



REASSESSING BASTIAT'S ECONOMIC HARMONIES AFTER 160 YEARS

*With the completion of a draft of Liberty Fund's new translation of **Frédéric Bastiat's** economic treatise on [Economic Harmonies](#) we have invited a group of scholars who know Bastiat and his work to reassess his contributions to economic theory some 160 years after the book's first appearance in 1850-51. Bastiat is widely known for his brilliant economic journalism (the series of *Economic Harmonies*) but less so for his contributions to economic theory. As an economic theorist, Bastiat has suffered from being misunderstood (even by his colleagues and contemporaries), neglected and forgotten (by most economists since his death), being subjected to abusive or dismissive criticism (**Marx** and **Schumpeter**), and being damned with faint praise (**Hayek**). David Hart, the Academic Editor of Liberty Fund's Bastiat translation project, argues that out of a list of 18 or so key economic ideas Bastiat can be said to have made significant contributions to 11 of them, and so must be considered a serious economic theorist. He is joined in the discussion by Donald J. Boudreaux, professor of economics at George Mason University; Jörg Guido Hülsmann, professor of economics at the University of Angers in France; and Joseph T. Salerno, academic vice president of the Ludwig von Mises Institute and the editor of the *Quarterly Journal of Austrian Economics*, and professor emeritus of economics in the Lubin School of Business of Pace University in New York City.*

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by David M. Hart

Introduction

Liberty Fund's Frédéric Bastiat translation project is in its 18th year and approaching completion. Three of six volumes have already been published;^[1] two are in the final editing stage,^[2] and the sixth is still in an early editing stage.^[3] The Board approved the project in 2001, the bicentennial year of Bastiat's birth, and in the ensuing years we have suffered a number of setbacks, such as the deaths of the founding editor, Jacques de Guenin (1931-2015), and the second translator, Dennis O'Keeffe (1939-2014); a couple of false starts with the translation; and a change in direction in the editorial approach.

I wanted to take the opportunity presented by the completion of the editor's draft of our edition of the fifth volume, namely, *Economic Harmonies*, to invite a group of scholars who know Bastiat and his work to join me in reassessing his contributions to economic theory some 160 years after the book's first appearance^[4] and to point out any errors or omissions in the text before it goes to the next stage in editing. In my opinion Bastiat as an economic theorist has suffered from being misunderstood (even by his colleagues and contemporaries), neglected and forgotten (by most economists since his death), subjected to abusive or dismissive criticism (from Marx and Schumpeter), and damned with faint praise (by Hayek and Dean Russell). Nevertheless he has always had a small group of American admirers who taught his ideas in the universities (such as Amasa Walker [1799-1875], Arthur Latham Perry [1830-1905], and William Graham Sumner [1840-1910])^[5] and republished his journalism on free trade and protection (the Cobden Club in England and free trade groups in Chicago and New York

City). Closer to our own time, the group of economists and historians who were part of Rothbard's "Circle Bastiat" at New York University in the 1950s and Leonard Read and Dean Russell at the Foundation for Economic Education in the 1950s and 1960s translated nearly half of Bastiat's writings and thus brought him to the attention of free-market conservatives and libertarians (including me) in the second half of the 20th century. To the latter two groups we owe a considerable intellectual debt, but as the Bastiat translation project hopes to show, there is much more to know about the life and work of Bastiat, especially his contributions to economic theory and broader social theory about the state, plunder, and class.



Frédéric Bastiat

I would like to kick off this discussion with some thoughts about how good a theoretical economist Bastiat was in his unfinished treatise, *Economic Harmonies*. Since we have already had a Liberty Matters discussion on Bastiat, which covered his life and work quite broadly (July, 2013)^[6] I suggest we focus in this discussion more closely on his theoretical work as an economist.

Bastiat as an Economic Theorist

I have drawn up a list of 17 key ideas (plus one grab bag of ideas) against which to test Bastiat, along with my brief assessment of his contribution. I have written entries in

the volume's Appendix (which are indicated in the notes) on several of these topics.

1. Human Action

Bastiat had a notion that individuals have free will, choose from the alternatives before them, economize their scarce resources, and then act to realize their goals. He used the

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very term *l'action humaine* (and its variants - *actif*),^[7] thus he was Austrian in his understanding. Also his use of "Crusoe economics" thought experiments^[8] was praxeological, as Rothbard noted and borrowed for the opening chapters on "Exchange" in *Man, Economy, and State* (1962). Bastiat was deeply original and ahead of his time with this line of thinking about economics. It is clear that he had an individualist methodology of the social sciences.

2. The Nature of Exchange

Bastiat realized that exchange was central to any advanced social life and shared Destutt de Tracy's idea that society is just a set of interlocking exchanges.^[9] These are mutually beneficial if undertaken in a voluntary manner. Bastiat attempted to make "exchange" a more abstract concept by talking about the mutual exchange of "services," not just of physical "goods."^[10] He developed an interesting idea of an "apparatus of exchange" (*l'appareil*),^[11] a complex arrangement of interconnected people, institutions, customs, and laws that makes complex exchanges over time and place possible. He also developed a more problematic idea that society is like a mechanism (*le mécanisme social*) with cogs, wheels, and springs, a description that got rather strained at times.^[12]

3. Theory of Value

He was at once both confused and ahead of his time when it came to "value." He came close to a purely

subjective theory of value but not quite, as he thought "equal" or "equivalent services" were exchanged. He also thought that "value" came from the work or effort which people were "saved" from having to do themselves. I think he presented a "service theory of value" rather than a "labor theory of value," which might not have been much of an improvement. Furthermore, he repeatedly used the word *value* when we would use *price* instead, which confused matters in my view.

4. Theory of Rent

This is another key part of the classical orthodoxy which Bastiat challenged along with the labor theory of value and pessimistic Malthusianism. He thought Ricardian rent theory was wrong because there was nothing special about the productivity of land; thus charging rent for the use of land is productive and just and hence a "service" like any other. He expanded these insights about rent into a more general theory of returns on capital, including profit, interest, and rent.

5. Importance of Consumers

Bastiat had an original consumer-centric view of economics in which the purpose of production is consumption: the needs of consumers determine what is produced. Thus he rejected any legislation which favored producers over consumers. Consumers have a list, or hierarchy, of needs to be satisfied, which is potentially unlimited. Bastiat made the important observation that every person is both a consumer and a producer, even if it is just by offering the service of his own body and mind to others in an exchange.

6. Money and Banking

Bastiat ignored these topics until quite late but did write several pieces in his last couple of years (1849-50).^[13] Hayek was not aware of these writings and criticized him for this apparent omission. Bastiat was an advocate of hard money and free banking and was aware of the problem posed by false, or counterfeit, money. He engaged in debates with socialists like Proudhon on the morality and necessity of charging interest on capital but never provided a coherent statement of his views on

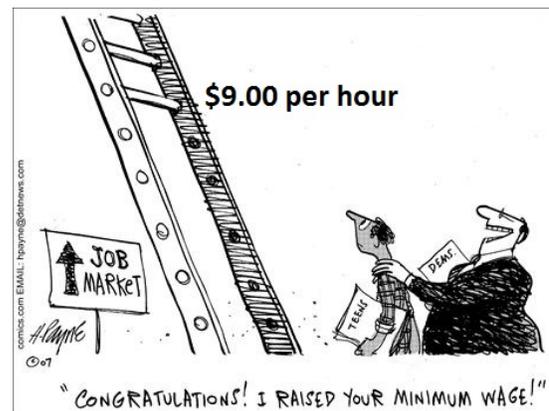
these matters. Prosper Paillottet (1804 -1878) told us that Bastiat had planned to do so in a future volume.

7. Capital Theory

His views on this were pretty elementary and sometimes bizarre. He realized the importance of capital accumulation in making workers more productive and raising their wages; he understood the risk taken by investors and the need for them to be compensated for this; he saw the connection between time and interest and may even have had a basic notion of "time preference." He also had a complex and somewhat confusing idea that capital, savings, and knowledge accumulate over time in a "common fund," which drops in "value" (he means "price") and becomes "common to all." This was his way of telling the communists that the free market and individual self-interest created a kind of "community."^[14]

8. Price Theory

His ideas on this were pretty elementary. He often confused "price" and "value," which does not help us to understand his argument at times. He realized that prices were determined by the law of supply and demand and scarcity.



9. Wages

He had no idea of marginal product (but why would he at this time?). He saw wages as the result of voluntary exchanges between "capitalists" and "workers," where capitalists take a risk in advancing payment for work done before the products are sold; the capitalists thus assume the risk of failure and provide the certainty of regular payment to workers. Wage rates were related to the

greater productivity made possible by invested capital and machines, and he believed wages would steadily rise as capital accumulated, the division of labor continued to expand, and markets increased in scope.

10. Free trade

On this, Bastiat is brilliant and a deep thinker at all levels. He is and remains unsurpassed in my view.

11. Harmony and Disharmony

His key idea is that "rightly understood" interests may differ but are not inherently in conflict. People can adjust to different individual preferences and engage in mutually beneficial trade. Thus markets are "harmonious."^[15] He contrasted this with its opposite, "disharmony," which comes about when the market is disrupted by conflict, violence, plunder, and the granting of special political and legal privileges. This leads to disharmony and is not the result of the market itself, as critics of the market argued. He also had a quite sophisticated notion of the correcting forces at work in the economy (restorative forces),^[16] which attempt to bring a disrupted market back into equilibrium. He had a related notion of *le déplacement* (the displacement or dislocation)^[17] of labor and capital, caused by government intervention (such as subsidies and tariffs) which prompted factories and businesses to be built where they would not otherwise have been built in the absence of these interventions. Problems such as unemployment and economic downturn occur when these laws change and as the necessary correction takes place. This idea is similar to the Austrian notion of "malinvestment," although it is not connected to manipulations of the interest rate.

12. Theory of Interventionism

Bastiat realized that distortions were caused by government intervention in the economy. I think he had a concept of how one intervention led to another, but this was rather rudimentary and not well-developed.

13. Theory of the State and Bureaucracy

This is one of his most original and important theoretical contributions. Bastiat had many public-choice-like notions^[18] of the self-interested behavior of politicians

and bureaucrats, but these are largely scattered and not well developed. His theory of plunder (especially "legal plunder") is important, as is his proposed "history of plunder," through which he intended to trace the different stages of plunder societies have moved through historically.^[19] His theory of "functionaryism" (the bureaucratic state)^[20] and the future socialist state began to emerge during the Second Republic, when it became clearer what President Louis Napoléon (later Emperor Napoléon III) and the socialist movement had in mind.

14. Population Theory

This is another one of Bastiat's more important and original insights. His strong anti-Malthusian optimism caused much opposition from his colleagues, who all remained strict Malthusians. Bastiat realized how productive free trade and innovation would be in a free market and that individuals with free will and reason could and would adjust their behavior. His views have proven to be correct. He did, however, apply the idea of "Malthusian limits to growth" to the state in an original way, (It will always grow to the limit allowed by the level of taxation, which is its "means of subsistence.")^[21] Bastiat also grasped the idea of "human capital" -- that there are great benefits to be had from densely populated towns because of the division of labor and the lower transaction costs these allow.

15. Business-Cycle Theory

Like most economists of his day, Bastiat did not fully understand the reasons for the business cycle. He knew of Charles Coquelin's work on free banking^[22] and the role played by credit expansion, but he did not discuss this in any detail. The nearest he came was his theory of "displacement," the malinvestment and distortions caused by interventionist legislation.

16. The Interconnectedness of All Economic Activity

Bastiat was aware of how the various parts of the economy were interconnected and thereby fundamentally dependent upon one another. A good example is his version of Leonard Read's story "I, Pencil" (1958),^[23] which is designed partly to show the Hayekian problem of knowledge (no one knows enough about the

industrial and organization processes which go into making a simple lead pencil) and partly to show the greater productiveness made possible by an international division of labor and international trade (the various components of the pencils, such as wood, lead, paint, and rubber come from different parts of the world). Bastiat has his own story about the village cabinet maker and the student, which we might call "I, Carpenter" in deference to Read.^[24]



Leonard Read

17. Solving the Problem of Economic Coordination without Central Planning

Bastiat argued that the free market "harmoniously" solved the problem of economic coordination without the need for central planners, or as he liked to dismissively call them, "Mechanics," "Organizers," or even "Gardeners."^[25] The best example of this is not in *Economic Harmonies* but in an earlier essay which appeared in the first collection *Economic Sophisms*. Here he told another economic story about the provisioning of a large city like Paris,^[26] which is supplied with all its daily needs like food, water, and clothing without the assistance of any central planner who had to coordinate the economic activities of hundreds of thousands of people. The profit motive was sufficient for a complex and "harmonious" economic order to evolve without government interference.

18. Other General Economic Insights

Bastiat also had a number of other innovative economic insights for which he should be recognized:

1. He was an early user of the idea of *ceteris paribus*^[27] (contemporaneously with J.S. Mill);
2. He invented the idea of opportunity cost (as argued by Jasay);^[28]
3. He contributed the notion of the "ricochet," or flow-on, effect from government intervention;^[29]
4. He acknowledged there were "flows" of information in the economy; he used many electrical and hydraulic metaphors and is almost Hayekian in his understanding;

Thus of these 18 areas, I would argue that Bastiat could claim to have made significant theoretical contributions to 11:

1. Human Action
2. The Nature of Exchange
3. Importance of Consumers
4. Free trade
5. Harmony and Disharmony
6. Theory of the State and Bureaucracy
7. Population Theory
8. Theory of Interventionism
9. The Interconnectedness of all Economic Activity
10. Solving the Problem of Economic Coordination without Central Planning
11. The Idea of Opportunity Cost

...and little of no lasting contribution to seven others:

1. Theory of Value
2. Theory of Rent
3. Money and Banking
4. Capital Theory

5. Price Theory
6. Wages
7. Business Cycle Theory

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Seen" (March, <https://oll.libertyfund.org/titles/2731>).

[2.] Vol. 4: *Miscellaneous Works on Economics* (forthcoming) - final draft version (June 2017) <https://oll.libertyfund.org/pages/cw4>; Vol. 5: *Economic Harmonies* (forthcoming) - final draft version (April, 2019) <https://oll.libertyfund.org/pages/cw5>.

[3.] Vol. 6: *The Struggle Against Protectionism: The English and French Free-Trade Movements* (forthcoming). We have put online from this volume a partially corrected version of Bastiat's "Introduction" to his book *Cobden and the League* (July 1845) <https://oll.libertyfund.org/pages/introduction-to-cobden-and-the-league>.

[4.] Bastiat worked furiously over the summer of 1849 in the seclusion of a hunting lodge in a forest on the outskirts of Paris putting together the first volume of *Economic Harmonies*. He had this ready for publication by the end of the year, and it appeared in January 1850. He planned to write a second volume, which he was not able to complete before his death on 24 December 1850. His friends Prosper Paillolet and Roger de Fontenay assembled the second volume from Bastiat's papers and published an enlarged second edition in July 1851.

[5.] Rothbard discusses Bastiat's followers in the U.S. in "Bastiat and Laissez-faire in America," *Classical Economics: An Austrian Perspective on the History of Economic Thought* (Auburn, Alabama: Ludwig von Mises Institute, 2006), vol. 2, pp. 466-70.

[6.] Robert Leroux, "Bastiat and Political Economy," *Liberty Matters* (July 1, 2013), with contributions by Donald J. Boudreaux, Michael C. Munger, and me. <https://oll.libertyfund.org/pages/bastiat-and-political-economy>.

[7.] "Human Action" (CW4) <https://oll.libertyfund.org/pages/cw4#chapter-7-9011>.

[8.] "Bastiat's Invention of 'Crusoe Economics'" (CW3, pp. lxiv-lxvii).

Conclusion

I am aware that I may be exaggerating Bastiat's original contributions with the rosy glasses of hindsight and admiration. I hope my colleagues will set me straight if I have strayed too far off the path.

Some further questions for the discussants to consider are the following:

1. Are Bastiat's ideas of any use to economic theorists today, or are they only of historical interest?
2. Has he been made redundant by the marginalists of the 1870s and more recent developments? Is he now only fit for the museum of old economic ideas, perhaps worthy of a display case all his own rather than being relegated to a dusty corner away from the limelight?
3. How does *Economic Harmonies* compare to J.S. Mill's *Principles of Political Economy* (1848)? Why did the latter have such an impact on the economics profession?
4. Why was Bastiat ignored? Was it just the translation problem? Or the fact that his work was left incomplete? Or that was it ahead of its time and not understood by his contemporaries?

I look forward to reading my colleagues' thoughts on these matters.

End Notes

[1.] Vol. 1: *The Man and the Statesman. The Correspondence and Articles on Politics* (March 2011) <https://oll.libertyfund.org/titles/2393>; Vol. 2: *"The Law," "The State," and Other Political Writings, 1843-1850* (June 2012) <https://oll.libertyfund.org/titles/2450>; and Vol. 3: *Economic Sophisms and "What is Seen and What is Not*

<https://oll.libertyfund.org/titles/2731#lf1573-03_head_039>.

[9.] "Society is One Great Market" (CW4) <<https://oll.libertyfund.org/pages/cw4#chapter-7-8867>>.

[10.] "Service for Service" (CW4) <<https://oll.libertyfund.org/pages/cw4#chapter-7-9068>>.

[11.] "The 'Apparatus' or Structure of Exchange" (CW4) <<https://oll.libertyfund.org/pages/cw4#chapter-7-8764>>.

[12.] "The Social Mechanism and its Driving Force" (CW4) <<https://oll.libertyfund.org/pages/cw4#chapter-7-9122>>.

[13.] Bastiat turned to writing about money, banking, capital, interest, and rent in 1849 with the following works: the pamphlet *Capital and Rent* (February 1849) <<https://oll.libertyfund.org/pages/cw4#chapter-6-5287>>, the article "Damned Money!" (*JDE*, April 1849) <<https://oll.libertyfund.org/pages/cw4#chapter-6-5761>>, the article "Capital" (summer, 1849) <<https://oll.libertyfund.org/pages/cw4#chapter-6-6017>>, and his extended discussion with Proudhon *Free Credit* (22 Oct. 1849 to 11 Feb. 1850) <<https://oll.libertyfund.org/pages/cw4#chapter-6-6259>>, all of which will be in CW4 (forthcoming).

[14.] "Community, Property, and Communism" (CW5) <<https://oll.libertyfund.org/pages/cw5-appendix#community>>.

[15.] "Harmony and Disharmony" (CW4) <<https://oll.libertyfund.org/pages/cw4#chapter-7-8891>>.

[16.] "Disturbing and Restorative Factors" (CW4) <<https://oll.libertyfund.org/pages/cw4#chapter-7-8840>>.

[17.] "Theory of Displacement" (CW5) <<https://oll.libertyfund.org/pages/cw5-appendix#displacement>>.

[18.] "Public Choice" (CW5) (to come).

[19.] "Theory of Plunder" (CW5) <<https://oll.libertyfund.org/pages/cw5-appendix#theoryplunder>>, "Legal Plunder" (CW5) (to come), and "History of Plunder" (CW5) <<https://oll.libertyfund.org/pages/cw5-appendix#plunderhistory>>.

[20.] "Rule by Functionaries" (CW5) <<https://oll.libertyfund.org/pages/cw5-appendix#functionaries>>.

[21.] On Malthus and Malthusian Limits to the Growth of the State" (CW3, pp. 461-64). <https://oll.libertyfund.org/titles/2731#lf1573-03_head_232>.

[22.] Charles Coquelin, *Du Crédit et des Banques* (Paris: Guillaumin, 1848) and "Crises commerciales," *Dictionnaire de l'Économie politique* (1852-53), vol. 1, pp. 526-34.

[23.] Leonard Read, "I, Pencil: My Family Tree as Told to Leonard E. Read," *The Freeman* (December 1958). <<http://fee.org/library/detail/i-pencil-audio-pdf-and-html>>. See also Leonard E. Read, *I Pencil: My Family Tree as told to Leonard E. Reed* (Irvington-on-Hudson, New York: Foundation for Economic Education, Inc., 1999). <<https://oll.libertyfund.org/titles/112>> .

[24.] Both are in *Economic Harmonies*, chap. 1 "Natural and Artificial Social Order" <<https://oll.libertyfund.org/pages/cw5#natural>>, which I have numbered stories S6 and S7 in "The Use of Economic Stories to Explain Economic Ideas" (CW5) <<https://oll.libertyfund.org/pages/cw5-appendix#stories>>.

[25.] "Mechanics and Organizers" (CW5) <<https://oll.libertyfund.org/pages/cw5-appendix#mechanics>>.

[26.] ES1 18 "There Are No Absolute Principles" (c. 1845), in CW3, pp. 83-85. <https://oll.libertyfund.org/titles/2731#Bastiat_1573-03_837>.

[27.] "Ceteris Paribus" (CW4) <<https://oll.libertyfund.org/pages/cw4#chapter-7-8786>>.

[28.] Jasay wrote a two-part article called "The Seen and the Unseen," which appeared on the *Econlib* website in December 2004 and January 2005, where he applies Bastiat's idea and borrows the name for his own title. See <<http://www.econlib.org/library/Columns/y2004/Jasayunseen.html>>. He makes explicit reference to the greatness of Bastiat as an economist in the second article he wrote for *Econlib*, "Thirty-five Hours" (15 July 2002) <<http://www.econlib.org/library/Columns/Jasaywork.html>> and credits him for inventing the idea of "opportunity cost": "he anticipated the concept of opportunity cost and was, to my knowledge, the first economist ever to use and explain it."

[29.] "The Sophism Bastiat Never Wrote: The Sophism of the Ricochet Effect" (CW3, pp. 457-61) <https://oll.libertyfund.org/titles/2731#lf1573-03_head_231>.

BASTIAT THE THEORIST

by Donald J. Boudreaux

Here's a theory for why nearly all prominent economic theorists who are aware of Frédéric Bastiat dismiss him as a theorist: he was insufficiently abstruse.

A reader isn't supposed to have fun when reading theory. But fun is certainly what's experienced by those who read Bastiat. Therefore (the conclusion is drawn) Bastiat was only a proselytizer even if one with unusual gifts. He was no theorist.

I believe, on the contrary, that Bastiat was indeed an economic theorist and an excellent one at that.

What Is a Theory?

Above all, a theory is a story. But it is not just a story. A theory is a story with two critical features. First, the story is one that we tell to ourselves and to others to improve our understanding of observed or experienced reality.

Second, the story can usefully be generalized to fit different particular details.

To be generalizable, a story whose creator wishes it to be regarded as a serious theory must be abstract. Being abstract, however, makes the story -- standing alone -- barren, engendering no understanding of the physical or social world. It proves itself to be a good theory if, when relevant details of reality are added, those of us who encounter it go, "Ah ha! Now I understand reality better than I did before!"

Supply-and-demand analysis, for example, is a general story of how prices are formed and change. It's not a story about the formation of the price of only one item, such as peanuts. It's an outline for telling believable stories about the formation of all prices -- from the prices of toy planes to those of jumbo jetliners, from the wages earned by motel maids to those earned by Lady Gaga. A story that explains the price only of peanuts is not a proper theory of prices even if it is highly believable.

The core purpose of all theories -- in both their construction and application -- is improved understanding. A theory that does not cause those who encounter it to go, "Ah ha!" is worthless.

What Is a Theorist?

A theorist is a teller of such stories. He or she has a knack for understanding just what story best explains a particular observation or experience. Sometimes theorists tell original stories. Other times theorists apply existing stories in creative ways to new and different circumstances. Significantly, economists have long recognized the important role play by applied theorists.

Bastiat is one of history's greatest applied economic theorists.

Consider Bastiat's famous 1843 satire, "Petition of the Manufacturers of Candles." In this short essay Bastiat radiantly conveyed economists' understanding that artificially contrived scarcities make the general population worse off even if they increase the wealth of a small handful of individuals. Who other than the most benighted protectionist can read Bastiat's portrayal of

sunlight as an unfairly low-priced import and not go, "Ah ha! *Now* I see why low-priced imports -- whether of wheat, watches, or whatchamacallits -- that 'flood' into a country no more impoverish that country than does light sent to us free by the sun!"



In this essay Bastiat applied economic theory to demonstrate simultaneously the absolute indefensibility of two common assertions about protectionist policies. The first is that the domestic economy is damaged if its people import more than they export; the second is that the domestic economy is damaged if its people acquire imports at prices that are "too low." To my knowledge, no one before Bastiat had applied sound economic theory in quite this way -- and I'm sure that no one before (or since) Bastiat had (or has) done so with such vividness. Word for word, I doubt that any work in economics has caused more "Ah ha!" moments than has Bastiat's "Petition."

Had Bastiat instead written a paper explaining directly that imports are benefits and exports are costs and that people are not enriched by rejecting benefits and by paying unnecessarily high costs, he might well have proven the point with a chain of impeccable logic or even with graphs or a set of equations. Indeed, he might also have seized the opportunity to name some phenomenon identified in his paper -- perhaps, say, labeling the gain that domestic consumers enjoy when they purchase imports at prices below costs "the Bastiat area." That is, Bastiat might have instead written a paper that fits the conventional form of a work in applied theory.

But had he chosen this conventional path he would have, at best, formalized a theoretical point long understood by most economists. And while his explanation would have undoubtedly been correct, it would also likely have been read by few and long ago lost to history. Such a paper would have elicited almost no "Ah ha's"

Another example of Bastiat's skill as an applied theorist is his even-shorter essay "A Negative Railway." Here Bastiat revealed the flaw in the argument that if a railroad connecting Paris to Bayonne were forced to stop at Bordeaux, the wealth of the French people would be enhanced. The hapless target of Bastiat's brilliance is the interventionist who based his conclusion on the correct observation that forcing trains to stop at Bordeaux would increase the incomes of porters, restaurateurs, and some other people in Bordeaux. Yet Bastiat didn't settle -- as a more conventional theorist would have settled -- for drily noting that, after paying these higher incomes, railways and their passengers would have less money to spend on goods and services offered by suppliers in locations other than Bordeaux. Instead, Bastiat followed the proposal's logic in a way uniquely and brilliantly revealing: if forcing trains to stop at Bordeaux would increase the total wealth of the people of France, so too would the total wealth of the people of France be increased if trains were obliged to stop also at Angoulême. And if also at Angoulême, then the French would be enriched even further if a third stop were required at Poitiers. And if at Poitiers, then at each and every location between Paris and Bayonne.

Bastiat revealed the proposal to be flawed by showing that if its logic were sound, the railway that would do the most good for the French people was one that was nothing but a series of stops -- a *negative* railway!

Every essay in Bastiat's *Economic Sophisms* is the work of a masterful applied economic theorist.

But what of pure theory? David Hart makes a strong case that Bastiat's creativity lay not only in applying existing theory but also in crafting new theories to explain -- new generalizable stories to tell about -- economic reality. After careful study of Bastiat's *Economic Harmonies*, Hart concludes that Bastiat's contributions to pure theory are 11 in number. Hart's case is solid.

I dissent from Hart's assessment only very slightly and only to defend what Hart calls Bastiat's "service theory of value."

Hart is correct that Bastiat -- writing before economics's marginal revolution of the early 1870s -- did not offer a complete and flawless theory of value. Yet there nevertheless is something insightful and important in Bastiat's recognition that the value to us human beings of all but the most final of consumer goods is tied to the amount of effort that non-final goods (and services) save us in our quests to acquire the satisfactions that we expect from final consumer goods.

Time is scarce and toiling away at activities that do not directly yield utility is unpleasant. Bastiat was onto something when he recognized that humans attach economic value to goods, services, and economic arrangements that reduce the amount of time and toil we must spend to obtain the utility we seek from final consumer goods and services. Bastiat's recognition of this reality did not propel him to construct a complete and correct theory of value, but this recognition, as used by Bastiat, nevertheless yields important and interesting insights about reality.

Harmonies

The most familiar serious objection that modern economists level against Bastiat is that he allegedly had a fairytale, Pollyannaish view of market economies. Such a view seems to be suggested by the very title of Bastiat's economics treatise: *Economic Harmonies*. Yet as becomes abundantly clear from reading this book, Bastiat did not believe that human beings live together in a harmony ordained by God or by nature. The "harmonies" to which Bastiat referred obtain only as a result of production and trade guided by market prices and only insofar as human-created obstructions, such as tariffs, do not exist.

Bastiat's point, as I understand it, is the same as that summarized more famously in Adam Smith's recognition that the butcher's, brewer's, and baker's pursuits of their own self-interest serve the self-interest of those of us seeking dinner. Just as Smith explained that market competition under an "obvious and simple system of

natural liberty" weaves us all into a productive society the whole of which is greater than the sum of its parts, Bastiat explained how markets in a regime of private property rights turn what would otherwise be destructive negative-sum competition and antagonism into productive positive-sum competition *and cooperation*.



Adam Smith

Scholars can argue that Bastiat failed to recognize this or that source of "market failure." Yet they could argue the same about Adam Smith or Alfred Marshall -- and even, for that matter, about Paul Samuelson or Paul Krugman. But nothing about Bastiat's explanation of how competitive market processes spur each of us self-interested individuals to peacefully serve the interests of strangers differs fundamentally from similar explanations offered by other economists through the centuries. (By the way, as David Hart makes clear, what scholars cannot argue is that Bastiat failed to recognize the reality of government failure. On this front, Bastiat was more astute and scientific than many other economists, past and present.)

A closing note: Bastiat did not write anything, including *Economic Harmonies*, to be read only by specialized theorists of political economy. His audience was broader. By the time Bastiat wrote *Harmonies*, scholars specializing in political economy had already

absorbed the reality of what F.A. Hayek later called the "spontaneous order." But nonspecialists had not -- a fact that surely prompted Bastiat to emphasize the fact that private pursuit of self-interest within markets is not only compatible with a peaceful and prosperous society but also essential to such a society.

Did Bastiat overstate the case? Certainly he did in some particulars. I'm sure, for example, that Bastiat was overly optimistic about human beings being perfectible. But I think that, on the whole, Bastiat did not overstate his case. He was rightly impressed with the vast coordination of plans engendered by market processes, and he didn't mask with dry prose his admiration for this coordination. Dry prose was becoming commonplace among professional economists by the mid-19th century, and such sleep-inducing prose is the norm among today's economists. It would be a shame if scholars continued to ignore Bastiat's brilliant theoretical prowess because of his equally brilliant and crystal-clear prose style.

WAS BASTIAT A FORERUNNER OF MENGER AND THE AUSTRIAN SCHOOL?

by Joseph T. Salerno

Carl Menger and Eugen Böhm-Bawerk, the preeminent economic theorists of the early Austrian school, were both dismissive of Bastiat's writings in economic theory. Menger harshly rejected Bastiat's theory of land rent for "the violence done to goods in general, and land in particular."^[30] Summing up his scathing critique of Bastiat's theory of interest, Böhm-Bawerk concluded, "Bastiat's explanation reveals the fact that he has been misled into a number of incredibly gross errors."^[31] Furthermore, both Menger and Böhm-Bawerk considered Bastiat's general value theory, to use Böhm-Bawerk's words, "quite erroneous."^[32]



Carl Menger

If we focus only on the details of value and price theory, then we may agree with Menger, Böhm-Bawerk, and later Austrians such as Mises^[33] and Hayek^[34] that Bastiat's theoretical endeavors did not amount to much. However, if we broaden our criteria to include the pre-analytic vision of the economic process, Bastiat's contributions are seen in a much different light.

Bastiat's brilliant insights into the overall operation of the economic process on the one hand and the evident flaws in his core value and price theory on the other make it a challenging task to fairly evaluate Bastiat as an economic theorist. In his fine essay reassessing Bastiat's theoretical treatise, *Economic Harmonies*, David Hart eases this task by clearly describing this contradiction. Bastiat, Hart points out, made significant advances beyond classical economics by formulating economics as a science of *human action* whose main focus is the nexus of voluntary *exchanges*, the ultimate end of which is the satisfaction of the *wants* of *consumers*. Although Bastiat completely reoriented economics away from a study of wealth and its producers to an investigation of human action, interpersonal exchange, and consumer sovereignty, Hart recognizes that Bastiat's value theory proper was shallow and defective and his price theory was missing in action. Thus the first volume

of *Harmonies* does not even contain a chapter on price, jumping directly from a chapter on value to one on wealth.[35] In fact the word *price* appears less than 20 times in the first volume compared to more than 100 times each for the terms *value* and *want-satisfaction*.

In this comment I will indicate how some of Bastiat's ideas anticipated and indeed may have influenced Menger's pathbreaking theory of the economic process.

To begin with, Bastiat identified the subject of political economy as human beings and their actions in striving to satisfy their wants:

The subject of political economy is man ... considered from the point of view of his wants and the means whereby he is able to satisfy them. *Want, effort, satisfaction*—this is the orbit of political economy.... *Want, effort, satisfaction: such is man from the point of view of economics.*[36]

According to Bastiat, part of man's natural constitution is "constant concern ... to lessen the ratio of effort to result ... to do more with less," that is, to minimize the effort he expends in achieving a given satisfaction.[37] Given the tremendous diversity of human skills and natural resources, man therefore naturally grasps that he can spare himself effort in satisfying his wants by exchanging services with others.[38] By giving rise to and intensifying the division of labor, exchange becomes institutionalized as the great common means for mutually satisfying everyone's wants and desires. Thus economics becomes the science of exchange:

[P]olitical economy may be defined as the theory of exchange.... Exchange is political economy. It is society itself, for it is impossible to conceive of society without exchange or exchange without society. . . . The causes, the effects, the laws of these exchanges constitute political and social economy.[39]

Having identified the subject of economics as man and defined its scope as the phenomena related to exchange, Bastiat addressed the question of why man the consumer deserves priority over man the producer. He argued that

satisfactions "are the result of the whole mechanism" that causally links wants to means and means to the end achieved. He also points out that the French word *consommation*—which French economists took over to designate consumption—in its original etymology was synonymous with *end* or *achievement*" Given the connotation of materiality associated with *consumption*, Bastiat preferred to apply the term *satisfaction* to all wants and desires because it better expressed the goal of the economic process. As Bastiat wrote: "But satisfaction being the goal, the end of all efforts . . . [it is] the final *consummation* of economic phenomena. . . ."[40]

Bastiat brought the law of cause and effect to bear in describing the economic process. Human wants, efforts, and satisfactions, which Bastiat repeatedly identified as the essence of economic phenomena, are related as links in a causal chain. This causal process begins in the realm of the subjective and personal, proceeds through the objective external world, and terminates back in the subjective, personal realm.[41] Bastiat brilliantly summed up this process:

[M]an is both passive and active ... wants and satisfactions, being concerned exclusively with sensation, are, by their nature, personal, intimate, and nontransferable[,] ... effort on the contrary, the link between want and satisfaction, the mean between the extremes of motive cause and end result, stemming as it does from our activity, our impulse, our will, can be transmitted by mutual agreement from one individual to another.[42]

In sum Bastiat placed man and his actions in striving to satisfy his wants under exchange and division of labor at the center of economic theory. He utilized the law of cause and effect to clearly depict how the want-satisfaction process operates across and binds together the subjective and objective realms. Finally, Bastiat demonstrated that man *qua* consumer reigned supreme in the activation and consummation of the economic process.

In the remaining space I will briefly indicate how these three themes resound in Menger's reconstruction of economic theory.^[43]

Echoing Bastiat, Menger affirmed that man and his wants are the primary focus of economic theory. Thus the following dictums appear in notes Menger wrote in preparing his *Principles*: "Man himself is the beginning and the end of every economy"; and "Our science is the theory of a human being's ability to deal with his wants."^[44] Menger also appropriated Bastiat's oft-repeated aphorism "want, effort, satisfaction" and reformulated it as a triad of causally linked phenomena: "ends-means-realization/man-external-world-subsistence/wants-goods-satisfaction."^[45]

Menger, like Bastiat, also viewed causality as an essential category of economic theory. In the opening sentences of his *Principles*, he wrote: "All things are subject to the law of cause and effect. This great principle knows no exception...."^[46] Menger deployed this law to argue, as did Bastiat, that subjective states of want and satisfaction were links in the same causal chain that necessarily included objective states of the world:

One's own person, moreover, and any of its states are links in this great universal structure of relationships. It is impossible to conceive of a change of one's person from one state to another in any way other than one subject to the law of causality. If, therefore, one passes from a state of need to a state in which the need is satisfied, sufficient causes for this change must exist. There must be forces in operation within one's organism that remedy the disturbed state, or there must be external things acting upon it that by their nature are capable of producing the state we call satisfaction of our needs.^[47]

Following Bastiat, Menger recognized that the middle link in the causal structure of economic relationships in practice involved exchange under the social division of labor.^[48] He therefore defined economic theory catallactically as "the investigation of the causal connections between economic phenomena involving products and the corresponding agents of production"

for the purpose of establishing a realistic and unified price theory which explains the exchanges and prices of all consumer goods and factors of production on the same principles.^[49]

Finally, we note that Menger elaborated the middle term in his adaptation of Bastiat's causal chain, "wants, goods, satisfaction," into what he called "the causal connections between goods" or the "orders of goods." In doing so he identified the consumer as the motive force of all economic activity. Hence, "goods of the lowest order" are consumer goods which *directly* cause satisfaction of consumer wants. Factors of production on the other hand are "goods of higher order" having only "an indirect causal connection with human needs."^[50] All production aims therefore at the transformation of goods of higher order into goods of the lowest order. Here it may be pertinent to mention Hayek's remark that Menger's "careful initial investigation of the causal relationship between human needs and the means for their satisfaction ... is typical of the particular attention which ... the Austrian School has always given to the technical structure of production."^[51] This leads to interesting speculation concerning to what extent Bastiat inspired Austrian production structure analysis. While this may be straining a bit, there is compelling evidence that Bastiat's vision of the economic process contained essential elements of Menger's approach to economic theory. Whether this is just a coincidence or the result of Bastiat's influence on Menger is an important question for future research.

Endnotes

^[30.] Carl Menger, *Principles of Economics*, trans. James Dingwall and Bert F. Hoselitz (Auburn, AL: Mises Institute 2007), p. 166.

^[31.] Eugen von Böhm-Bawerk, *Capital and Interest: Volume I, History and Critique of Interest Theories*, trans. George D. Huncke and Hans F. Sennholz (South Holland IL: Libertarian Press 1959), p. 194.

^[32.] Menger, p. 308; Böhm-Bawerk, p. 191.

^[33.] Ludwig von Mises, *Liberalism in the Classical Tradition*, trans. Ralph Raico, 3d ed. (Irvington-on-Hudson,

NY:Foundation for Economic Education, and San Francisco: Cobden Press), p. 197. "His teachings are obsolete today" in Liberty Fund's edition, Ludwig von Mises, *Liberalism: The Classical Tradition*, trans. Ralph Raico, ed. Bettina Bien Greaves (Indianapolis: Liberty Fund, 2005). <https://oll.libertyfund.org/titles/1463#Mises_0842_513>.

[34.] F. A. Hayek, Introduction in Frederic Bastiat, *Selected Essays in Political Economy*, ed. George B. de Huszar, trans. Seymour Cain (Irvington-on-Hudson, NY: Foundation for Economic Education, 1995), p. ix. <https://oll.libertyfund.org/titles/956#lf0181_head_003>.

[35.] Frederic Bastiat, *Economic Harmonies*, ed. George B. de Huszar, trans. W. Hayden Boyers (Irvington-on-Hudson, NY: Foundation for Economic Education, Inc., 1964). OLL online version: <<https://oll.libertyfund.org/titles/79>>.

[36.] Bastiat, *Harmonies*, pp. 25, 44, 54, 60.

[37.] *Ibid.*, p. 332

[38.] *Ibid.*, pp. 31, 67-72.

[39.] *Ibid.*, pp. 31, 59-60.

[40.] *Ibid.*, p. 57.

[41.] *Ibid.*, pp. 26-32.

[42.] *Ibid.*, pp. 101-02.

[43.] Menger, *Principles*.

[44.] Quoted in Kiichiro Yagi, "Menger's *Grundsätze* in the Making," *History of Political Economy* 25 (Winter 1993): 720-21.

[45.] Quoted in *ibid.*, p. 704.

[46.] Menger, p. 51.

[47.] *Ibid.*, pp. 51-52.

[48.] *Ibid.*, pp. 226-85.

[49.] *Ibid.*, p. 49.

[50.] *Ibid.*, p. 56.

[51.] F.A. Hayek, "Carl Menger (1840-1921)," in *The Fortunes of Liberalism: Essays on Austrian Economics and the Ideal of Freedom*, vol. 4, *The Collected Works of F.A. Hayek*, Peter G. Klein, ed. (Chicago: University of Chicago Press, 1992), p. 70.

OBSERVATIONS ON BASTIAT'S THEORY OF VALUE

by Guido Hülsmann

For many years I have been a great admirer of Frédéric Bastiat. I have also become an admirer of David Hart and should like to express my gratitude here publicly. Indeed, Dr. Hart deserves recognition for dedicating many years to studying the life and work of Frédéric Bastiat, and the scholarship he has produced is worthy of great praise. Through this research, Dr. Hart has turned himself into today's foremost expert on Bastiat and mid-19th century French political economy. [52] Bastiat's *Collected Works* have become a monument of scholarship, worthy of the great Frenchman and of his ideas. The initiator of this project, the late Jacques de Guenin, who dedicated his retirement years to promoting Bastiat's legacy in France and in the world, can rest in peace.

“FOR MANY YEARS I HAVE BEEN A
GREAT ADMIRER OF FRÉDÉRIC
BASTIAT.”

Turning now to my subject, I should state from the outset that I have long considered Bastiat to be an eminent theoretician. Eighteen years ago, on the occasion of his 200th birthday, I made this case on the pages of the *Quarterly Journal of Austrian Economics*, stressing four of his major contributions. [53] First, Bastiat rightly placed more emphasis on the distinction "harmonious vs. antagonistic social relations" than on the later-fashionable distinction "equilibrium vs. disequilibrium." Second, he understood that the

concepts *property* and *appropriation* are *fundamental* for economic analysis, whereas the concepts *value*, *utility*, and *price* are *derived*.

In other words, *property* and *appropriation* are not only political but also *analytical* categories. Third, Bastiat pioneered a value theory which, despite all its flaws and imprecisions, excelled in two respects: it was a praxeological value theory, and it was complemented by a theory of gratuitous economic goods. Fourth, Bastiat was the very first author who, however dimly, understood that the conclusions of political economy relied on a special class of causal relations, namely, counterfactual laws. Each human action entails consequences which not only "are seen" but which are also bound up with counterfactual consequences that "are not seen." In his words:

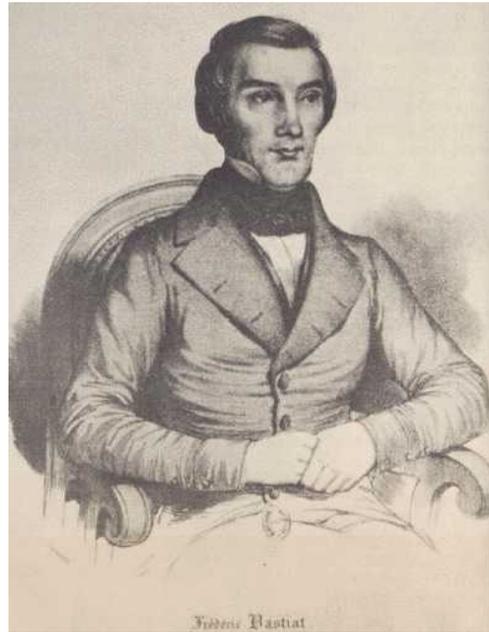
"It is not seen that, since our citizen has spent six francs for one thing, he will not be able to spend them for another. *It is not seen* that if he had not had a windowpane to replace, he would have replaced, for example, his worn-out shoes or added another book to his library. In brief, he would have put his six francs to some use or other for which he will not now have them." [FEE ed., p. 3.]

"What is not seen is that since our bourgeois has spent six francs on one thing, he can no longer spend them on another. *What is not seen* is that if he had not had a window to replace, he might have replaced his down-at-the-heels shoes or added a book to his library. In short, he would have used his six francs for a purpose that he will no longer be able to." [LF edition: Bastiat 2016 (1850), 406]

Today I am more convinced than ever that Bastiat's theoretical contributions stand out and deserve utmost attention from present-day economists. In what follows, I will follow up on my 2001 piece by commenting in some more detail on Bastiat's theory of value before concluding with a few comments on David Hart's lead article.

Bastiat famously argued that each and every instance of market exchange is an exchange of human services, and he defined *value* as the exchange ratio between human

services rendered. Many critics have pointed out that this thesis suffered from ambiguity in the meaning of *services* and from a complete lack of any element of *marginal* value.^[54] These shortcomings are real. However, they seem to have drawn the readers' attention away from the main point – from the elephant in the room, so to say – which is that value is ontologically bound up with exchange.



Frédéric Bastiat

This is a dramatic departure from the value-theoretical conceptions of Adam Smith and the classical economists. In their eyes, value was a quality of economic goods that the latter obtained as a consequence of production. We can neglect here the differences between the conceptions of Smith, Say, Ricardo, and Marx. It does not matter whether labor was the only cause of the value in economic goods or whether other cost factors played a role as well. The salient point is that their value did not spring from choice and exchange but from costs of production. Goods could have value even if they were never exchanged. From that point of view, market exchanges were "based on" the values resulting from production. Market-exchange ratios were some sort of mutual recognition of the values that were being traded, but these values existed independently of the decisions of the market participants to actually perform an exchange.

Bastiat's conception was very different. In his eyes the value of a good is not a quality or substance inherent in that good but a *relation* of that good with other goods, a relation that comes into being through – and only through – market exchange. Value does not only come to be *expressed* through market exchanges. It is *existentially bound up* with the latter. It comes into being only through market exchanges.

Bastiat seems to have been the first proponent of an exchange theory of value. Intriguingly, his revision of classical value theory foreshadowed Ludwig von Mises's revision of Menger's theory of subjective value, which led Mises to espouse what could be called a "choice-based" theory of subjective value, very much in analogy with Bastiat's contribution in 1850.

Menger (2007 [1871], 115) had defined the subjective value of an economic good as the "significance," or "importance," that such a good has for an acting person because of its scarcity. But what was the meaning of these terms? Which were the causes of scarcity? What caused the different degrees of subjective value? Forty years later Mises clarified Menger's definition by pointing out that subjective-value judgments are existentially tied to human choices. In his words:

[\[The theory of subjective value\] conceives of value](#) as the significance attributed to individual commodity units by a human being who wishes to consume or otherwise dispose of various commodities to the best advantage. Every economic transaction presupposes a comparison of values. But the necessity for such a comparison, as well as the possibility of it, is due only to the circumstance that the person concerned has to choose between several commodities.[\[55\]](#)

Even though Mises and Bastiat did not talk about the same phenomenon – the word *value* had a very different meaning in each theorist's conception – the analogy between their contributions is striking. Both authors define *value* as resulting from human choices. Mises focused on choice in general and thus on subjective value. Bastiat focused on the specific case of the choice to

exchange and thus market-exchange ratios. But in both cases, value is *caused by* choice and not merely acknowledged by the decision-makers.



Ludwig von Mises

The social and political consequences of these seemingly innocuous theoretical niceties are tremendous, as Mises would show in the context of the socialist-calculation debate and in opposing the chartalist (state-origin) approach in monetary theory. Bastiat did not have the time to think through all the implications of his exchange theory of value. He died an early death, exhausted from six years of relentless writing and public speaking, leaving his *magnum opus* incomplete. But he had devised highly original conceptions, most notably in value theory, which anticipated later developments in economics. It is true that Bastiat's achievements still have yet to make it into today's mainstream historiography of economic thought, but this is a problem for the latter, not for Bastiat.

In conclusion, let me offer a few thoughts on Dr. Hart's lead article. I happen to agree with most of his points and disagree mainly with his assessment of Bastiat's value theory, a criticism which in my eyes is too negative and which prompted me to focus on this area in my present communication. I also do not agree with Dr. Hart on a couple of secondary points. For example, I do not think that Bastiat's use of Crusoe economics and of *ceteris paribus* conditions is original. Robinson Crusoe had inspired the classical economists (and Marx criticized

Ricardo for it, see Tabb 1999, 26-30, and footnote 12 on 209), and the earliest use of the *ceteris paribus* conditional that I am aware of is in St. Thomas Aquinas's *Summa contra gentiles*. (Dr. Hart has written a brilliant little note on the history of the *ceteris paribus* conditional.)

Similarly, I do not think it is warranted to ascribe to Bastiat the view that "society is *just* [my emphasis] a set of interlocking exchanges." Finally, even if Bastiat held the notion that one state intervention tends to lead to further state interventions, this would not have been an original conception, since this view was already clearly expressed and explained in Condillac's *Commerce and Government*.

Endnotes

[52.] In the French language, the best presentation of 19th-century French liberalism and political economy is in Philippe Nemo and Jean Petitot, 2006, second part, pp. 205-553, especially chapter 10 (authored by the late Michel Leter) on the School of Paris.

[53.] See Hülsmann 2001. At the time, three other authors made the same case, though not with quite the same arguments: Gérard Bramoullé 2001, Georges Lane 2001, and Mark Thornton 2001. Hülsmann 2008 was written about the same time but published only much later.

[54.] Bastiat's value theory is also often criticised for postulating an *equality* of value of the services that are exchanged. I do not think this criticism is warranted, see Hülsmann 2001, 61, footnote 7.

[55.] Mises 1981 [1924], 51f. For discussions of Mises's contribution to the theory of subjective value and of the central place of that theory in his social philosophy, see Hülsmann 2003, 2007, 2012.

BASTIAT ON STORY TELLING AND OTHER RHETORICAL DEVICES

by David M. Hart

I would like to thank my colleagues for their thoughtful and interesting responses. I think we all agree that Bastiat

“IN THIS POST I WOULD LIKE TO
RESPOND TO SOME OF THE
COMMENTS CONCERNING BASTIAT
THE STORYTELLER.”

was a serious, important, and unjustly neglected theorist whose work needs careful study. Although we share some common ground (recognizing his important contribution to understanding the bigger picture of the market process and his understanding of human action), we do differ on a number of topics (such as his theory of value of which Guido thinks more highly than the rest of us, the originality of his use of stories about Robinson Crusoe, and whether or not Bastiat was "too optimistic" [Don Boudreaux]), and we have all singled out different areas of his thought to emphasize and urge further research on (Joe on his impact on Menger and me on his impact on Rothbard).

In this post I would like to respond to some of the comments concerning Bastiat the storyteller.

Bastiat as Masterful Storyteller

Don presents a very interesting idea of "the theorist as storyteller. arguing that theory itself should be seen as the story which is told and the theorist as the teller of such stories -- the "economist as bard," as it were. The purpose of these stories is to improve our understanding of the world around us, and Don rightly concludes that Bastiat was a "masterful applied economic theorist" who told wonderful economic stories.

I was struck by the same thing as I was editing *Economic Harmonies* and decided to count the stories: [I counted](#)

55, which I think is surprisingly large -- and see how he compares to other economists, such as Adam Smith, J.B. Say, and John Stuart Mill.^[56] Did they tell economic stories in the same way, or were they more "expositional" in their analyses? One might further ask, does economic storytelling have a place in modern economic theory, or is this approach now out of date and thus to be avoided? Previously, I had realized that storytelling was an important part of Bastiat's approach to "applied economics" in his journalism and described this as Bastiat's "rhetoric of liberty," which he used brilliantly in the *Economic Sophisms*.^[57] But had not fully realized he also used this approach in his main work of theory.



Robinson Crusoe

I think in my earlier readings of *Economic Harmonies* I had not paid these stories much attention and just wanted to move on to the theoretical meat these stories were attempting to describe and explain. I am sure other modern readers would have done the same, dismissing these stories as somewhat unnecessary and perhaps aimed at more juvenile or unsophisticated readers. Perhaps this is another reason why modern economic theorists have dismissed Bastiat as a serious economic theorist.

Yet some of the stories show the extraordinary depth of his understanding of theory which cannot be dismissed

as superficial or childish. I have in mind in particular the following stories in EH:

1. Story S6 of the village carpenter and S7 about a simple student living in Paris (Bastiat's version of Leonard Read's "I, Pencil" story).
2. Story S23, which is about a wealthy banker in Paris who employs an outstanding opera singer (on the value of nonmaterial services)
3. Six stories about Robinson Crusoe and praxeology: S9, S10, S16, S28, S30, S31

Don commends Bastiat's stories in his journalistic and theoretical work for providing his readers with many "Ah ha!" moments. Unfortunately, neither Schumpeter nor Hayek seemed to ever have such a moment, at least with *Economic Harmonies*.

Other Innovative Rhetorical Devices Bastiat Used

I am unsure about the originality of other rhetorical devices found in *Economic Harmonies*, for example, his elaborate metaphors of channels, clock mechanisms, basins filled with water, centripetal and centrifugal forces, apparatuses, spheres, geometric line lengths, and domains and their boundaries. We might ask whether the modern reader finds any of this useful in producing "Ah, ha!" moments, or whether it just produces confusion.

One thing you can say about Bastiat is that he has a certain genius for inventing a new vocabulary to describe his theoretical insights, both economic and sociological, which I have tried to describe in a number of "concept maps" I have made for his sociological theory, such as *plunder* and *class*, and for his economic theory, such as *disturbing factors*, *human action*, and *harmony*. Again, these elaborate interlocking sets of vocabulary may have contributed to his being dismissed by other economic theorists as a bit strange and unfamiliar. This is a subject perhaps for a future post. Below is the "concept map" for his theory of human action. As an example:

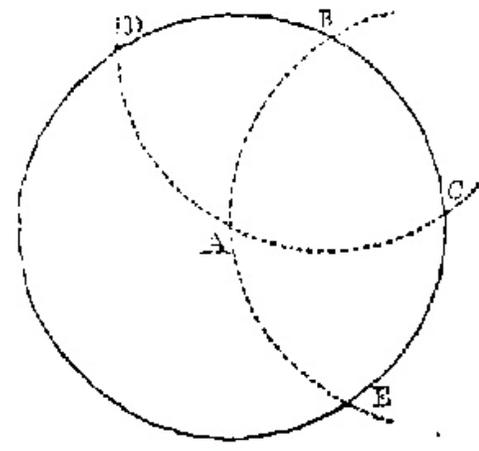
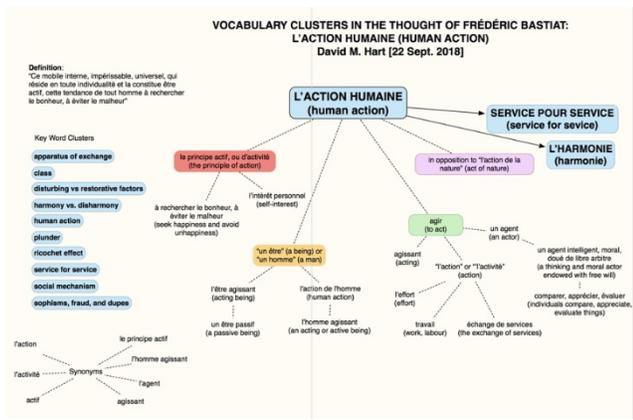


Fig. 3.

Standard in economic theory, of course, is the graph, especially the supply and demand curve. Bastiat did not use it, and I wonder who was the first economist to do so. Perhaps the other participants in this discussion could enlighten me. Harro and Morgan have an interesting article on graphical analysis, but it does not answer my specific question.^[58]

In [chapter XI, "Producer and Consumer,"](#) Bastiat for the first and only time used geometric shapes like lines and spheres to make a theoretical point.

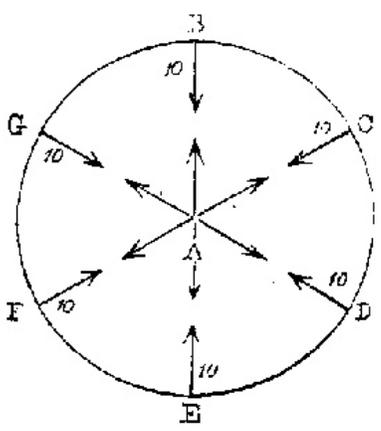


Fig. 2.

Valeur produite = 60
 Valeur reçue... = 60
 Utilité produite. = 6

I wonder what to make of this. Is it an inkling of an important insight about how economic theory might be done (graphical analysis), or is it an idiosyncratic theoretical dead end?

Conclusion

Bastiat's use of stories and geometrical shapes remind me of Deirdre McCloskey's work on the "rhetoric of economics"^[59] in which theory can be seen as a set of arguments intended to persuade the listener (in the modern case, the reader) of the merits of one's case. Economists have evolved a collection of rhetorical tools which they as a "profession" have come to accept as persuasive arguments. These include stories similar to those that Bastiat liked to tell, tables of economic data and more recently graphs (like the supply and demand curve), and mathematical equations. Perhaps in the pre-mathematical age of economic theory, Bastiat took economic storytelling to its ultimate limit, and I wonder what its place might now be in modern economic theory. We all probably use his stories in our teaching, but do modern economic theorists use them in their theorizing anymore?

Endnotes

^[56.] See "The Use of Economic Stories to Explain Economic Ideas," in *Appendix 1* CW5. <<https://oll.libertyfund.org/pages/cw5-appendix#stories>>.

[57.] See "Bastiat's Rhetoric of Liberty: Satire and the 'Sting of Ridicule'," in the *Introduction* (CW3, pp. lviii-lxiv). <https://oll.libertyfund.org/titles/2731#lf1573-03_head_038>.

[58.] Harro Maas and Mary S. Morgan. "Timing History: The Introduction of Graphical Analysis in 19th Century British Economics," *Revue d'Histoire des Sciences Humaines*, vol. no 7, no. 2, 2002, pp. 97–127.

[59.] Deirdre N. McCloskey, *The Rhetoric of Economics* (Madison, WI: University of Wisconsin Press, 1998).

BASTIAT ON VALUE THEORY AND THE CONCEPT OF SERVICES

by Joseph T. Salerno

I have two related comments on Guido's astute and very enlightening observations on Bastiat's value theory.

First, there is a certain ambiguity in his treatment of Bastiat's view of the connection between value and exchange. Guido observes that shortcomings in Bastiat's value theory diverted attention from his main point, "which is that value is ontologically bound up with exchange." In distinguishing Bastiat's value theory from those of his predecessors (Smith, Say, Ricardo, and Marx), Guido describes it as an "exchange theory of value," by which he means,

Value does not only come to be *expressed* through market exchanges. It is *existentially bound up* with the latter. It comes into being only through market exchanges.

Now I find this a very illuminating and fruitful depiction of Bastiat's value theory and its fundamental difference with preceding theories. However the ambiguity creeps in when Bastiat's theory is characterized as foreshadowing Mises's choice-based theory of subjective value. Bastiat's theory is not particularly subjective or choice-based. Indeed, in Guido's telling—and I believe

that it is correct—the objective act of exchange is logically antecedent to the very existence of value.

Does Bastiat's theory, then, foreshadow the Misesian value theory simply because it posits that value is "existentially bound up" with something? But value in Marx's theory is certainly existentially bound up with labor and in Say's theory with utility. For Marx, labor alone confers value on goods and is its measure; for Bastiat, the emergence of an objective exchange ratio alone accounts for and measures the value of goods or, rather, the "services" goods convey. I think Guido needs to clarify this important issue.



Eugen von Böhm-Bawerk

My second comment is tangentially related to Guido's essay and concerns Bastiat's notion of "services," which I find much more significant than his value theory. Indeed I believe that this concept anticipated—although it may not have influenced—Böhm-Bawerk's neglected concept of "renditions of service."

Bastiat identified the service as the fundamental unit of individual judgment and evaluation and, ultimately, of exchange. As Bastiat stated:

FEE ed.: [For a service to have value](#) ... it is not obligatory for the service to be real, conscientiously rendered, or useful... Everything depends on the *judgment* passed on the services... [A]lways human services [are] exchanged for other human services, being measured, estimated,

appraised, *evaluated* by comparison with one another.... [Emphases in the original.][60]

new LF ed.: In order for a service to have value according to the economic meaning of the word, that has an actual value,[505] it is not necessary for it to be genuine, conscientiously rendered, or useful. It needs only to be accepted and paid for by another service. ... Everything depends on the *assessment* made of them ... always human services being exchanged for one another and being measured, estimated, assessed, and *evaluated* one against the other

Bastiat (63, 21. T292) also contended that tangible goods are exchanged and valued for the services they will render the recipients:

FEE ed.: I conclude that value ... can never reside in these substances [products] themselves.... [V]alue is merely the appraisal of the services exchanged, whether a material commodity is or is not involved in the transaction.... It is pure metonymy to attribute value to the material commodity itself. [V]alue results from the service and not the product....[61]

new LF ed.; I conclude from this that value, ... can never lie in these things themselves but rather in the effort devoted to modifying them, ... value is just an appraisal of the (worth of the) services being exchanged, whether matter enters into it or not. ... It is by pure metonymy that value is attributed to the matter itself

Bastiat's emphasis on services as the fundamental unit of economic life sounds very much like Böhm-Bawerk's view, although their conceptions of services were not quite the same. Böhm-Bawerk (1962, 67-68) pointed out that the usefulness of "corporeal goods" in satisfying human wants consisted of "the activation for the delivery of useful renditions of the forces of nature residing in them." [62] But the fact that useful renditions of service are based on natural powers that inhere in a material good does not imply that the good itself is a purely objective

phenomenon. To illustrate this, Böhm-Bawerk employed the example of the production and consumption of a poem to show that the good is inextricably bound up with the want-satisfaction process that traverses and links the objective and subjective realms:

Be it granted that the poet's soul must have originated thought and emotion, and be it further granted that only in another soul and through intellectual powers can those thoughts and emotions be reproduced, but the path from soul to soul leads through the physical world for one stretch of the journey and on that stretch the intellectual element must make use of the physical vehicle, that is to say, of the forces or powers of nature. The book is that physical material vehicle.[63]

Böhm-Bawerk concluded his discussion in a Bastiatian vein:

The concrete renditions of service are means for the satisfaction of want in a more real sense than are goods themselves.... [I]t is not goods but ... the renditions of service that emanate from those goods which constitute the smallest independent units of our economy and that the former (i.e., goods) constitute only complexes of the latter, that goods are therefore a secondary category." [64]

Endnotes

[60.] Frederic Bastiat, *Economic Harmonies*, ed. George B. de Huszar, trans. W. Hayden Boyers (Irvington-on-Hudson, NY: Foundation for Economic Education, Inc., 1964), pp. 121-22. OLL online version: .

[61.] Ibid. pp. 63; Frederic Bastiat "On the Idea of Value," OLL 21. T292.

[62.] Eugen von Böhm-Bawerk, *Whether Legal Rights and Relationships Are Economic Goods*, trans. George D. Huncke. In *Shorter Classics of Böhm-Bawerk*. (Spring Mills, PA: Libertarian Press Inc., 1962), pp. 67-68.

[63.] Ibid., p. 69.

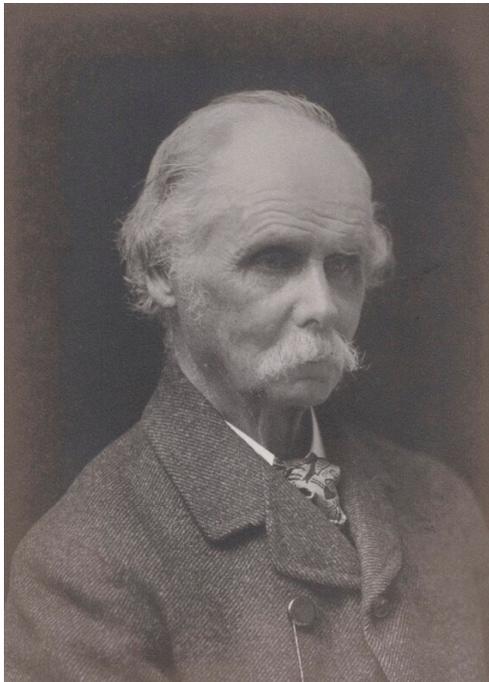
[64.] Ibid., p. 77.

ON THE ORIGIN OF THE SUPPLY-AND-DEMAND GRAPH

by Donald J. Boudreaux

I have a complaint about the essays by Joe Salerno and Guido Hülsmann: they make any further contribution by me to this discussion difficult. The reason is that both essays are excellent. I find nothing at all of real significance to challenge. The same goes for David Hart's follow-up comment.

But I can answer David's question about the origin of the supply-and-demand graph. At least to English-speaking audiences, the originator appears to be Fleeming Jenkin. Jenkin drew the now-familiar graph for the first time in his 1870 paper, "The Graphic Representation of the Laws of Supply and Demand, And Their Application to Labour."^[65] Alfred Marshall, in his influential 1890 textbook, *Principles of Economics*, made this graph famous.^[66]



Alfred Marshall

I do, though, have a question for Joe, although I welcome answers also from my other colleagues in this forum. My

question is this: while we know that Carl Menger read Bastiat, what is the specific evidence that Bastiat influenced Menger in the ways that Joe describes? I don't question the validity of Joe's argument. And I'm prepared to accept the claim that the similarities of those of Menger's analyses that Joe highlights to the analyses of Bastiat are so great that, even if Menger was never conscious of having been influenced by Bastiat, Bastiat's influence is nevertheless present. I just wonder if there is some more direct evidence of this influence.

I will ponder Joe's, Guido's, and David's contributions further. Rich as they are, they will soon spark further responses from me.

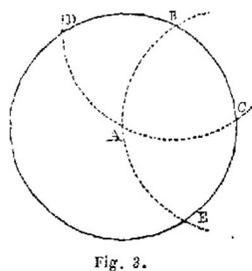
Endnotes

^[65.] Fleeming Jenkin, "The Graphic Representation of the Laws of Supply and Demand, And Their Application to Labour." (1870). Online at [Google Books](#).

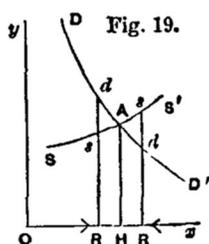
^[66.] Alfred Marshall, *Principles of Economics*, (1870). Online at Econlib <<http://www.econlib.org/library/Marshall/marP.html>>. At the OLL (1920, 8th ed.) <<https://oll.libertyfund.org/titles/1676>>.

BASTIAT AND THE ORIGIN OF SUPPLY AND DEMAND CURVES

by David M. Hart



Bastiat (1850)



Marshall (1890)

Don's suggestion to look at Alfred Marshall's *Principles of Economics* (1890 and many later editions) as the source of the modern way of depicting the relationship between supply, demand, and price graphically proved to be very fruitful. By reading Marshall's footnotes carefully one can also identify where he got the idea.

One thing I noticed straight away when looking at these sources (Cournot, Dupuit, and Marshall) is that the supply and demand curves were relegated to footnotes or appendixes, rather than taking center stage as they do now, as if they were curiosities of some kind only of interest to selected experts in mathematics. It is also interesting to note that Bastiat did not do that with his lines and circles. They are there on the main page in front of the reader, which is an indication of the importance he placed on them.

Marshall began by depicting graphically supply and demand (versus price) individually for the most part and then only later (figure 19) put the two together in the famous cross. Since this was so new he felt obliged to explain to the reader what it meant in another footnote (no. 13):

13. [Let us seek a graphical illustration.](#) It is to be remembered that graphical illustrations are not proofs. They are merely pictures corresponding very roughly to the main conditions of certain

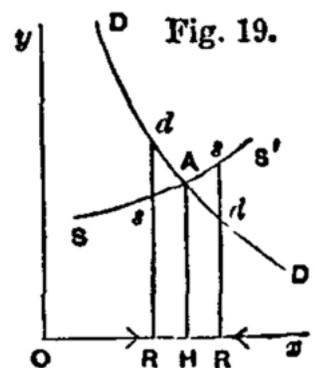
real problems. They obtain clearness of outline, by leaving out of account many considerations which vary from one practical problem to another.... [p. 155 of 8th ed.]

In footnote 19 he discussed why he put the two curves together:

To represent the equilibrium of demand and supply geometrically we may draw the demand and supply curves together as in Fig. 19. If then OR represents the rate at which production is being actually carried on, and Rd the demand price is greater than Rs the supply price, the production is exceptionally profitable, and will be increased. R, the amount-index, as we may call it, will move to the right. On the other hand, if Rd is less than Rs, R will move to the left. If Rd is equal to Rs, that is, if R is vertically under a point of intersection of the curves, demand and supply are in equilibrium.[\[67\]](#)

The text in which this footnote occurs is the following:

[When demand and supply are in stable equilibrium](#), if any accident should move the scale of production from its equilibrium position, there will be instantly brought into play forces tending to push it back to that position; just as, if a stone hanging by a string is displaced from its equilibrium position, the force of gravity will at once tend to bring it back to its equilibrium position. The movements of the scale of production about its position of equilibrium will be of a somewhat similar kind.[\[FN19\]](#)



But in real life such oscillations are seldom as rhythmical as those of a stone hanging freely from a string; the comparison would be more exact if the string were supposed to hang in the troubled waters of a mill-race, whose stream was at one time allowed to flow freely, and at another partially cut off. Nor are these complexities sufficient to illustrate all the disturbances with which the economist and the merchant alike are forced to concern themselves. If the person holding the string swings his hand with movements partly rhythmical and partly arbitrary, the illustration will not outrun the difficulties of some very real and practical problems of value. For indeed the demand and supply schedules do not in practice remain unchanged for a long time together, but are constantly being changed; and every change in them alters the equilibrium amount and the equilibrium price, and thus gives new positions to the centres about which the amount and the price tend to oscillate.[\[68\]](#)

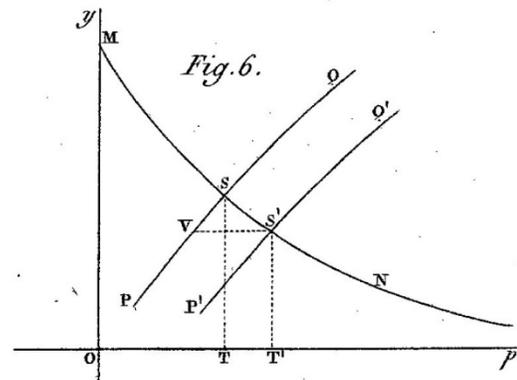
In another long footnote Marshall explained where he got this idea:[\[69\]](#)

[A great change in the manner of economic thought](#) has been brought about during the present generation by the general adoption of semi-mathematical language for expressing the relation between small increments of a commodity on the one hand, and on the other hand small increments in the aggregate price that will be paid for it: and by formally describing these small increments of price as measuring corresponding small increments of pleasure. The former, and by far the more important, step was taken by Cournot (*Recherches sur les Principes Mathématiques de la Théorie des Richesses*, 1838); the latter by Dupuit (*De la Mesure d'utilité des travaux publics* in the *Annales des Ponts et Chaussées*, 1844), and by Gossen (*Entwicklung der Gesetze des menschlichen Verkehrs*, 1854). But their work was forgotten; part of it was done over again, developed and published almost simultaneously

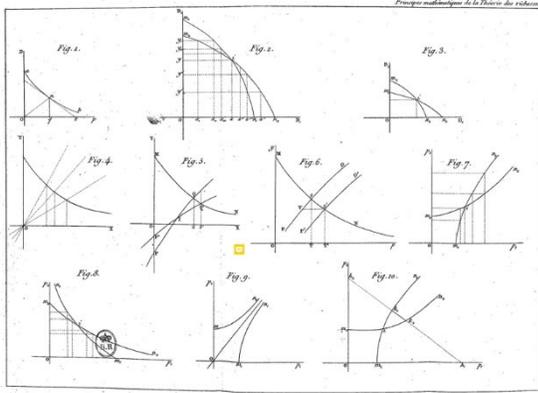
by Jevons and by Carl Menger in 1871, and by Walras a little later....

Bastiat might have known about the mathematician and statistician Antoine Augustin Cournot (1801–1877) and the engineer Jules Dupuit (1804–1866) since they were contemporaries. He did not mention Cournot (most likely the first person to draw up supply and demand curves), but Dupuit was a regular contributor to the *Journal des Économistes* and wrote some of the articles on public works for the *Dictionnaire de l'Économie politique*, which was being prepared by Bastiat's publisher Guillaumin in the last two years of his life.

In *Recherches sur les principes mathématiques de la théorie des richesses* (1838), Cournot discussed the relationship between supply, demand, and price on p. 57, but put the relevant curve in the appendix on p. 222, where he thought it would not disturb the reader too much.[\[70\]](#)



Dupuit wrote a great deal about public works and the application of economics to the government monopoly provision of these goods; he also dealt with the private provision of things like roads, canals, and water, especially the charging of tolls for privately built roads.[\[71\]](#) In his article "*De la Mesure d'utilité des travaux publics*" (*On Measuring the Utility of Public Goods*) in the obscure engineering journal *Annales des Ponts et Chaussées* (1844) Dupuit did all the math in the main article and again put his graphs in an appendix. He didn't show the famous "cross" or overlay or intersection of the supply curve and the demand curves, but he was close to the basic concept, as the following example shows:[\[72\]](#)



Perhaps the reader should look again at Bastiat's efforts to graphically depict the economic principles above and compare them with Cournot's and Dupuit's. Once again, Bastiat seemed to be close to an important theoretical insight but didn't have the time or the good health to take it any further.

Another question we might ask our economist friends is: when did the supply and demand curves graduate to the main text rather than being relegated to the bench (i.e., the appendix or the footnotes)?

Endnotes

[67.] Footnote 19 in the online version, Book V, Chapter III "Equilibrium of Normal Demand and Supply." <https://oll.libertyfund.org/titles/1676#lf0197_label_300>. In the 8th ed. of the book, this is on page 346.

[68.] <https://oll.libertyfund.org/titles/1676#Marshall0197_775>

[69.] <https://oll.libertyfund.org/titles/1676#lf0197_footnote_nt066>. P. 101 in 8th ed.

[70.] Augustin Cournot, *Recherches sur les principes mathématiques de la théorie des richesses* (Paris: L. Hachette, 1838). English trans.: Antoine Augustin Cournot, *Researches Into the Mathematical Principles of the Theory of Wealth*, trans. Nathaniel Terry Bacon (New York: Macmillan, 1897).

[71.] Jules Dupuit, "Voies de communication" (Communication Routes), *DEP* (1852-53), T. 2, pp. 846-54.

[72.] Jules Dupuit, "De la Mesure d'utilité des travaux publics," *Annales des ponts et chaussées. Mémoires et documents relatifs à l'art des constructions et au service de l'ingénieur* (Paris: Carilian-Goeury, 1844), No. 116, pp. 332-75. Also, *De l'influence des péages sur l'utilité des voies de communication* (Paris: Guillaumin, 1849).

BASTIAT ON EFFORTS AND SATISFACTIONS

by Guido Hülsmann

Many thanks to Joe Salerno for tickling me on the Bastiat's value theory as a precursor of Mises's value theory. Indeed, the commonality between the two does *not* result from Bastiat's theory being "existentially bound up with something." Rather, the common point is that they are both existentially bound up with choice and exchange. In other words, for Bastiat (as for Menger and Mises), value is not a substantive quality of an economic good. It is not something that is inherent in or intrinsic to any one good. Rather, it is a *relationship* between one good and another good, and with respect to one (Mises) or two (Bastiat) human beings. This relationship springs from choice (Mises) or from exchange (Bastiat). This relational conception of value is an important continuity from Bastiat to Mises, despite all the important differences in details.

"NOW THE SHORTCOMINGS OF
BASTIAT'S VALUE THEORY ARE
OBVIOUS TO ANYONE FAMILIAR WITH
AUSTRIAN ECONOMICS."

Now the shortcomings of Bastiat's value theory are obvious to anyone familiar with Austrian economics. In my previous post I mentioned the ambiguity of the term "service" and the absence of any element of marginal value. Bastiat's theory is also deficient in that it posits a fictitious equality of value between exchanged objects. (See Richman 2012.) And it gives no explanation of

the *causes* of value. In his eyes, values (in the sense of market exchange ratios) are "primitive" realities, to borrow a term from contemporary philosophy. There is nothing more fundamental from which they result, contrary to Menger's theory in which market prices result from the interplay of subjective value judgments.^[73]

However, these shortcomings must be seen in the light of two circumstances.

The first one, the crucial one, is that Bastiat's theory of value is just one-half of a general theory of efforts (causes) and satisfactions (consequences). The other half of this general theory of efforts and satisfactions is Bastiat's theory of gratuitous goods. These two elements must always be seen in conjunction. In Bastiat's eyes, value theory and the theory of gratuitousness are both needed to explain the benefits resulting from production, the division of labor, and exchange.

To work out the nitty-gritty details of this general theory of efforts and satisfactions was the great purpose of *Economic Harmonies*. The word "gratuitous" is used 159 times in its pages. No economist before him has placed a similar emphasis on gratuitous goods. My former student Dr. Catherine Gbedolo (2015, chap. 1) rightly calls him the father of the economics of gratuitousness.

Second, Bastiat's theory of value is unfinished business. The author's untimely death prevented him from thinking through these difficult questions and from providing a solution as simple, elegant, and clear as the solutions he provided on the countless other topics on which he weighed in with such great success. I think it is no accident that all of the diagrams to which David Hart draws our attention serve to illustrate, in one way or another, the relationship between onerous and gratuitous benefits.

In conclusion, let me add a few comments on a related matter that has come up in the discussion. Donald Boudreaux and David Hart are right on target in highlighting Bastiat's frequent use of nontraditional rhetorical techniques. Story-telling is a stock-in-trade of all teachers and professors. Then there is also his use of dialogue, as in the petition of the candlemakers, in

the *Soirées de la rue Saint-Lazare*, and many other of his writings. Dialogue cuts right to the heart of the matter -- not much need for introductions and transitions. It is a form for the outstanding few, for those with full command of both the subject and the tongue.^[74] The problem with the dialogical form is that the reader gets lost if the text is too long. Bastiat usually hit the right balance, using dialogue for shorter texts or passages within a book. If used with circumspection, this is unbeatable.

Endnotes

^[73.] One could raise the question whether Menger's theory does not suffer from the same shortcoming. After all, he too did not explain the causes of subjective value. He just tried to trace the causal connection back to the smallest elements accessible to the human mind. But these elements must have causes. Which ones? I think Mises gave a satisfactory answer to this question, by emphasising the distinction between universal and contingent causes. Market prices have contingent and universal causes. The universal ones are called subjective values. But subjective values do not have any universal causes at all, only contingent ones. Therefore, economics, as a science of universal laws of human action, cannot explain the causes of subjective value. Such explanations are the business of historians.

^[74.] By the way, Bastiat rose to these heights during the many years of quiet study in his rural home town of Mugron. I mention this for the benefit of the aspiring young economists among us. When Bastiat burst into the Parisian limelight in the 1840s, he had a lot of fuel to burn, so to say, but his intellectual gas station was among the sheep and ducks of the Landes. Great talents are wasted today, as then, by the overemphasis of short-run returns on intellectual investment.

YOU DIDN'T BUILD THAT ROAD ... OR THAT SUN!

by Donald J. Boudreaux

Re reading Bastiat's chapter titled "[Property and Community](#)"^[75] calls to mind Barack Obama's (in)famous pronouncement to a successful business person: "You didn't build that!"

Obama was referring to the infrastructure (and other public goods) in the United States that American businesses rely upon to conduct their operations and, hopefully, to earn profits. It's true that in many cases this infrastructure was built by the government. And we can assume that absent this infrastructure the operations of businesses would be less smooth and the profits of many less high. (By the way, I say "*can* assume," not "*must* assume." It's quite possible that the infrastructure that would be supplied by the private sector absent government involvement would be superior to that which the government supplies. But this possibility is a discussion for another venue.)



Barack Obama

Obama's correct, if trite, observation was taken by many progressives as implying that American businesses' use of infrastructure and other public goods gives the state -- or "the People" -- an open-ended claim on the earnings of successful business people, with the state regarded as the

ultimate architect and motive-force of each successful firm. Yet those of us who understand the reality and importance of the margin understand why this progressive notion is mistaken. Walmart might not be able to operate without an extensive network of roads and bridges, yet *given* this network of road and bridges, any profits earned by Walmart arise exclusively from its success at serving consumers.

A network of roads and bridges, of course, isn't given. It must be built using scarce materials, land, and labor. But once government builds such a network and pays for it (say, with taxes collected) -- and once a business pays its pro-rata share toward the construction and maintenance of this network of roads and bridges -- that business's earnings "owe" nothing more toward this infrastructure.

It is useful to treat the role of infrastructure as akin to -- although not identical to -- the role of nature, as described by Bastiat.

Unlike infrastructure, much of nature is supplied to humankind free of charge -- meaning that each business's pro-rata obligation to help fund these inputs is \$0. With infrastructure, each business's pro-rata share is greater than \$0. Once this share is paid, however, each business is situated with respect to infrastructure just as it is situated with respect to nature: the business owes no more to the government or to "the People" for, say, a highway or police protection than it owes to nature for, say, rainfall or gravity.

Most people correctly recognize that a business's profits are not rendered excessive or unfair by that business's reliance in its operations on gravity and other natural forces. For the same reason, people should recognize that, once a business pays its pro-rata share toward the creation and maintenance of public goods, its profits -- no matter how high -- are not rendered excessive or unfair by that business's reliance in its operations on public goods.

Endnotes

^[75.] See the new trans. of EH VIII. "Property and Community"

<<https://oll.libertyfund.org/pages/cw5#property>>; or

the old FEE trans. 8: "Private Property and Common Wealth" <https://oll.libertyfund.org/titles/bastiat-economic-harmonies-boyers-trans#lf0187_label_118>; and the Editor's attempt to sort out some of the translation and conceptual problems in this chapter: "Community, Property, and Communism" <<https://oll.libertyfund.org/pages/cw5-appendix#community>>.

BASTIAT, MENGER, AND THE MODEL OF BILATERAL MONOPOLY

by Joseph T. Salerno

Don poses an important question that needs to be answered: was Menger consciously and directly influenced by Bastiat in the pathbreaking conception of the overall economic process he expounded in *Principles of Economics*? In researching my article "Carl Menger: The Founding of the Austrian School,"^[76] I unfortunately did not come across any direct evidence that Menger's vision of the economy was shaped by Bastiat's work. The most compelling evidence I found was indirect. This was in an article by Kiihiro Yagi, "Menger's *Grundsätze* in the Making," which contained a survey of preliminary notes that Menger had written in preparing his book.^[77] As I pointed out in my initial comment, these notes included Menger's linked triad of variations on Bastiat's oft-repeated epigram "want, effort, satisfaction," as well as the strong emphasis both economists placed on the causal links between the concepts. Another piece of indirect evidence was the heavy influence on Menger of the German subjective-value tradition, whose later members had been influenced by Bastiat.^[78] Don's question can only be definitively answered by careful research in the Menger archives at Duke University.

In his intriguing discussion of the origination of supply and demand curves and their relation to Bastiat's diagrammatic exposition of economic principles, David remarks, "Bastiat seemed to be close to an important

theoretical insight but didn't have the time or the good health to take it any further." While Bastiat may not have developed the supply-and-demand graphical model or even a verbal exposition of it, he did formulate another model crucial to the understanding of price formation based on subjective-value theory, although he unfortunately did not understand its significance. This is the model of bilateral monopoly or "isolated exchange," which Menger developed as a first approximation in expounding the principles of his causal-realist theory of price determination.^[79]

Bastiat assumed a wealthy banker who seeks to "gratify his vanity" by engaging the services of a world-renowned contralto-soprano to entertain a gathering at his home. There is only "a single person in the world" who can provide the services he seeks.^[80] Bastiat analyzes price formation in this model in the following way:

What are the extreme limits within which the transaction will be conducted? The banker will go to the point of preferring to do without the satisfaction rather than pay the price demanded for it; the diva, to the point of preferring the price offered to not being paid at all. [FEE trans.]

What are the extreme limits between which the transaction will fluctuate? The banker will go to the point where he prefers to deny himself the pleasure/satisfaction rather than pay for it; the singer to the point where she prefers the payment offered to not being paid at all. [new LF trans.]^[81]

Bastiat, like Menger, thus described the range of price formation as defined by the maximum buying price of the banker and the minimum selling price of the diva. Now he was onto something. However, perhaps sensing that it would contradict his value theory, which posited "equality" between the services exchanged, Bastiat seemingly drew back from forthrightly concluding, as Menger later would, that the actual price is determined within this range by bargaining between buyer and seller. Instead, Bastiat muddied the water by stating that the "point of balance" (equality?) between the two limits "will determine the value" of the service. He then idly

speculated that usage may "have fixed this delicate point" because "[p]eople in high society have too much good taste to *haggle* over certain services." However, Bastiat was finally driven by logic and good sense to concede that "economic law presides over this transaction" and that, despite the attempt to disguise the crass economic aspect, "bargaining" ultimately determines the value or price.

Unfortunately, almost as soon as Bastiat presented this seminal model, he dropped it. In the subsequent discussion of the determination of the price of the diva's services in singing to an audience of thousands, Bastiat was back to asserting that "the sum total of their combined services" represented by the total of payments from individual audience members "exactly balances the unique services that she renders simultaneously to all her listeners." If only Bastiat had used this example to extend the bilateral monopoly model to a model of one-sided buyers' competition, he would have been well on his way to working out a proto-Mengerian approach to price determination.

Endnotes

[76.] Joseph T. Salerno, "Carl Menger: The Founding of the Austrian School," in Randall G. Holcombe, ed., *The Great Austrian Economists* (Auburn, AL: Mises Institute, 1999), pp. 71-100.

[77.] Kiichiro Yagi. "Menger's *Grundsätze* in the Making." *History of Political Economy* 25 (Winter 1993), pp. 697-724.

[78.] On the German influence on Menger, see Erich W. Streissler, "The Influence of German Economics on Menger and Marshall," in Carl Menger and His Legacy in Economics, Bruce J. Caldwell, ed. (Durham, N.C.: Duke University Press, 1990). For Bastiat's influence on German free-trade economists, see Murray N. Rothbard, *Classical Economics: An Austrian Perspective on the History of Economic Thought*, Vol. II, 2d ed. (Auburn, AL: Mises Institute, 2006), pp. 450-52.

[79.] Carl Menger, *Principles of Economics*, trans. James Dingwall and Bert F. Hoselitz (Auburn, AL: Mises Institute 2007), pp. 194-97.

[80.] For this example, see Frédéric Bastiat, *Economic Harmonies*, ed. George B. de Huszar, trans. W. Hayden Boyers (Irvington-on-Hudson, NY: Foundation for Economic Education, 1964), p. 119.

[81.] Editor: Below is the original French version of these important passages and FEE's old and LF's new translation.

Qu'un opulent banquier veuille donc, pour gratifier sa vanité, faire entendre dans ses salons une de ces grandes artistes, il éprouvera, par expérience, que ma théorie est exacte de tous points. Il recherche une vive satisfaction, il la recherche avec ardeur; une seule personne au monde peut la lui procurer. Il n'a d'autre moyen de l'y déterminer que d'offrir une rémunération considérable.

Quelles sont les limites extrêmes entre lesquelles oscillera la transaction ? Le banquier ira jusqu'au point où il préfère se priver de la satisfaction que de la payer; la cantatrice, jusqu'au point où elle préfère la rémunération offerte à n'être pas rémunérée du tout. Ce point d'équilibre déterminera la Valeur de ce service spécial, comme de tous les autres. Il se peut que, dans beaucoup de cas, l'usage fixe ce point délicat. On a trop de goût dans le beau monde pour *marchander* certains services. Il se peut même que la rémunération soit assez galamment déguisée pour voiler ce que la loi économique a de vulgarité. Cette loi ne plane pas moins sur cette transaction comme sur les transactions les plus ordinaires, et la Valeur ne change pas de nature parce que l'expérience ou l'urbanité dispense de la débattre en toute rencontre.

Ainsi s'explique la grande fortune à laquelle peuvent parvenir les artistes hors ligne. Une autre circonstance les favorise. Leurs services sont de telle nature, qu'ils peuvent les rendre, par un même Effort, à une multitude de personnes. Quelque vaste que soit une enceinte, pourvu que la voix de Rachel la remplisse, chacun des spectateurs reçoit dans son âme toute

l'impression qu'y peut faire naître une inimitable déclamation. On conçoit que c'est la base d'un nouvel arrangement. Trois, quatre mille personnes éprouvant le même désir peuvent s'entendre, se cotiser ; et la masse des services que chacun apporte en tribut à la grande tragédienne fait équilibre au service unique rendu par elle à tous les auditeurs à la fois. Voilà la *Valeur*.

FEE's trans:

Let a wealthy banker decide that, to gratify his vanity, he will have one of these great artists appear at his home, and he will discover, through personal experience, that my theory is correct in all respects. He seeks a great satisfaction; he desires it keenly; a single person in the world can provide it. The only means of [119] inducing the person to accept is by offering a very considerable remuneration.

What are the extreme limits within which the transaction will be conducted? The banker will go to the point of preferring to do without the satisfaction rather than pay the price demanded for it; the diva, to the point of preferring the price offered to not being paid at all. The point of balance between these two extremes will determine the value of this special service, as it does all others. In many cases it happens that usage may have fixed this delicate point. People in high society have too much good taste to *haggle* over certain services. It may even happen that the remuneration will be gallantly disguised to mitigate the crassness of economic law. Yet economic law presides over this transaction just as surely as it does over the most commonplace transactions, and the nature of value is not changed because the experience or urbanity of the contracting parties enables them to dispense with certain details of the bargaining.

Thus are explained the vast fortunes earned by great artists of exceptional talent. Another circumstance favors them. The nature of their

services is such that they can be rendered, for the same effort, before a great multitude of persons. However large may be the auditorium, provided Rachel's voice can fill it, every spectator there receives the full impact of her inimitable rendition. This, we can see, forms the basis of a new arrangement. Three or four thousand persons sharing the same desire can settle upon a certain amount to be contributed by each one; and the sum total of their combined services represented by this contribution, which is offered as a tribute to the great tragic actress, exactly balances the unique services that she renders simultaneously to all her listeners. This is *value*.

LF's new trans.:

Imagine that a wealthy banker, in order to gratify his vanity, has one of these great artists perform in his drawing room; he will then find out, by experience, that my theory is accurate in all respects. He is looking for a memorable satisfaction (of his needs) and seeks it with some zeal; only one person in the world can provide it for him. He has no means of persuading her other than by offering her a sizeable payment.

What are the extreme limits between which the transaction will fluctuate? The banker will go to the point where he prefers to deny himself the pleasure/satisfaction rather than pay for it; the singer to the point where she prefers the payment offered to not being paid at all. This point of equilibrium will determine the value of this special service, like all the others. It may be that, as in so many cases, custom sets this delicate point. Too much taste exists in fine society to *haggle* over certain services. It may even be that payment is gallantly disguised (in such a way) to hide the vulgar aspects of economic law. This law nonetheless overshadows this transaction as much as it does more commonplace ones, and value does not

change its nature because experience or urbanity dispenses with discussing it at each meeting.

This explains the huge fortune that unrivalled artists are able to command. Another circumstance favors them. Their services are of such a nature that they are able to provide them to a host of people for the same effort. However huge an enclosure, provided that Rachel's voice fills it, the soul of each of her audience is filled with the whole experience that an inimitable delivery can create. We can see that this is the basis of a new form of arrangement. Three or four thousand people who experience the same desire are able to come to an agreement and make a joint payment, and the total amount of the services that each person brings as a tribute to the great actress is in balance with the single service given by her to all of her audience simultaneously. That is *value*.

springing from *choice* between one good or another. In fact, Mises's value theory is derived from action, the universal striving to use available means to achieve ends. Ends, or satisfactions, are ranked and valued, while means, however many or few, reflect these rankings and values. The diversity and multiplicity of ends, unlike value, are not qualities that are imputed to means (goods). The number and kind of goods available are data given by the concrete conditions of action. Indeed choice between ends does not even practically necessitate choice between goods.

“I FREELY CONCEDE GUIDO'S POINT
THAT BASTIAT'S VALUE THEORY
CONCEIVES VALUE AS A
RELATIONSHIP BETWEEN TWO
GOODS IN *EXCHANGE*.”

THE RELATIONAL CONCEPTION OF VALUE: A BASTIATESQUE STORY

by Joseph T. Salerno

In this conversation Don has provided a great service in demonstrating the importance of Bastiat's technique of story-telling as a useful, if not indispensable, method of applying economic theory to elucidate economic reality. In doing this, Don has also implicitly shown that this rhetorical device is useful in refuting erroneous theories, e.g., of how tariffs or other interventionist policies allegedly improve economic efficiency and welfare.

I propose to tell a story here to challenge Guido's contention that Bastiat's and Mises's value theories are related by their shared "relational conception of value." I freely concede Guido's point that Bastiat's value theory conceives value as a relationship between two goods in *exchange*. However, I reject Guido's characterization of Mises's theory of value as a relation between goods

Now here is the story which illustrates my point. Let us suppose an individual is a castaway on an island where there is one producible consumer good, say, coconuts. All are equally serviceable. Also suppose that for this person, work up until the point of physical exhaustion involves no disutility; that is, leisure is not a consumer's good. He works to physical exhaustion and is able to collect a stock of five coconuts by climbing tall trees. He then consumes them and collapses into sleep. Coconuts have a variety of alternative uses that yield direct satisfaction. The actor may consume their flesh and milk to provide sustenance, hurl them at birds in trees for entertainment, use sharp rocks (which are in superabundance) to inscribe an SOS message on them and float them out to sea or to carve them into figurines to indulge his artistic inclinations, and so on.

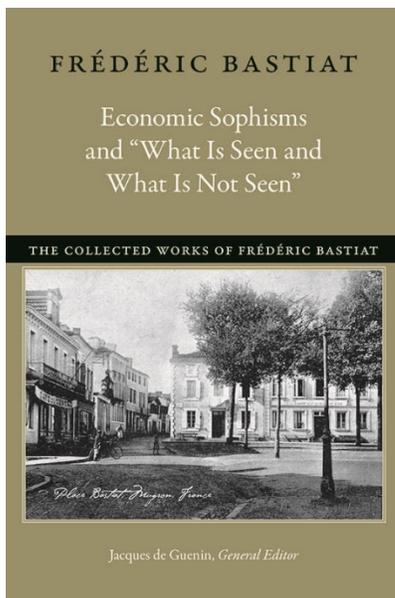
Since coconuts are scarce in relation to their desired uses, the castaway must rank these uses according to the importance of the satisfactions they yield. The value of each of the five coconuts thus depends upon their marginal utility, or the least important end—say using birds as target practice—served by a unit of the stock. So in this world action exists and therefore so do ends, means, value scales, and the law of marginal utility. Most

important, goods are valued despite the fact that only a single consumer good exists, and thus the actor need not choose between goods. To be sure there is, and must be, choice among ends to be attained in this world, but I do not think that this constitutes or implies what Guido means by a "relational conception of value."

SOME PERSONAL REFLECTIONS ON COMING TO REALIZE THE IMPORTANCE OF BASTIAT THE THEORIST

by David M. Hart

Over the past 10 years I have been deeply involved in Liberty Fund's project to translate the *Collected Works of Bastiat* and Gustave de Molinari's *Conversations on Saint Lazarus Street*. This required a close reading of all of Bastiat's extant works in the original French and exploring in some detail the interlocking set of classical-liberal organizations active in Paris throughout the 1840s in which both Bastiat and Molinari were active. This rereading of the texts caused me to drastically revise my opinion of Bastiat the theorist.[\[82.\]](#)



My interest in 19th-century French classical-liberal thought goes back to the early 1970s, when I was a high school student in Sydney, Australia, and first came across the works of Bastiat in the translations made by the Foundation for Economic Education in 1964. I found his journalism in the *Economic Sophisms* (1846, 1848) witty and amusing, but I did not quite know what to make of his treatise, *Economic Harmonies* (1850, 1851), which seemed rather abstract and woolly minded, too religious (i.e., much of his theory was based upon the notion of Providential intent as the reason for the existence of order and harmony in the market -- an early version of "Intelligent Design" applied to economics), too optimistic about the possibility of human "perfection," and devoid of real historical meat. When I began reading essays by Leonard Liggio on the work of two theorists whose work had influenced Bastiat's thinking, Charles Comte (1782-1837) and Charles Dunoyer (1786-1862),[\[83.\]](#) and Murray N. Rothbard on Molinari (1819-1912),[\[84.\]](#) I dropped Bastiat as a bit of a lightweight and devoted my scholarly activities to these figures, writing an undergraduate honors thesis on Molinari and a Ph.D. on Comte and Dunoyer.[\[85.\]](#) I had shared Hayek's overall assessment that Bastiat was probably the greatest economic journalist ever, but that it was probably best not to examine too closely his theoretical writings.[\[86.\]](#)

returned to Bastiat only a few years after Liberty Fund decided in 2001 to undertake the ambitious project of translating the *Collected Works of Bastiat* in six large volumes, naming me academic editor. The rereading of his works, which this task demanded, revealed to me a side to Bastiat I had never known existed, along with the classical-liberal groups in which he became involved in the last years of his life. In my mind Bastiat was no longer just "Bastiat the economic journalist" but had to be taken seriously as, firstly, Bastiat the economic and social theorist who made important contributions to the development of classical-liberal economic and political theory, and, secondly, as Bastiat the committed liberal politician and activist who had been part of a much broader classical-liberal political movement, which opposed interventionism and, after the 1848 February

Revolution, the rise of socialism and the welfare state in France.

I can summarize my revised view of Bastiat and his place in the classical-liberal movement in Paris in the 1840s as follows:

1. My rereading confirmed in my mind the brilliance of Bastiat as an economic journalist and impressed me with his deep knowledge of economic theory, his grasp of economic data, and his witty and clever style which I have called his "rhetoric of liberty."[\[87.\]](#)
2. I began to realize how sophisticated he was as an economist and the originality of many of his ideas, especially in *What is Seen and What is Not Seen* (July 1850) and *Economic Harmonies* (especially his ideas about opportunity cost; subjective value theory; the mathematical calculation of the effects of government intervention; the spontaneous order, or "harmony," of the free market; rent-seeking; and so on).
3. I became aware of the impressive, almost Rothbardian breadth of his interests and activities, which he was to pack into only the five or six years between his arrival in Paris in 1845 and his death at the end of 1850. This included his activities in the Free Trade Association, his work in the Political Economy Society, the large number of articles he wrote for the *Journal des Économistes*, the revolutionary street journalism he engaged in with his younger friends like Molinari in February-March and June 1848, his election as a deputy in the Constituent Assembly and then his activities as vice president of the finance committee, his work on economic and political theory under considerable difficulties, and his interest in the historical sociology of the state. (He planned to write a *History of Plunder* after he finished *Economic Harmonies*.)
4. Reading all of his letters led me to develop considerable respect for his character, his

commitment to classical-liberal ideas and to bringing about change, the radical nature of his republicanism and libertarianism, and the personal strength and courage he showed while continuing to work as his fatal disease (probably throat cancer) made his life increasingly unbearable in late 1849 and 1850.

5. The important role he and Molinari played in the interlocking "networks for liberty" in Paris in the late 1840s,[\[88.\]](#) which included:
 1. the Guillaumin publishing network (1835-1910), the *Journal des économistes* (1841-42), the Société d'Économie politique (1842), and the *Dictionnaire de l'économie politique* (1852-53);
 2. Hippolyte Castille's network of friends who participated in his soirées at his home on the rue Saint-Lazare (1844-1848);
 3. Bastiat's free-trade network within the French Free Trade Association (1846-1848);
 4. the group of friends who started two small revolutionary magazines, which were handed out on the streets of Paris in February and June 1848, their members including Molinari, Charles Coquelin, Alcide Fonteyraud, and Joseph Garnier;
 5. Coquelin's and Fonteyraud's network of debaters and public speakers in the *Club de la liberté du travail* in March 1848;
 6. Garnier's Friends of Peace peace network (1848-50), which was active in organizing a peace conference in Paris in 1849; and
 7. the group of economics teachers who were active in schools and colleges, such as the Athénée, Collège de France, most

particularly Michel Chevalier, Garnier, and from late 1847 Bastiat and Molinari

In addition to my growing respect for Bastiat as a theorist, I experienced surprise and frustration over several things. I was surprised at how radical a libertarian, or classical-liberal, he was with his idea of self-ownership,^[89.] his view of victimless crimes,^[90.] his desire to abolish the standing army and replace it with American-style militias,^[91.] and his hatred of war and colonialism. I was also surprised at how quickly and relatively late in life he formulated his theoretical ideas, roughly between 1843, when he first started getting interested in the English free-trade movement (he was 42 years old) and late 1844 and early 1845, when he published his first articles in the Paris-based *Journal des Économistes*, especially his "Letter from an Economist to M. de Lamartine. On the Occasion of His Articles Entitled The Right to a Job" (*JDE*, Feb. 1845) and "On the Book by M. Dunoyer. On The Liberty of Working" (*JDE*, May, 1845).^[92.] Thus in my view, he came to Paris with most of his original ideas already in his head. Finally, I was also surprised at how ambitious his plans were for a multivolume work on classical-liberal social and economic theory, of which *Economic Harmonies* would be only a part.^[93.]



Leonard Liggio

On the other hand, several things quite frustrated me as I delved deeper into the project. Speaking as a historian,

I was frustrated at not having access to Bastiat's original papers, instead having to use the "pre-edited" collection compiled by his friends Prosper Paillottet and Roger de Fontenay. Who knows what they cut out (much personal material I imagine) or "rearranged"? In a conversation the late Leonard Liggio told me he suspected that the files of the Guillaumin publishing firm (which would have included much by and about Bastiat as well as all the main figures of the Paris school) were probably destroyed when the Nazis commandeered it building in Paris during the Second World War. We also do not have any of his personal files from his home in Mugron and thus know nothing about his estranged wife, Marie Clotilde Hiart (married February 1831), or any other affairs he might have had after their separation. (I suspect there might have been a close relationship with Hortense Cheuvreux, the wife of the wealthy benefactor of the economists in general and Bastiat in particular in his final years.) And we know nothing about his activities as a local magistrate in Mugron, as a member of the General Council of Les Landes, and as the vice president of the Chamber's finance committee. Moreover, we know little about his life as a landowner, journalist, and politician.

I also got frustrated with Bastiat himself for getting distracted by politics when he could or should have been working on his treatise, and for his stubborn refusal to take the next step in subjective value theory by taking Henri Storch's and Condillac's ideas more seriously and developing them further. The latter is a topic for a further post.

Endnotes

^[82] I first wrote about this in a paper I gave to the Free Market Institute, Texas Tech University, Lubbock, TX, October 2, 2015. Available online <http://davidmhart.com/liberty/Papers/DMH_Bastiat-EconomicTheorist21Sept2015.html>.

^[83] Leonard Liggio, "Charles Dunoyer and French Classical Liberalism," *Journal of Libertarian Studies*, vol. 1, no. 1, 1977, pp. 153-78 <http://davidmhart.com/liberty/LPL/JLS/Dunoyer_1_3_1.pdf>; and "Bastiat and the French School of Laissez-Faire" in *Journal des Économistes et des Études*

Humaines, vol. 11, no. 2/3 (June 2001). Editor-in-chief: Garelo, Pierre. Special issue devoted to papers given at the Bastiat bicentennial conference. Online <<http://www.degruyter.com/view/j/jeeh.2001.11.2/issue-files/jeeh.2001.11.issue-2.xml>>; also here <<http://davidmhart.com/liberty/LPL/Papers/Liggio-BastiatFrenchSchool2001.pdf>>.

[84] Murray N. Rothbard, "Preface" to Gustave de Molinari, *The Production of Security*, trans. J. Huston McCulloch (Auburn, AL: Mises Institute, 2009), pp. 9-13. First edition: Gustave de Molinari, *The Production of Security*, trans. J. Huston McCulloch, Occasional Papers Series #2, Richard M. Ebeling, ed. (New York: Center for Libertarian Studies, May 1977).

[85] See David M. Hart, "Gustave de Molinari and the Anti-statist Liberal Tradition: Part I," *Journal of Libertarian Studies*, Summer 1981, vol. V, no. 3, pp. 263-90, <<http://davidmhart.com/liberty/FrenchClassicalLiberals/Molinari/Thesis/index.html>>; and *Class Analysis, Slavery and the Industrialist Theory of History in French Liberal Thought, 1814-1830: The Radical Liberalism of Charles Comte and Charles Dunoyer* (unpublished Ph.D., King's College Cambridge, 1994) <<http://davidmhart.com/liberty/Papers/CCCD-PhD/index.html>>.

[86] Hayek's "Introduction," Bastiat, *Selected Essays* (FEE ed.), p. ix, </titles/956#Bastiat_0181_14> .

[87] See my paper "Opposing Economic Fallacies, Legal Plunder, and the State: Frédéric Bastiat's Rhetoric of Liberty in the Economic Sophisms (1846–1850)," paper given at the July 2011 annual meeting of the History of Economic Thought Society of Australia (HETSA) at the Royal Melbourne Institute of Technology. <<http://davidmhart.com/liberty/Papers/Bastiat/Hart-BastiatsSophismsAug2011.html>>. A revised version of this paper appeared as "Bastiat's Rhetoric of Liberty: Satire and the 'Sting of Ridicule,'" in the *Introduction to CW3*, pp. lviii-lxiv.

[88] See my essay on "The Paris School of Liberal Political Economy, 1803-1853," in *The Cambridge History*

of French Thought, ed. Jeremy Jennings (Cambridge University Press, 2019).

[89] "Self-Ownership and the Right to Property," in Appendix 1 (CW5) <<https://oll.libertyfund.org/pages/cw5-appendix#selfownership>>.

[90] "Victimless Crimes," in Appendix 1 (CW5) <<https://oll.libertyfund.org/pages/cw5-appendix#victimless>>.

[91] "Standing Armies, Militias, and the Utopia of Peace," in Appendix 1 (CW3, pp. 464-70). <https://oll.libertyfund.org/titles/2731#lf1573-03_head_233>.

[92] See for example, "Letter from an Economist to M. de Lamartine. On the occasion of his article entitled: The Right to a Job" (JDE, February 1845) in CW4 (forthcoming) <<https://oll.libertyfund.org/pages/cw4#chapter-5-2000>>; and "On the Book by M. Dunoyer. On The Liberty of Working" (Ma, 1845) <<https://oll.libertyfund.org/pages/cw4#chapter-5-2167>>.

[93] "The Writing of the Harmonies," in Appendix 1 (CW5) <<https://oll.libertyfund.org/pages/cw5-appendix#writing>>.

ON VALUE AS A RELATION SPRINGING FROM CHOICE

by Guido Hülsmann

Joe dares to "reject [my] characterization of Mises's theory of value as a relation between goods springing from a *choice* between one good and another." Needless to say, I am outraged and feel compelled to write a rejoinder. But how would this relate to Bastiat? Well, one recurring topic in our discussion has been Bastiat's influence on the Austrians, so my rejoinder may fall under this heading.

Joe contends that "choice between ends does not even practically necessitate choice between goods" and then proceeds to make his point with a Bastiat-esque story. I like his story but do not think it disproves my characterization of subjective value as a relation springing from choice.^[94] The nub of that story is that the acting person is able to use only one type of means, namely, a single class of consumers' goods (coconuts). From this hypothetical premise, Joe infers that "only a single consumer good exists, and thus the actor need not choose between goods."



However, the inference does not follow from the premise. From the fact that there is only one *class* of goods, it does not follow that there is only one *unit* in this class. In Joe's story, the individual owns five coconuts. The subjective value of each of these units depends on the choices of their owner in regard to the ends that he pursues. For example, he *chooses* to act in such a way as to collect more coconuts (lest we would have to postulate that he is driven by "coconut-collection urges" beyond his control, in which case he would not act in the praxeological sense). This choice and the action that follows from it reduce the value of each of the units of the enlarged stock below the value of each of the units that a smaller stock otherwise (in the absence of additional production) would have had.

Analogous consequences would follow from all other choices. Let us say our individual chooses to eat one coconut. Then this increases the value of each of the remaining units above the value of each of the units of the larger stock that he otherwise (in the absence of consumption) would have owned.

In all cases the effective value of each unit is a counterfactual relation with the value it would have had

if another choice had been made. I therefore think that subjective value may be described as a preference relationship between economic goods that springs from human choices. I also think that Mises saw this in 1912 and held on to such a choice-based theory of value, even though he did not see the counterfactual dimension.^[95] Finally, as I have argued previously, I think that this theory of subjective value bears important analogies to Bastiat's exchange-based theory of market prices.

In conclusion, I should like to express my agreement with Joe's comments on the model of bilateral monopoly and with Don's statements on infrastructure that "you didn't build." *Economic Harmonies*, even though unfinished, contains deeply insightful passages on all such questions, which ultimately pertain to private property and exchange. Who owns what? Who pays for what? How do we pay for what we receive? What do we receive gratuitously, and how?

Endnotes

^[94.] It is a separate question whether Mises held on to a theory of this sort. I think he did and quoted him to this effect in my first post, but will not argue this point presently.

^[95.] On counterfactual economic laws see J.G. Hülsmann, "Fact and Counterfactuals in Economic Law" *Journal of Libertarian Studies*, vol. 17, no. 1, pp. 57-102.

BASTIAT: ORIGINATOR OF 'PRAXEOLOGICAL STORYTELLING'

by David M. Hart

Guido doesn't think that Bastiat's use of Crusoe economics is original. I disagree. By "original," one could mean the first person to use the story of Robinson Crusoe to illustrate the difficulties faced by an individual in dire circumstances (these would include economic ones along with moral and religious ones, which the Protestant Daniel Defoe included) and to narrate how Crusoe (or his family) went about dealing with them. Defoe is without doubt the originator in this sense, and his story started an entire genre in 1719, the "Robinsonade," which became popular in the 19th century^[96] and has continued until the present.^[97]

Economists were just another group to seize upon this literary opportunity,^[98] and given Bastiat's sharp eye for good stories and his skill in adapting them to explain economic ideas, it is not at all surprising that he would be attracted to Defoe's novel and the economic challenges faced by the protagonist. However, with Robinson Crusoe, Bastiat went far beyond his usual practice of using works of literature (say, by his favorite author, Molière) or concocting his own stories (often involving Jacques Bonhomme in *Economic Sophisms* or Jonathan in *Economic Harmonies*) to illustrate economic matters in an amusing way, making the Crusoe *Gedankenbild* (thought experiment) the centerpiece or foundation of his entire economic theory.



David Ricardo

Other economic theorists and writers on political economy, such as Jeremy Bentham, Jane Marcet, Thomas Babington Macaulay, Richard Whately, and Thomas Hodgskin, only made passing reference to Crusoe.^[99] Adam Smith referred to "a human creature (who grew) up to manhood in some solitary place," in *The Theory of Moral Sentiments* (1759), and more often to groups of men who live in "a low or rude state of society," such as "nations of hunters or shepherds," in *The Wealth of Nations* (1776). David Ricardo referred to "the early stages of society" inhabited by "the hunter," "the fisherman," and "the miner" in *Principles of Political Economy and Taxation* (1817). These individuals all suffered from an ignorance of technology and had little accumulated capital, little division of labor, and few opportunities to trade with others. These weren't so much examples of Crusoe economics as attempts to explain where people's moral ideas come from or explorations of societies in the earliest stages of economic development.

About these examples I would argue that the use of Robinson Crusoe was fairly perfunctory; the authors felt obliged to use him before moving on to what they regarded as more important economic topics, such as the division of labor, comparative advantage, and

international trade, all of which required a society. I would agree with W.K. Tabb's rather dismissive description of these usages as "myths told in the form of simple stories, allegories that are said to explain profound truths and are driven home through allegedly 'real-world' examples," which have become somewhat old and "worn" through overuse.^[100] Marx, of course, was equally dismissive of these usages.

Bastiat was different. He was original in another sense, using the story of Robinson Crusoe in a new, different, and creative way to make economic points which no other person had done. In fact, with the Crusoe story Bastiat was perhaps the inventor of praxeology (although my colleagues in this discussion might correct me on this claim), using it to understand the nature of human action in an abstract, even axiomatic way^[101] to explain how a person makes the the simplest decisions about his needs and how to use his limited time and scarce resources to satisfy those needs (in other words, the "efforts" he makes to achieve his "satisfactions," to use Bastiat's terminology).

Beginning in early 1847 Bastiat began to use the Crusoe story, first as just another reference to a literary figure to make his points understandable to a popular audience,^[102] but then increasingly as the foundation of his underlying theory about wants, obstacles, efforts, and satisfactions. He used the Crusoe figure alongside his idea of *l'homme isolé* (man living in isolation), which made its first appearance in his draft essays for *Economic Harmonies*, which he began publishing in the *Journal des Économistes* in late 1848.^[103] He used it and the figure of Crusoe to explore what he called *le principe actif* (the principle of [human] action) and *l'action humaine* (human action) in the most general and abstract fashion to understand *ces vérités, tenues pour si incontestables* (these incontestable truths) or *les véritables truismes* (the veritable truisms) which lay beneath human action.^[104] These sound to me precociously "Austrian" in both their terminology as well as the meaning behind them. In this, Bastiat is original indeed.

The first person to realize the importance of Bastiat's theoretical innovation was Murray Rothbard, who borrowed Bastiat's use of Crusoe in the opening chapters

of his treatise on economics, *Man, Economy, and State* (1962).^[105] Interestingly, Rothbard also tried his hand at expanding the cast of characters of his praxeological stories by inventing Jackson, Smith, Jones, and Brown, but he had less skill in engaging the reader than Bastiat. Bastiat was, and still is in my view, the master.

Endnotes

^[96.] Nearly 100 years later the Swiss Protestant minister Johann David Wyss wrote for his own children *Der Schweizerische Robinson* (*The Swiss Family Robinson*, 1812, 1827, 1828) about a family that got shipwrecked in the East Indies while en route to Port Jackson (Sydney), Australia. The success of this publication spawned an entire genre of works known as "Robinsonades," which included such works as James Fenimore Cooper's *The Crater, or Vulcan's Peak: A Tale of the Pacific* (1847) and several by Jules Verne, *L'Oncle Robinson* (1870, 1991), *L'Île mystérieuse* (*The Mysterious Island*, 1874-1875), *L'École des Robinsons* (1882), *Deux ans de vacances* (1888), and *Seconde Patrie* (1900).

^[97.] This tradition continued into the 20th and 21st centuries, moving beyond works of literature into the realm of TV and film, such as the TV series created by Irwin Allen, *Lost in Space*, which aired between 1965 and 1968 and featured a family of explorers called Robinson, and more recently Ridley Scott's film *The Martian* (2015), starring Matt Damon as the biologist left behind by his comrades on Mars to fend for himself, which he did by industriously growing potatoes.

^[98.] A good survey of the use made by economists of the Crusoe story can be found in Ulla Grapard, "Robinson Crusoe: The Quintessential Economic Man" (1995) and William S. Kern, "Robinson Crusoe and the Economists," in the collection *Robinson Crusoe's Economic Man: A Construction and Deconstruction*, ed. Ulla Grapard and Gillian Hewitson (London: Routledge, 2011). See also some of the comments in "The use of Robinson Crusoe in economics," *Marginal Revolution* (September 27, 2012), especially those by Dan Klein. <<https://marginalrevolution.com/marginalrevolution/2>

[012/09/the-use-of-robinson-crusoe-in-economics.html](https://oll.libertyfund.org/titles/2731#lf1573-03_head_039)>.

[99.] I discuss this in more detail in "Bastiat's Invention of 'Crusoe Economics,'" in the Introduction to CW3, pp. lxiv-lxvii.

<https://oll.libertyfund.org/titles/2731#lf1573-03_head_039>.

[100.] Tabb, *Reconstructing Political Economy* (1999), pp. 26, 27.

[101.] See "Human Action," in appendix 1, in CW4 <<https://oll.libertyfund.org/pages/cw4#chapter-7-9011>>.

[102.] See Bastiat's first references to Robinson Crusoe in ES3 16, "Making a Mountain Out of a Molehill" (c. 1847), in CW3, pp. 343-50 (17 references), and ES2 14 "Something Else" (LE, 21 March 1847), in CW3, pp. 226-34 (16 references).

[103.] In September and December, 1848. These are translated in CW4 (forthcoming). Online <<https://oll.libertyfund.org/pages/cw4#chapter-6-4717>> and <<https://oll.libertyfund.org/pages/cw4#chapter-6-5016>>.

[104.] These terms come from his article on "Economic Harmonies IV," which first appeared in *JDE* December 1848, and then rearranged as part of chapter III, "The Needs of Man," in the book version of *Economic Harmonies*. There are four main stories about Crusoe in *Economic Harmonies* (S16, S28, S30, and S31); 25 uses of the term *l'homme isolé*; and 16 references to "Robinson," especially in chapter 4, "Exchange," but also in chapter VII, "Capital," and chapter VIII, "Property and Community."

[105.] I discuss this in greater length in my unfinished paper "Literature IN Economics, and Economics AS Literature II: The Economics of Robinson Crusoe from Defoe to Rothbard by way of Bastiat" (April, 2015). I also discuss Rothbard's use of Crusoe in *The Ethics of Liberty* to put forward his argument for anarcho-capitalism, and briefly examine references to Crusoe by Jevons, Böhm-

Bawerk, and Mises. <http://davidmhart.com/liberty/Papers/Bastiat/CrusoeEconomics/DMH_CrusoeEconomics.html>. See the reference to Bastiat's chapter IV, "Exchange," in *MES*, chapter 2, "Direct Exchange," p. 84, fn. 7.

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