, so that in a sense, western workers become ‘capitalists’ on an international scale. In the first place, in this transmutation of the oppressed proletariat of the West into exploiting ‘capitalists’ of the Third World, what ever happened to the inevitable dwindling of the capitalist class? Second, the grotesquerie of this doctrine may be gauged by the fact, as P.T. Bauer has demonstrated in many works, that the bulk of the Third World, however poor, has also been developing rapidly in recent decades, and the standard of living of their working masses has steadily risen. Not only that; but this development and rise in standards has taken place precisely in those areas and regions of the Third World (e.g. port cities) in closest trading and investment touch with developed western countries. On the other hand, it is the remote areas of the Third World, not yet opened up to trade with the West, that have lagged behind in this economic growth. None of this can be squared with the image of the western world making its tremendous strides over the century at the expense of what would have to be very rapid and deep impoverishment and immiseration of the masses in the Third World.³⁹

Highlight (Geel) | Locatie 21428

But by far the most popular fallback position has been to change the terms of the argument and the prediction. Flying in the face of the evidence, these Marxists contend that Marx ‘did not really mean’ ‘absolute’ impoverishment, a continuing fall in the standard of living; he meant a fall in the relative income of the workers, relative, of course, to the standard of living of the capitalist class. It was ‘relative impoverishment’, not ‘absolute’, that Marx supposedly meant, and that the Marxists were now proclaiming.⁴⁰

Highlight (Geel) | Locatie 21448

Finally, there is a glaring inner contradiction at the heart of Marxian economics that is never resolved. If the capitalists suffer over time from a falling rate of profit, and workers suffer from increasing impoverishment, who is benefiting in the distribution of the economic pie? At least in the Ricardian system, the capitalists suffer from a falling rate of profit, and the workers are kept at brute subsistence level, but some group keeps grabbing all the social benefits – the parasitic landlords and their increasing absorption of the social product by land rent. But in the Marxian system, the landlords have disappeared, increasingly and rapidly assimilated into the capitalist class. So how can both mighty classes lose out under developing capitalism?⁴³

Highlight (Geel) | Locatie 21475

The most obvious and blatant problem with an underconsumptionist theory of economic crises is that it explains too much. For if the consumption of the masses is never enough to buy back the product and keep business profitable, why is there no permanent depression? Why are there booms as well as busts? Both Marx and Engels apparently sensed this problem, and hence saw the need for at least a supplementary theory. Thus, in Volume III of Capital, Marx, in addition to the quote above, conceded that there are at least temporary boom periods before crises, when wages rise and workers obtain a larger share of the product.⁴⁷ Engels, too, in Anti-DUfiring, first states that ‘large-scale industry, which hunts all over the world for new consumers, restricts the consumption of the masses at home to a starvation minimum and thereby undermines its own internal market’. But, then, a bit later in the same work, Engels, after asserting that ‘the underconsumption of the masses is therefore also a necessary condition of crises’, admits the concept cannot explain ‘why crises exist today’ while ‘they did not exist at earlier periods’.

Highlight (Geel) | Locatie 21494

In any case, underconsumption is a totally flawed theory, whether used to explain cyclical crises or permanent depressions. In the first place, savings do not 'leak out' of the economy; they are spent, on vitally important investments in resources and capital goods. More importantly, as in the case of every crazy theory, the price system quietly drops out of the picture, and we are left with such aggregative juggernauts as 'production' and 'consumption' facing each other. There is no such thing as overproduction; there is only too much produced for the price that consumers are willing to pay, a price which, in crises, does not cover the costs incurred by businessmen. But, once we recognize that, we must then also see that, in order to bring production and consumption into balance, in order to eliminate the problem of supply, or stock, being greater than demand, all that need happen is for prices to fall. Let prices fall, and they will soon equilibrate supply and demand, and business losses will only be temporary. And this point leads the analyst to consider the next step: why did businessmen – entrepreneurs with a sterling overall record in forecasting demand and costs – why this time did they bid up costs so excessively high that they suffer losses in trying to sell the product? In short, why did businessmen make this cluster of severe forecasting errors that mark the period of economic crisis? None of this, of course, could be considered by Marx and by the underconsumptionists, who do not bother considering the price system. Moreover, Marx, like Smith and Ricardo before him, has no conception of the entrepreneur or of the function of entrepreneurship.

Highlight (Geel) | Locatie 21505

Finally, it is well known that crises invariably begin, not in the consumer goods industries that underconsumptionism would lead us to expect, but precisely in capital goods industries, and in those industries farthest and most remote from the consumer. The problem it would seem – correctly – is too much rather than too little consumption.⁴⁹

Highlight (Geel) | Locatie 21519

Here is a particularly shaky point in Marx: capital decumulates greatly during the crisis, so that the capital denominator actually declines, and hence the rate of profit to total investment rises. This process can again create greater investment, and another boom. The likelihood, however, that a depression will be steep enough to actually consume capital and also raise profit rates more than the alleged continuing tendency for the profit rate to fall, is very low. And even if a recovery gets under way, why should a lusty boom ensue?

Highlight (Geel) | Locatie 21546

Marx saw that the monetary and credit system played an important role in cycles and crises: credit is important in the centralization of capital: it encourages speculation, intensifies the crisis, and accelerates overproduction. But to emphasize bank credit as a fundamental cause of the cycle could have been fatal for Marx's attempt to pin the blame for cycles and crises on forces inherent within the capitalist market economy. And so it was necessary for him to repudiate any possible currency school emphases on the causal role of bank credit: 'The superficiality of Political Economy', Marx writes in *Capital*, 'shows itself in the fact that it looks upon the expansion and contraction of credit, which is a mere symptom of the periodic changes of the industrial cycle, as their cause'.⁵²

Highlight (Geel) | Locatie 21949

As was true of laissez-faire thinkers and activists in England and France, Swedish libertarians were split on what to do about banking. Central banker Johan Arnberg and economist Hans Forssell favoured the central Bank of Sweden as a means of abolishing all private bank notes, which they considered inflationary and pernicious. On the other hand, banker A.O. Wallenberg championed free banking. By the mid-1880s, however, in Sweden as in the rest of Europe, statism began to make a successful comeback and gradually to become dominant. Protectionists began to infiltrate the Economic Society by the mid-1880s, and Sweden adopted a protective tariff system in 1888. In 1893, the symbol of protectionist triumph came with a protectionist being chosen president of the former central nucleus of free trade, the Stockholm Economic Society. During the 1880s, too, despite the bitter attacks of Forssell and other founding stalwarts, the society began to champion social welfare and other Kathedersozialist ('socialism of the chair') policies. In this way, Swedish economic theory and policy shifted, during the decade, from its original French laissez-faire orientation toward the German historical school and its 'monarchical socialism'. This sharp change was greatly facilitated by German being made the dominant foreign language in the Swedish public schools in 1878.¹²

Highlight (Geel) | Locatie 22077

Pareto soon plunged into political writing, taking a fiery stand in favour of laissez-faire and against all forms of government intervention, defending personal and economic freedom, and attacking plutocratic subsidies and privileges to business with equal fervour to his denunciations of social legislation or proletarian socialist forms of intervention. Pareto was one of the founders of the Adam Smith Society in Italy, and also ran unsuccessfully for Parliament twice during the early 1880s.

Highlight (Geel) | Locatie 22081

Heavily influenced by Molinari, Pareto's writings came to the latter's attention in 1887. Molinari then invited Pareto to submit articles to the *Journal des économistes*. Pareto met the French liberals, and formed a friendship with Yves Guyot, who was to be Molinari's successor as editor of the *Journal* and who was to write Molinari's obituary in 1912. Shortly after getting in touch with Molinari, Pareto's mother died, and he was able to give up his manufacturing post, become a consulting engineer, get married, and retire to his villa in 1890 to devote the rest of his life to writing, scholarship, and the social sciences. Freed of his business duties, Pareto plunged into a one-man crusade against the state and statism, and formed a close friendship with the laissez-faire neoclassical marginalist economist Maffeo Pantaleoni (1857–1924), who drew Pareto into technical economic theory. Having become a Walrasian under Pantaleoni's tutelage, Pareto succeeded Léon Walras as professor of political economy at the University of Lausanne. Pareto continued at Lausanne, also teaching sociology, until 1907, when he fell ill, and retired to a villa on Lake Geneva, where he continued to study and write until his death.

Highlight (Geel) | Locatie 22129

social and economic decline. Each of the aging laissez-faire liberals reacted to this momentous and fateful new trend in his own way. Spencer continued to fight on to the end, placing greater emphasis on what he considered the main threat of socialism as against the business statism that he had previously combated. Pareto's path was to change radically into a stance of bitter cynicism. The world, he concluded as he saw the inexorable decline of

libertarian ideas and movements, is governed not by reason but by irrationality, and it now became Pareto's role to analyse and chronicle those irrationalities. Thus, in an article in 1901, Pareto notes that everywhere in Europe, both socialism and nationalism-imperialism are on the increase, and that classical liberalism is being ground down between them: 'all over Europe the Liberal party is disappearing, as are the moderate parties... The extremists stand face to face: on one side socialism, the great rising religion of our age; on the other side, the old religions, nationalism and imperialism.'³⁰
