

Murray N. Rothbard, **An Austrian Perspective on the History of Economic Thought**, Vol. i & ii (Cheltenham, UK: Edward Elgar Publ., Ltd., 1995), pp.576 & 544; Index; \$99.95 each.

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I have always enjoyed Professor Rothbard's talks at various Austrian conferences and seminars, especially the ones on the history of economic thought. That subject itself, I think, brought out all the qualities that made Professor Rothbard such a loving and towering figure in Austrian and libertarian circles; his incredible breadth of knowledge, diligent scholarship, disarming sense of humor, perspective coalescing of personal with social and intellectual history, genuine respect for a worthy adversary, and yes, his unwavering dedication to praxeology and liberty. Professor Rothbard's two volumes on the history of thought more than meet the expectations; they encapsulate all those unique qualities of his. It makes it all the more unfortunate that the volumes cover the period only up to about 1870.

Taking his cue from his mentor Joseph Dorfman, Professor Rothbard eschews the "Few Great Men approach" (talking about the already anointed), and focuses on the "lesser' figures...emphasizing the importance of their religious and social philosophies as well as their narrower strictly 'economic' views" (1, p.xii). With Thomas Kuhn's realistic appraisal of the path of progress in science in terms of paradigm shifts, Professor Rothbard dismisses the Whig theory of history and works with no presumption that "later thought is better than earlier" (1, p.x). The acceptance of the zig-zag path of the progress of the discipline promises us "far more human drama than is usually offered in histories of economic thought." (1, p.xiii).

The volumes are subtitled *An Austrian Perspective on the History of Economic Thought*. Expectedly, Professor Rothbard uses the Austrian benchmark of methodological individualism and subjectivism to grade past contributors to economics. Professor Rothbard thought of history as black and white and wrote of history in black and white. (The politically correct may choose other appropriate colors.) For him, history is a battle between liberty and tyranny and he wrote (and spoke) of history in terms of good guys and bad guys. With this view of history, one can venture that a radical theme runs through these volumes.

What the American Revolution accomplished by overthrowing the British power in politics could have been achieved by a French revolution against British economists in economics. What a peaceful and prosperous world it would have been if the French had succeeded in throwing overboard the tea leaves of British economic theory. A banner hangs over these volumes: Tea with Adam Smith, David Ricardo, and John Stuart Mill; Champagne with Richard Cantillon, R.J. Turgot and J.B. Say. (Cantillon was born in Ireland but spent his scholarly life in France). What is the evidence for hanging this banner?

One of the chapters is titled "The founding father of modern economics: Richard Cantillon." The standard history maintains that modern economics was created by Adam

Smith "much as Athena sprang full-grown and fully armed from the brow of Zeus" (1, p.vii). Professor Rothbard persuasively argues that Smith's economic architecture left out some crucial bricks laid by his predecessors which led to the increasingly shaky structures of Ricardo and Mill with its ultimate collapse in Karl Marx. "Before Smith, centuries of scholastic analysis had developed an excellent value theory and monetary theory, along with corresponding free market and hard-money conclusions." It was "elaborated still further into a veritable science by Cantillon and Turgot in the eighteenth century. Far from founding the discipline of economics singlehanded, Adam Smith turned his back...on the scholastic and French traditions..." (1, p.501)

Professor Rothbard faults Smith on both counts; analytical and political. Smith's economic theory as well as his commitment to *laissez faire* are seriously challenged. In value theory, Smith left aside the subjective utility-scarcity theory of value and sought "the cause of value not in frivolous consumers but in real cost, or labor pain, embodied into the product. Hence Smith's crucial shift in economic theory away from consumer demand and actual market prices, and towards unrealistic, long-run equilibrium. For only in long-run equilibrium does a labor pain, or cost, theory of pricing take on even superficial plausibility. But the exclusive attention to long-run equilibrium led Smith to toss out the entire entrepreneurship-and-uncertainty approach that had been elaborated by Cantillon and Turgot... Smith's labor theory of value led to Marxism and all the horrors to which that creed has given rise; and his exclusive emphasis on long-run equilibrium led to formalistic neoclassicism, which dominates today's economic theory." (1, p.501) Following Emil Kauder, Professor Rothbard charges Smith's Calvinism for his contempt for consumption and consumers and his celebration of hard work and toil.

Smith's famous discussion of the division of labor "placed far too much importance on the division of labor *within* a factory or industry, while neglecting the more significant division of labor *among* industries." The motive for specialization and exchange was generally understood to be increased productivity and mutual benefit. But Smith shifted "the main focus from mutual benefit to an alleged irrational and innate 'propensity to truck, barter and exchange' ... 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...that all laborers are equal, and therefore the differences between them can only be the *result* rather than a cause of the system of the division of labor." (1, p.442) This deduction gave support to socialist gripes about alienation.

The conventional view of Smith as a champion of *laissez faire* is suspect because he supported usury laws, heavy tax on distilleries and luxury carriages, tariffs on import of manufacturers and export of raw wool, compulsory building of fire walls and registration of mortgages, and he advocated government-run education, infrastructure projects, and the post office (the latter on the grounds that it has been profitable). Moreover, Smith spent his last 12 years as a commissioner of Scottish customs. He did not use his position to bring about reforms to promote free trade or to mitigate deadweight loss due to tariffs. Instead he asked for "compulsory automatic warehousing of all imports, which would have made inspection and enforcement far easier for customs officials, at the expense of the smugglers, international trade, and the nation's economy." (1, p.468)

In summary, "he originated nothing new that was true, and...whatever he originated was wrong; [and] even in an age that had fewer citations or footnotes than our own, Adam Smith was a shameless plagiarist, acknowledging little or nothing and stealing large chunks, for example, from Cantillon." (1, p.435)

Richard Cantillon's *Essai* was called by W. Stanley Jevons 'the first treatise on economics', and Hayek called him "the first person who succeeded in penetrating and presenting to us almost the entire field which we now call economics." (1, p.347) Cantillon delineated the subject matter of economics from that of ethics and politics, and used the techniques of thought experiments and *ceteris paribus* in economic analysis. He refined the scholastic value theory based on subjective utility and scarcity of supply and introduced entrepreneur as a linchpin of the market process with pervasive uncertainty. He explained how a change in the quantity of money would have differential impact on prices depending on who receives and spends new money (now labelled as the Cantillon Effect). The effect of new money on interest rates and investment would depend on whether it comes first into the hands of lenders or consumers. Cantillon "was the first to show in detail that all parts of the market economy fit together in natural, self-regulative, equilibrating pattern... And if the market economy, despite the 'chaos' it might seem to superficial observers, is really harmoniously self-regulating, then government intervention as such is either counterproductive or unnecessary." (1, pp.359-60)

Turgot, "the most brilliant economist in history," continued the path-breaking work of Cantillon by adding the law of diminishing returns and the idea of time preference and discount in the determination of interest rate. He was the first to systematically challenge usury laws.

Say and Ricardo both set out to refine and popularize Smith. "Ricardo's logical bent was offended at the basic confusion of mind, the chaos that J.B. Say also saw in the Smithian canon... Unfortunately, and in deep contrast to Say, Ricardo simplified by taking all the most egregious errors in Smith, throwing out all qualifications and contradictions, then building his system upon what was left. The worst of Smith was magnified and intensified...[O]n top of that, Ricardo...was undoubtedly one of the worst and most turgid literary stylists in the history of economic thought." (11, p.82)

In a letter to Malthus, Ricardo states: "Political economy, you think, is an enquiry into the nature and causes of wealth; I think it should rather be called an enquiry into the laws which determine the division of the produce of industry amongst the classes who concur in its formation." (11, p.82) Ricardo focused on the distribution of income among macro-groups with the expected conclusion of inherent class conflicts among workers, capitalists, and landlords. His labor, or labor-hour, theory of value gave rise to a group of Ricardian socialists demanding that all of the product should go to labor. "Despite the deep pessimism of Ricardo about the nature and consequences of the free market, he oddly enough cleaved strongly, and more firmly than Adam Smith, to *laissez-faire*. Probably the reason was his strong conviction that virtually any kind of government intervention could only make matters worse." (11, p.92) Alexander Gray summed up: "Such is the Ricardian scheme of distribution; in place of the old harmony of interests, he has placed dissension and antagonism at the heart of things." (quoted in 11, p.93) Ricardo's defense

of *laissez faire* without a supporting theory can't be expected to last long. The French interpreter of Smith however took a rather different route.

Say's (1803) *Treatise* was an instant best seller and became a standard text on the Continent and in the United States because, in Thomas Jefferson's appraisal, the *Treatise* was "shorter, clearer, and sounder than the *Wealth of Nations*." (quoted in 11, p.12) Say was "decidedly" 'French' non-Smithian, and 'pre-Austrian'" with "logical clarity and emphasis on the praxeologic axiomatic-deductive method, on utility as the sole source of economic value, on the entrepreneur, on the productivity of the factors of production, and on individualism." (11, p.3) Unfortunately, Say does not even mention Cantillon, dismisses Turgot as more of a political theorist than an economist and declares Smith the founding father of economics. In attempting to claim the mantle of Smith, Say undermined the subjectivist tradition in the long run.

The apparent denial of the Cantillon-Turgot lineage was a strategic move on the part of Say. Turgot, ousted from the controller-generalship in 1776, was seen as a close ally of the physiocrats who were dedicated to absolute monarchy in the era of the French Revolution. Napoleon created difficulties for Say and his *ideologues*. But after the Restoration period, Say was able to publish a second edition of his *Treatise* and expand his influence with the help of able disciples like Charles Comte (*A Treatise on Legislation*, 1827) and Charles Dunoyer (*On the Freedom of Labour*, 1845) and with his son and grandson. He was fortunate to have as a follower Frederic Bastiat, who was "indeed a lucid and superb writer, whose brilliant and witty essays and fables [for example, the 'Petition of the Candlemakers'] to this day are remarkable and devastating demolitions of protectionism and of all forms of government subsidy and control." (11, p.444)

By the mid-nineteenth century, the theoretical foundations of *laissez faire* in France were built to the point where Gustave de Molinari advocated "free and unhampered competition in what are generally called uniquely 'public' services: in particular, the sphere of police and judicial protection of person and private property." (11, p.453) The traverse was complete: *laissez faire* had reached anarcho-capitalism, "So dominant was the *laissez-faire* school in France...that its teaching permeated the popular culture. Popular writers, journalists, and novelists expounded on the harmony of interests, and on the mutual benefit and the general prosperity brought about by the free market. Thus no more lucid and inspiring an economic primer and paean to the workings of the free market has ever been written than the lectures to French workers, formed into the *Handbook of Social Economy: Or the Workers' ABC*, written by the popular novelist Edmond About (1828-85)". (11, p.444)

The influence of the French theoreticians was spreading rapidly on the Continent and in the United States. But any hopes of a complete French economic revolution against the Smith-Ricardo paradigm were summarily dashed by the new British giant: John Stuart Mill. Mill re-established "Ricardianism on the throne of British economics, a feat he accomplished through the enormous popularity and dominance of his *Principles of Political Economy* (1848)... Indeed, the great advances of the anti-Ricardians...were truly forgotten in Mill's re-establishment of the cost, and indeed the labor, theory of value, the Ricardian rent theory, Malthusian wage and population theory and the remainder of the

Ricardian apparatus." (11, p.278). Mill succeeded through the strategy of "practical eclecticism," by being all things to all people. "It is impossible to estimate how much of John Stuart Mill's inveterate and eternal contradictions, qualifications and alterations were due to honest muddle-headedness and how much due to devious and evasive intellectual broken-field running." (11, p.279) Mill's *Principles* was praised by people across the political spectrum; from classical liberals to Owenite and Christian socialists and "agitators for cooperative movement in Britain." (11, p.281)

Could a successful French revolution have ushered in a new era in economics? Professor Rothbard has no doubts. The banner still hangs: Tea with Smith, Ricardo, and Mill; Champagne with Cantillon, Turgot and Say.

If one ventures to think in terms of a revolutionary war, one might as well pick a battle cry. The French would of course thunder Bastiat's triad: Wants, Efforts, and Satisfaction (11, p.446). The British, one may surmise, would mutter: Goods, Labor, and Production. The battle cries accurately summarize two different visions of economics. The French stress on wants immediately brings the focus on people who have wants, desires, and goals. Methodological subjectivism and individualism follow quite naturally. The British emphasis on goods makes the subject matter impersonal and points to the difference between use value of goods and their exchange value, the abyss of value paradox. The focus on labor, originally due to religious reasons, must eventually lead to some form of labor theory of value and to rather bizarre distinctions of productive and unproductive labor. Efforts, on the other hand, imply effort of any type and by any one. It highlights contributions of all; workers, capitalists, landlords, and entrepreneurs. At least initially they all seem to be on the same playing field, exerting efforts to satisfy their wants. The emphasis on production as opposed to satisfaction may lead to full-employment schemes by public works and deficit financing, and to Petitions on the Candlemakers. "Satisfaction" reminds us that the ultimate goal of economic activity (production) is consumption. It steers our attention towards the utility we derive from consuming goods and services and tells us how much we value them. The battle cries do capture the essence of the difference between the French and British visions of economics.

Now we can visualize completely the post-French revolution era: Champaign with Cantillon, Turgot and Say chanting Wants, Efforts, and Satisfaction. The only question is with whom among the three Professor Rothbard is sitting?

On a more mundane level, in reading these volumes one is curious to find out Professor Rothbard's position on some old and recent divisions and controversies among the Austrians; free vs. 100 percent reserve banking, Austrian vs. Monetarist theory of business cycles, pure time preference vs. productivity theory of interest, natural rights vs. utilitarianism, and Misesian calculation vs. Hayekian knowledge. In most cases, one is unable to conclusively discern Professor Rothbard's personal views; one is struck by the absence of a clear advocacy of his views. He provides the best interpretations of the views of the competing Austrians and treats them fairly and respectfully. Only on the issue of free vs. 100 percent reserve banking, Professor Rothbard details his critique of Professor White's narration of the free banking experience of Scotland. This, however, is done largely in a long footnote. (11, p.273) He does dispute Professor White's three-way

classification into currency banking, and the free-banking school (11, pp.252ff, 490-91). By and large Professor Rothbard deals with each theorist just as he had promised, within "the cut-and-thrust of history itself, [within] the context of the ideas and movements, how people influenced each other, and how they reacted to and against one another..." (1, pp.viii-ix)

This is a masterly performance and a seminal contribution to the Austrian scholarship. One cannot but feel indebted to Mark Skousen for persuading and supporting Professor Rothbard in this endeavor. May the 'lesser' figure in these volumes command urgent attention of young Austrian scholars.

* The author would like to thank Don Warmbier for helpful discussions and comments.