

Erik Lindahl

Studies in the Theory of Money Capital

London 1939

George Allen & Unwin

P21 "The final aim of Economic Science is either to explain the economic phenomena of the past or to forecast the economic events that will, under given conditions, probably occur in the future. In the first case we are concerned with the problems of Economic History, in the second with problems of our actual life, especially those referring to the domain of Economic Policy."

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Hence study of structures

Aims to connect data: all past
part past, part future

Also method of precision from psycho, moral,

social assumptions - per conditions of

economic activity - imperatives

Economic Science - a machine of which man is a part
a machine from which man is distinct
while man can control

Disequilibrium exists because

1. Innovation resisted

2. Once effected - imitated in widening circles
induced in other fields

hence big - even though elements small
leads to transformation

clustered - resistance than imitation
in a rush

irregular - same industries
share other cog
result that
work is not
smooth & coordinated

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Innovation

Checks effect

inherent neutral, to routine
resistance to innovation

- ① disapproval - machine-made products
prohibition - prohibition of machines
oppression - smashing of machines
- ② loans easy for routine, hard for innovation
because of right type rarely available for routine
consumers buy what they understand
- ③ inhibition to new [possibly irrational]
e.g. airplane production if only
paid a assumption that anyone
was using motor-cars would be
ridiculous airplane

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Once setup, easy to copy & to improve
forced to do so by competition

have innovations elastic

spread evenly over time but in lumps
spread out of random over space but
in areas

Transformation effect → Induced innovation

induced through new country reports all conditions of
location, all cost calculations, all production functions
likely any "way of doing things" before is optimized by after.
Historical data

Schumpeter's Assumptions

Innovation involves

- New Plant [not negligible time & expense]
- New Firms
- New Men in Leadership

Hence

Resistance

Classical advance (imitation & induced change)

In some sectors & not others

[is different effects for smooth evolution]

upgrade : radical innovation

downgrade : induced, imitative innovation

Schumpeter BL II 768

quotes to approval Prof. M.W. Watkins
Journal of Pol Econ Feb '31
#67, 68

automobile industry did not develop aviation
airplane industry did not develop automobile
telegraph " " " " telephone
theatre industry " " " " motion pictures

"The explanation seems to be that the
managers & directors of older industries,
once they have succeeded in establishing
as an economic "going concern" the special
branch of industry with which they are
primarily identified, lose their adventurous
inclinations. They tend to become skeptical
of ~~the~~ new processes & new products. They
have looked in the complicated nature of
this one affair and the ever recurring
problems of adjustment and adaptation
of which no field of business enterprise
is ever free. In those circumstances

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It is only the pro-sighted, energetic,
venturesome individuals here & there
who are ready to 'put down your'
a secure position and an assured
income, and who have the gift
of imparting their enthusiasms to
other restless individuals (technicians,
salesmen, laborers) and to still
others with private capital, who
are willing to take great risks
for the chance of great gains —
it is only in a word adventures
who found new industries.
The creation industry has been
no exception."

Equilibrium Disequilibrium Analysis

Any product sells as a function of the output of all other products

$$DE_n = C_n \sum_{j=1}^{j=N} G_{jn} DQ_j$$

Equilibrium of fact given by quantity

Equilibrium of marginal utility

$$\sum_{j=1}^{j=N} D_n = \sum_{j=1}^{j=N} S_{jn}$$

$\sum D_n$ = summate of marginal utilities of demand

$\sum S_{jn}$ = summate of marginal utilities of supply

$$DE_n = P_n C_n \sum G_{nj} DQ_{nj}$$

[where there are N equations of which the n^{th} is
 [where j has successively ^{integral} all values from 1 to N]

1. Equation expresses profit.

2. Equation expresses balance to balance
 of marginal utility of product $DE = F(v)$
 with marginal utility of effort + distance $DQ_{nj} = F_n(c)$

Innovation

redistributes centres channels
transforms methods commodities

Begins in some sector, spreads,
every emergence implying facilitating
further emergence
offering opportunities for further improvement
until this line of attack has exhausted its
potentialities

Invention → direct line: new products
→ indirect lines: from machinery

Invention → knowledge
Innovation → application in economic sphere

DQ_{ijk} = F(a, b, c, d, ...)

Variations in a, b, c, d

the variations = DO

Innovation - setting up a new production

function -
with a new method, change in $\frac{f}{d}$
or a new commodity, change in $\frac{f}{c}$

Fact that innovation not possible before certain
quantity of DQ_{ijk} reached, does not
deprive innovation character of innovation

Innovation = a new system
a shift of power

Innovation

Schumpeter p. 93

involves New Plant

non-negligible time & outlay

Not necessary - important analysis

But New Plant not necessarily innovative
may be new growth -

financial consequences flow

voluntary consequences down flow

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New Firms & New Men

True in competitive capitalism
less obs true in monopolized capitalism

New sweep - compete - Old react, adapt,
resist (if double capital only can be met
OK.)

P 97, 98

Continuous & smooth adaptation to innovation
Intro without adaptation (by Keynes)
results in disequilibrium

Assumption of ideally rational behavior by
business works as long as routine
as long as "small" - tried experience &
familiar routine - "It breaks down as soon
as we leave those precincts and
allow the business community such
study to be faced by - unforeseen
new situations, which also occur - some
as external forces intrude but by - new
new possibilities of business action which
are so yet untried and about which the
most complete command of routine practices
withering

These departures from Walrasian - Marshallian
scheme - etc. for static stability depending

Socialism - economically

The limiting case of growth
in size ^{or extent} ~~coordination~~ of
production functions

The transference of saving from
the individual (family position)
to the state

The transference (or elimination)
of innovation from the
individual to the state

The breakdown in moral
rep-control

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Either minimum taxes, free capitalist market
with cycles for above, ^{corrected by} elimination

Or social welfare programmes, high taxes,
breakdown of capitalist institution, socialism

Or middle way - group economics

Kandratieff downgrade

"exploitation to the utmost, partly under
duress, of existing possibilities of
technological and organizational innovations
on lines of principle established before but
steadily improved in the process; revision
of the whole structure of industry in quest
of increased efficiency; systematic
struggle with each item in the
list of costs."

Schumpeter p. 75

So often we view his impatience if it has
a model before us

Schumpeter BL p. 660

" Crisis would have occurred if no
control or member bank had ever
called a single loan, and must
be understood in the light of the fact
that in any economic or social system
which is possible to prevent irresponsibility
and misconduct correction by consequences
is the only method to prevent
indefinite deterioration "

Case for morality of economics

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Analogy with medicine

[cannot take organs apart to examine
symptoms & diagnosis

Economics - statistics = symptoms for diagnosis
Theory = principle of diagnosis & prescription

Difference between large scale & small scale enterprise

In recession profits are consumers basic income

↳ profits they add surplus income

but a large scale undertaking is not
relieved by basic income

there is recession large scale
undertaking is not motivated

DDijk

- i level of accumulation
- j type of goods or services supplied at final market
- K production function

Sch Innovation Growth of Popula Economic Growth

↳ new production functions - new K's
 ↳ expansion of production functions - bigger DD's

Cyclic phenomena

- a) cycle of booms, trickles
- b) cycle of recession, phenomena

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capitalist phenomena

Kitchin's Supers Kuchering's

[Primary wave - Prosperity Recession

Secondary wave - Unsound ventures, depression, revival

Implications: function of market - responsibility to system to bring
 just stop but impossible financing is
 who enters

function of entrepreneur
 below & above

spread - of fields

"There is nothing in theory or fact to justify belief in any tendency in the recurrent waves of profit (in our sense) either to increase or decrease systematically. It follows that interest fundamentally deriving from profit should also not display such a tendency." Joh. B. p. 628

True "profit" = profit from innovation
interest proportional to marginal anticipated profit
 profit at origin of cycle
 interest varies in cycle
 successive waves may well be equal

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Unemployment

Schumpeter II 511 -

511 "Normal"

The unemployment that would at any time exist if the system had already reached the neighbourhood of equilibrium toward which it is tending includes "seasonal" "accidental" (fire in factory, reemployability, change of residence, of job, impaction of competition or of equilibrium)

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513 "Vicarious"

due to wage rates above equilibrium ^{value}

514 "Disturbance"

liquidation of firms, change of parties,

516 "Technological"

due to any innovation

but only displacement of workers by machinery into any change of production function

515 "Secondary" resulting from the unemployment
"Cyclical" = technological

Technological employment results from
cycle of innovations
results in absorption at higher ^{real wage level} price
↓ since

516
"Long-run interest of the working-class is
in the effects of innovation on the real
wage bill and not in the
incidental variation of employment
which is but an element of the
mechanism that produces ^{the changes of} the former
and can be separately handled by
public policy

Interest

p602 Schumpeter, B. Cycle

= premium on present over future
means of payment

= + coefficient of tension in the system
← ↑

Stagnant equilibrium - only
persons driving present rather
than future means of payment
are entrepreneurs - hence
role of interest proportional
to marginal profit [marginal
increment of prospective profit
for ^{any?} all entrepreneurs]

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$\frac{I_{int}}{DE''_n} = \frac{DE''_n}{DE''_n} + DE''_n$
 $n = \text{maintain}$
 $h = \text{net}$

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T-test 1^o the reward of abstinence DE''_n does not go to consumption (kept by marginal income)

2^o the price of present over future purchasing power in developing economy entrepreneurs at zero interest lead to infinite

3^o the brake on expansion

in non-exchange economy - forced saving

Effect of interest - time becomes a cost

"Only as twilight settles, does Minerva's owl take wing." This, then, is the proposition
here. Before the candle of thought is snuffed out in the "Brown New World" of tomorrow,
let us pause to enjoy a luxury that soon will end. When the modern world
was emerging from the medieval guilds & manors. At first found only in a city
state culture policy of city states that extended from ^{Flora & Fauna & Folia} ~~North~~ ^{North} ~~to~~ ^{across}
the Alps, along the Rhine and ^{along} the other harbors of the northern coast.
The contrasts of this little world in miniature stimulated, ^{economic} ~~trading~~ particularly
on the coming of foreign trade and, when the city states were over shadowed
by the later, more fully, national states, the same ideas took on the form
of Mercantilism, a collection of recipes to guide an absolute monarch in the
important task of keeping his own treasury well filled, his country
well stocked to replenish it, and his rival monarch in a less comfortable
situation. But the popularity of the monarchs' word & economic ~~with~~
on a more definite interest and a more scientific air. The physiocrats
tried to formulate the nature of things; and happily Adam Smith

and is significant ~~and~~ ~~unshakable~~ ~~self-interest~~ ~~a~~ ~~conviction~~ ~~in~~ ~~the~~ ~~past~~ ~~industrial~~ ~~revolution~~; and a few decades later, John Mill, the
father of a more elastic view, lamented that even political economy would
be as accurate and as definitive as Newtonian physics. Einstein suggests
that Newton was not the last word, and that the first great use of our century
would find the way for ^{the} ~~revolutionary~~ ~~without~~ ~~cross-propaganda~~ ~~that~~ ~~another~~
~~new~~ ~~admission~~ ~~for~~ ~~the~~ ~~intellectual~~ ~~deficiencies~~ ~~of~~ ~~socialism~~. "In the
beginning was the deed" - in Fourier style the deeds of human association.
of which a Hitler, has made socialism a matter of serious consideration. They
are in working Europe, but perhaps ~~on the~~ ~~banking~~ ~~of~~ ~~Europe's~~ ~~sum-~~
is making into a right of physical education + mental exercise, we
may be able to discuss the essential lineaments of a problem that
mercantilists + physiocrats, classical economic theorists, have ~~never~~
approached but not reached, have sought but could not find
the history provided the experimental evidence + ^{so} ~~released~~ ~~the~~
Marsala's owl to fly over the ruins.

Like a syllogism, our argument falls into three parts. In a process of reasoning such as A is B because C is D, one has to distinguish the conclusion, that A is B, the logical part that C is D, and the implication that if C is D, then A is B. The first section of this work deals with a set of implications, of major premises. They are not exclusively economic in character, but hold generally of sets of inter-connected & accumulating flows or rates of flow. Accordingly, for both clarity & simplicity, they are worked out instead of reference to economic phenomena: ^{some that} of the nature of the last book on mechanics which deals with particles, which do not exist, and perfectly symmetrical or perfectly rigid bodies, which cannot be found in nature, so we set up a working model, a set of spheres that exist hypothetical particles to one another in a fairly purposeful position.

direct men, welfare of state & of farmers at least
 Natural reaction to mercantilism which was projection
 of unbridled paternalism into rational state of modern
 times

led to a great development of accuracy of economic
 definitions: capital, land-rent, costs of production,
 division of product, income, etc

It eliminated the Realpolitik of mercantilism in which
 saw one state's progress to another ruin of others.

But it fell to opposite extreme, exaggerating farmers
 as mercantile exaggerated trade - [its idea of
 natural law was full of bubbles like Rousseau
Kulturwissenschaften p 96 note 3]

99 in some individuals it led to advising the
 drawing up of a blue-print for all countries
 to be enforced immediately in detail
 Failure to grasp that economics is a function
 of physical geography, natural characteristics
 customs etc.

The Older Systems of Political Economy

Mercantilism

PsBdr II 8-15

1. Many interesting remarks in Plato Aristotle Xenophon Cicero etc on economic events & conditions
Medieval writers engaged in evaluating moral aspects of economic activity
But economic doctrine properly begun only in modern period with the
question: What makes a people rich? Mercantilism, Physiocracy, Smith.

2. Was mercantilism a system?

It developed as a practical system of trade policy (Handelspolitik); + even as
a theory, it is not the work of any single writer or even school; it represents
the dominant views of a few centuries of economic practice + regulation

3. Adam Smith's idea of mercantilism

Smith supposed mercantilism to consist in the belief that wealth is
gold + that, if a country does not possess gold mines, then it can become rich
only by a favourable balance of trade [Balance of Trade: later appears first in Bacon of the (1604)]
But a favourable balance is had by increasing exports + decreasing imports
+ so this became the policy of every state

4. Mercantilist Practices

- ± Tariffs + embargoes to prevent import of foreign manufactures, export of domestic raw materials
[import forbidden ± to force foreigners to buy manufactures ± to make raw materials cheap at home]
- ± Bounties + kick-backs for export of manufactures, import of raw materials
- ± Embargo on export of gold or silver
- ± Loans + other devices to encourage development of new branches of industry
- ± Trade treaties w/ foreign states
- ± Privileged companies for difficult fields of foreign trade
- ± Search for colonies w/ foreign lands [Colonies treated as mere means to acquire of
home land]

5. Did mercantilists really think gold wealth? Did Smith really believe they did?

Smith speaks of popular notions + implicit assumptions - the mercantilists may not
have failed to distinguish between money wealth & real wealth - the mercantilists may not
distinguish explicitly in their thought

Richard D. Anderson A. Dackow, Geschichte der Nationalökonomie I (1902) 225 states that
he sought & failed to find - the whole of mercantilist literature the explicit statement
"wealth is money" - only a single instance in an insignificant work

Proof: even if mercantilists did not openly espouse gold wealth, even if
Smith was mistaken in considering it the implicit assumption of all their
thought, we can be no doubt that they exaggerated the importance of gold.

Friedrich Kleinwachter (1906) De parte theory + practice in Mercantilist period was
directed to increasing + protecting domestic gold supply - this direction was not an
illusion - the period after the discovery of America was the height of capitalism +
capitalism had then old - Mercantilism is the transitional
system of holding capitalism

Mercantilism

Thomas of St. Water

Page II 15 & 17

Schmoller, Gustav: in Jahrbuch für Gesetzgebung, Verwaltung, und Volkswissenschaft,

vi (1884) 15ff, reprint in Umriss und Untersuchungen (1898) 1 ff
Schmoller advanced that Smith failed entirely to understand mercantilist movement; that he had no grasp of the forces of political history, before 1400-1500 in which grew up the modern centralized states; that his discussion of competition, competition, interdependence is on the ^{small} scale of a neighbourhood
Schmoller considered that the essence of mercantilism was not a matter of incomes, old stocks, of the F.B.T., in tariffs, bounties, Navigation Acts - that essentially mercantilism was the instrument of a social revolution, the replacement of local + agricultural economy by national + state economy - the F.B.T. was merely an item in the movement

Schmoller is thinking principally of France especially of French development
The towns in later medieval times created a great or less important body of merchants + craftsmen
To these highways, the limitations of the feudal organization were so many hindrances to progress. It was to their interest to enlarge the field of exchange, to break down barriers not only within their own country, but also between countries. The conquests of the sea to the far sea and the world market was the goal of the merchant. The discovery of America and the East enlarged indefinitely the scale of this trading
Now this commercial revolution created an ever increasing need for more money. Merchants + producers could no longer extend their enterprise only if they had money. Again money was the object of their striving
Connected in the commercial revolution + its implicit Waldwirtschaft was the political tendency: from the feudal cooperative organization of society to that of the absolute prince ruling over individuals - the interests of the prince + of the bourgeoisie coincided - the prince wanted power + wealth, and the means was the break-up of the old social structure + the march ment that resulted from trade - but these precisely were the aims of the bourgeoisie - and the prince to secure his own position could play off the nobility + the bourgeoisie against one another - Now in this change the power of the old again appears: it is no longer a matter of feudal pledged service but the hiring of mercenaries, no longer a matter of payment in kind, for feudal subordinate but payment in cash - The discovery of paper + the printing of the Knights - Hence the pressure on the royal treasury: money was needed to run the expanding state; it could not subsist on the rents of royal domains and occasional donations or taxes; it had to have money + to have it abundantly. It had to promote manufacturing, trade + the F.B.T. [; manufacture + trade the expansion of the moment; F.B.T. increase in old supply, money for commercial + political expansion

August Bucher Geschichte der Nationalökonomie I (1902)

Merantilism was systems of policies for the well-being of princes

"System der landesfürstlichen Wohlstandspolitik" "systeme réglementaire"
Fundamentally the mercantilist care of manufacture & trade was a political opportunity - the favorable balance of trade was the sine qua non of mercantilism put forward - it was but part of a larger doctrine: "The end of the state is the wealth & power of the prince - from this flows the subordination of the welfare of the people, the system of state organization of economics, the rivalry amongst, in foreign nations"

Hence another consequence, the economic progress of the people was not directed to their well-being but to the territorial & political aggrandisement of the state - in harmony with the absolutism of the times this was conceived as the increasing power of the sovereign
Again the capitalist profit motive was merely the economic instrument of the state; it allowed political thinking - To maintain one's state's loss is another's gain - Hence rather national egoism - (later this view gave way to the equally inadequate view that trade was equally to the advantage of all (Free trade)) Trade & manufacturing development in one state were considered to be simultaneously the weakening of others - (Rightly but conditionally in monetary order)

Wars of the period were thoroughly at the service of trade, the extension & establishment of trade & colonial possessions - they were but an element in the chain of regulations for the achievement of wealth & power at the expense of others
Hence according to differences of territory, situation, economic & political development & circumstances generally; the more practical measures of mercantilist public policy varied accordingly in different countries & times.

Merantilists Theory of Economics

Book II 13

Wilhelm Edo. von Schröder

"Fürstliche Schatz- und Rentkammer" 1686

"The prince is to prefer the maintenance of his own person to the well-being of his subjects"

He considers it absurd to recommend thrift to the prince

The indispensable basis of Absolutism is a powerful standing army and a large store of gold in the treasury

In order that taxes may bring in a lot of gold, attention must be paid to the well-being of the people

As a householder must fertilize and plough his land, so the prince must attend to the well-being of the people - to raise taxes to a point that undermines the people's welfare is like letting a hog into the kitchen garden

Johann Joachim Becher

"Politische Diskurs von den eigentlichen Ursachen des Auf- und Abnehmens der Städte, Länder und Republiken; in specie, wie ein Land Volkreich und Mahrhaft zu machen und in eine rechte Societaten civilium zu bringen"

ed. 1668 ed. 1673 (Dedicated to Kaiser Leopold II)

- 1. Totally in favour of state control of trade
- 2. Insists that ^{the ruler} authority is for the community, not the community for the authority the ruler
- 3. Demands diligence & hard work from princes: "he is well paid"
- 4. Nothing does more harm and brings a people and country more quickly to ruin than a large and idle court
- 5. Republics and "Reichs-Stätt" are better off than monarchies because in the former there is no conflict between the interests of the country and the interests of the court
- 6. If a monarchy, put the interests of the country first
- 7. In a later work, composed or influenced by him

F.W. v. Hörnigk

"Wohlfeynenden Fürsitz" 1684

Kameralökonomie is a sub-division of Partikularökonomie which is a part subordinate part of "allgemeinen Landesökonomie"

Mercantilists They Factor in Economics

Book II 44, 45

Leibniz : "Regiois potentia consistit in terra, rebus, hominibus"
sp. land, capital, labour

Mercantilist conception - a large population is a main factor in the power of the state
but not merely a large also a well-to-do population
Vauban - French King

Christian Wolff

Vernünftige Gedanken vom gesellschaftlichen Leben der Menschen 1721

Oeconomica methodo scientifica tractata 1754

The two main factors of a State's power are numerous subjects + rich subjects

Becher [Politische Diskurs]

A large population postulates the means of subsistence - the abundance of food increases the population at home and attracts immigrants from abroad - This increase in the population makes it all the easier to obtain food, for it is easier to keep going in a city than on a deserted island - Hence material causality

William Petty 1623-1687

Founder of "Political Arithmetic"

land labour are the basic factors of wealth: labour is the father, the active principle; land on the other

Similarly Condillor in 18th Efferts in 19th century
land labour are the irreducible principles of wealth

Mercantilist Theory Factors in Economics

Page 45, 46

Among mercantilist theorists, greater or less esteem was accorded by different writers to special types of labour, in particular some thought more of the merchant

J. J. Becher The merchant stands next to nature - trade brings the poorest countries to life, to health, to great prosperity

he considers ^{peasants} farmers (all producers of raw materials) + craftsmen, as productive + not merely the merchant - he thinks consumption is the key that binds the three factors together - but the merchant stands above all as a factor in increasing the good wealth of a community

he points to Marnery's four wings: Intelligence, Determination, Money and Freedom - The merchant must have all four

he calls every help for merchants - eg. a canal linking Germany's main rivers

he insists that merchants can do harm as well as good - demands that they do not abuse their power to the detriment of population, the food-supply, or the Gemeinschaft.

v. Hörnigk nine rules of Landesökonomie

- 1 Exact inquiry of full use of all resources of a country - notably of mines
 - 2 All processing + manufacturing of raw materials in country itself
 - 3 Greatest possible increase ^{usage} of employment of inhabitants
 - 4 No exportation or temporary use of the currency
 - 5 Necessary imports, brought at first hand, ~~some materials~~ ^{some materials} ~~spared for in kind~~
 - 6 Greatest possible restriction to home products
 - 7 Necessary imports, in so far as possible, brought as raw materials
 - 8 Greatest possible exportation of manufactured goods, sold for sold out by parts
 - 9 No imports of what the ^{country} ~~country~~ itself can provide
- The use of brandis (tariffs)

Mercentilists

Theory

Factors in Economics

Book II 46, 47

W. Schröder If a country wants gold, then first foreign trade - Domestic trade is

less competition

Favors prosperous peasantry → abundance of food → lower costs of production

Manufacturing countries with a poor soil are away ahead of non-manufacturing countries with rich soil.

The state must discover what manufactures are lacking within its borders & fill up the gaps - Machine-industry finds no favor with him since it robs people of their living - On the other hand, he is enthusiastic about banks which make possible a great deal of trade with very little gold.

Leibniz (1715) To produce raw materials for export and then buy back the finished product, is comparable to buying back your horse from the thief that stole it

denies any opposition between interests of farmer, manufacturer and trader merchant: farming like roots of a tree, manufacture & commerce the branches which draw in gold from foreign countries and enrich the home-land; the farmer gets a good price when manufacture & trade flourish; trade & manufacture flourish when food-supply & raw materials are abundant and excellent

Christian Wolff Trade flourishes best when it is not restricted like Joshua Gee he gives a list of instances in which it is profitable to export raw materials and import manufactured goods Wolff deems unwise because in an age that looked with awe on the prince's treasure and the prosperity of the middle classes, he drew attention to the fact that wages have to provide a healthy and contented labouring class

Marcellists Germany

Finance

Part II 47, 48

J.G. v. Justi

[Ausführliche Abhandlung von den Steuern und Abgaben 1762
System des Finanzwesens 1766

Joseph v. Sonnenfels, Grundriss der Polizei, Handlung und Finanz 1765

first group the vollswirtschaftliche Bedingtheit der Finanzwissenschaft
second group the Physiokraten (gold mining) of the old Treasury economists

Marcellists Germany

France

Part II 49

Bodin, Jean 1520 - 1577

Règne aux parades de M. Melostrosit 1568

Discours sur le rabaissment et la diminution des monnoyes 1578

de la république (six livres) 1576

Thought that ~~to double the gold supply~~ was a doubling of prices

Explained the price level changes of XVI century by inflow of precious metal

Favored tariffs - bonnie - bonnie & trade -

Antoine de Montchretien, Sieur de Valerille

Traité de l'économie politique 1615 [first appearance of term "économie politique"]

[NB. First appearance of "political economy"]

Jean Stewart: Arriving with the principles of Political Economy 1767]

Montchretien insists on the mercantilist basis: trade, industry, merchant
warfare, colonies, finance - one man's gain is another's loss -
internal trade is no gain to the nation - the foreign merchants
are pumps sucking out the life blood of the nation

Marxist's theory

Italians

Pach 18, 99

The Italians the great pioneers in political economy
Dichowig, Kritische Geschichte der Nationalökonomie 39 f
Noted especially of the early of abstract currency & of trade
According to ~~him~~ ^{himself} the Italians had the worst currency
but the best treatises on the subject

Giovanni Botero [resembles Bodin]

Delle cause della grandezza delle città 1588
Della ragione di stato 1589

Gasparo Scovetti

Discorso sopra le monete et della vera proporzione
fra l'oro e l'argento 1579
advocated a single currency for all Europe

Antonio Serra

Brevi trattato -- (1613)

Examines the general causes of the wealth of states,
of Genoa, Florence, Venice - affirms mines to be the sole
immediate causes of an abundance of gold & silver -
affirms mediate & proper causes to be the fertility of the land,
provided the products are exchanged abroad for gold & silver,
and the suitability of its situation for foreign trade; affirms
general mediate causes to be the industry & ability of the
people; trade especially sea-home trade; manufacture
in which products are more durable than subject to
uncontrollable factors than agriculture & its natural limits;
finally the type of government, the laws, order.

Mercantilist Theory

Italians

Part II 19, 50

Antonio Innanzi

- Lezioni di commercio ossia di Economia Civile 1586 1765
- Nearest approach to systematic presentation of mercantilism
- ↳ Wealth & fortune of a nation does not consist in abundance of gold & silver - it is only the lubricant on the axle of trade - more axles, more oil; more trade needs more gold - otherwise to double gold supply is to double prices
- ↳ Rising price levels kill export trade & encourage imports

Pietro Rinaldi Gali (mid XVIII cent)

Regionamento sopra i bilanci economici delle nazioni
 Sdiaz. interdependence of different classes in nations; hence real politicians will rather a class-man

Spaniards

Moreno
 Morellet begin mercantilism - criticism of previous economy

Donato de Ulloa / mid XVIII century - Colbertism
 Severino de Ustariz
 aim of trade policy - balance that eliminates gold payments

Navarra Portuguese - a Navy.

Mercantilists Theory

Dated

Page II 57

Pieter Van der Hove (de la Cour)

Het interest van Holland 1662

Increase in national wealth through foreign trade: internal trade is unprofitable (one man's loss is another's gain)

Hence favour for manufacture that develops foreign raw stuffs & exports

Friend of economic power: Labour troubles to be solved in favour of the master - republic favours survival of fittest & so is preferred to monarchy - the estate owner is more inclined to protect the weak, which is good for the family but bad for the state, in which the strong should become stronger & the weak be sacrificed.

Pieter de Groot son of Hugo Bontius

Advanced to Louis XIV the following argument against tariffs

Every nation has more of some things & less of others; it is to the interest of all that there be exchange; tariffs mean that people have too much of one thing & not enough of another

This idea of the "Weltaarbeitsteilung" according to Ouchterlony first expressed by Pieter - Borch finds same idea in Richard of Middleton (+1300) Quod II q 23 a 1

According to Borch, Bodin drew the proper conclusion from de Groot's premiss: no embargoes but not no tariffs

Mercantilists Theory

English

Prsch II 52, 53

Prosperity a function of foreign trade

Thomas Mun England's treasure by foreign trade, or the balance of our

trade is the rule of our treasure 1664
foreign trade with the sole but the principal means of increasing a nation's wealth
(Mun was a director of East India Company
hence all - ship building, trade, tariffs, reports, currency, must be subordinated to foreign trade

Trade is conditioned by existence of sound currency - Mun, North, Locke
accordingly demanded a face-value currency - point had
already been made by anonymous W.S. in "Compendious or
brief Examination of certain ordinary complaints etc" 1581
Jacob Merton (purchase of treasury 1700-1727) had currency as
the nominal value for internal use, to prevent its flowing off to foreigners.

Josiah Child New Discourses of Trade 1668

treasure concerning the East India Trade 1681

low interest rates the causa causans of the wealth of the Netherlands
Interest rates depend on supply & demand of capital - no use making laws.
same idea in Dudley North Discourses on Trade 1691

Free trade as opposed to monopoly - privilege was argued for by Messelden &
Malynes (both 1622) - Child passes Navigation Acts because for
good of country not of group (Malynes & Malynes) - famous because
the special case of the East India Company.

Josiah Pice the Trade & Navigation of Great Britain 1727
famous free-port-system - but asks for only two such ports (London & Bristol)

Matthew Dindley An essay on the causes of the decline of the foreign trade etc 1794
famous all English ports open for both exports & imports

Josiah Tucker Elements of Commerce 1755 - Downside program - Debtless work and cheap
Locke (1714) you bring both sides to a balance greater by taking from the
heavier spending in the lighter - hence favorable balance better than the more

History of Economics

Pietro Custodi: Scrittori classici italiani di economia politica
Parte antica (1803, 4) 7 vols - Later editions (1803-16) 50 vols

Rosch II 55-

Mercantilism

A state policy in which trade, possession of gold, the balance of foreign balance & indigenous manufacture played compensating roles

Both being practices from the late middle ages till the eighteenth century were dominated by this mercantilist state policy - it cannot have been purely & simply an error

Roscher, Geschichte der Nationalökonomie, 232 f
Rosch II 55

Errors of Mercantilism ^{importance}

1. Exaggerated idea of value of gold § 56

Not in sense that gold was confused with national wealth

Mean of gold of expanding trade & taxation machine

Dühring, Kritische Geschichte der Nationalökonomie, 34 ff

"Der Besitz der edeln Metalle als Wirkung und als Ursache, als Erfolg und als Anregung der wirtschaftlichen Tätigkeit und der Leistung des Handels - dies ist, soweit überhaupt ein paar Wörter zur Kennzeichnung genügen können, die leitende Idee des Mercantilismus geworden"

entf. Rosch II 56

Error lay in putting importance of gold too much in the foreground - it is a means to trade, trade a means to economic well-being

Pösch II 56-57

Errors of Mercantilism

2. Exaggerated importance of trade, foreign trade & industry

Agricultural surplus enables possible destruction of trade, manufacturing and agriculture - this destruction certainly results in vast increase of productivity

Mercantilists insist on industry & foreign trade almost to neglect of other factors - this was meeting the challenge of historic & even more developed theory would not point out a different way [Eysenck, Geschichte der Volkswirtschaftslehre p. 51.]

Still [Pösch II 57] a more balanced view would have prompted greater intelligence in facing the problems of the emergent

worker-class, greater care of agricultural interests

On the other hand (agriculture) criticism valid in varying degrees - but the general exaggeration of the importance of trade cannot be denied II 58

2. The Absolutism & the class-fetted profit-seeking mercantilist policy

Both the growth of internal trade and the problems of external commerce in response imposed a central strong central government with a positive economic policy - But the core of the issue was not the goal of this effort was not national well-being but the power of the sovereign and the advantage of the treasury

Results of absolutism in German Kleinstaaterei which old mercantiles showed.

Posch II 62

Errors of Mercantilism

4. Exploitation of colonies & international trade rivalry

~~long & hard~~ ~~country~~ ~~implies~~

• To wish the greatness of the home-country is to wish the ruin of its neighbours" Voltaire 1762

Colonies totally subordinated to well-being of home-land.

Peace was nearly an anathema between 1600-1800

"~~Was~~ Wenn die ganze Zeit von 1600 bis 1800 von jahre- und jahrzehntelangen Kriegen erfüllt ist, deren wesentlicher Zweck ein wirtschaftlicher war, -- so zeigt das den Geist der Zeit in seinem wahren Lichte; die nationale Leidenschaft der wirtschaftlichen Rivalität war allwärts in einem Grade erwacht, dass sie nur in diesen Kämpfen ihren vollen Ausdruck und ihre Befriedigung finden konnte"

Schmidler, Umriss und Untersuchungen, 50 f
cit. Posch II 63

Der Mercantilismus hat in der Richtung, in welcher er tätig war, zum Teil grossartiges geleistet. Handel und Gewerbe sind durch ihn mächtig gefördert worden. Das hat Adam Smith, obwohl Gegner des Mercantilismus, anerkannt. Wird aber die Frage gestellt, ob der Mercantilismus unter allgemeiner wirtschaftlicher Gesichtspunkte lob verdient, so dürfte heute kaum jemand diese Frage unbedingt bejahen wollen. -- Da Mercantilssystem nicht bloss durch seine Erfolge, sondern auch durch seine Fehler und Mängel berühmt geworden ist.

Posch II 63

Physiocratic System Pasch II 64-67

New ideas came

- 64 Reaction against mercantilist state control in name of 'natural liberty'
- 65 Medieval craftsmen protected - in same fashion & by same means (Privilege, Monopoly, Statutes, Regulations, Elimination of Competition, Subsidy in international competition) the modern state favored manufactures. But what began as an aid ended as a big hindrance. In time Colbert after his unsuccessful death was (1672-78) the merchant legend at a council of producers & traders had said "laissez-nous-pair". After Colbert under Louis XIV bureaucracy spawned endless officials.
- 66 Some time agriculture found itself in least favored position - feudal obligations to church & lord, military service, internal tariffs, the destruction of war, the rank behind manufacture & trade.
- At death of Louis XIV state debt was 2 milliards, interest 68 millions interest 89 millions, income 68 millions - opposite treatment
- John Law advised foundation of bank of issue & a trade company for the exploitation of the Mississippi - shares owned 2/3 by state, + state's profits to maintain value of its fiduciary issue - profits not realized, bank insolvent 21 months 1729 - 2 milliards of money became worthless, universal loss
- throughout Monopoly of buying remained overall percentage of trade - cotton, coffee, tobacco - mostly to advantage of King & courtiers who owned the 56,000 shares on which there was a guaranteed income of 150 livres per share no matter what the conditions of trade
- 67 Situation cried aloud: Freedom, Agriculture, Financial Reform.

Pisch II 67-

Writers of Transition Period to Physiocracy.

though Colbert had aimed at "abundance de l'argent" but at "abundance des denrées" still these writers found it necessary to insist

1. On the rejection of the exaggerated regard for gold + money

P. de Boisguillebert (1646-1714) wealth is not ^{gold} money (paper would do for money) but solely in food, clothing, & necessities

Vauban, friend of Colbert and a mercantilist, "gold riches are not wealth

but only the abundance of goods needed for human life

Mélon gold is not merely the rich man's riches; it is only the sign of the rest of riches

Hobbes gold riches are not wealth, merely a sign of real wealth;

the Portuguese discovered a better sign for reality & so sought only silver - their success undermined its value

Richard Cantillon The earth is the source or matter of wealth; work is the form that produces it; and wealth itself is merely food, clothing, conveniences, agréments de la vie.

2. The Role of the Land

268

Swing away from mercantilist view that favourable balance of its conditions (domestic manufacture, tariff barriers) the source of wealth Colbert had done the farming as much harm as he had done the country. He had done it good: he had considered agriculture & peasant for cattle raising "die hiesigen Viehwirtschaft des Staates" but he was not proponent of the Physiocrats believing thoroughly in state intervention

Transition period to Physiocrats Book 5 8-19

2. Role of land, soil

Boisguillebert states obtain well-being from through its peasant population
Medium price for corn the optimum: too high too low a bad sign

Milon placed national wealth in its soil [~~From~~ ground or Boden]
affirmed peasants take largest proportion of population &
their income a better index of national wealth than the F.B.T.

Cantillon, Guernsey & Smith - similar views

Vicars de Forbonnais agriculture the basis of wealth, not
like physiocratic assertion of agriculture as sole source of wealth
Wealth is not large scale commerce but "in ancien pater
allgemeinm Ackerbau, in der Gewerben derjenigen Einwohner,
welche jenen nicht obliegen können, und einverjährenden innem
Handel"

Marquis d'Argenson all grand scale commerce reduces to usury -
the ideal lies in the "golden mean" exemplified by Switzerland

Cantillon does not make the soil the prime factor - work soil
combine to form wealth - despite his great sympathy for
the agricultural interests, Cantillon was a mercantilist & not
the father of physiocracy as Terraz & Hijge tried to make out

Vicars de Forbonnais merchants a real source of wealth, parallel to
agriculture & not a mere offshoot

Marquis Victor de Mirabeau (the older Mirabeau) wealth & more lie
not in large population, not city but country population,
that is diligent, high moral character
later he conceded to Guernsey that wealth a cause & not an effect
of population

Transition to Physiocracy Pasch II 69-

3. Elimination of State Interference

Misquillabot removal of all local & distant justness - let state be content to keep down injustice - Nature under divine providence will attend to rest

Milon trade is the exchange of superfluous for necessary - freedom must prevail at least to extent of enabling anyone to pass on his surplus - a limited freedom that does not militate against the common good - in doubtful cases decide in favour of freedom

Malthus did not demand absolute freedom - limitations on merchants is not restraint of trade - trade with colonies must be monopoly of mother-country, an advantage owed the mother-country for the military protection she provides - Hecker & Quoy were both favoured such monopoly of mother-country: in long run not to her advantage.

Ricciardi first to demand absolute international freedom

from all tariffs - goods must exchange as freely as air & water circulate - the whole of Europe must be a single market in which the best producers & best returns come to top better favour the foreign producer for the local has already the advantage of less transportation - Not only free trade in international sphere but generally "Pour gouverner mieux, il faudrait gouverner moins" - laissez faire, tel devrait être la devise de toute puissance publique, depuis que le monde est civilisé"

de Quaker, Geschichte der Nationalökonomie I 274

Transition to Physiocracy Pasch 10 To -

3. Elimination of Interference

Rene d'Argenson critic

The function of the state is solely to provide good judges, the suppression of monopolies, ^{equal} protection for all, constant currency, roads & canals

But d'Argenson did not speak as the Manchester school in the interest of great estates & big business; his favorite was the country population

Victor Mirabeau also wanted the removal of all internal tolls & customs
Universal Peace Mirabeau, d'Argenson connected it to economic organization
as did the later Manchester school

71

JC Vincent, de Roussay until Dicken's Geschichte der Nationalökonomie

de Roussay passed as the author of the phrase, laissez faire.
It was generally regarded as correct; it is found in d'Argenson

de Roussay laissez faire laissez passer refers to the
removal of tolls & customs - it does not imply the rejection
of the mother-country's monopoly in colonies, of privileges
& prohibitions - de Roussay is, according to Dicken, simply
the representative of a liberal tendency within the mercantilist
frame-work [Gesch. Nat. ök. I 291]

Transition to Physiocracy Pasch 172-

4. Reform of Taxation

Marcehal Vauban outlined a primitive system of income tax - conceived as the most principal but not the sole tax - It implied the destruction of the feudal system & so was taken over by Louis XIV

Abbi de Saubertiere proposed a tax based on productivity of the soil instead of the varying "taille arbitraire" - From this Quesnay developed his "impôt unique", but Louis XIV did not concern a single tax

Quesnay's school wanted taxes on consumption objects, especially luxuries - production was not to be taxed

Francis Quesnay 1694-1774

Parce II 73-74

Influences: = the age, the miserable condition of France, the writings of Avicenna
↳ son of peasant, a doctor who followed the school of Hippocrates
& believed that politics as well as medicine should let
nature take her course, a doctor at the court from 1749
when he could contemplate at first hand the deficiencies of
the administration
↳ works scattered, published anonymously.

74

① Oeuvres économiques et philosophiques de F. Quesnay, Aug Dutken, 1888

Physiocracy: the rule of the "natural order" - name for book by Quesnay

Physiokratisches System: name used in Germany sooner than

agricultural system: name spread in England by Adam Smith

Quassey

Book II 75 -

Quassey proceeds philosophically, disputing against current political theory that it took a one-sided view of historical development. Truth in its fulness cannot be known from given relations & positive law but only from antecedent nature. History has everywhere beginning, growth, decline, decay - but this is meaningless without an a priori measure of a natural order.

Quassey distinguished a natural order and a positive order. The natural order, self-evident as natural or ideal for the whole of social living, presents the universal, unchangeable eternal principles. It is derived from God as First Cause. The positive order consists in practical applications & proportionate execution of the eternal principles - such application & execution has to be adapted to changing circumstances & times. Lasting welfare is had only when the positive order realizes properly the natural order.

76 The natural order implies [Diagram, Geschichte der Volkswirtschaftslehre, S.]

1. Primitive natural is a substance primitive
Society did not destroy the Hobbesian, "everyone's right to everything" which in the primitive state was as meaningless as the swallow's right to every fly in the air. Hence the natural right remains - Society must take of its poor - yet each individual is free to seek more than subsistence by his own efforts.
Inequality is not an evil but a useful stimulus to progress.

Quesnay Pech II 76-

The natural order implies

- 2 the "sacred freedom" of improving one's lot as much as one can without harming others - hence full freedom in the use of property, freedom of vocation, of ~~trade~~ crafts
- 3 the unitary not the federative state, legal not arbitrary despotism enlightened Absolutism was Quesnay's choice - He had little taste for Montesquieu's Constitutionalism, considering that like republicanism it degenerated into a class-state with one-sided representation of dominant interests - no division of powers but le pouvoir absolu réglé par les lois - the monarch in his state was also le seul pontife and full-fledged sovereign the best form.
- 4 Economically the natural political form is the "royaume agricole"
Economic need is for maintenance & reproduction: gold is needed for currency for exchange; to seek more than this need requires is absurd. Wealth is what nourishes man & reproduces itself; its sole source is the land; the land gives it, increases & multiplies it; land, forest, mines & fisheries are alone productive; alone they yield a produit net; and their source is the natural fruitfulness of the land & of improvements on the land

Quercy

Lesch II 76-77

The natural order implies

4. can't

78 — Trade & manufacture do not give a product net — increase in value of flux worn into lace may be 1000 fold — but this increase simply repays the cost of living of the B worker-artist during the period of production — hence trade & manufacture are not additional sources of wealth but mere appendages to agriculture; their role is like that of domestic servants — as long as trade & manufacture remain in this role they play a notable part in the national economy & are fully justified

5. Hence the division of the population

- 79 a) la classe des propriétaires the highest class politically & socially; a classe morte; politically they are unproductive; in the field of economic administration [improvements, roads, canals, irrigation, forest preserves, & originally the clearing of the land] they are productive & entitled to rent as their share of the product net
- b) la classe productive of peasant farmers — no product net from la petite culture which barely provides sustenance for the metayers — Q. wished la grande grandculture using horses to be extended — this alone gives a product net — he sets down a proportion that must be attained of fixed to circulating capital [avances primitives at least five times as great as avances annuelles]

Queensy

Part II 79-

The natural order implies

5 cont

80 y) Trade & industry give the third class - la classe stérile
the name implies no approach but simply states the fact
that the earth is creative of wealth
the peasant labour multiples it
the manufacturer & trader add to it

This class tries to take to itself the natural profit that has its
source elsewhere - an attempt in which it succeeds to the
general detriment

The wealth of the land is richesses réelles richesses réelles
but the trader's profit is richesses fictives richesses pécuniaires
richesses stériles

Foreign trade is a good thing for no country produces all kinds
of goods - but the theory of the possible balance of trade
is une chimère des spéculateurs politiques; for the world
one sells, one buys goods in equal value (Marché de la
Rivière); profits of trade are the fruits of privilege; and the
merchant's gain is the country's loss

81 ——— Criticism of mercantile good - the lot of the farmer: "Pauvre
payсан pauvre royaume; pauvre royaume, pauvre roi"

not shifting
responsibility
Vito
"Wat der Bauer felt, hat's die ganze Welt"
Hence not mercantilist inordination of farmers
to foreign trade but vice versa
high prices for farm produce → hyper capital for farm investment →
→ less product net in A + S of Queensy

Queensway Pasch II Q1

The natural order implies 5y & 10d

82 Queensway distinguished between $\left\{ \begin{array}{l} \text{prix naturel} - \text{what ought to be} \\ \text{prix courant} - \text{what is} \end{array} \right.$

The "prix naturel" of manufactured goods etc = sustenance of cost factors

The "prix naturel" of farm produce

1 basic price - costs of production

2 farmer's selling price - adds the "product net" of nature

3 consumer's cost price - adds dealer's ~~to his~~ ^{his} ~~share~~ ^{share}

Optimum $\beta - \alpha$ large $\gamma - \beta$ small

83 Interest rate - based on product net of land

J Fourth class - wage-earners

"derniers classes des citoyens" "has people" "petit people"

No opposition between this class & farmers

H.C.P. results from food farm prices

But wages prohibit about subsistence level, so no
difference to workers whether cost of living high or low

Malthusian law makes number of poor inevitable - hence stationary

Posch II 84

The natural order implies b.

Taxes - essentially an input requirement

direct land tax on rent of large land-owners

Witt's main point of physiocratic doctrine in his treatise

"L'homme aux quarante écus"

indirect taxes rejected - in long run it falls on product net,

but is more expensive to collect, + yields less; also distorts

The Positive Order is the realization of the natural order

It has to take changing circumstances into consideration; it changes in the

politically - army needed for protection even after physics over, has put

an end to commercial wars - professional army - obligatory education -
rentiers freely fill administrative positions -

technically - an arrangement to favour agriculture - the
positive order introduced a large amount of regulation

despite the "liberal doctrine" of the natural order

Regulation - to be increased by increasing the food-supply

Book II 85

Turgot as Physiocrat (1727-81) studied theology but never ordained

86 All Quesnay's fundamental ideas

Riches is not gold - the earth the true source

87 More insistent on freedom & less given to limit it
in realizing the natural order by the positive order.

He has been termed the real pioneer of practical
individualism

Given to dogmatism, to putting ideas rashly into practice

but one of the great figures

88 In other countries a few important followers but
despite one or two experiments no results - No
following in England where the protection of the landed
interest by the corn laws made the agrarian
reorganization of physiocracy impossible.

In France the "table économique" appeared to
many as a discovery equal to Newton's

Posch II Judgment on Physiocracy - Criticisms II 91-94

Is agriculture alone productive?

1) It is the source of raw materials. But man can utilize raw materials ~~directly~~ work & its organized direction also necessary

2) It supports itself & as well it supports industry & commerce. Moreover the value of industry & commerce equals with the materials used to support producers during time of production. Hence it alone yields a surplus.

Requiescit ^{et.} one might as well say that industry & commerce support agriculture & alone yield a surplus - & surplus of raw materials results from agriculture - a surplus of finished goods results from industry & commerce

Posch answers that yielding a surplus is not the end of commerce
3) But in point of fact it is wholly agriculture that yields a surplus -- an economic system's capacity to yield a surplus is a function of its productivity & its thrift & its enterprise -- Productivity is supplying quantitatively & qualitatively what people wish with the minimum expenditure of labor & materials -- Thrift is non-direction of productivity to consumption -- Enterprise is direction of productivity to new fields that may increase productivity

Rosch Judgement on Physiocracy Conclusions # 95-99

2) Individualistic Natural Rights Law

a) to set up an ideal beside the positive order is not utopian - the utopian thinker leaps out of the real world into one of his dreams - but any thinker that passes judgement, offers criticism, rationally approves or disapproves must assume standards which are not mere matters of fact but ideal.

b) there is a tendency to refuse the name "law" to whatever lacks coercive power - but there is the coercive power of conscience - without it no state can stand - Again if the only law is positive law, then no despotism nor tyranny can be unjust [right = legal, no matter how unjust the laws, how arbitrary, how cruel, how backward, how stupid] - Again if there is any natural law, then it regards not only the individual who stands but also the family & intermediate associations which are necessary of that state is not to become a member that engulfs the individual]

c) the tendency to deny natural law arises from one of the number of confusions - Natural law is not the law of the state or political community - it is not the law of Rousseau's state of nature nor of his contract social - it does not involve a set of judges with parallel power to that of the official legal apparatus - it is the first principles on which any social positive order must be built.

d) The like physiocrats with their unqualified assertion of freedom of trade [la liberté générale et indéfinie de commerce - no state intervention - elimination of guild associations] did a great deal of harm - Their theory suffers from a lack of distinction between moral & physical natural law