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William Dyer Grampp, *Economic Liberalism, vol. 1 The Beginnings* [1965]

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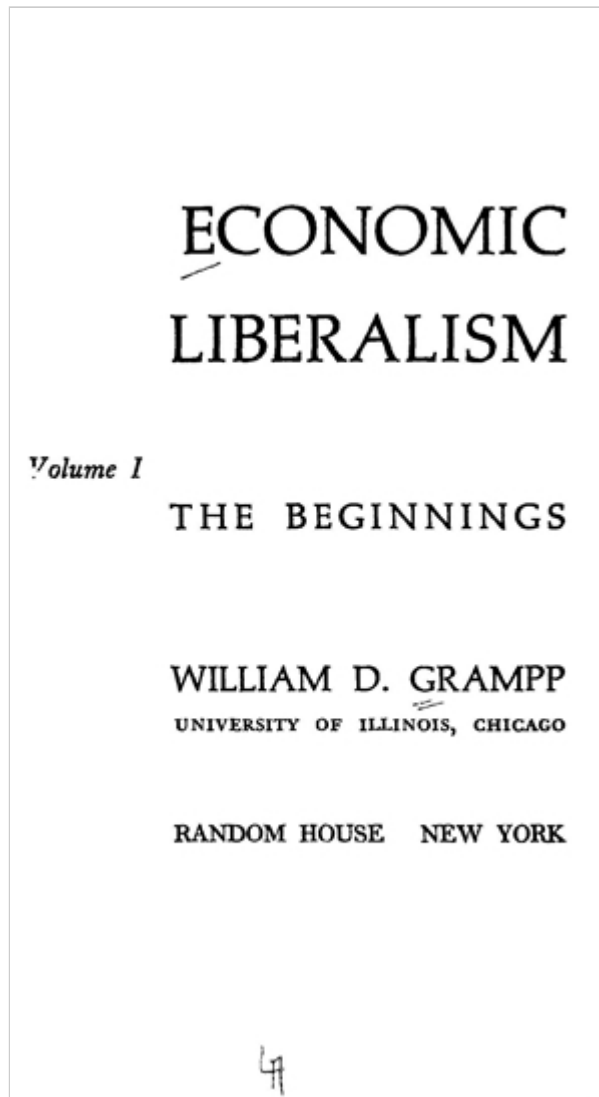
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### About This Title:

A two volume study of the intellectual origins of economic liberalism. Volume 1 deals with its beginnings in Stoicism, mercantilism, and the American Revolution. Volume 2 deals with the Classical School of the 19th century.

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### STUDIES IN ECONOMICS

consulting editor: *William Letwin*

massachusetts institute of technology

to the memory of L. W. G.

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## FOREWORD

This book consists of six studies in the history of the idea of economic liberalism—three in the first volume and three in the second volume. That may seem like six studies in ambiguity. “Liberalism” has so many meanings—is such a rich source of controversy and inconclusion—that it has become nearly an un-word or an antiword, one that means nothing or even less. Nevertheless, I want to use it. Although it has been used ambiguously, the idea for which it can be made to stand is not ambiguous. It is a word like those words of ordinary language that the linguistic philosophers say we should use, or if it is not like them it can be made so. It has had a meaning in the past, and the history of that meaning can be studied. The economic aspect of the *history* is what this book is about. What economic liberalism means today is not the subject of the book. That is an important question, needless to say, but is one on which the reader will have to do his own thinking. There are some suggestions to help him in the concluding study. As a guide to all of them I would put before him what Berkeley offered to the readers of *The Principles of Human Knowledge*:

Whoever therefore designs to read the following sheets, I entreat him that he would make my words the occasion of his own thinking, and endeavor to attain the same train of thoughts in reading that I had in writing them. By this means it will be easy for him to discover the truth or falsity of what I say. He will be out of all danger of being deceived by my words, and I do not see how he can be led into an error by considering his own naked, undisguised ideas.

I use the words “economic liberalism” to mean the policy that directs a liberal economy, and the words “liberal economy” to mean an economy in which individuals decide what is to be produced, how goods shall be distributed, and by what means production and distribution shall be carried on. Decisions of this kind must be made in some way or other in every kind of economic system, no matter how dictatorial or democratic or how rich or poor. What distinguishes one system from another is whether or not individuals have the ultimate authority to make decisions. *Who* has the authority is more important than *how* it is exercised or for *what* purpose. In a liberal economy, individuals have the authority. They may exercise their authority individually on the market or outside the market, or they may exercise it collectively and voluntarily in either way. They also may exercise their authority through the government by directing it to carry out the decisions they have made. They may go further and delegate to the government the authority to make decisions. What they may not do is to delegate authority in an irrevocable way. They may not turn over to the government, to a voluntary organization, or to another individual the permanent power to make decisions. They must retain the ultimate authority to judge those who act for them.

In a liberal economy the choice of how to make decisions is not necessarily a choice between government and the market and it is not even a choice among different combinations of government and market. Between the two there are many forms of

voluntary collective action such as that of cooperatives, philanthropies, nonprofit organizations, limited-profit firms, quasi-public or quasi-private organizations, and unions. In groups of this kind, individuals can change the composition of the national output, the way it is produced, and the way it is distributed.

In the history of economic liberalism, what has been advocated and practiced is a combination of the following three procedures: voluntary individual action on the market, compulsory action through the government, and collective action in voluntary groups. In deciding how these three procedures are to be combined, the critical question usually has been, How much use shall be made of government? The question, in more familiar language, is, What shall be the economic powers of the government?

The question has been answered in different ways by those who have advocated liberalism. But the answers do have a common element. It became apparent in the nineteenth century in Great Britain and it was intimated much earlier. The conclusion to which my studies have brought me is that in a liberal economy the state may do whatever the people want it to do and that it is able to do. Neither the want of the individuals nor the ability of the state is in itself the limit of economic policy. Together they are. The distinction is perhaps obvious. But I have found, during a long period of reading about economic policy, that if the writer had made some obvious distinctions, both he and I would have come to the point with less effort. What a state is *able* to do, as distinct from what it *should* do, is something to be learned from positive economics; it is the analysis of means for achieving given ends. What the state *should* do is a question of ethical values. They once were a part of economics, when economics itself was a branch of moral philosophy. That part is normative economics, and today it still engages the interest of economists even though they attend more to the positive side. Both parts supply the ideas on which economic policy is based. Both have led me to my conclusion about the meaning of economic liberalism—a conclusion that is explained in detail in the chapter “Liberalism in the Great Century.”

It is not a conclusion that will be agreeable to everyone. There will be doubts from my colleagues in the history of ideas, and from general readers who have learned elsewhere that liberalism was quite another thing from what it is made out to be here, and from those to whom liberalism is an issue of policy today and of more than historic interest. All of us become committed to ideas, and ideas, it has been truly said, do rule the world. But the commitment can be a vested interest, and ideas can prevent the world and ourselves from learning more. That is why, when we come across an idea that seems eccentric, we ought to try, as Berkeley advised, “to attain the same train of thoughts in reading” as the author had in writing and in this way “to discover the truth or falsity” of what he says.

What I have written in these two volumes is about one aspect of the idea of freedom. A particular definition of freedom is implied by the meaning I have ascribed to economic liberalism. Freedom, in the meaning given it here, is both the absence of restraint upon action and the ability to act. These studies in economic liberalism are therefore studies in the expression of this meaning of freedom. They explain what

freedom, in its economic aspect, has meant to particular groups of writers whose ideas have been notably influential. Some of these writers were economists, but most were not. Economics as a distinct study is only about 200 years old, but ideas about the economic aspect of freedom go back much further. Most of the men whose writings are explained here were philosophers, moralists, historians, politicians, experts in statecraft, and pamphleteers. No one of the six studies describes the idea of economic liberalism in its entirety, because no single group of writers made a complete statement about it. What each group had to say is best understood as a statement of particular aspects of the doctrine. To extend these particulars into a synthetic statement of the doctrine is possible but to attribute the synthesis to all of the groups would be quite wrong. One can, however, make a summary statement of the central idea, and I have done that in the last chapter of Volume II. What is just as interesting is to examine the contributions of particular groups of writers at different periods in the development of the idea.

What follows is a brief commentary on each of the six studies in order that the reader may see the design of the whole.

## THE STOIC ORIGINS OF LIBERALISM

It was the contribution of the Stoics to explain how individuals must act in order to make their society free. The important feature of Stoicism is the conception of the free individual as a thinking, responsible, and courageous being. But Stoicism was more than a doctrine of individual morality. Political philosophers have long been interested in it, and here I have tried to show the interest it can have for economists.

## THE MERCANTILISTS AS LIBERALS

The ideas of political and economic individualism went into decline in the Middle Ages but were not entirely forgotten. They survived in an attenuated form and regained some of their power toward the end of the period. By 1500 they had become a principal doctrine in England. They did not govern the affairs of state, to be sure, but they were ideas that men talked much about and looked forward to putting into practice. The year 1500 was near the start of the period of the mercantilist writers in England, and they have come down to us as the very opposite of liberalism. That view is wrong. There has been a renewed interest in the mercantilists in the last twenty years or so, but mostly by those who believe the mercantilists were superior to the liberals. This view is yet another expression of the mistaken idea that the two had nothing in common.

The mercantilist writers were more familiar with the mechanics of the market and the affairs of state than have been most writers on economic policy. Some of the mercantilists were in business and government, and most of them wrote about specific problems and measures of policy rather than about the principles underlying policy. They were not responsible for the practices of the mercantilist period, many of which were inconsistent with what the writers believed. Their responsibility was for the liberal ideas the period entertained. But the ideas were influenced by what the writers saw around them and by what they experienced directly. There was a close



relationship between what the writers saw and their ideas about how to change it—between economic problems and economic policies. This relationship is what makes the writers continually interesting. They were practitioners of economic policy.

## THE ORIGINS OF AMERICAN LIBERALISM

Even more significant as practitioners were the Americans of the constitutional period. The influence of British liberalism was greater in the U. S. at this time than in Britain itself. “The colonies owe to the policy of Europe the education and great views of their active and enterprising founders,” Smith said. That Smith should have said it is appropriate, because he was the most important single influence on the men who wrote and debated the Constitution and first put it into practice. The fact is interesting because ever since the Constitution was ratified we have been debating the economic intention of the men who wrote it. The intention was, I believe, rather like that of Smith, but his intention was different from what it usually is thought to have been.

## THE CLASSICAL PSYCHOLOGY OF LIBERALISM

In the writings of Adam Smith and the classical economists the idea of economic liberalism was expressed most amply and with the greatest power, so much so that the idea often is thought to have come into being in the eighteenth century. It did not, but the statement made of it by the classical economists was the most important. For that reason more of this book is about the eighteenth and nineteenth centuries than any other period. What Smith is best known for, although he probably did not want to be, is the belief that self-interest is the principal motive of economic behavior. I have tried to explain just what he meant by self-interest and have taken special care with the exceptions he took to it.

## THE POLITICAL IDEAS OF THE CLASSICAL ECONOMISTS

The economic policy of the classical school was made up of its ideas of psychology, positive economics, of political philosophy and of ethics. The policy was not a simple application of the idea of self-interest, which itself was far from being simple. At first sight there seems to be no consistency among the ideas. Indeed there seems to be a fundamental discrepancy between the classicists’ believing in universal economic freedom but not in universal political freedom and in their being advocates of both free trade and political nationalism. But on examination a consistency does emerge. A study of how the classicists related the economic and political aspects of liberalism brings to our notice some features of it that are not apparent from a study of either aspect alone.

## LIBERALISM IN THE GREAT CENTURY

The nineteenth century is the notable period in the history of liberalism as a doctrine and practice. That is not to say that liberalism has declined since then. I do not believe

it has. But in the nineteenth century its distinctive features became clear and it divided rather sharply into its classic and utilitarian forms. The century was the time of Ricardo and Mill, of the economic supremacy of Great Britain, and the liberal awakening in other countries. It also was the first time that the British government intervened in the economy in a modern way. It usually did so with the approval of the liberal economists. To understand the liberalism of this period we should know something about the particular forms of intervention—the actual practice of policy—in addition to knowing what the ideas of the period were. In other studies I have not described the practice of policy, but in this I have. From a study of the ideas of policy and its practice one can deduce certain principles. I have put the principles together in a summary statement of what liberalism came to mean in the nineteenth century. I take the statement to be its meaning today also. The statement is Part III of the last chapter of the second volume and is entitled “The Meaning of Economic Liberalism.”

Each of the six chapters of the book is meant to be a fairly complete statement of the idea of economic liberalism, or of a major aspect of it, as it was expressed at a particular period in its history. But not every period is included here, and so the book is not a complete history of the idea. It omits much. There is nothing, for example, about liberal ideas in the Middle Ages. Other than a few references, there is nothing about economic liberalism on the Continent. There is nothing about the most conspicuous of all versions of liberalism—that associated with the Manchester School of economics. With the exception of the last, about which I have written another book. I have omitted these periods either because they are not so important as those that are included or because I have nothing to say about them which is sufficiently important or interesting to engage the reader’s attention.

In writing these studies I have had several purposes. One is to present information to those who, like myself, are interested in the development of economics. Most histories of the subject say something about policy, especially liberal policy, but not in a way that seems to me to do justice to the ideas. I have wanted also to call attention to the ethical and political elements in economic policy and so to help in some way to create interest in political economy as a subject that is complementary to and not competitive with economic analysis. Analysis has become a formidable discipline and intellectually most respectable, but it still is what it always has been—a means of solving problems and not a field of inquiry that is its own justification. To solve problems we need to know more than positive economics. We also must know something about the political values that set the limits to the solutions. Every economist acknowledges this, even to the point of paying his respects to political economy. But much more effort is put into the positive side of economics than into the normative. It is effort of a very high order, and one wishes that some of it would be directed to normative economics.

There is one other purpose to this book—that is to bring to those outside economics some helpful and interesting information about liberal policy. We are, all of us, objects of policy because we are all affected by it. But we may also participate in the making of it. Knowing something about one of the great systems of policy will help us to understand what is happening and what choices are before us. This knowledge

will not tell us what to think and do now. But it will tell us what once was thought and done. Whether the ideas described here are relevant today or whether they are only of historical interest is something for the present to decide. In making the decision, it will do well to compare its convictions with those of the past. It will find, I believe, that liberalism in the meaning given to it here has a history that is by no means over.

These studies have occupied me for a long while, and from time to time I have published parts of them as journal articles. This book, however, was planned as a group of studies about a single idea, and each study was written as a chapter of the whole. Some of the chapters were then rewritten and shortened in order to be suitable for journal publication. That is so of the first four chapters; the last two have not appeared before in any form. What is presented here represents my considered view of the subject. It is on some points identical with what it was when the articles were published, while on other points it is rather different. I wish to thank the editor of *Ethics* (University of Chicago Press) for permission to use in Chapter 1 of Volume I parts of my article entitled "The Moral Hero and the Economic Man" (Vol. LXI, No. 2, Jan. 1951, pp. 136-150); the editor of *The Quarterly Journal of Economics* (Harvard University Press) for permission to use in Chapter 2 of the same volume parts of my article "The Liberal Elements in English Mercantilism" (Vol. LXVI, No. 4, Nov. 1952, pp. 465-501), and in Chapter 2 of Volume II parts of my article "On the Politics of the Classical Economists" (Vol. LXII, No. 5, Nov. 1948, pp. 714-747); and the editor of *The Journal of Political Economy* (Chicago) for permission to use in Chapter 1 of Volume II parts of my article "Adam Smith and the Economic Man" (Vol. LVI, No. 4, Aug. 1948, pp. 315-336).

There are many people with whom I have discussed the subject and these studies and to whom I am grateful for what I have learned. I hesitate to name some without naming all of them, and from such a list there probably would be inadvertent omissions. However I must state my indebtedness to two of my teachers, Donald A. Anthony and Frank H. Knight, who interested me in the history of economics and directed my first studies in it. They cannot be held accountable for the ideas I have acquired since leaving them, but I must acknowledge my debt to them for what they have taught me.

## NOTE ON THE CONTENTS

This work has had to be divided into two volumes, each of about fifty thousand words in length. In making the division I have tried to group the studies in a way that reflects the chronology of the subject and at the same time brings together those studies that express a common view. The reader may use each volume separately or the two of them together.

The first volume is about the intellectual origins of economic liberalism and the first applications of the idea to particular problems of national policy in England and America. It has the subtitle, "The Beginnings," and it contains:

1. The Stoic Origins of Liberalism
2. The Mercantilists as Liberals

### 3. The Origins of American Liberalism

The second volume examines liberalism as it was expressed by the classical school of economics. This volume, subtitled “The Classical View,” contains:

1. The Classical Psychology of Liberalism
2. The Political Ideas of the Classical Economists
3. Liberalism in the Great Century

The same foreword appears in both volumes because it is, I feel, a rather indispensable preliminary to the studies whether the two volumes are read separately or together. The notes at the end of each volume contain the works cited in it.

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## ECONOMIC LIBERALISM

### THE BEGINNINGS

#### 1

### THE STOIC ORIGINS OF LIBERALISM

Stoicism is not the first idea that comes to mind when one thinks about the beginnings of economic liberalism. One may, to be sure, remember that the Stoics were especially interested in the individual and recall that they have been linked, in an indistinct sort of way, with Platonism, Christianity, a Schoolman here and there, and the Enlightenment. But one is much more likely to recall Hooker and Locke; Hume and Smith are also certain to come to mind. That is because the familiar beginnings of liberalism are in the seventeenth century, especially its political ideas, and because in the eighteenth century the economic ideas were put forward in a memorable way. But in fact the origins of liberalism are much earlier. They are in the philosophic thinking about the individual, about the qualities that make him distinctive, about his responsibilities to himself, to those around him, and to nature. This kind of thinking was the substance of the philosophy of the Stoics. They certainly were not alone in dwelling on these questions. Nor have their answers been as important as those of some of the doctrines of political idealism. What is important about Stoicism is that it was the moral philosophy out of which the liberal view of the individual developed.

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## *1*

### *The Consequences Of Stoicism*

Neither Stoicism nor liberalism has been treated well by history. Liberalism has been defined in so many ways that its meaning in the period of the classical economists is nearly forgotten. A summary statement of it would be unfamiliar even to a modern reader who believes himself reasonably well informed. Stoicism has been treated differently but not better. It has been cursed by neglect more than misuse. What little is remembered is an impression of a moral philosophy that is austere, unworldly, passive, and a little sour. None of this, one would suppose, is relevant or interesting to the kind of people who (by another mistaken notion) are believed to populate a liberal economy.

Nevertheless, even in the common impression of Stoicism there is something that makes one want to know more about it, what its ideas were, and what their influence has been. One finds in looking into Stoicism that it has given the modern world some of its most consequential ideas about individual conduct. A few of these ideas have come directly from the Stoics; more often they have been transmitted by Christianity or through the moral philosophy of the Enlightenment. From Stoicism was derived the belief in a harmoniously constituted universe watched over by a benevolent power; the conception of man as a free agent whose every move nevertheless has been preordained by a supernatural power; the belief that men are naturally reasonable; that although inherently selfish they are led in looking after their private interests to promote the good of others; the notion that goodness, or morality, consists more in playing the game properly than in winning it; and the idea that every man's first duty is to his conscience and that his duty to society is secondary.

### THE ACTIVE AND THE PASSIVE LIFE

These ideas can direct men to an active or to a passive life; and some Stoics led one, some another. The passive side, which in fact was quietistic, is best known because Stoicism originated in a period when the active life had less to offer than the quiet. It came to Athens with the Phoenician Zeno in the third century before Christ. That was after the great period of Grecian philosophy and after the great achievements of the city states. There was nothing golden about Greece when Zeno settled there. Stoicism had begun in Asia when that country was subjugated by the Greeks and was brought to a country that was in a dry season of its fortunes. Stoicism counseled a renunciation of power, wealth, and pleasure; it urged men not to let themselves be destroyed by misfortune, pain, poverty, and tyranny. They were told they could make themselves secure by developing the rational side of their natures. That was the mind and it could be supreme and indestructible, incapable of being moved by outside forces if one so willed.

Cultivation of the mind is not identical with cultivating the soul, and indifference to the world is not the same as withdrawing from it. But each can be mistaken for the other, and that often has happened. This mistake has given us our conventional notion of Stoicism, and the notion is uncongenial to the liberal view of things, even repugnant.

The mistake is illustrated in an essay on Bacon by Macaulay who, to himself and others, was the embodiment of liberalism. In one passage he compares the Stoic attitude with that of the Baconian and liberal. Two travelers pass through a stricken land, a Baconian and a Stoic. The natives have been exposed to smallpox. The Stoic informs them that disease and death have no reality to the wise, that the only concern of the people should be to prevent their fears from displacing their reason. During this discourse, the Baconian is busy vaccinating the population. The travelers next meet some miners who cannot find a way of rescuing those of their group who have been trapped underground by an explosion of gases. The Stoic advises indifference to death, and the Baconian makes a safety lamp. The two then meet a despairing merchant whose vessel and cargo are at the bottom of the sea. The Stoic explains that wealth is immaterial, while the Baconian recovers the goods with a diving bell.

This view of Stoicism is less than all of it. Even Macaulay himself was not as independent of its influence as he thought. In his Victorian conscience were qualities that resembled those of the moral hero of Stoicism. Macaulay showed his indebtedness to Epictetus in the very essay in which he derided Stoicism. In one passage he berated Bacon for letting cupidity interfere with his intellectual efforts. The passage illustrates what Epictetus meant by saying that an admiration of riches is a mark of baseness. When Macaulay reproved Bacon for sacrificing his independence in order to secure political preferment, he was applying to a single case the general rule of Epictetus that, "The soldiers swear to respect no man above Caesar; but we to respect ourselves first of all."<sup>1</sup>

## STOICISM AND POLITICAL AUTHORITY

It is odd that an ethical system which supposedly urged a renunciation of the world should have attracted so many worldly figures and especially remarkable that the system should have had among its believers most of the rulers of the ancient world after the time of Alexander. Their behavior was anything but "Stoical" in the common meaning of that word.

One was Marcus Aurelius. As a philosopher, he is improbable as an emperor, and as an emperor just as improbable as a philosopher. He managed to be both and to be probable at each. He was not altogether great in either position, but he is memorable. His *Meditations* are one of the strangest records ever left by a man of action. One might, it is true, see in them a figure on whom great but distasteful duties had been imposed, but one would not suppose he carried them out firmly and with energy. Many have noticed the anomaly of a man suited for meditation and instead finding himself at the head of a great empire, ruling it with resolution, driving out dissidents, leading his armies against the barbarians, and (the crowning touch) putting Christians to death. It was almost too much for Matthew Arnold to believe, especially the killing

of Christians. He said the Romans must have regarded the Christians much differently from the way the Victorians did and concluded that Marcus Aurelius “is perhaps the most beautiful figure in history.”<sup>2</sup> One can, however, explain the conduct of Aurelius in another way, and that is by setting it against the whole of Stoicism.

The conduct of Cicero also is curious. His numerous writings contain rules of conduct that are deduced from Stoicism and are meant to guide an individual who has a variety of interests. The rules do not direct man to be indifferent to the world. Cicero certainly was not. He sought power and exercised it; he wanted wealth and enjoyed it. When he was a rising politician he often was demeaning, but once in command he could be imperious. He was bitter in defeat and proud in victory. He was thoroughly human, a point on which all his biographers agree, from Plutarch through Boissier down to Thornton Wilder in *The Ides of March*.

It is hazardous, of course, to judge a moral system by the behavior of its believers. Still the two should be consistent in the end. If they in fact are not, there is something wrong with the system or with our understanding of it. The latter is true, I think, of Stoicism. The disparity between its moral principles and the conduct of the Stoics actually was not great. That is because Stoicism eventually came to provide for both the active and passive life. It did not sanction everything its followers did, but neither did it censure them for an active interest in power and wealth. Its praise and blame were dispensed according to the diligence with which individuals used their talents, not by their devotion to either the spirit or the world.

An important element in Stoicism is the idea that each person achieves goodness by fulfilling the part assigned to him by providence. That is, virtue consists in conforming to nature. Epictetus counseled men to do with their own all that was in their power. If their means were large, their part would be an active one. If small, their part would be small also, and their place in the world would not be important. If an individual was born to an inferior position, if he was poor, had little ability and few opportunities, he would find greatest honor in retirement and indifference to externals. If his estate was large, his powers and position great, he could properly lead an active life and attend to externals. His behavior would be just as virtuous as the behavior of a man who consulted only his inner resources.<sup>3</sup>

By making it possible for men to live honorably in the world as well as apart from it, Stoicism became a moral code suitable to all ranks of society. The change saved Stoicism from becoming a counsel of perfection or, what in practice comes to the same thing, a counsel of despair. The change was enormously consequential but it was not consistent with the initial premises of the Stoic philosophy as they are attributed to Zeno. Yet the change was only one of many. They lessened the consistency of the doctrine and they also extended its influence. They are one reason why it survived for more than 500 years.



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## 2

### *Zeno And The Moral Sage*

Zeno began with a conception of the universe. It was that the universe was composed of material objects, of things which he and the early Stoics called “real” and “solid” and which they believed could be apprehended fully by the senses. Their view was meant to oppose the Platonic conception that the universe consisted of ideal constructions of things which existed completely only in the mind and which were represented imperfectly by the objects the senses perceived. The elements of the Stoic universe were looked upon as being in a continuous state of growth, each moving with the other in a harmonious design toward a predetermined end. Presiding over the universe as prime mover, source of harmony, and governing power was the force of nature. It was called *phusis*, which literally means the process of growth. This particular conception—the idea of nature—appears again and again, especially in the period of classic liberalism in political philosophy. It sometimes is called providence, occasionally God, but often nature and will be called that here. Nature was the exclusive reality in the Stoic system.<sup>4</sup>

From these premises the Stoics quickly moved to what was their principal interest, the substance of human conduct. On the other fields of philosophy their influence has been negligible, but in ethical theory it has been profound. In order to explain conduct and to judge it, the Stoics inquired into the characteristics of the individual and their origin. As moral philosophers they tried to answer two questions: Why do men behave as they do? By what standards shall their behavior be judged? The first led them to what they believed was the distinctive characteristic of man—his reasoning faculty. It is the cause or motive of behavior. The second question they answered by asserting that behavior is to be judged by its reasonableness. It is good if reasonable, bad if not.

### THE LOGIC OF STOIC MORALITY

A contemporary moralist would find this rather slim. What the Stoics said was that men were directed by reason and were virtuous if they were so directed. That is like saying all men have brown hair and are good men if they have it. If men always behave according to their nature, then there is no meaning in the statement that men are good when they behave according to their nature. Hence, ethical statements are meaningless. If however they are asserted to be meaningful, the assertion implies that men do not always behave according to their nature. This in turn implies that their nature does not always direct them, from which it would follow that the statement is wrong that men are directed by reason because they are reasonable by nature.

This is harsh on the early Stoics but it does indicate where they went wrong. They did not distinguish between the positive character of the first question (What determines behavior?) and the normative character of the second question (What is good

behavior?). More than that, they answered both questions with the same proposition: That reason determines behavior and reason determines good behavior. I do not mean positive propositions have no place in ethics; I believe they have. The Stoics were not wrong because they asked two different sorts of questions but because they seemed not to realize that the questions were different.

This weakness is not as obvious in the early writings as I have made it here. As the Stoics developed the answers to each question, they introduced other ideas that served partly to conceal the weakness in the answers and partly to remove it. They said, for example, that man's reason was given to him by nature and was a part of the rationality, or harmonious design, of the universe; that nature intended man to use his reason, and that when he did he was acting naturally and hence in harmony with the universe. Such behavior was virtue. That is, virtue consisted in conforming to nature's intention. In some such way the Stoic doctrine can be made rather substantial looking. But I do not believe I do it an injustice in saying its early postulates were weak.

Yet, the weakness was not a fatal one in the sense of lessening the power of the philosophy to influence conduct. The emphasis of Stoicism was on the second question: How shall behavior be judged?—a question of value. It was not on the first: What causes behavior?—a question of fact. Stoicism was more interested in morals than in psychology.

From these initial ideas, the Stoic doctrine came to be known as a code of self-abnegation. As nothing but the life of reason had any reality, the Stoic could not be interested in anything external to the mind, nor could he even recognize an external except as something to be avoided. He was indifferent to wealth, honor, rank, and power, because all of them were separable from reason and so were unreal and immaterial. He also was unmoved by bodily comfort or discomfort, by pain, by disease, or by health, because they too were external to his real being. Most of the things that Stoicism disparaged are things the modern world values in some way, and the austerity of the doctrine puts one off. . . . Still there is something about it that commands respect or at least attention. What Marcus Aurelius wrote about pain may seem ingenuous:

But if it happens in such wise as thou art not formed by nature to bear it, do not complain, for it will perish after it has consumed thee.<sup>5</sup>

A psychiatrist might tick him off as a masochist, and a logician call him a maker of truisms. But Aurelius did not mean that the Stoic enjoyed pain. The Stoic did not, any more than ordinary mortals; but he was different from them in refusing to allow pain to disturb the equanimity of his mind and the exercise of his reason. One may think that such a mind is not aware enough of external reality, but one would have to admit it was something to be reckoned with. There is a story of the Stoic who was captured by the soldiers of a foreign conqueror and told to renounce his beliefs. He refused and was tortured. Still unable to make him recant, the soldiers told him he would be put to death. He answered that they could do whatever they wanted with his body but whatever they did they could not injure his philosophy. That was in his mind, and their authority, in its physical or moral aspect, did not extend to that. The story is

similar to many accounts of martyrdom, except for one difference. The difference made Stoicism unique. Unlike the Christian or the communist martyr, the Stoic did not go to death believing his ideas someday would prevail, or that he would secure salvation from a higher power. He went to his death because his integrity was worth more to him than his existence.

“No man in his senses refuses the things which are dear to him, unless he thinks he is already abundantly provided with other things which he values still more.” So it is remarked in a Renaissance discourse on manners, the *Galateo* of Della Casa; and the idea is an echo of the Stoicism of 1500 years earlier. There is an even stronger echo in Tawney’s *Equality*, a book that reveals the ambivalence of democratic socialism toward liberal and idealistic political theory. In a liberal strain, Tawney wrote about power:

To destroy it, nothing more is required than to be indifferent to its threats, and to prefer other goods to those which it promises. Nothing less, however, is required also.

## REASON AND VIRTUE

The early Stoics emphasized the supremacy of reason as the mark of virtue, and the emphasis was so pronounced that they often did not distinguish between the two. Initially they regarded reason as the means by which virtue was achieved. Later it became virtue itself, and the moral hero was the man who used his rational faculty. The errant individual was one whose behavior was unreasoning. Goodness came to mean the *way* an individual chose from among different kinds of possible conduct instead of meaning the conduct itself. Gilbert Murray, in his admirable lecture on Stoicism, said that the essence of Stoic morality was the idea that goodness resides in the act of choice and not in the thing chosen.<sup>6</sup> An individual was to be judged not by what he did but by the way he did it. If in all his acts he consulted his reason, he would be assured of attending only to the reality of life and of avoiding its immaterial aspects.

It is difficult to know how much of a departure this represents from the initial Stoic conception of virtue. There certainly is a difference between saying a man is good because he does a particular thing and saying that he is good because he does it in a reasonable way. For most kinds of conduct, the distinction is one between ethical standards and nihilism. But the distinction probably cannot be made for the kind of conduct in which the early Stoics were interested. To them the exercise of reason would lead to only one kind of behavior: the life of reflecting on man’s place in the universe. Such behavior was the essence of virtue. To do what was reasonable was to reflect upon man and nature. No other course was possible. On all other matters of conduct and existence to which a man might attend out of interest or necessity, the early Stoics had little to say because they considered such matters to be unreal. Their best advice was the counsel of rationality. If this standard were applied to all of man’s interests, he would have to believe that goodness was in the act of choice because it was inseparable from the thing chosen.

Out of these ideas the Stoics constructed the moral sage: the completely reasonable person. He invites comparison with the economic man. The Stoic hero uses his rationality to achieve virtue and he is virtuous when he is rational. The economic man also has rationality. He uses it to accumulate wealth.

## SOME DIFFICULTIES

The Stoic hero was no more “real” than the economic man (rather less, if anything). Neither was meant to describe individuals as they actually were. But the weakness of the Stoic conception was something different from unreality or untruthfulness. Once we turn away from its radiance to a disinterested study of the doctrine we encounter many difficulties. Perfect rationality, it has been observed, is a self-contradiction, to know everything is to banish all questions, and there is nothing left on which the reasoning faculty can exercise itself. Even more often it has been remarked that the idea of a natural order is troublesome. If the good is foreordained, why should man strive to bring it about? Overlooking the conceivable impiety of such conduct, what shall be said of it from a mundane viewpoint? Does not the faith in a natural order deprive men of their will and enervate their conduct? The Stoics are said to have resolved this difficulty by making virtue reside in the *effort* to do one’s duty. But does this really solve the problem—does it not merely substitute the effort to do good for the good itself? If all things are predestined to come to pass, so is the striving for virtue as well as virtue itself.

So, too, is evil, or error, or failure, or weakness, or whatever the opposite of virtue is called. In such a universe, an individual cannot be made responsible for his faults or esteemed for his merit. There is not much point in discussing individual behavior, the exercise of reason, the wisdom or folly of choice. One could reflect upon such ethical matters, perhaps, but one could hardly reason about them for the purpose of influencing conduct.

Yet the Stoics, like many others, insisted that the individual was a free agent capable of making choices and responsible for their consequences. One is reminded of how Milton considered the problem in *Paradise Lost*, of how he raised the question, defined and disposed of it, all in about thirty lines, of which the following are typical. God explains to His Son how Satan and the other angels were made free, how He knew they would revolt, and how they must be held responsible for their disobedience.

I made him just and right,  
Sufficient to have stood, though free to fall.  
Such I created all the Ethereal Powers  
And Spirits, both them who stood and them who failed;  
Freely they stood who stood, and fell who fell.

To the implied question of how Satan’s choice could have been free if his maker had foreknowledge of it, God declares:

As if Predestination overruled

Their will, disposed by absolute decree  
Or high foreknowledge. They themselves  
Decreed their own revolt, not I.

Having done so, they are accountable.

They trespass, authors to themselves in all,  
Both what they judge and what they choose.

Just how this strikes one is probably determined by the predispositions one brings to it. It strikes me as a statement of what one must believe if one is to believe in an omnipotent power and at the same time believe in individual responsibility. Milton hardly proves his contention in the ordinary sense of that word. He asserts it, and, one notes, he uses his thirty lines to repeat the assertion rather than to demonstrate it. Milton, incidentally, thought the predestination doctrines of Calvin were damnable.

The kind of assertion he makes seems to me to be a necessary part of any moral doctrine that presupposes a supernal force. Yet one must dwell on the problem of reconciling freedom and predestination. Stoicism certainly did not reconcile them. While accepting the reality of a divine power, it did not release individuals from responsibility for their behavior. There is a story of the Stoic who one day became angry with his slave. The slave was exasperatingly slow in bringing the master's drink and when he finally served it he spilled the cup. The master stormed and scolded and began to beat the slave, all in a way that was far from being Stoical. "But master," the slave remonstrated, "do you not know that my transgression was foreordained from the beginning of time!" "Just so," the master answered, "and likewise is my beating you for it!"

Another of the difficulties in Stoicism is the disturbing presence of evil in a universe that is benevolently constituted and governed. Evil is the product of unreasoning behavior and so must be unreal. But being "unreal" does not mean it has no "existence"—and we are forced to look for a distinction between reality and existence. These are old, old troubles and have beset many other ethical systems. Stoicism was no more unsuccessful than they in reconciling obvious evil with a benevolent providence and freedom with predestination. It was, however, more successful than most in the influence it exercised and in the long period of time in which it was the ruling ethical doctrine.

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### 3

#### *The Modifications In Stoicism*

One reason for its success was the modification of the doctrine. It was made less demanding and so came within the ability of more men to practice it. The original Stoic definition of virtue—the finding of one’s place in the universe by the use of reason—was not a helpful precept for the mass of men. They were not curious and reflective enough. Even if they had been, they could not all have come to the same conclusions, as their betters in fact had not. These were two more difficulties of Stoicism: that not all men were equally reasonable and that among those who were there was disagreement over the conclusions to which their reason led them. Had Stoicism retained its original purity it would have excluded from its authority the majority of men, it also would have excluded all of those among the reasonable minority who disagreed that virtue consisted of the reflective life and only that.

#### THE EXTENSION OF INTERESTS

In time the Stoics came to approve of many other kinds of behavior. As they did they lessened their emphasis on reason as the only important human characteristic and attended to others. Among them were man’s interest in what we would call material comfort (and which the early Stoics called immaterial), his desire for esteem, rank, and honor, his interest in political power, affection for family and friends, liability to pain, capacity for discomfort, distress, and fear, and other human failings. Seneca distinguished between the rational and the irrational elements in men and he said that irrational conduct was not always an evil.<sup>7</sup>

What wretched men desire  
They readily believe

Megara says in *Mad Hercules*.

Marcus Aurelius, although he did not attend to irrational behavior as much as Seneca did, also recognized its reality and he was more perceptive about the causes of error. One, he said, was simply unreasoning behavior. Another is weakness. He said repeatedly that happiness is to be found only in the life of reason. But that life is not for everyone:

... the mind which is free from passions is a citadel, for man has nothing more secure to which he can fly for refuge and for the future be inexpugnable. He then who has not seen this is an ignorant man, but he who has seen it and does not fly to this refuge is unhappy.

It is clear that the Stoics thought some men were not made for the life of reason, some because they could not be reasonable, some because they would not. The failings of

the former were not evils. Unreasonable behavior “is only harmful to him who has it in his power to be released from it, as soon as he shall choose,” Aurelius said, meaning that an evil man is one who is able to be virtuous but chooses not to be.<sup>8</sup>

Epictetus modified Stoicism even more. He denied that reason had its origin in nature, saying instead that it was the product of education. He made reason separate from the moral sense of the individual and said that only the moral sense was natural or innate. This is the quality that leads men to choose good and avoid evil. He departed so far from the doctrine of Zeno as to say that when the reason of the individual dictated one course and his moral sense another it was the latter which should be followed.<sup>9</sup> This meant the individual should not accept the moral values given by education and environment—the factors which created his reason—if the values contradicted his inherent sense of right and wrong. Aurelius while declaring that all men were made for common association and were meant to conduct themselves for their mutual advantage, said nonetheless that each man must reserve to himself the ultimate judgment of what is his own interest, including his supreme interest in virtue.

When he wrote his *Meditations* much of the early austerity of the Stoic doctrine had diminished, and in its place there was a tolerant regard for human feelings. He did not deny the supreme value of the reflective life—actually, he reaffirmed it—but neither did he ignore the many people who did not live reflectively. Moreover, he found that natural law could guide them as well as it could guide rational individuals. Natural law, he said, disclosed certain virtues that govern the relations among different individuals and it revealed others that governed a man’s relation to himself. The two most important virtues of a social kind were benevolence and justice (as they were also to Smith when he wrote *The Theory of Moral*

*Sentiments*). They must always, Aurelius said, guide the individual in that part of his conduct which affects others. The virtues ordained to one’s self were tranquility, simplicity, modesty, and of course rationality.<sup>10</sup> In setting down the specific virtues man should seek for himself and in his relations with others, Aurelius was advising him to pattern his life on the order of the universe. The universe was naturally just, benevolent, peaceful, and harmonious, and so must the life of man be. The early Stoics had said just this about the universe, but they did not extend the principle to the ordinary behavior of men because such behavior did not interest them. Not only was Aurelius interested in such behavior, he was also concerned with what might be done if it did not conform to nature. When he prescribed guides to conduct he knew that they would not always be followed, and he offered counsel for those who departed from virtue:

When thou hast assumed these names, good, modest, true, rational, a man of equanimity, and magnanimous, take care thou dost not change these names, and if thou shouldst lose them, quickly return to them.

But if amends cannot be made, then:

depart at once from life, not in passion, but with simplicity and freedom and modesty, after doing this one [laudable] thing at least in thy life, to have gone out of it thus.<sup>11</sup>

To advise men that the only alternative to a virtuous life is a virtuous suicide may seem an unbending code. It is. But it does acknowledge the reality of nonreasoning behavior, which is something early Stoicism did not do. That doctrine simply turned aside from errancy, believing it had no reality. Although what Aurelius advised was extreme, there was nothing in it that was self-abasing. In one of his finest passages he wrote: “for the pride which is proud of its want of pride is the most intolerable of all.”<sup>12</sup>

There was instead in his doctrine an effort to place the individual in an order of things larger than himself, to judge behavior for its harmony with this order, to view the life of the individual as one element in it. He said:

Short then is the time which every man lives, and small the nook of the earth where he lives, and short too the longest posthumous fame, and even this only continued by a succession of poor human beings, who will very soon die, and who know not even themselves, much less him who died long ago. . . . Wherefore, on every occasion a man should say: This comes from God; and this is according to the apportionment and spinning of the thread of destiny, and such-like coincidence and chance,<sup>13</sup> . . .

There is a curious suggestion of this statement in a dialogue in Turgenev’s *Fathers and Sons* which reveals how the Stoic view, in its passage through time, could retain its outward form while being completely divested of its meaning. Two young men, representative of the new generation of Russians which is receptive in a feverish way to European ideas, are discussing the meaning of life. Bazarov, a nihilist, observes:

I think; here I lie under a haystack. . . . The tiny space is so infinitely small in comparison with the rest of space, in which I am not, and which has nothing to do with me; and the period of time in which it is my lot to live is petty beside the eternity in which I have not been, and shall not be. . . . And in this atom, the mathematical point, the blood is circulating, the brain is working and wanting something. . . . Isn’t it loathsome? Isn’t it petty?

Arkady, his friend, puts a period to the declaration by adding, “Allow me to remark that what you’re saying applies to men in general.” There was nothing singular about this point of view. Dostoevski made “a sense of degradation” essential to many of his characters. Nor was this a uniquely Russian trait, although it seems to have appeared in that literature first. It is in Russia that Bazarov’s attitude produced some consequential reactions. One has been a repudiation of reason in favor of belief in a misty notion of love. In *Anna Karenina* Levin discovers that his reason has led him to an impiety in which he can find no meaning—“an agonizing error, but it was the sole logical result of ages of human thought in that direction.” He redeems himself by returning to the church and to its doctrine of love, which “reason could never discover, because it is irrational.” Another reaction has been Marxism, which has given a purpose to the materialism, or atomism, of Turgenev (which he probably got from Lucretius rather than from Aurelius). In the ideas of the Stoics there is nothing which necessarily leads to nihilism. It cannot be read from the explicit judgments of the philosophy, nor can it be made to follow by implication from the Stoic practice of cultivating the individual will. Yet there is something troublesome about any highly



individualistic code, which, by turning all moral questions inward and making reason the final arbiter of truth, leads men often to an irresponsible assertion of will. The Stoic doctrine was susceptible to such a result. When the doctrine was transmitted to classic liberalism, it passed along this unsettled question.

## MORALITY AND CUSTOMARY BEHAVIOR

When Stoicism brought nonrational interests within its scope, its intention was to apply its principles to a great many kinds of “secondary” behavior—the customary or ordinary conduct of men. The rules devised for such behavior were at first regarded as inferior to the ultimate standard of virtue. Later they became more important, more absolute, and eventually became duties.

The English word “moral” comes from the Latin *mores*, meaning custom, and originally conveyed much less of an ethical injunction than later. Logan Pearsall Smith in his interesting little book *The English Language* says that Cicero coined the Latin word for moral. Cicero, as we shall see, attended to secondary interests of men more than any of the other Stoics did. These changes had two important effects on philosophy. It lost much of its austerity and came within the power of ordinary men whatever their interests happened to be. It also became relevant to the particular interests—political and economic activity—which always have been an important part of the life of ordinary men.

Once it admitted that such activity could be a reasonable interest of the individual, Stoicism became a social philosophy as well as a code of personal morality. Its social philosophy rested on the idea that virtue consists in doing the best one can with one’s own. In this way one conforms to nature. Conformity would not necessarily lead men to the reflective life. If their endowment was an intellectual one, it would. But if they had also a considerable property in those things which Zeno called “externals” their reason would lead them to an active part in the world of affairs. If their endowment consisted mainly of the externals of life and only slightly of reason, they would be destined for an honorable if not a leading place in society. But if all they had were the attributes separable from reason and were wholly wanting in reason itself, then Stoicism had no place for them. As inclusive as it became, it was never indifferent to the reasonableness of conduct.

On the opening pages of this chapter, I indicated the importance of this new idea of virtue. It was important from a conceptual viewpoint because it made a considerable change in the tenets of the early Stoics, and it was important in extending the influence of Stoicism, in making it a doctrine that could apply to all ranks of society and all interests, in giving it a hold on the minds of men and their leaders for a longer time than any other ethical system with the possible exception of Christianity.

As the new conception of virtue was applied to economic conduct, the Stoics inquired into a number of enduring political and economic questions. Their answers were not always clear and unequivocal, but this was less important than their recognition of a social aspect of conduct. They wished to know how an individual should conduct himself before his governors, what were the proper qualities in a statesman, what was

the ideal government, and what was the meaning of law. In economic affairs they were interested in knowing why an individual sought to acquire wealth and what was the propriety of such conduct. They examined some of the ethical problems which arise when a number of individuals engage in buying and selling and other economic relations. They inquired into the legitimacy of private property (an aspect of the first economic question), the ethical value of different kinds of economic activity and occupations, and the proper relation between the economic conduct of the individual and the powers of government.

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4

## *Epictetus*

The observations of Epictetus, a later Stoic, are of interest principally for the importance they place on self-interest. Although his *Discourses* and his *Manual* are mainly about the responsibility of man to nature, they do include many observations on the political and economic activities of men. The view which Epictetus held of virtue was so much more extensive than that of his earliest predecessors that he examined forms of conduct which had no interest whatever for them. His observations are also important for what they suggest about the proper method of examining the ethical aspect of social behavior.

### THE CONCEPTION OF SELF-INTEREST

Epictetus said that men were motivated mainly by self-interest, that the propriety of self-interest depended upon the object to which it was directed and the way in which it was expressed. In making egoism his premise, he followed the founders of Stoicism who believed that men were naturally inclined to consult their own advantage. That was perfectly proper, indeed highly virtuous, because their interest consisted in conforming to nature. But Epictetus admitted that there could be incidental objects to which men might direct their attention, and on this point he departed from his early predecessors. He recognized that men were interested in political power; but instead of urging them to turn from it as from a worthless object he tried to prescribe a code for political conduct. It was highly elliptical and offered little practical assistance. From this point of view it had little to commend itself. But it is important for the contrast it provides with the early Stoic indifference to all politics except that of a utopian character. In an interesting chapter in the first book of his *Discourses*, Epictetus explains “How One Should Behave Toward a Tyrant.”

“I am the mightiest of all men,” the tyrant says. The Stoic replies by wanting to know if the tyrant can enable men to will their conduct as nature would have them.

The tyrant declares, “All men pay me attention.” The Stoic answers:

Do I not pay attention to my ass? Do I not wash his feet? Do I not curry him? Do you not know that every man pays regard to himself, and to you only as to his ass?

But I can behead you.

Well said. I forgot, of course, one ought to pay you worship as if you were fever or cholera, and raise an altar to you, like the altar to Fever in Rome. [14](#)

This defiance was not unreasonable or even imprudent, although it would seem so today. In fact it was dictated by reason, because man must consult his own moral

sense in order to conform to nature. But he will be doing more. He also will be acting in the interests of others as well as of himself.

This is not mere self-love: for it is natural to man, as to other creatures, to do everything for his own sake . . . in general he [Zeus] has so created the nature of the rational animal, that he can attain nothing good for himself, unless he contributes some service to the community. So it turns out that to do everything for his own sake is not unsocial.[15](#)

There is a close similarity between this particular Stoic conception of self-interest and the view of the classical economists that if each person seeks to improve his fortune he will benefit others as well as himself. The similarity is most apparent in the famous remark of Smith that the individual who intends only his own gain often is “led by an invisible hand to promote an end which was no part of his intention.”

Contemporary economists will find it curious that Epictetus was one of Smith’s forerunners; they may rightly wonder if the connection is anything more than an historic oddity. The two philosophers did not view the social advantage of self-interest in the same way; yet there was an underlying agreement which supports the verbal similarity of the two statements. Both men insisted that the individual knew his interest better than others could know it, that he could not allow his rulers (or anyone else) to dictate it or direct him to it, that he must be the ultimate judge of whether or not his interest was being served. Both made the individual the central element in society because they believed he was capable of reasonable behavior. We usually think of Smith as believing individual welfare consisted of wealth, but that is because his economic theory is more familiar than his social philosophy. Wisdom and virtue actually were his standards, and in them he found the most estimable expression of human conduct. He had a wider view of conduct than Epictetus did, but both believed that the values of the individual were supreme and that in trying to realize them the individual acted in the interest of society as well as of himself. How much aware Smith was of his relation to Epictetus, I do not know. There is a report of an unpublished manuscript of Smith entitled “Meditations on the Letters of Seneca Written Solely from the Stoic Viewpoint, etc.”[16](#)

When Epictetus urged men to defy a tyrant, he was urging them to place their integrity above their duty to the state and was reminding them that their moral sense must tell them when the two were in conflict. The idea implies that the political environment into which an individual was born or found himself had less influence on him and less authority over him than his will had. The idea is a negative one, as were most of the political ideas of Epictetus. Although he wrote much about the authority of the will, he wrote little about the explicit ends to which that authority should be directed, i.e., about the specific rights of the individual. Nor did he write in any helpful way about the methods men should employ to secure their rights. Presumably he thought government could be made into a reasonable institution, that men properly could interest themselves in such an endeavor, and that once government was made reasonable it would attend to itself. This was more than the early Stoics had said about government but was not enough to be a political philosophy or a guide to political conduct (both of which Cicero developed out of Stoicism). The probable explanation

for Epictetus' summary treatment of politics is that he did not think it was as important as the other interests of men but yet he could not, as his predecessors did, ignore it.

## THE ECONOMIC IDEAS

His observations on economic conduct have the same summary quality. He recognized it as a proper object of self-interest and yet did not inquire much into its particular forms. One can infer from his observations a rudimentary notion of economic psychology, which was, briefly, that individuals were motivated by a desire to secure material comforts and that they also were inclined to want even more wealth than material comfort alone requires. He approved of the gratification men obtained from economic goods and of the desire to accumulate riches if such objects were kept in their proper place. By that he meant that neither comfort nor wealth should be made ends in themselves, that man's liking for them should be subordinated to the more important, more lasting, and more "real" satisfaction which comes from the life of reason. Such a view of economic morality seems not to open the way for a lively interest in money and of course does not. Nor could the view justify the kind of preoccupation with wealth which economists of a later age occasionally assumed men to have. But it was an important concession. Material (i.e., economic) self-interest was conceded to be a valid motive of conduct. Epictetus acknowledged that men properly could be interested in something other than the life of pure reason.

He did not, one must repeat, approve of an unrestrained expression of acquisitiveness. He was tireless in admonishing men to set aside the pleasures of the world in favor of the enduring satisfaction of the reflective life. He was as scornful of men who made wealth an end in itself as he was of those who worshiped political power. One notices, however, a shade of difference. He seems to suggest that those who are preoccupied with riches suffer more from weakness than baseness while those who bow to tyranny are base.

He justified in two ways such economic conduct as he thought was proper. It was reasonable, he said, for men to do all within their power with their own, and an individual who acquired wealth was utilizing his endowments. Moreover, an individual could properly want economic goods because they were necessary and useful. The belief that men must do the best they can with their own was, as I have said, a notable departure from early Stoicism. The belief was used by Epictetus to justify economic self-interest. He did not, however, use it as extensively as other later Stoics did. His restraint was a part of his reluctance to examine social conduct in any detail. The reluctance was a source of ambiguity in his ideas.

## THE POLITICAL IDEAS

The ambiguity is present in his remarks on political behavior. He urged men to defy tyrants, and the urging was done in such a way as to cast doubt on the necessity of government itself. If the government directed them to do something that their reason opposed, they were to defy the government. If it told them to do what their reason would have told them anyway, they did not need a government. One interpretation of

his political doctrine is that it made the government a method by which the reason of many individuals could be brought to support those whose reason failed them. In this view, the government would express the opinion of the good and the wise, which all men had the power to be although not an equal power, and would direct each man to behave properly toward others when his intellectual faculty failed him. This interpretation, which is conjectural, makes Epictetus' political doctrine a version of the social contract theory, all versions of which have in common the idea that the government is a mutual aid society. The theory to be helpful must explain: How can men distinguish between a legitimate government and a tyranny? How shall they conduct themselves when they are convinced the majority is wrong?—which is what happens when their reason leads them to differ with others. To the first question, the implied answer in Epictetus is that men will know the distinction if they think hard enough about it. There is no answer in his writings to the second question, because disagreement cannot reasonably occur in a universe where the reason of all men leads to the same conclusion. The questions were not managed in this way by the liberals of the seventeenth and eighteenth centuries. To them a legitimate government was one that secured the rational consent of the governed. They acknowledged that reasonable men could disagree, and if the differences were serious the consequence was crime or civil war.

There is even more ambiguity in the two ideas Epictetus used to justify economic conduct—necessity and use, and the utilizing of one's endowments. If an individual may acquire economic goods because they are *necessary*, he must limit his activity to the satisfying of his needs (assuming needs can be defined in any way that is not truistic). Any accumulation of wealth beyond this amount is then undesirable and wrong. If *usefulness* is the standard, instead of necessity, the individual then must know to what use he is to apply his wealth in order to conduct himself morally. There is, however, nothing in Epictetus' doctrine that suggests the proper use of wealth. The other justification which he offers—endowment—has no clear relation to the first. If an individual engages in economic activity because he wishes to utilize his endowments, he may acquire an unlimited amount of wealth; the more successful he is in caring for his fortune the larger it will become and far exceed what is necessary to existence.

The ambiguity about economics can have a mischievous consequence. It becomes apparent when one passes from individual to social behavior. Let us suppose the ethical justification for economic conduct is that men may be diligent about their property because property is an endowment which must be utilized. Epictetus emphasizes this justification. What follows is that individuals who have no property cannot reasonably engage in economic activity. If a poor man were to try, he would not be directing his interests to a worthy object. Having no property, he would have no endowment to utilize, and his conduct would be unreasonable. Indeed, he might even be guilty of making wealth an end in itself. The difficulty can be removed by assuming that one of man's endowments is a *desire* for wealth. By gratifying this desire he is utilizing an endowment. But there is no justification for such an assumption. If an individual was born into a society with an unequal distribution of wealth and if his own wealth was small, he was by the precepts of Epictetus forever confined to poverty. Yet for a rich man to attend to his wealth was altogether moral so

long as he did not make wealth an end in itself. We of course do not know what is meant by making wealth an end in itself. Epictetus nowhere explained it and he did not explain what he meant by making wealth a means.

## THE PROBLEM OF EQUALITY

The acceptance of these ideas meant supporting the existing order of society. Whatever the distribution of wealth happened to be, that was just what it should be. The only way to change it, to reduce inequality, would have been by helping the poor to improve their position, but such assistance would have been immoral. Actually such a social philosophy was worse than one which sought to preserve the status quo. Wealth, like other forms of power, is cumulative, growing upon itself. A society which prevents the poor from acquiring wealth in order to maintain the existing distribution is one in which inequality will grow with the passage of time. A doctrine which counsels against redistribution—for the reason that wealth is less important than other values or for any other reason—is a doctrine that is indifferent to one of the major issues in most social philosophy: the distribution of power.

The doctrine of Epictetus was far from modern ideas of equality and it also was distant from the teachings of other Stoics. Although the early members of the school offered no explicit advice about economic and political conduct, they did, by insisting upon the importance of the individual, assert the absolute equality of all persons. In Zeno's lost work, the *Republic*, he is said to have outlined the ideal society, and in it there would be complete equality, including equality of status between men and women. (There also would be, it seems, no economic endeavor of any kind apart from meeting the most elementary needs of individuals, nor would there be much of an organized government since courts of law were explicitly banished.) In some other of the lost writings of the early Stoics, they are said to have favored communal property. That, too, differs from the doctrine of Epictetus.

This dissection of it is not an exercise in hairsplitting (at least not intentionally) and is not meant as an analysis of his logic for the sake of analysis. My intention is to show the problems he created by his reluctance to make social behavior as real as individual behavior. They could have been avoided if he simply had ignored political and economic behavior, or if he had given it as much attention as he gave to individual behavior. This is not to say that his conclusions would have been agreeable to everyone. But they would have been less equivocal, and we should have known better what we differed about. Epictetus did neither. He raised a number of questions about social conduct—some of them very important. Having raised them, he offered complete answers to only a few. The rest he either neglected or dismissed with a cursory generalization that seemed in the Stoic vein but actually was irrelevant.

The probable reason for the ambiguity in Epictetus is not hard to discover. He was influenced by the early members of the school, and they were interested only in individual behavior. The close attention he gave to such conduct is a mark of his indebtedness to them. But their ideas were not the only ones that affected him. He belonged to the period of Stoicism when it became a social philosophy—notably in the work of Cicero—and he showed an interest in social conduct. But the way he

wrote of social problems and the peremptory manner he disposed of some indicates he thought they were less important than individual behavior.

There is one more observation to be made about Epictetus. Although he unduly subordinated the social aspect of behavior, he nevertheless did not commit any great error in what he did write about it. In particular, he avoided the egregious mistake made by so many of the ancients. That was to believe that when individual engaged in market activity they were doing something that either was wrong or was pointless. Aristotle, for example, stated that the exchange of commodities produced nothing of value, that it was “spurious” and “unnatural” behavior, and he strongly suggested that what one person gained from exchange another person necessarily lost; that is, exchange is immoral. The mistake is of more than antiquarian interest. It occurs throughout the history of social thought and is discernible in discussion of economic policy today.



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## 5

### *Cicero*

The error cannot be laid to Cicero. For his observations on the exchange process and on other matters, his economic and political ideas seem to me to be the most interesting in Stoicism—interesting for the great variety of problems they cover, for the detail in which they often are presented, and for the direct manner in which they are expressed. His philosophy was an impressive effort to apply the tenets of Stoic morality to the social behavior of men. His political and economic views are best understood in relation to the other elements of his philosophy.

### THE PLACE OF REASON

Like all of the Stoics, Cicero believed that the differentia of man was his power of reason, but Cicero was unique in the uses to which he put the idea. He made it the ethical and psychological foundation of society. Other Stoics made reason the informing power in man's relation to nature and to himself; the later Stoics, like Epictetus and Aurelius, made it the power that guided the relations among individuals. Cicero made reason the central element in a relatively complete theory of society. He used the idea to explain how a social system came to be established, with government, economic organization, and other institutions, to explain why men conduct themselves as they do in their relations with each other; and to explain how they ought to conduct themselves.

His conception of what was included in the reasoning faculty was, as one may imagine, more extensive than that of his predecessors. Moreover, Cicero was interested in man's similarity to animals as well as his differences. He said that man in common with the beasts has the instinct of self-preservation. From the traits of man in their entirety, Cicero deduced six particular characteristics of behavior. They were the desire to associate with others "in the common bonds of speech and life," or gregariousness; and closely allied was the inclination to form companies and "public assemblies"; the inherent affection of the individual for his children; the desire to provide materially for them and for himself; the interest in truth; and the desire to seek out order, moderation and beauty in the visible world.<sup>17</sup> Of these characteristics, gregariousness seems to be the most difficult to infer from either the human or animal traits of man, particularly as Cicero says elsewhere that it is not related to self-preservation. Nor does it seem to be a derivative of reason, unless he was thinking of the same sort of thing as the seventeenth-century philosophers were when they said man could exercise his reason only in communication with others. However this may be, gregariousness interested Cicero as much as any of the characteristics. It is essential to his social philosophy and if it is not inferable from his postulates it can be taken as an independent trait.

Cicero made it the origin of societies. They come into existence because men shun loneliness and find happiness in associating with each other as friends, as members of groups formed for a particular purpose, as citizens living under the laws of the state, and (most important) as self-conscious beings aware of certain universal characteristics uniting each of them to all of the others.

## THE CONCEPTION OF NATURAL LAW

The desire that brings men together however does not guarantee that their government will be moral or even that there will be a government at all. What makes government possible is the reasoning faculty of men—not their gregariousness. By reason men discover the natural law. It is the force that rules the universe and themselves as one element of it. By acting reasonably they can create a society that reproduces (or tries to reproduce) the order, wisdom, and benevolence of nature.

Cicero's conception of natural law is significant. It was an application of the Stoic doctrine of universal governance to the common relations among men, to their secular activities and especially those directed toward acquiring wealth and those centering about political power. What Cicero tried to do was to bring together the accumulated knowledge of how men ought to conduct their social relations and to make it consistent with the Stoic conception of natural law. To be sure, there was nothing unique in looking to nature for guidance in worldly conduct. It had been done before, more logically and with greater resplendence, by the Greeks, especially by Plato. But the Greek philosophers were more interested in ideal constructions, and their counsels of perfection were a little too true to be good. Although Cicero's ideas when taken separately were less original and when placed together were not always consistent, they nevertheless were important. His effort must be appraised in relation to the influence of other doctrines. That is, it should be judged by the effect it and other doctrines had on men in the business (both ordinary and extraordinary) of living. The effect of his ideas was, I think, considerable, particularly when later ages are taken into account.

The effect is apparent in many ways. Cicero held that men could determine the meaning of virtue by the use of reason, or, more generally, that by the use of their reflective power they could discover the laws that should direct their social relations and their individual conduct. "True law is right reason in agreement with nature," he said, and again: "Law is intelligence."<sup>18</sup> Some eighteen centuries later Montesquieu wrote that "Law in general is human reason"<sup>19</sup>—and the similarity was more than verbal: Their language had the same meaning. Like his successors in the Enlightenment, Cicero used the word "man" to mean not a few or a class of rational beings but all men. As the reasoning faculty was implanted in each of them, each could learn how to conduct himself in accord with natural law—not everyone with complete success, but well enough to take his place as a member of the human community with equal rights, privileges, and dignity. Cicero's doctrine emphasized the behavior of individuals in their relations with each other, as early Stoicism did not. He meant his moral standards to apply to everyone. It cannot be said of him as Matthew Arnold said of other Stoics that they laid upon man a "burden well-nigh greater than he can bear."<sup>20</sup>

Natural law as a universal code of behavior was an idea common to the Stoic writers. It was expressed as explicitly by Marcus Aurelius as by Cicero. Aurelius said:

If our intellectual part is common, the reason also, in respect of which we are rational beings, is common: if this is so, common also is the reason which commands us what to do, and what not to do, if this is so, there is a common law also; if this is so, we are fellow-citizens; if this is so, we are members of some political community; if this is so, the world is in a manner a state.<sup>21</sup>

But Cicero was different from the other Stoics in refusing to consider his social philosophy complete once its principles had been set down. In the *Meditations* of Marcus Aurelius there are many such persuasive passages as that above, but one would have to read closely indeed to find any guidance for ordinary conduct. Such conduct usually is pedestrian, but that can make it more, not less, important.

## THE ORDER OF OBLIGATIONS

Cicero stated there were four cardinal virtues—truth, righteousness, spirituality, and order. He said that man’s highest duty was to the gods, his second to the state, his third to his parents. It was the second obligation, however, that he wrote most about. In the same work in which obligations are classified (*Of Moral Duties*), he said, unguardedly, the “duty which is connected with the social obligation is the most important duty.”<sup>22</sup> This inconsistency is not important in itself but for what it reveals to have been his greatest interest. This interest is apparent throughout his writings. In an excursus on the value of learning, he objected to Plato’s statement that the philosopher shuns those things for which common men are most avid. Cicero contended that such an attitude led to a neglect of duty by the very men from whom most must be expected. The philosophers, he said, “hampered by their pursuit of learning . . . leave to their fate those whom they ought to defend.”<sup>23</sup> The things for which most men are avid are those to which their self-interest leads them, especially such objects as political power and wealth, and the philosopher cannot be indifferent to them.

One would think that because man’s first responsibility is to the gods he should cultivate spiritual knowledge. But Cicero said that an understanding of society was more important because practical results would follow from the understanding. Actually he does hardly more than to acknowledge the priority of spiritual obligations. Having done that, he quickly passed to social duties and made them in fact paramount.

The “chief end” of all individual conduct, he said, should be the development of social well-being, which consists of making “the interest of each individual and of the whole body politic identical.”<sup>24</sup> Men can do this by making natural law their guide. It enables them to form the ideal government, one that combines the best features of monarchy, aristocracy, and democracy. Cicero rejected each of them separately because he thought each in itself had decisive shortcomings. A democracy, because it is subject to license, cannot maintain enough authority. The others are inclined to excessive authority. “There should be a supreme and royal element in the State, some

power ought also to be granted to the leading citizens, and certain matters should be left to the judgment and desires of the masses,” he said.<sup>25</sup> The ideal government, then, was one that distributed power among the three major political groups in society—royalty, aristocracy, and the people—in order that the chief ends of government could be served. They were liberty, equality, and stability.

It is useful even at this early point to compare Cicero’s political ideas with those of classical liberalism. In the classical age, the seventeenth and eighteenth centuries, the great objects of government were liberty and authority, and there was no explicit reference to equality. The slogan of fraternity during the French revolution was equalitarian, but equality is not necessarily liberal. It can be an expression of political idealism. In France it had elements of both. The authority of which Hume wrote in his political essays was quite similar to Cicero’s conception of stability. The ideas of freedom in the two periods were somewhat different but not radically so. Equality in the liberal sense was not expressly urged in the later period, but the idea of equality was accepted in the sense of all persons being equally endowed with rights—so fully, in fact, that the very absence of any express reference to it was a mark of its universal endorsement. The classic liberals also endorsed a political structure that distributed power among the same three groups which Cicero said should have it. The idea eventually developed into the tripartite structure of government, such as that established by the American Constitution. During the Enlightenment it was called one of the grandest inventions of the human mind.

Cicero (unlike the Enlightenment) was not explicit about how each of the three groups would be represented or about how much power each would have. He said repeatedly that the ends of government could be secured only by distributing power, but he was vague about just what kind of political structure would do that. He did say society always should follow the principle that the greatest number should not have the greatest power. This eliminates the danger of popular liberty degenerating into turmoil, but in itself doesn’t restrain the authority of the magistrate and counsels, which could be enlarged into tyranny. (That did happen in Cicero’s own lifetime, and he was one of the victims)

The ideal government clearly needs the most able men in society. Cicero urged men to look on politics as their principal duty, and he disliked intellectual effort that was not in some way connected with it. He said the ideal statesman combined virtue with political expertise.<sup>26</sup> He had to be a philosopher, but he had also to be a great administrator. Cicero gave the closest attention to the statesman—to his qualifications, his duties and relations with others, to his power for good or evil. He said there are certain men who are meant by nature to rule, because they are strong in virtue and ability to administer. In a naturally ordered society, their ability would be recognized and they would naturally come into places of power. How they use power is important. Their conduct forms the morality of the state of course, but they do more. By their position they influence the purely private behavior of individuals and its morality. Cicero said there was something even more immoral than men in high office departing from virtue, thereby injuring themselves, others, and defying nature’s will. What is worse is that those outside government imitate the wicked in it, and in the end society itself is corrupted. The baleful influence of bad governors is an idea

that has been repeated down the ages. Jefferson often expressed it, and in his letters there are numerous references to Cicero.<sup>27</sup> His opposition to Hamilton and the leading Federalists was partly a personal one. He did not object to them only because he disliked their politics. He feared their habits would be adopted by the mass of people, who in turn would become just as bad. The idea, incidentally, does not flatter the common man in whom Jefferson, according to most commentators, had great faith.

Cicero did not profess any such faith. He placed his faith in leaders, instead, and about them he wrote most. He did comment on such matters as the powers of the governed, the meaning of law, the purpose of government, and the legitimacy of revolution. But he did not write of them so carefully nor so eloquently and his exact views on these matters are conjectural. He believed that the purpose of politics should be to make the interests of each individual identical with those of the state. One might infer that Cicero was a political idealist—that his doctrine assumed there is such a thing as a social will, or purpose or interest, independent of the will of the individual and superior to it. (To put the matter in a more familiar way, political idealism holds that the state is more important than the individuals comprising it.) Actually, Cicero's assertion is misleading when taken by itself; when it is interpreted in the light of other statements in his political philosophy it has a meaning opposite to idealism. In his essay on the perfect state, which he called *The Republic* (after his “beloved” but often contrary Plato), Cicero said there was nothing men longed for more than liberty.<sup>28</sup> In another place he wrote: “Freedom suppressed and again regained bites with keener fangs than freedom never endangered.”<sup>29</sup> (The remark, incidentally, is a prototype of a Ciceronianism.) Now freedom happens to have many meanings, and when men say they believe in it they are not saying they agree with each other. “Freedom” in the vocabulary of politics has no rival for ambiguity and emotive power, except “democracy,” “authority,” “justice,” “right,” and most of the other important words used in political discourse. What Cicero meant by freedom was similar to what the word came to mean in the writings of the classic liberals. What he meant by political freedom is implied in his remarks on the meaning of law and of equality. What he meant by economic freedom is perfectly explicit and is consistent with its meaning in classical economics.

## FREEDOM, EQUALITY, AND LAW

Cicero said that the law which governs society must affect all persons in the same way, because “rights that were not open to all alike would be no rights.”<sup>30</sup> The idea of equality before the law was a strict deduction from earlier Stoicism. As nature gave all men reason and meant them to use it to discover virtue, so nature meant that all men should be equal and that virtue should have the same meaning to all of them. Cicero did not believe that the reasoning faculty was equally strong in all men. He said the weak in virtue were born to follow the strong. But he did believe that each man was capable of finding his place in society, and that all men stood in the same position before the law. Although not all individuals should have equal power in making or administering the law, all should have the same rights and duties before it.

The law so created was absolute. Being derived from nature, it was unchangeable. Being absolute, it was superior to the opinions or wishes or caprice of the heads of state. It governed them just as it governed the people. In these ideas there was a rudimentary conception of the rule of law—namely, that the state is created by law and limited by it. The opposite view is that the state makes the law and has unlimited powers. Cicero did not develop the idea of the rule of law in any detail, in fact, did no more than intimate or hint at it. Yet the hints were important, affecting as they did much of what he had to say about government.

They were disclosed in his ideas about equality, which for his time were extreme. He wrote of the universality of law and of the power of the people to safeguard their rights under it. He declared that the power was beyond dispute and he defended the overthrow of tyrants both as a right of the people and as a moral duty. This was not a defense of violence as a usual method of politics. It was a declaration that the power of government derives ultimately from the governed. The declaration seems to contradict the rule that the greatest number in a state never should have the greatest power. That rule, however, prescribed the distribution of power in a naturally ordered state. The right of revolution applies to a state that is not so ordered and is the ultimate recourse of a people who have no other means of obtaining for themselves the objects for which a state is established. If other means were available, Cicero was opposed to violence. He was, of course, even more strongly opposed to it in a society which respected law. “In a state which has a fixed and definite constitution,” violence is in complete opposition to justice and law and is wholly unsuitable to civilized men, he said.<sup>31</sup>

Cicero’s views on law and revolution are interesting. They were a forecast of the principles of the political theory of the Enlightenment. They were influential in their own day also. But as practical as he tried to make them, they could not manage certain problems. One was how the abuses of government should be removed and the rulers corrected. If the rulers exceed their proper power, they usually do not admit it nor do they invite discussion about how they can improve. Those opposed to an unjust government do not all of them have the same view of how it should be changed. The disagreement within the opposition may be as great as that between it and the government. The very critical problem—which Cicero does not illuminate—is how to know when political changes can be made by the rational method of discussion leading to agreement, including the agreement to disagree, and when the disagreement is so basic that it can be removed only by coercion or some other kind of force.

People inclined to rebellion never have had difficulty in discovering a violation of their rights. When the Americans decided to separate from Great Britain, they presented the world with a bill of particulars in the form of the Declaration of Independence. The principles it embodied were important, but they were not the only cause of the revolution. In the dynastic changes of England in the seventeenth century, men were never at a loss to find good reasons for their conduct. Cicero himself knew the ways of revolution and participated in conspiracies to overthrow Caesar, always with reasons sufficient to himself. I am not here expressing the common view that in politics the act prompts the idea and the idea rationalizes the act. If this were true, it would apply as much to the person making such a statement as it

would to those he is making the statement about. What I wish to indicate is the difficulty of knowing when a political problem can be, or could have been, settled by agreement and, on the other hand, when it is so divisive that the only point on which the contesting groups can agree is that they must fight it out. Even “fighting it out” is not an unambiguous decision, because that can mean many things, from majority voting through the spectrum of coercion to physical violence.

One wishes that Cicero had generalized about the motives which placed him in opposition to Caesar and prompted him to plan revolution. But he didn't, and his political doctrine is less useful than it could have been. The usefulness it does have is not always apparent, particularly when the doctrine is reduced to its leading principles. They were that the state comes into being because of the gregarious nature of men, that its purpose is to secure for them liberty, equality, and peace through a distribution of power maintained by the rule of law, that statecraft is the highest form of knowledge and statesmanship is the most honorable duty one can perform, both leading to the ideal government in which the interest of each individual and of all individuals are in harmony. Reduced to these elements, the doctrine looks quite as much a counsel of perfection as the political philosophies of the Greeks, Stoic and non-Stoic alike. It actually was not, because through his writings there runs a current of qualification that moderates what otherwise would be doctrinaire. One qualification should be set down because it is the most important and is typical of Cicero's practical attitude. In *Of Moral Duties*, he said the two fundamental rules of government were the protection of the individual and the conservation of the common interest (which was one way in which he expressed his belief in liberty, equality, and authority). He then added that these rules should *not* always be respected, because there could be circumstances in which more harm would be done by respecting than by breaking them. In other words, the perfection of statecraft to which philosophy is directed may be set aside by the statesman if his sense of the situation tells him to. In a logical view, this is hopeless, but we cannot help being disarmed—and impressed—when he says, “the essential nature of the commonwealth often defeats reason.”<sup>32</sup>

## THE STATE AND THE ECONOMY

In his writing on government, there are observations on the relationship between the state and the economy. His other writings examine economic conduct in other of its ethical aspects. He said the principal function of the state in economic affairs ought to be the protection of an individual's property.<sup>33</sup> This implies he believed private property was consistent with natural law. The belief was radically different from the view of property held by the early Stoics. They believed all property should be held in common, an idea which they said was a decree of nature. The idea was frequently expressed by non-Stoic Greek and Roman philosophers. Whatever were the motives for it, one of its effects was a utopian disregard for economic problems. The idea that the best is the enemy of the good is dangerous. It can excuse opportunism just as much as it can direct one to sensible compromises. But it does describe why the early philosophers, Stoic and others, did not have as much influence in economic affairs as they should have had. They insisted that economic conflict be eliminated by a method that most of society was not prepared to use—communal property. As a result,

economic affairs fell into the management of other people who had less right and less ability to look after them.

Cicero adhered to the early Stoic view to the extent of admitting that private property was not established by nature. Property became private, he said, through long occupancy, through conquest, and by processes of law. Once property passed into the possession of the individual it was his alone and inviolable.<sup>34</sup> Cicero did say there once was a natural and original community of property. But the statement was less important than his insisting upon the sanctity of property which had become private. Upholding it was the “chief purpose” of the state, he said in writing of the economic functions of government. He was opposed to communal ownership and also to any action of the state which arbitrarily altered the distribution of property. Of a proposal to distribute property equally, he said there could be no “more ruinous policy.” He of course was even more strongly opposed to action which deprived an individual of his property by violence or fraud. Such acts were in violation of justice, which itself, he declared, was a natural law. Hence he managed in the end to give private property a foundation in nature.<sup>35</sup>

In declaring the state should protect the property of the individual, Cicero meant something more than that the state should make wealth secure. He meant also that the state should guarantee the individual a “free and undisturbed control” of it.<sup>36</sup> The distinction is important. Men of wealth frequently have learned, to their cost, that a state which promises to safeguard their property still may deprive them of the freedom to use it in their own interest (the lesson in this century being provided by Hitler to those businessmen who welcomed him as a savior from communism). Cicero’s views on property were something of a declaration for *laissez faire*, although neither he nor the economic liberals of a later age believed in an unrestrained freedom to acquire and use wealth. The kind of qualifications which the later liberals made are explained in other chapters of these volumes and need not be given here. Cicero’s qualifications are noted below. In the setting of Stoic doctrine, they are less important than the principle of economic freedom itself.

For consider how radical a departure he made from the Stoic conception of economic behavior: The founders of the school turned away from such conduct, believing it was irrational and hence unreal. Epictetus took it up hesitantly, indicating at some points an approval of material self-interest, at others a disapproval. The conclusions to be drawn from his remarks can be confusing and mischievous. Aurelius, with obvious reluctance, approved of economic freedom, saying it was harmless if men tried to acquire material goods in a manner consistent with “the reason which is common to gods and men.”<sup>37</sup> Cicero declared forthrightly that men were motivated by the desire for material gain and that this trait must be accepted as a fact when rules are made for governing them. He did not approve of acquisitiveness in all of its manifestations, but neither did he condemn it in principle (as moralists usually have done).

His position is similar to that of Adam Smith. Smith believed material self-interest (which is not the only kind) could work great injury to society and to the individual himself, but he also believed it could produce great individual and social benefits. Moreover, he regarded the motive as so deeply rooted in man’s nature that its



expression could not be prevented. Cicero said that most men treasure things only for their material value and “recognize nothing as good in our life unless it is profitable,” and he warned against the evil which avarice could create.<sup>38</sup> But recognizing the undesirable aspects of material self-interest was not a condemnation of it. Indeed at one point he explicitly approved of the desire for material gain: he said it was a trait which derived from the natural reason in every individual.<sup>39</sup> Cicero’s departure from the early Stoics consisted in his acceptance of self-interest as natural and real, in his interest in examining the kind of conduct it produces, and in offering ethical direction for such conduct.

## THE CONCEPTION OF THE MARKET

The liberal element in his doctrine is revealed in part in his conception of the economic function of government and also is disclosed in his observations on exchange, a point on which he was unique, as I have stated above. Cicero saw in the market a method of providing for the material welfare of society and (by implication) a method of organizing economic activity. He wrote that “by giving and receiving, by mutual exchange of commodities and conveniences, we succeed in meeting all our wants.”<sup>40</sup> A characteristic liberal view is that the relatively unlimited freedom of individuals to buy and sell is a means of enhancing the real income of the economy as well as of the individuals engaging in exchange. This is one feature of the liberal justification of exchange—that it makes for material welfare. The other is that the freedom to buy and sell is one of the prerogatives of the individual. Cicero’s defense of exchange rested upon both of these points: Exchange is proper, he said, because men ought to be free to engage in it and because it satisfies our material wants. But he did not urge unlimited freedom in the use of property, nor did he believe all kinds of economic activity had the same ethical value.

He placed occupations in order of their honor. Leading all others was agriculture, than which “none is better, . . . , none more profitable, none more delightful, none more becoming a freeman.” It was followed by the learned professions: medicine, architecture, and teaching. In the third rank was trade, if conducted on a large scale and without misrepresentation. Last came the vulgar and demeaning occupations: food mongers, entertainers, small merchants, workers and mechanics, usurers, and tax gatherers.<sup>41</sup> His remarks on trade are especially interesting. He believed that the seller was obligated to inform the buyer fully of the product and that this duty more probably would be respected by a merchant who conducted a large business. Of the activities of the small tradesman, he was highly critical, and wrote of the two kinds of sellers very much as Smith did. The latter praised the activity of large merchants and despised “the sneaking arts of underling tradesmen.”

Cicero did not explain the exchange process completely and of course he is not to be taken literally when he wrote that by free trade we satisfy “all our wants.” Such an explanation did not come until eighteen centuries later in the period of the classical economists. It would be pointless to measure him by their achievements. Yet there was a striking similarity between his ideas and theirs. Just how direct and immediate was Cicero’s influence is the kind of question that can never be answered completely.

It is apparent from the works of the economic and political liberals that Cicero was read during the Enlightenment and often quite carefully.

Cicero's achievement is even more remarkable when his ideas are compared to those that usually ruled ancient society, not simply because his were in advance of their age—much originality has consisted in making a novel mistake as well as in finding a new truth—but because they disclosed a superior understanding of some of the mechanical and ethical aspects of economic procedure. His achievement is enhanced when we observe that for many centuries little was added to what he had written. Indeed, his work seems to have been forgotten, and the philosophers who deigned to look at economic conduct fell into the old errors which it was his achievement to have corrected, if only for a time.

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## 6

### *The Stoic Legacy*

Because of Cicero's work, the influence of Stoic doctrine on later ages was considerably different—more extensive and more wordly—from what it would have been had it remained in its early form. As most commentaries state, Stoicism created a respect for the individual. It did so in several ways. In declaring that man was naturally reasonable and therefore capable of distinguishing good from evil, the Stoics centered their ethical doctrine on the individual. He, and he alone, was responsible for the conduct of his life. To him all credit must go for virtue and all blame for vice. This doctrine can be better appreciated when it is set against the more common view that the individual was moved by the gods and was helpless in their hands. In Greek drama, for example, the protagonist usually is fate, and the behavior of the individual is explained as an unfolding of his destiny. The Furies say of Orestes and Agamemnon, "Yea evil were they born for evil's doom." Reason meant something much different to Euripides, for example, from what it meant to the Stoics.

Aye, but it hath a sting,  
To come to reason; yet the name  
Of madness is an awful thing—

Phaedra says in *Hippolytus*.

In later ages the Stoic influence was disclosed in the importance that came to be attached to the conscience of the individual. In the eighteenth century, philosophers wrote with great feeling of the satisfaction that comes of an act well done and of the anguish of an evil conscience. The writing is an echo of the Stoics. And the Stoic devotion to reason—though it was austere, even harsh—was important in the development of liberal ethics. Epictetus wrote of the Stoic who was tortured for his ideas and who scoffed at his persecutors for thinking they could destroy his philosophy by injuring his body. Thoreau mocked his jailers because they believed that by putting him into prison they could make him pay taxes to a government that tolerated slavery. In the centuries after Stoicism, men sought to apply the test of reason to their conduct and their institutions—at first hesitantly, then with growing power. As they did this they were following a course laid out by the Stoics. One may conjecture that the idea of intellectual integrity came from Stoicism. The idea is by no means confined to the countries where liberalism is supposed to have been most influential. The contemporary Soviet poet Yevtushenko has a short verse entitled, "Talk." It is about his being called a brave man because he spoke out when other literary figures were "prudently" silent. He says he was not brave at all. He simply thought that to degrade himself as they did was unbecoming to him as a man. The verse concludes by saying the future will take vengeance on the present, "remembering how in so strange a time common integrity could look like courage."

One may also conjecture that Stoicism was the origin of the idea that the main duty of the state is to respect the worth of the individual. This idea never has been well understood, and when it has it never has been completely accepted. It means that governments are responsible to the governed. The idea is familiar, almost a cliché, but is repeatedly challenged in practice—for example, by the requirement of loyalty oaths. They imply, if they mean anything at all, that the governed are responsible to the government. Nevertheless, the Stoic idea is a durable one. Although challenged repeatedly, it has been reasserted repeatedly, and one would like to believe the balance is tilting, if ever so little, in its favor. Whether or not that is so, the idea still is with us. It is one of the bequests of Stoicism.

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2

## THE MERCANTILISTS AS LIBERALS

English mercantilism had its period between about 1500 and 1750. Almost always it is thought of as the antithesis of the classical economic liberalism which followed it. Smith used some of his strongest language to condemn it, and John Stuart Mill, his customary eclecticism failing him, could see no merit in it at all. In this generation, however, there has been a softening of the manner toward it, the expression of some sympathy for the mercantilists, and a disinclination to accept the judgment of the classicists. The new manner however seems much more the consequence of a dissatisfaction with Ricardian economics than the result of a reexamination of mercantilism itself. It has reemerged as a doctrine to be taken seriously, but its strength has come from the unpopularity of liberal ideas much more than from an appreciation of its own merits. The new manner is an expression of the old mistake, that mercantilism and liberalism are antithetical. My purpose in this chapter is to show they are not—to show that mercantilism was one phase in the development of liberal doctrine and as such was in part a precursor of it and in part a complement of it.

A simple distinction is helpful at the start—the distinction between the economic practices of the period and its economic writings. The word “mercantilism” has always been used to describe both, which is unfortunate, because they were not consistent. In what has been written *about* mercantilism and the mercantilists rather than what has been written by them, the author often will explain, say, the restriction of imports by referring both to the trade policy of the English government and to the concurrent doctrine of a favorable balance of trade. He will move indiscriminately among expressions of public officials, laws, economic tracts, and discourses. The obvious inference is that what was written was a justification of what was done, and that what was done must have found an apologetic in something or other that was written. No one would write this way of recent economic policy. It would be unthinkable to explain the stabilization policy of the Republican administration of the 1950s by a random reference to the economic reports of the President, the actions of the Federal Reserve Board, the 1950 policy statement of the American Economic Association, and other quite discrete events. When studies of mercantilism employ such a method, they present a view that is quite mistaken.

It must lead one to think that because the mercantilist states did not believe in the market as the mechanism for discharging the economic functions of society, the economists of the age held the same belief and were in favor of the intricate kind of regulation which was practiced. More than this indeed is implied. If the practitioners of mercantilism did not understand prices, money, foreign trade, and other matters, the economists also must not have understood these matters. There is a particular implication that the economists did not understand the usual mechanism by which the economic problem is solved in a free society and that this knowledge was the signal discovery of classical economics. From this one must conclude that the mercantilist

writers were particularly lacking because they did not understand how the price system directs resources into particular employments and causes output to be distributed in a particular way.

None of these impressions about mercantilist *doctrine*, as distinct from mercantilist *practice*, is correct. (About the practices, one finds generalizations nearly impossible to make because there were fundamental disagreements among those who made state policy. An example is the opposition of Parliament to Elizabeth's granting of monopoly rights.) Yet the impressions are unavoidable if the doctrine and practice are thought to be parts of a unified system, which in fact they were not. My view of mercantilism begins with a distinction between doctrine and practice and is about the doctrine alone. Briefly put, the view is that the mercantilist writers anticipated many of the ideas of classical economics, including the classical conception of self-interest, of the price mechanism, of the mutual advantage in exchange, and of the place of the state in the economic order.

Although the English mercantilist writers have never before been interpreted as they are here, there nevertheless have been many suggestions that their doctrine was not as altogether wrong as one has been led to believe and that in some ways it was a necessary preliminary to classical economics. Marshall thought of it in this way. T. E. Gregory noted that the purpose of mercantilist policy was to increase the demand and the supply of labor in order ultimately to increase national power. But he believed the methods were inconsistent with economic liberalism. Viner was charitable to the writings of later mercantilism, because he found traces of free trade doctrine in them. E.A.J. Johnson suggested that the objective of all of the mercantilists was an efficient use of resources, thereby implying the importance of employment in their doctrine. Keynes noted that their monetary theory was a valid effort to connect the money supply with the rate of interest. Heckscher noticed that some mercantilists declared they were in favor of a free market, even though he thought the declarations were not really meant. Lipson suggested the mercantilists are not to be dismissed in the cavalier fashion with which they usually have been treated. Edmund Whittaker found evidence of individualism in some of their writings. None of these men came to my conclusion and cannot be cited to substantiate it. But I wish to mention their work in order that my views shall not be thought to claim more novelty than they actually have. Shortly after they were first published, there appeared an interesting study of Berkeley made by T. W. Hutchison who independently arrived at many of the same conclusions.<sup>1</sup>

In what follows, the words "mercantilism" and "mercantilist" refer always to English doctrine and to the Englishmen who expressed it, and, except when explicitly stated, never refer to economic institutions, practices, historical circumstances, or the rulers and administrators of the age.

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## 1

### ***National Power And Full Employment***

It is not in an obvious way that mercantilist and liberal economic doctrine are related. What is indeed obvious, is the great difference between the measures that each proposed to advance its policy. The liberals usually have wanted the market to make most (but not all) of the decisions of economic organization (i.e., about production and distribution). The mercantilists believed the decisions would be made better if the market was controlled in certain ways. There is, however, another way to look at mercantilist doctrine. It is to ask: What did the mercantilist writers believe was the objective of economic policy? And what were their measures of control meant to achieve?

Had the mercantilists been asked to state what their objective was, they undoubtedly would have said it was to create a strong and secure England. Although their motives were mixed and they wanted to do many things, what they wanted to do most was to promote the national interest. But so did the classical economists. They, too, were nationalists. They valued the political and military power of England above all things and were ready to sacrifice efficiency and even justice for it. The title of the major work of classical economics is *An Inquiry into the Nature and Causes of the Wealth of Nations*—not the wealth of the world, or of the people of Great Britain, but of Britain itself. The title suggests what Smith believed was most important to those who made economic policy. The policy of John Hales is indicated by the title of his work, *A Discourse of the Common Weal of This Realm of England*, written about 1549. Now the word “nationalism” is a piece of intensional language, and when applied to the economists it has to be shorn of its offensive connotations. They were not like Lord Copper who stood for “strong mutually antagonistic governments everywhere, self-sufficiency at home, self-assertion abroad.” It was rather that they were devoted to God, St. George, and particularly England.

What separated the mercantilists from the liberal economists was the means that each proposed for advancing the national interest. The mercantilists believed it required a prosperous and growing economy. That in turn meant a brisk trade, adequate domestic spending, a proper wage and price structure, a particular distribution of income, an excess of exports over imports, a diligent and obedient working class, the security of private property, the absence of monopoly, the full utilization of agricultural lands, an adequate supply of money, a low rate of interest, and the full utilization of the labor force.

Among these factors the greatest attention was given to the money supply, spending, and employment. By spending they meant what now is called effective demand, and employment meant just what it does today. There were various definitions of the money supply, but all writers agreed it was that which could be used as a medium of exchange. They believed that spending and employment determined each other in the

sense that a change in one would cause a change in the other in the same direction. The money supply was made another determinant of spending by some writers, while others made it independent of spending and employment. To most mercantilists, the sufficient condition of prosperity was an amount of spending that would maintain full employment, and they subordinated the accumulation of bullion and other methods of increasing the money supply to the position of determinants of spending. Employment was taken to measure the economy's output, and output was the measure of the nation's material welfare. Welfare was essential to national power; hence a large output contributed to such power. Since output depended on employment, the object of economic policy must be full employment. So it was that the objective of mercantilist economic policy was full employment, and that objective was perfectly consistent with the objective of its political policy, which was national power.

The idea that employment and output should be maximized was expressed early in the period of mercantilism. John Hales, in the *Discourse* noted above, wrote that the state should adopt measures which would assure a "great plenty" of goods and that a "great plenty" required the employment in agriculture and the towns of all who were able to work. In the same year that Hales's work is believed to have been published, 1549, there appeared an anonymous tract called *Policies to Reduce This Realme Unto a Prosperous Wealth and Estate*. The author stated that foreign and domestic trade would be increased "if every laborer and artificer, and all other [of] the common people of this realm were well set at work." The mercantilist objective of full employment, its connection with a flourishing trade, and the importance of trade to the nation were all summarized by Edward Misselden in 1622:

And what has more relation to matters of state, than commerce of merchants? For when trade flourishes, the King's revenue is augmented, lands and rents improved, navigation is increased, the poor employed. But if trade decay, all these decline with it.

The importance of employment was expressed by William Petty (1662) in his familiar proposition that, as the nation's population increased, its wealth increased in greater proportion, a proposition which was true, he made clear, if employment increased as much as or more than the population. He said the state should take the greatest care to utilize the labor force and to keep its skills in order. If necessary, the idle workers should be

employed to build a useless pyramid upon Salisbury Plain, bring the stones at Stonehenge to Towerhill, or the like; for at worst this would keep their minds to discipline and obedience, and their bodies to a patience of more profitable labours when need shall require it.

Petty's expedient was ridiculed sixty-six years later by the author of the anonymous *Considerations on the East India Trade*, but Petty's principle was accepted. The later author wrote:

A people would be thought extravagant and only fit for bedlam, which with great stir and bustle should employ itself to remove stones from place to place . . .



Yet as a method of increasing employment, the *Considerations* continued, such a shift was no more silly than the restricting of imports. If trade was free, “every individual man in England might be employed to the profit of the kingdom.” It is clear the later author believed the wise economic policy was one that maximized the national output; it also is clear that this was exactly what Petty believed. What they differed about was how to maximize. The later author implied that labor was mobile, or he may have believed that free trade would create labor mobility; he then could argue that maximum output required the specialization which free trade provides. Petty, on the other hand, made no such assumptions, and therefore the maximizing of output seemed to him to require the full utilization of labor by whatever means were appropriate to the circumstances of the moment.<sup>2</sup>

William Temple (1671) said the riches of a nation were in its people, and that they would add to the country’s wealth in proportion to necessity’s driving them to industry and enterprise. Nicholas Barbon (1690) believed employment was more important than efficiency in consumption and in the use of resources. Josiah Child (1690) believed the obstacles to greater national wealth were those that restricted free exchange and consequently reduced employment, and the reforms he submitted gave attention to increasing employment. Sir Dudley North (1691), who has been called one of the first free traders, wrote: “Commerce and trade, as hath been said, first springs from the labour of man, but as the stock increases, it dilates more and more.” As trade expands, or “dilates,” it “never thrives better, then when riches are tost from hand to hand.” Charles Davenant (1695) said that security of employment increased the industry of the worker, encouraged him to be thrifty, and hence was favorable to economic growth. John Law (1720) argued that one of the main benefits of an increase in the money supply would be an increase in employment. Daniel Defoe in his famous defense of tradesmen (1732) said the main benefit of trade was in the numbers it employed and he decried the effort of large tradesmen to lower costs and prices by reducing the number of hands through which goods passed on their way to the final buyer. John Cary (1745) stated that the wealth of the nation was in the “labour of its people.” Josiah Tucker (1750) wrote that the country was more prosperous, “the more persons there are employed in every branch of business.” Bishop Berkeley (1751) wrote on economics in the mercantilist period and stated that the satisfaction of wants is the end of economic activity and requires the complete and efficient employment of resources. Malachy Postlethwayt (1759) said the satisfaction of individual wants required full employment and competition.<sup>3</sup>

The preceding summary is meant to show that full employment was the major objective of mercantilist policy. The writers indicated how important it was by their frequent assertion that the wealth of the nation depended on its “labor”; in the significance they gave to the size of the population; in the common statement that the advantage of trade was in the numbers it employed; in the grave concern expressed over the extent of unemployment, idleness, and poverty, and in the numerous remedies by which these problems were to be solved and the productivity of labor was to be increased. Most of the measures of policy can be explained more simply and completely by assuming that full employment was the mercantilists’ objective than by supposing some other purpose directed their ideas.

One can, however, assume that an increase in the amount of “trade” was the objective if one uses that word, as the mercantilists almost always did, to include *all* economic activities. Then, their designs for “a brisk trade” become methods of assuring the maximum amount of productive effort, which of course is what full employment is meant to assure. But the word “trade” has a narrower meaning in modern speech, denoting one aspect of the distributive process, and its use can mislead the reader into thinking the mercantilists ignored shipping, manufacturing, agriculture, and other industries, which in fact they did not. Moreover, many of the mercantilists’ ideas can be related more directly to the amount of employment, than to the amount of trade. (For example, their ideas about psychological motivation have a plainer connection with work than with economic activity in general.)

The objective of the mercantilists was not, as often supposed, the accumulation of bullion, a favorable balance of trade, the advancement of private interests, the subordination of the working class, low interest rates, or the elevation of trade at the expense of manufactures and agriculture. Some of these considerations were means to the end of full employment. A few mercantilists may have confused money with wealth and so made bullion an end in itself. The importance of the other considerations is questionable. Certainly none of them had as important a place as full employment did and none serves as well to unify the particular measures of policy that were proposed.

Once full employment is taken as the objective of mercantilist policy, that policy’s difference from liberal policy narrows considerably. Although the difference is not eliminated, it is much less than if one supposes the objective of mercantilist policy was, say, a favorable trade balance, which the liberals never could have accepted as an end in itself.

As very many of the commentaries on mercantilism make a favorable balance of trade the objective of its policy, I must explain why that view is not accepted in this chapter. If the mercantilist writers had wanted a favorable balance of trade for its own sake, they surely would not have given as much attention as they did to the money supply, employment, spending, and domestic trade. Moreover, they would have emphasized (and not merely mentioned), a restriction of imports at least as much as an increase in exports, because either method would create a favorable trade balance. One can, of course, explain away the difficulty by supposing they were uninformed or inconsistent. But that attitude, as those who have worked in the field of intellectual history know, is usually mistaken. In this field the object is to understand what a writer said and not, except as a last resort, assume that he didn’t understand what he was saying.

My explanation of why the mercantilists wanted a favorable balance of trade is that they assumed England would be able to increase employment by exporting more than it imported. In the short-run this is perfectly possible (and the short-run may be a rather long time). The policy is a beggar-your-neighbor device, but as the writers were nationalists this could not have troubled them. In the long-run, a favorable balance of trade could have supported employment at home if England had invested its net receipts abroad. Indeed some mercantilists like Thomas Mun (1630) recommended

this be done. Some commentaries on mercantilism have gone beyond the favorable balance of trade and explained it as a device to secure bullion which in turn was thought by the mercantilists (so the commentaries say) to increase the national wealth. As the mercantilists' monetary theory is explained below, all that need be said here is that most of them did not think this at all.

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## 2

### *The Means To Full Employment*

In order to achieve full employment, the mercantilists proposed a variety of measures. Most of them have been cited for centuries as wonderful examples of what an economy should *not* do. However if they are related to the writers' objective of policy, they invite close and sympathetic attention. In relating them, I wish to group the measures into: (a) those which affected the total spending of the economy; (b) those which affected prices, wages, and the distribution of income; (c) those which affected interest rates; and (d) those which affected the supply of labor. The measures in the first three groups were meant primarily to increase employment by increasing the demand for labor, while those in the fourth group were meant to increase the supply of labor.

### INCREASING THE DEMAND FOR LABOR

Most of the mercantilists stated that the economy would prosper if there was the maximum amount of spending by individuals, business enterprise, foreigners, and (according to Petty) the government. Although most of the writers stressed spending on exports, some noted that spending in wholly domestic markets also was important. Petty stated there were circumstances that justified public extravagance, saying the spending of tax receipts on entertainments and "magnificent shows" put money into the hands of tradesmen, but he did not recommend it as a common practice, urging instead that the state use its fiscal powers to direct spending to capital goods. (That is, government should promote investment.) Barbon stated that covetousness (which meant a high propensity to save) reduced consumption, income, government revenues, and employment. He submitted that the most powerful stimulant to trade, even though it was wasteful in itself, was spending on commodities which quickly became obsolete, like clothing and household furnishings. Defoe believed the economy prospered when every consumer spent a large proportion of his income, although he urged the tradesman himself to be frugal. North was less interested in the solvency of the individual businessman than in the state of all trade. He observed that the desire to emulate their betters drove the "meaner sort" of men to extravagance and often into bankruptcy, which was unfortunate for the bankrupts but "beneficial to the public" because the activity increased trade, employment, and industriousness. Trade and employment will decline, he said, if "the consumption fails, as when men by reason of poverty, do not spend so much in their houses as formerly they did." Many of the mercantilists were alarmed by the hoarding of gold and silver, and their frequent aspersions on individuals who fancied "plate," i.e., tableware and household ornaments made of gold and silver, can be interpreted to mean that metals were being withdrawn from their monetary use. North disputed the common view that hoarding was an evil but deferred to the view to the extent of defending a miser by saying that even he spends occasionally and when he does "those he sets on work benefit by their being employed."<sup>4</sup>

Foreign trade, however interested the mercantilists more than domestic, because they believed it contributed more to employment, to the nation's wealth, and to national power. The writers after 1600 stressed the inflationary effect of an excess of exports over imports and the consequent increase in employment which inflation produced. They reasoned that a favorable balance of trade brought gold and silver to England, that the increased money supply caused spending to increase, and the increase in spending caused employment to increase. Some viewed exports more directly (and naively), thinking that the greater was the money value of exports, the greater must employment be. Few, if any, of the mercantilists distinguished carefully between the short- and the long-run effects of a favorable trade balance, a deficiency which would be more regrettable if most of their critics had not also failed to make the distinction. In order to secure a favorable balance, the mercantilists proposed their familiar commercial policy: duties on imports, with rebates on raw materials used in the making of exports; the prohibition of certain imported goods; the removal of export duties; subsidies and other forms of assistance to the export industries; monopoly grants to certain joint stock companies engaged in foreign trade; a prohibition on the export of bullion and coin; and an aggressive foreign policy by which England would help its exporters to capture markets from their competitors. The mercantilists before 1600 advocated foreign trade more because it increased national power than because it increased employment; and they wished to secure a favorable balance in order that England could accumulate bullion for war purposes. For this reason Hales regarded the export industries as most valuable to the nation and he said: "I would have them most preferred and cherished that bring in most commodity and treasure into the country," commodity and treasure being synonyms for monetary metal.<sup>5</sup>

Not every one of the measures of policy noted above is proposed in all of the mercantilist tracts. In some they appear to be contradicted, especially the central idea that an increase in spending causes an increase in employment. For example, Temple was opposed to indiscriminate spending on consumption. Other writers lamented the taste for luxuries and urged their use be prohibited. Such opposition to spending rested on one or more of three arguments, and each reveals that the mercantilists in fact did believe an increase in spending caused an increase in employment. Temple, like his contemporary Petty, believed that England required more capital and he urged less consumption out of income in order that there be greater spending on capital goods. The mercantilists who opposed spending on luxuries did so partly because luxuries were imported (and imports reduced the favorable trade balance) and partly because the use of luxuries by the working class was thought to reduce its willingness to work (and so reduced employment).

## PRICE AND WAGE POLICY

The mercantilists' ideas about wages and prices were related to employment in four ways. One view was that wages determined export prices and the amount of exports. Hence wages determined spending and employment. A second was that the relationship between money wages and prices, or real wages, determined the distribution of income which in turn affected the amount of spending and employment. A third was that selling prices determined the amount of spending and employment. A fourth was that real wages determined the quantity of labor supplied.

Those mercantilists who regarded the net export balance as the chief determinant of employment usually favored a policy of low wages, reasoning that low wages meant low costs and prices and greater unit sales. However, some writers favored the opposite policy. Cary believed that high labor costs did not reduce exports. Arguing from the labor theory of value, he stated that the greater was the amount of labor used in the manufacture of exports, the greater their price would be and the greater the return in bullion from their sale—a viewpoint which assumed different demand conditions for English exports from those assumed by the mercantilists who favored low wages. The importance of demand conditions in the export market was made clear by Mun. He said England should take care to keep its costs down in the manufacture of those exports for which foreigners had no great need (i.e., for which the demand was elastic) and that it did not need to be as careful about those exports which foreigners found necessary (for which the demand was inelastic).<sup>6</sup>

Cary also favored high wages because he believed they supported employment in wholly domestic industries. He was opposed to wage reductions because he believed they would cause workers to spend less on food which in turn would reduce the income of landlords. He said prices should fall only as efficiency increased. Of all of the mercantilists who believed the distribution of income determined spending and employment, Defoe was the most explicit:

The consumption of provisions increases the rent and value of the lands, and this raises the gentlemens estates, and that again increases the employment of people, and consequently the numbers of them.

As the people get greater wages, so they, I mean the same poorer part of the people, clothe better, and furnish better, and this increases the consumption of the very manufactures they make; then that consumption increases the quantity made, and this creates what we call the inland trade, by which innumerable families are employed, and the increase of the people maintained; and by which increase of trade and people the present growing prosperity of this nation is produced.

Berkeley, in one of his rhetorical queries, expressed a similar idea:

Whether as feed equally scattered produceth a goodly harvest, even so an equal distribution of wealth doth not cause a nation to flourish?

Davenant and Postlethwayt also favored a more equal distribution of income or of wealth.<sup>7</sup>

A policy of high real wages implies a policy of low prices for any given money wage. Therefore one would think that the mercantilists who favored high real wages would have proposed price reductions or at least would not have been against them. Many however were against them. Defoe was, because he believed price cutting damaged the interests of the tradesman who by his central position in the economy had greatest influence on the amount of employment. Defoe, in fact, seems to have wanted high prices and high real wages; if he was aware of the difficulty of having both, it did not restrain him. He proposed wages be kept high by the tradesman's avoiding all

practices that would reduce the amount of labor required in enterprise. “There is a maxim,” he said, “that the more hands it [trade] goes through, the greater public advantage it is to the country.” In order to maintain high prices, he proposed that production be restricted if necessary:

There is another fundamental in the prosperity of a nation, which will never fail to be true, viz., that no land is fully improved until it is made to yield its utmost increase: But if our lands should be made to yield their utmost increase, and your people cannot consume the increase, or foreign trade take it off your hands, 'tis then no increase to us, and must not be produced; so that the lands must be laid down, that is to say, a certain proportion of them, and left to bear no corn, or feed no cattle, because your produce is too great for your consumption.

This idea was revived about thirty years later by Postlethwayt, and from it he developed the notion of maintaining the spending power of farmers by fixing the prices they received in a particular proportion to nonagricultural prices, a notion which contained in rudimentary form the idea of parity pricing. About a century prior to Defoe, Gerard Malynes (1656) wrote that the national interest required high prices. Still earlier, Hales wrote that spending should be directed to high-priced domestically produced goods in preference to lower-priced imports, although he believed the price *level* was too high and should be reduced by lowering the price of silver.<sup>8</sup>

The mercantilists' attachment to high prices came of the inflationary persuasion that was common to most of them after 1600. (Before that, there were several proposals to increase the silver content of the coin which, the writers hoped, would be deflationary.) The writers after 1600 seem to have observed that unemployment was accompanied by declining prices and price warfare. They probably reasoned that in order to keep the economy prosperous, prices had to be kept high by means of maximum spending supported by an adequate money supply. Misselden wrote:

And it is much better for the kingdom, to have things dear with plenty of money, whereby men may live in their several callings: than to have things cheap with want of money, which now makes every man complain.<sup>9</sup>

It is quite important to notice that most mercantilists believed prices should be raised by monetary means. Almost all of them were opposed to raising prices by monopolistic practices, because that would have reduced employment, or at least would have made full employment more difficult to achieve. The mercantilist opposition to monopoly was not pragmatic or capricious but one part of their belief in competition. Their ideas about competition are explained below, and here it is necessary only to note what they thought was its effect on prices, wages, and employment.

Child stated that competition in domestic and foreign markets, including free entry into all occupations and industries, would increase employment and the national wealth. Tucker stated that a free price system within wholly domestic markets would produce greater employment than any other system. Barbon and North stated the best policy was to allow prices to be set by the estimation of buyers and sellers, even

though, according to North, no one wants the prices which “the free market of things will produce.” Similar ideas were expressed by the anonymous author of *Policies, etc.*, by Hales, Malynes, Petty, Davenant, Berkeley, and Postlethwayt. In view of the common belief that the mercantilist writers supported the mercantilist practice of price fixing, there is particular interest in the observations of the author of *Policies, etc.*, about the fixing of food prices in London in the first half of the sixteenth century. His view was that the practice reduced the supply of farm products brought to London and thereby made worse the condition it was meant to alleviate. He wondered how anyone could believe “this present dearth of victual may be redressed by setting prices upon victual,” and continued: “but surely it is not the setting of low prices that will anything mend the matter. But it must be the taking away of the occasion of high prices,” which was, he said, the small supply of goods. He noticed that in addition to its other defects the policy produced inconvenience to the buyer. When prices are set below their market value, “what throng and strife is there then like to be who shall first catch upon that which commeth.” He concluded that a much better policy is “to suffer all kind of persons quietly to sell all kind of victual in the market at what price he can.”<sup>10</sup>

Another argument advanced for a free market was its salutary effect on the laboring classes. Postlethwayt said that competition among workers forced them to be efficient, responsible, and enterprising, and also lowered their wages. The mercantilists holding this view did not favor low wages for their own sake (although other mercantilists did), but associated high wages with restrictions on the labor supply, such as apprenticeship and journeymen rules and other monopolistic practices. They argued for a market determination of wages and not, as sometimes asserted, for the subordination of the working class. Many of the mercantilists did believe the workers ought to be disciplined, but the belief was not as harsh as later ages have made it out to be. The mercantilists believed that low real wages elicited greater effort, or a greater quantity supplied of labor, than high real wages. The idea was made quite clear by Petty and by one of his eighteenth-century admirers, Thomas Man (1739). They observed that if real wages exceeded a certain amount, the quantity of labor supplied decreased (a backward-sloping supply curve). They concluded that in order to increase employment, wages should not exceed this amount.<sup>11</sup>

## THE RATE OF INTEREST

In addition to achieving full employment by measures that affected spending, wages, and prices, some of the mercantilists also wished to affect the rate of interest. There was more agreement among the writers about the rate of interest than about the correct wage and price policy, but less than about the importance of adequate spending. Those who wished to use the interest rate believed a low rate would assist the merchant by enabling him to increase his inventory, that it would lower the price of exports (by reducing one of their costs), and that both effects would in turn cause employment to increase. Among the writers holding this view were Misselden, Malynes, Temple, Barbon, Child, Law, and the author of *Britannia Languens* (1680). They proposed various means of reducing the rate and frequently attributed the prosperity of Holland to the low rate there.<sup>12</sup>



Except for Barbon, who proposed to limit the rate to three per cent by law, these mercantilists favored indirect means of reducing it. Most believed the development of financial institutions, like banking and the money market, would exert a downward influence on the rate. One of the most interesting ideas was that which held the rate varied inversely with the money supply. It was expressed by both Misselden and Malynes—which was unusual because they disagreed fiercely on almost everything else—and it also was proposed by John Law. Misselden said, “The remedy for usury, may be plenty of money”; and Malynes wrote of “the abundance of money; which maketh the price of usury to fall, more than any law or proclamation can ever do.” Law wrote:

. . . indeed, if lowness of interest were the consequence of a greater quantity of money, the stock applied to trade would be greater, and merchants would trade cheaper, from the easiness of borrowing, and the lower interest of money, without any inconveniences attending it.[13](#)

(The “inconveniences” were those of usury laws.)

This view of the interest rate was not wholly shared by Petty and North. Petty conceded that an increase in the money supply would lower the rate on loans but was opposed to such manipulation, probably because he believed as many economic matters as possible should be regulated by “the laws of nature” (by which he seems to have meant the free market). He said the interest on a sum of money at loan must be equal to the net rent which the same sum would yield if used to purchase land, except where risk in the two transactions differed. This implies that the money rate of interest must conform to the real rate and can fall only as the productivity of capital declines. This was a long-term view which does not preclude the possibility of short-term differences between Petty’s theory and the conventional one, although the mercantilists themselves might very well have insisted there was. North, too, believed the long-run determinant of the interest rate was the productivity of capital and that the rate could fall only as the “stock in trade” (capital) increased. A low rate was therefore the result of an increase in the quantity of capital and not the cause. North was much opposed to regulating the rate by altering the money supply, believing that the latter adjusted itself to the volume of trade rather than determined it. He also was opposed to usury laws, which he thought would decrease the quantity supplied of loans. One can observe that those who advocated a low rate assumed that a decrease in it would increase the quantity demanded of loans, while North, on the other hand, assumed that a decrease in the rate would decrease the quantity supplied of loans. Neither seemed to want to argue on the other’s grounds, and so the debate could not have been anything but inconclusive.[14](#)

There were two other reasons why the mercantilists attended so closely to the money supply, apart from the rate of interest. One was the belief that for any given amount of trade there was an appropriate supply of money and that as the supply increased there would be an increase in trade and employment. In this conception, a change in the money supply was thought to operate directly on spending rather than indirectly by causing a change in the interest rate. It happened that Law used both ideas to support

his scheme for increasing the money supply. About the direct effect of an increase, he wrote:

Domestic trade depends on the money: A greater quantity employs more people than a lesser quantity. A limited sum can only set a number of people to work proportioned to it, and it is with little success laws are made, for employing the poor or idle in countries where money is scarce; good laws may bring the money to the full circulation it is capable of, and force it to those employments that are most profitable to the country: But no laws can make it go further, nor can more people be set to work, without more money to circulate so as to pay the wages of a greater number.<sup>15</sup>

The argument assumes a downward rigidity of prices such that a decrease in the money supply, by causing less spending, produces a decrease in employment and output.

The other reason for the close attention to the money supply was the belief of some that an accumulation of bullion could be desirable. They included Hales, Temple, Cary, and Tucker, the last of whom said:

. . . the whole science of gainful commerce consists, ultimately, in procuring a balance of gold or silver to ourselves from other nations.

This has been taken to mean, by Smith and John Stuart Mill for example, that the mercantilists believed money was wealth. Some in fact may have believed this; I doubt that many did. Hales stated that accumulation was desirable because treasure was the “sinews of war.” Petty said that the nation should accumulate gold and silver,

because those things are not only not perishable, but are esteemed for wealth at all times and everywhere.

The statements of Hales and Petty do not imply a nation should accumulate specie because it is wealth but because it is a store of value or what today would be called an international reserve. Even Mun, who has come down to us as one of the first to expose the fallacy of bullionism, conceded there were times when a prince would be wise to lay by a store of treasure. One may deny this and argue there are better ways of acquiring a reserve and of increasing military power. But surely one cannot say the mercantilists confused money with wealth. Nor can one say they were mistaken in relating the money supply to the rate of interest and to spending. Moreover, some of the mercantilists were opposed to the accumulation of bullion and coin or to restrictions on their export. Hence there is no warrant at all for stating the characteristic fallacy of mercantilism was the confusion of money with wealth. Petty, Child, North, and Berkeley were opposed to accumulation, and Child opposed restricting the export of coin because he thought restriction would reduce employment.<sup>16</sup>

## INCREASING THE LABOR SUPPLY

There was one other set of measures by which the mercantilists meant to increase employment. It consisted of ways of increasing the quantity supplied of labor (to which the relationship of real wages is explained above), of increasing the labor supply, and of increasing the productivity of labor. That the mercantilists looked at the employment problem from the supply side as well as the demand side of the market is of some importance. They were not interested only in a policy for putting people to work, important as that was, but also in a long-range program of expanding the quantity of resources. They emphasized increasing the labor force rather than the capital supply because they believed the population was the more important part of the nation's resources.

Their methods of increasing the labor force seem harsh to us and are often said to show an animosity toward the lower classes. Those who think of the mercantilists in this way usually imply that the classical economists had a more enlightened view of the laboring classes.<sup>17</sup> Certainly more sympathy was expressed by the classicists: there was less carping, less preaching of the "early to bed, early to rise" variety, and there was more tolerance of distinctively human behavior. But when all this is said, there remains the fact that the classical economists—from Smith to Ricardo—did not make any important proposals to redistribute income or otherwise to ameliorate the condition of the lower classes except to urge that the best hope for them, as for other classes, was greater efficiency, the steady accumulation of capital, and economic progress—goals which were, indeed, sought by the mercantilists as well. Actually most of the mercantilist labor policy assumed that self-interest governs individual conduct, an assumption entertained as fully today as 300 years ago. The mercantilists believed the unemployed should receive only a subsistence allowance for the same reason that modern economists believe unemployment compensation should be set below prevailing wages. To do more for the unemployed will make them prefer leisure to work, so the reasoning goes. It was stated precisely in 1848 by J. S. Mill, who said that the best way to treat the poor is to make them wish they were rich, and in 1964 by an American relief administrator, who said public aid was not supposed to make the poor comfortable. Whatever attitude the mercantilists had about the poor, it was less important than the stated purposes of their labor policy. The purposes were to increase the population, to increase the size of the labor force within a given population in number of workers and in the amount of work supplied by each worker, and to increase the productivity of the labor force.

In order to increase the population, some writers proposed that subsidies be given to large families. They attached the ingenious scheme of financing the subsidies by a tax on bachelors. (What would have happened, one wonders, if the tax reduced the number of bachelors, hence the revenue from them, and the subsidies increased the birth rate, hence government expenditure? No doubt there is an equilibrium position somewhere in this.) Other proposals were to encourage the immigration of skilled workers and tradesmen, which would be easier (many mercantilists said) if there were greater tolerance of French Protestants and of Jews. The proportion of the population working was to be increased by bringing children into the labor force. Petty estimated that if all children between six and sixteen were employed, the national wealth of

England would be increased by five million pounds annually (about the year 1662).<sup>18</sup> Almost all mercantilists considered ways of bringing more people into the labor force. Some writers wanted to turn men away from the army and navy and into gainful employment, to turn criminals to legitimate activity, and, above all, to rehabilitate the poor and indigent whom circumstances or choice had deprived of the will to work. That is, they wished to utilize the capacities of those groups whose labor was being wasted.

Petty said that enlistments in the armed forces could be reduced by raising wages in civilian employments. The poor and the indigent were to be rehabilitated by workhouses into which they were to be forced on pain of receiving no public assistance whatever and in which they would be taught a skill. More severe treatment was thought proper for criminals. They were to be shown that crime was not to their interest. Temple proposed “to change the usual punishment by short and easy deaths, into some others of painful and uneasy lives,” a change which involved branding the cheeks of criminals, slitting their noses, and condemning them to slavery in the colonies. Berkeley believed that all who would not work should be impressed into labor gangs and used for public projects. John Locke had views on this problem, and they are interesting, although to call him a mercantilist would be stretching even the definition I have given the word. He was a Commissioner of the Board of Trade in 1697 and in this capacity proposed that vagabonds be impressed into the navy, that while they were waiting in a port for a vessel they be put to hard labor, and that their children be sent to workhouses where they would be taught a skill. Locke, when he turned to the affairs of the world, was savagely practical. (On what he proposed for the colony of South Carolina, see the third chapter of volume two.) Not all of the mercantilists were ruthless. Child pleaded for understanding and patience. He proposed to provide relief to the poor in a way that would rehabilitate them and demonstrate to others that the lower classes were an asset and not a liability.<sup>19</sup>

In order to increase the amount of work offered by the labor force, many proposed that the state remove the distractions that gave workers bad (that is, unindustrious) habits. Drinking had first to go. According to Defoe:

In English ale their dear enjoyment lies,  
For which they'll starve themselves and families.  
An Englishman will fairly drink as much  
As will maintain two families of Dutch.

In addition to limiting the number of ale houses, there was to be a prohibition (submitted by Tucker) of cockpits, skittle alleys, stages for cudgel playing, making book on horse races, the selling of liquor, cakes, fruit, “or any like temptations to draw people together” and away from their jobs. Other mercantilists asked for sumptuary control, because they thought the wearing of ribbons and ruffles and the drinking of tea made the workers prideful and insubordinate. One writer, John Deacon, deplored the taste for luxury and lamented the evil into which England had fallen when it allowed:

. . . these foolish proud toys for prickma-deintie dames, these dices and cardes, for these careles ding-thrifts, these hobbi-horses, rettles, and painted boxes for boies, with 1000 trifling toies besides, . . .<sup>20</sup>

What is interesting is that in such statements there usually was no fear expressed of insubordination becoming a threat to political security. What alarmed the mercantilists was sloth, not sedition.

In order to make them more productive, the common people were to be shown that industry, skill, and enterprise were to their advantage. Rewards—some in money, some in the form of distinction—were to be given. Industrious and skilled immigrants were to be attracted to England in order to set an example for native workers. Children were to be trained to the habit of work from an early age, and older persons were to be shown in a variety of ways why they should be industrious. In his program for improving the poor, Tucker asked that courts be formed in each district to supervise the working class, each court to be presided over by “Guardians of the Morals of the Manufacturing Poor.” By precept, inducement, and punishment, the poor would be transformed into a national asset. One of the rewards was to be “a good book” stamped in gold on one side with “The hand of the Diligent Maketh Rich” and on the other, “To the Praise of Them that Do well.”<sup>21</sup>

The labor policy of the mercantilists was a logical deduction from their ideas of economic psychology. Almost all believed there were three factors that directed individuals to economic activity: the stimulus given by physical environment; the desire of men to emulate their betters (which was partly governed by social environment); and the eagerness for material gain. Men were believed to be the more industrious, the more difficult were the conditions in which they lived: the climate, the fertility of the soil, the national wealth in relation to the size of the population. The less favorable was their environment, the more likely they were to become rich. Temple wrote:

I conceive the true original and grounds of trade to be, great multitude of people crowded into small compass of land, whereby all things necessary to life become dear, and all men, who have possessions, are induced to parsimony; but those, who have none, are forced to industry and labour . . . such, as are not [vigorous], supply that defect by some sort of inventions or ingenuity. These customs arise first from necessity, but increase by imitation, and grow in time to be habitual in a country, . . .

Postlethwayt summarized the idea by saying, “The greatest industry has ever been the effect of the greatest necessity.”<sup>22</sup>

About emulation, the second factor, Petty stated that men always seek to excel. When placed together, as in large cities, their emulative instinct becomes all the keener, and each exerts himself to equal or to surpass his neighbors. On occasion, this factor can work to the individual’s disadvantage, as when it drives him to extravagance and ostentation. Defoe cautioned the tradesman to live well within his means and to leave foolish spending to his betters. Other mercantilists also warned against the danger of

emulating the rich. Most, in fact, did not have as much confidence as Petty had in the power of this factor for good, but all recognized the power itself.[23](#)

Material gain, the third factor, was believed to be the most important cause of industry. The mercantilists believed that the greater was the gain from a particular employment the greater *usually* would be the quantity of resources supplied (an upward sloping supply curve). This idea of self-interest was expressed quite early, was repeated to the very end of the mercantilism, and was then carried forward by classical economics. Hales wrote that “profit or advancement nourishes every faculty; which saying is so true, that it is allowed by the common judgement of all men.” Others concurred, among them Petty, North, Davenant, and Defoe.

Gain [Defoe wrote] is the tradesman’s life, ’tis the essence of his being, as a qualified tradesman. Convenience, and the supply of necessary things for life, were the first causes indeed of trade, but the reason and end of the tradesman is to get money. ’Tis the polestar and guide, the aim and design of all his motions; ’tis the center and point to which all his actions tend, ’tis the soul of business, the spur of industry, the wheel that turns within all wheels of his whole business, and gives motion to all the rest.[24](#)

What Defoe said of the tradesman (and Lamb described more economically as “the quick pulse of gain”) was believed to be true of everyone. It was true in a special way of the worker. An increase of real wages would be accompanied by an increase in the quantity of labor supplied until they reached a certain amount. Beyond this amount, the quantity of labor supplied would decrease. The mercantilists who thought of the labor supply function in this way believed that pecuniary self-interest had less of an effect on workers than on others, or that before self-interest could operate effectively the worker first had to become accustomed to high real wages. Self-interest had to be reinforced by other factors. One was emulation. This trait could be exploited by placing before the working man the rewards which others had acquired by their industry. In this way, his “wants and appetites” could be whetted and would make him more industrious (an idea that appears in growth economics today). But wants had to be guided prudently. If certain of them were indulged (drinking, for example), the individual would work less. Of all of the factors that made men industrious, environment was the most certain in its operation, even though it was less powerful than self-interest. If the poor could not be brought to gainful activity by monetary rewards or enticed to it by the desire to excel, they could be forced to it by necessity. Moreover, as Temple explained, the habits formed while overcoming necessity would remain with them, and the workers would continue to be diligent after the original cause had disappeared.

In their conception of economic psychology, the mercantilist writers anticipated one important element of classical economics. Elsewhere they anticipated two other of its features—the nature of the price mechanism and the political presuppositions of economic policy.

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### 3

## *The Market*

### THE CLASSICAL VIEW

In the classical view, individuals placed their labor and capital in those employments where returns were comparatively high and withdrew them from those where returns were comparatively low. The final result was an allocation that created equal (incremental) returns in all employments between which resources were transferable. The result was automatic, or “natural,” in the sense of being produced by the discrete and independent action of individuals as distinct from intentionally collective action by them. The famous invisible hand was the operation of self-interest in a competitive market. The end product was a use of resources that brought their owners the highest possible real incomes and the economy the greatest possible total product. Whatever interfered with the operation of self-interest as it directed the movement of resources—whether the interference originated with the government or in private monopolistic practices—would reduce the efficiency of the economy and, what is the same thing, the sum of individual real incomes.

The classical conception of optimum consumption was not developed in as much detail as the theory of resource allocation, but the central elements of the former are clear. In whatever way money income happened to be distributed, individuals could achieve greatest satisfaction from it if they were free to spend it as they chose and if prices were established by the competition of buyers and sellers. The independent bidding of buyers established a set of demand prices, and the independent offering of sellers established supply prices. An act of buying and selling under these conditions was a presumption that both buyers and sellers maximized their returns. Or at least they were better after exchange than before. The gains from it were mutual, although they were not necessarily divided equally between buyers and sellers.

Free exchange was believed to provide commutative justice by providing an income to each person proportioned to what the market believed he was worth. That the individual might be appraised outside the market, in a noneconomic way, was well recognized, and the recognition implied a discrepancy between commutative and distributive justice. The consequence was a dissatisfaction with the distribution of income, even though the classical economists had little to offer as a remedy. Their dissatisfaction was of an ethical, not a positive, kind. Excepting Sismondi and Malthus, they did not believe that inequality could prevent the full employment of resources. They did believe inequality could cause an inefficient use of resources. For example, the rich spent a substantial amount on personal services, which the classicists believed added nothing to the national wealth. They believed the production of goods did add to the national wealth.

The classicists believed that, given the distribution of income, a free market would provide the most efficient use of resources. About the full use of resources, most of them were silent. Their silence can be taken to mean they believed a free market would provide full as well as efficient employment. One reasonably can suppose that if they believed full employment was as much of a problem as efficiency they would have written as much about it as they in fact did write about efficiency.

The classical economists did have reservations about the efficiency of a free market. One of them has been noted—the effect of inequality. They also believed a free market was unable to supply certain goods of great social value and they believed self-interest should not rule in areas, like government, where disinterested behavior was called for.

## THE MERCANTILIST VIEW

The mercantilist conception of the price mechanism was similar in certain ways to that of the classicists. Both agreed that self-interest could and should direct the allocation of resources; that prices were and should be determined by supply and demand; that competition was desirable; and that in domestic markets there was mutual advantage in exchange.

The mercantilists did not believe that universal efficiency could be established by the price system. What they did believe was that a limited operation of the system was desirable. They also held a qualified conception of the harmony of self-interest. The issue of full employment was that on which there was the greatest difference between them and the classicists. The mercantilist view was that free international trade would reduce employment, that inattention to the monetary system would have the same result, and that a very unequal distribution of income could reduce spending which in turn would reduce employment.

The mercantilist conception of self-interest, in its psychological aspect, has been explained. From it followed the belief that under certain conditions the free allocation of resources would yield the greatest possible efficiency and employment. The mechanics of the price system was explained by one of the earliest writers, Hales, and he suggested the knowledge was common at the time. It was sufficiently well known to be an issue in some of the controversies over economic reform. Hales was associated with Somerset—the Protector during the minority of Edward VI—in the program to eliminate the enclosures. Hales also was a member of Parliament and introduced three bills for economic reform. One was to maintain tillage and reduce enclosures, another to rebuild decaying houses, and the third to prohibit the monopolistic practices of forestalling and regrating. All of them were defeated.

His discourse is in the form of a dialogue between a doctor and a knight who at one point consider the best means of eliminating the scarcity of corn. The doctor says the price should be free to find its market value just as the price of wool is free.

Knight: How would you have them [the husbandmen] better cherished to use the plough?



Dr.: To let them have more profit by it than they have, and liberty to sell it at all times, and to all places, as freely as men may do their other things. But then no doubt the price of corn would rise, specially at the first more than at the length; yet that price would provoke every man to set plough in the ground, to husband waste grounds, yes to turn the lands which be enclosed from pasture to arable land, for every man will gladder follow that wherein they see the more profit and gains. And thereby must needs ensue both great plenty of corn, and also much treasure should be brought into this realm by occasion thereof; and besides that plenty of other victuals increased amongst us.<sup>25</sup>

These remarks taken out of context easily could be interpreted as an argument for the unrestricted operation of the price system. That “every man will gladder follow that wherein they see the more profit and gains” is in agreement with Smith’s statement that “Every individual is constantly exerting himself to find out the most advantageous employment for whatever capital he can command.” Hales also anticipated the classical economists in his statement that “the workman never travails but as the master provokes him with good wages”; in his belief that the common ownership of capital is less productive than individual ownership—“that which is possessed of many in common is neglected of all”—and his conviction that many forms of economic control are ineffective before the power of self-interest—“for many heads will devise many ways to get anything by.”<sup>26</sup> So long as only the positive aspects of Hales’s ideas are compared with those of Smith, the two agree. But about the normative aspect there was disagreement, as is shown below.

## PRICING AND COMPETITION

Many of the mercantilists explained how prices are determined by supply and demand. Malynes wrote:

Everyman knoweth, that in the buying and selling of commodities there is an estimation and price demanded and agreed upon between both parties, according to a certain equality in the value of things, permitted by a true reason grounded upon the commodious use of things. So that equality is nothing else but a mutual voluntary estimation of things made in good order and truth wherein equality is not admitted or known.<sup>27</sup>

Actually, the statement goes much beyond saying that supply and demand determine price. It suggests that utility is the basis of value (“commodious use”), that utility is a subjective magnitude (“truth wherein equality is not admitted or known”), and that there is an advantage in exchange to both buyer and seller (“a certain equality in the value of things”).

The words “true reason” have a special significance both for Malynes’s statement and for the doctrine of other mercantilists. In the quotation above, true reason should be interpreted to mean accurate perception or accurate understanding. The statement then expresses the idea that price or value is determined by individual evaluation and only this evaluation is accurate. The idea implies that individuals are the best judges of their welfare. Malynes again remarked on true reason in his exposition of the law of

merchants, which, he said, was the only law that was universal and absolute, the same everywhere and at all times, and that it had its origin in Cicero's conception of true law as right reason agreeable to nature.<sup>28</sup> Malynes's conception of natural law anticipated that of the classical economists. They (as explained in volume two) identified natural law with reason and made reason an individual trait. That was in contrast to conceptions of natural law which made reason an immanent quality of social institutions or of a supernal power. The doctrine suggested by Malynes was really the doctrine of natural rights.<sup>29</sup>

The practical result of the doctrine was a policy of individual economic freedom. Petty, for example, argued against the many economic controls imposed by the state and attributed England's difficulties to the fact that "too many matters have been regulated by laws, which nature, long custom, and general consent ought only to have governed." Positive laws, he stated, should consist of "whatsoever is right reason and the Law of Nature," a statement which is best interpreted by placing the word "therefore" before "the Law of Nature," since Petty did not make a substantive distinction between reason and natural law.<sup>30</sup>

Because they believed that supply and demand ought to determine prices, most of the mercantilists were opposed to price fixing and to many forms of market control. Barbon stated "the value of all wares arises from their use" and that a "plenty" of wares makes them cheap while a "scarcity" makes them expensive. He concluded that "the market is the best judge of value." North asserted the "universal maxim" of price is that "plenty of anything makes it cheap." Law stated that the price of a commodity is determined by the quantity offered for sale in relation to the demand. As the quantity offered increases, the price or value declines. He illustrated the point most interestingly by water and diamonds, explaining that diamonds were more valuable than water, despite its greater "usefulness," because the quantity supplied of diamonds was less than that of water. This paradox is mentioned by Smith, using the identical commodities; but he does not resolve it as explicitly as Law had who wrote about fifty years earlier. Berkeley expressed the principle of price determination in one of his queries:

Whether the value or price of things, be not a compounded proportion, directly as the demand, and reciprocally as the plenty?<sup>31</sup>

The opposition to market control was made explicit by Child. He listed nine laws which he said were impediments to trade and employment. Included were laws that prohibited the export of coin, raised the price of exports, reduced the price of beer, forbade engrossing ("there being no more useful trade in a nation"), and limited the supply of labor by restricting entry into skilled trades. He stated:

It is the care of law makers first and principally to provide for the people in gross, not particulars; . . .

Davenant expressed the same conclusion:

Trade is in its nature free, finds its own channel, and best directeth its own course, and all Laws to give it rules and directions, and to limit and circumscribe it, may serve the particular ends of private men, but are seldom advantageous to the public.[32](#)

Petty believed (as noted above) that economic relations among individuals should be directed by “whatsoever is right reason” and not by the state. Of all the mercantilists, North most clearly expressed the idea that free exchange is the way to national greatness. He wrote:

Now it may appear strange to hear it said,

That the whole world as to trade, is but as one nation or people, and therein nations are as persons.

That the loss of a trade with one nation, is not that only, separately considered, but so much of the trade of the world rescinded and lost, for all is combined together.

That there can be no trade unprofitable to the public; for if any prove so, men leave it off; and wherever the traders thrive, the public, of which they are a part, thrives also.

That to force men to deal in any prescribed manner, may profit such as do happen to serve them; but the public gains not, because it is taking from one subject, to give to another.

That no laws can set prizes in trade, the rates of which must and will make themselves: but when such laws do happen to lay any hold, it is so much impediment to trade, and therefore prejudicial.[33](#)

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### ***The Political Ideas***

The mercantilist conception of free exchange had a political as well as economic aspect, and both anticipated the ideas of the classical economists. Although the mercantilists differed among themselves about the origin of government, they agreed upon the extent of its powers, which, they said, should be limited by law. The limitation would enable men to exercise their economic liberty, which in turn would foster the growth of the economy. Temple said the economy could prosper “under good princes and legal monarchies, as well as under free states,” but that it must decline under a “tyrannical power”—free states here meaning republican governments. The words were used also to mean any form of government whose power was limited, as by Barbon who said trade could flourish only in a “free government,” of which a constitutional monarchy was one form. “Men are most industrious, where they are most free, and secure to enjoy the effects of their labours,” he said. In its economic application, the doctrine of limited power meant that regulation of the market should be minimized and made to apply uniformly to all persons and trades. “All favour to one trade or interest against another, is an abuse, and cuts so much of profit from the public,” North said.[34](#)

## THE ORIGINS AND FORMS OF GOVERNMENT

As among the classical economists, so among the mercantilists there was considerable disagreement about the foundations or beginnings of government. Some, like Temple, believed the authority of the state was an extension of the authority of the father over the family and they believed the ideal state was like a harmonious family. As the family was ruled by a loving father, so the state was ruled by a benevolent monarch. “Thus a family seems to become a little kingdom, and a kingdom to be but a great family,” he wrote. The father-king, one must remember, was limited in his power and in no sense was an absolute ruler.

Other mercantilists accepted the contract theory of government which then enjoyed its ruling hour. Petty believed the political difficulties of the day were the result of the “warpings of time, from the rectitude of the first Institution,” that the changes were unnatural and hence could be corrected. The greatest exponent of the contract theory among the mercantilists was Defoe. He said that every man had natural rights, that they were beyond the power of the state to abridge, and that the state was the creature, not the maker, of law. He said the deposition of the Stuart dynasty was justified because it had exceeded its legitimate authority and had left the people with only revolution as the means of securing their rights. Barbon and Davenant were forcible in advocating constitutional procedures, asserting that only by these means could the liberty of the individual be protected.[35](#)

The differing conceptions of the origin of government did not lead to disagreement over the proper form or structure. The mercantilists were all of them opposed both to absolute rule by an individual and to unlimited rule by the people. Their opposition to both autocracy and democracy came of a profound distrust of power per se. Temple wrote:

Many men are good and esteemed when they are private, ill and hated when they are in office . . . and many men *come out*, when they *come into* great and public employments.<sup>36</sup>

There is a notable agreement between Temple's ideas of power and those Hume expressed about seventy-five years later. Temple said that authority is the "foundation of all ease, safety, and order in governments" and that "authority arises from the opinion of wisdom, goodness, and valour in the persons who possess it." He meant that the power of government would be more legitimate and more certain, the more it obtained "the consent of the people, or the greatest and strongest part of them." It was the "greatest and the strongest" among the people who should exercise power. He was opposed to democracy because, in his view, it was unable to provide stability and security. By offering liberty to all men, it solicited an expression of those natural traits that bring men into conflict and then place them under the absolute rule of the few. He said that democracy was unwise because men were inherently restive, because they had diverse interests, were prone to be contentious, and always were eager to battle over the inevitably few positions of power. The same ideas were at the center of Defoe's opposition to democracy, and motivated his belief that class distinctions were necessary and therefore natural.<sup>37</sup>

Their opposition to democratic government did not make the mercantilist writers apologists for an aristocracy, and they did not approve of many of the forms of illiberalism which they saw about them. Most of the mercantilists were opposed to religious intolerance and insisted upon the rightness, as well as expedience, of allowing each person to seek his spiritual salvation in his own way. Defoe was highly critical of the English ruling classes, believing their attitude toward trade was an obstacle to the progress of the economy. *The Compleat English Tradesman* and parts of *The Compleat English Gentleman*, together with the parabolical meaning of *Robinson Crusoe*, can be interpreted as an effort to persuade the aristocracy of the national value of trade and so to secure a higher social position for the tradesman. (One of the small ironies in the history of economics is that *Robinson Crusoe* has been used repeatedly to illustrate, of all things, rational economic conduct. It is much more an illustration of the tradesman's mentality. Did Robinson allocate his resources to equalize marginal returns? Hardly; he was much too busy building fences all over the island as if he were preparing it for a suburban development.) Other mercantilists wrote persuasively of the great usefulness of the tradesman and of the wisdom of giving him greater political power and a higher social position.

## POLITICS, THE PRICE MECHANISM, AND POLICY

The ideas of politics and of the price mechanism stand in a paradoxical relationship to the economic policy which the mercantilists advanced. If one reads only their

expressions about economic and political liberty, one easily could believe their policy must be *laissez faire*. If, on the other hand, one looked only at the measures of control they proposed, one could conclude they thought very little of freedom. The paradox is that the mercantilists anticipated many of the positive and some of the normative elements in classical economics but came to much different conclusions about policy. They were reluctant to follow the principle of freedom to all of the practical results they thought it would bring, and, what is equally clear, they were reluctant to modify their ideas of liberty in order to achieve the practical results they wanted.

It is instructive to compare the ideas of Hales and Smith on the normative aspects of free exchange. When Smith observed that each individual always tries to discover “the most advantageous employment for whatever capital he can command,” he concluded that the “study of his advantage naturally, or necessarily, leads him to prefer that employment which is most advantageous to society.” Hales did not think this always would be so. Another colloquy examines the question:

Knight: Every man is a member of the commonweal, and that that is profitable to one may be profitable to another, if he would exercise the same feat. Therefore that is profitable to one, and so to another, may be profitable to all, and so to the commonwealth. . . .

Dr.. That reason is good (adding so much and more of it). True it is that thing which is profitable to each man by himself, (*so it be not prejudicial to any other*) is profitable to the whole commonwealth, and not otherwise; or else robbing and stealing, which perchance is profitable to some men, were profitable to the whole commonweal, which no man will admit.[38](#)

Malynes, too, was unable to endorse free exchange completely. He said it might conflict with the “good of the commonwealth, which is the cause that princes and governors are to set at the stern of the course of trade and commerce.” He said that to allow merchants to set the course of trade would be as imprudent as to consult vintners about laws against drunkenness. A similar qualification was made by Child:

. . . the profit of the merchant, and the gain of the kingdom . . . are so far from being always parallels, that frequently they run counter one to the other, although most men . . . do usually confound these two.

Although he was in favor of competition, Postlethwayt hesitated to endorse it wholly. “Exchange of merchandise for merchandise is advantageous in general; but not in cases where it is contrary to the foregoing maxims,” he wrote, the maxims being that trade should be directed to increasing the money supply and employment. Even the enlightened North was dubious about the universal harmony of self-interest operating on the market, although he viewed the possible disharmony oppositely from the usual way. He was less troubled with occasions on which the individual could gain at the expense of the nation than with the possibility of the nation gaining at the expense of the individual (as when an unwise investment reduced the income of the investor even though it led to greater employment of others). Some mercantilists believed the economy could prosper at the expense of individuals, if they engaged in extravagant

expenditure, which although it might damage them was nevertheless beneficial to trade. The idea was set forth by Mun in a chapter entitled “Of some Excesses and Evils in the Commonwealth, which notwithstanding decay not our Trade nor Treasure.” The idea was made popular by Mandeville in his fable of the bees whose private vices were public benefits. It was not, however, as widely accepted as the notoriety of Mandeville’s verse suggests. Davenant, although he admitted the possibility, denied that private extravagance was the only way to wealth and submitted that a wise levying of excises would give the lie to the notion that “riot and expense, in private persons, is advantageous to the public.”<sup>39</sup>

These passages indicate that the mercantilists not only proposed controls which would have abridged economic freedom but also that they were quite aware of the effect of their measures. They also were aware of why freedom should be limited.

One reason was that unlimited freedom would prevent the economy from achieving its major purpose, which was an increase in the nation’s wealth. In order to achieve this, they believed the market had to be controlled in some important ways. The other reason was less significant, and the limitation which it implied was in no way inconsistent with classical economic policy. When, for example, Hales denied that self-interest always produced universal harmony, he cited the act of theft in proof of his view (actually, he had more than this on his mind, and the example was not well chosen). The prohibiting of crime is not, of course, a denial of freedom. Nor was there a denial of freedom in the similar proposals of other mercantilists. Many of them said that the unlimited freedom of the tradesman would lead eventually to monopoly. This, again, was not a denial of the principle of free exchange, which assumes competitive behavior. Indeed, the opposition to monopoly is an affirmation of liberal doctrine, and many mercantilists anticipated the doctrine in their opposition to monopoly and in their defense of competition. Tucker excoriated the regulated companies (which had certain monopolistic powers) in language which suggests Smith at the height of indignation:

This is the greatest and most intolerable of all the evils of monopolies. It is a prostitution of the trade and welfare of the public, to the merciless ravages of greedy individuals.

Postlethwayt anticipated the classical conception of the advantages of competition. He wrote:

Domestic rivalship in trade produces plenty; and plenty cheapness of provisions, of the first materials, of labour, and of money. Rivalship is one of the most important principles of trade, and a considerable part of its liberty. Whatever cramps or hurts it in these four points is ruinous to the state, and diametrically contrary to its intent, which is the happiness and comfortable subsistence of the greatest number possible of men.

North warned of the devious forms which monopoly could assume:

For whenever men consult for the public good, as for the advancement of trade, wherein all are concerned, they usually esteem the immediate interest of their own to be the common measure of good and evil.

In the next century Smith said dryly: "I have never known much good done by those who affected to trade for the public good."[40](#)

When the mercantilists wrote that economic freedom had to be qualified because it led to abuse, they really were not taking exception to the principle but were amplifying it to state that the individual is not free to deprive others of their freedom.

There was, however, another kind of qualification, and it directed the mercantilists to propose substantial restrictions on free exchange. In order that the nation increase its wealth, or income, all resources had to be fully employed. The mercantilists did not believe that the market alone could assure this. If the market were left to itself, spending would not always be sufficient, income would be distributed improperly, the money supply would not always be adequate, specie would be lost through excessive imports, the rate of interest would become too high, and the labor force would be too small and insufficiently productive. The result would be a waste of resources and a national wealth and income smaller than England was capable of.

## FULL EMPLOYMENT VERSUS LAISSER FAIRE

Hence the mercantilists could not propose a policy of *laissez faire*, or of complete reliance on the market, because they did not believe the policy could assure full employment and, failing in this important respect, the policy would not serve the national interest. The proper policy was that collection of measures which secured full employment by utilizing the price mechanism. The price mechanism, or free market, was not regarded as an end in itself but as a very useful means of assisting economic growth. The mercantilists looked upon the market in an instrumental way. The classical economists regarded it in the same way. The latter however believed that economic growth required using the market in a different way. They believed the market should be made competitive and used to secure an efficient allocation of resources; and they gave so much attention to establishing a competitive price mechanism that it often has been thought they made the mechanism an end in itself.

The apparent distinction, then, between mercantilist and classical policy was between the goals of full and efficient employment. Yet when the distinction is made in this way, it distorts the intent, if not the letter, of the two policies. Very probably neither the mercantilists nor the classicists would have acknowledged the correctness of such a distinction. The former, I suspect, would have insisted that their policy achieved a greater output, and therefore was more efficient, than a policy which ignored the problem of full employment. The implicit assumption of the mercantilists was that a nation was not free to choose between using *all* of its resources in one way or another, in order to maximize output, but that the nation had to choose between a policy that would produce full employment and one that would not. The classicists probably would have insisted that once the market had been made competitive and the conditions established for an efficient use of resources there would be no problem of



full employment. They would have granted, probably insisted, that unwise interference with the market could create underemployment but they would not have expected underemployment to be a problem once the market was properly organized.

In brief, the mercantilists believed the way to greater output was by increasing the total employment of resources, and the classicists believed the way was by improving the allocation of resources either already employed or likely to be. Who was right? If the two were contemporaries and the debates were held today, the verdict of many economists would be that both were wrong. But in fact each of them addressed themselves to the economic problems of quite different periods and did so with the knowledge of economics that was available in their respective periods. The question of who was right is not a useful question.

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## 5

### *The Economic Setting Of Mercantilist Policy*

What is more useful is to speculate over why the mercantilists attended so closely to the problem of unemployment.<sup>41</sup> There was extensive poverty in the period of mercantilism, from about 1500 to 1750 (and later, too, but affecting economic thought differently then). The main cause was unemployment. Another cause was the large proportion of the population that was not in the labor force: children, old people, and many able-bodied adults. In that last group were people who had been out of a job for so long that they no longer expected to find one, people who were born into poor families and never had been able to find work, and a sizable number of people who preferred to be supported by others. This last group consisted of beggars, vagabonds, of those who relied on the relief authorities, their relatives, friends, or whomever else would support them. This group was the object of the policies that the mercantilist writers proposed for increasing the size of the labor force. The group was large and certainly constituted a problem, of a political and social kind as well as economic.

More important however was the problem of unemployment. Even without certain people in the labor force, it was not fully employed. The enclosure movement seems to have been the principal cause of unemployment in the first part of the mercantilist period. By replacing tillage with grazing, the enclosures reduced the amount of labor required in agriculture and drove large numbers of persons into the towns and cities where they were not easily absorbed (to say the least) into the urban labor force. In the last half of the sixteenth century, the export of woolens declined, and there was protracted unemployment in that industry, which was the most important in manufacturing of the time. The transfer of large numbers of workers from one occupation to another is difficult even in the most favorable circumstances; and circumstances in the sixteenth century were not favorable. The guilds were not eager to increase their output at any time, and one easily can suppose they were not pleased by the large numbers of workers who were swept off the land and into the towns to seek employment.

Another cause of unemployment was the frequent commercial crises which by their strangeness must have baffled the early economists (no less than the later). Although the fluctuations seem not to have been of regular occurrence, as cyclical movements later were, they were more than occasional and sporadic changes. In addition to these two types of unemployment, which today would be called structural and cyclical, there seems also to have been seasonal unemployment. Urban workers often were out of jobs for about four months of the year. If one can accept Petty's observations, which, he said, had "visible foundations in nature," seasonal unemployment was considerable. He stated that the annual wages of workers in the third quarter of the seventeenth century were about seven pounds and that weekly wages were about four shillings. The figures imply the average worker was employed about 35 weeks in the year. Petty's figures on wages are interesting to compare with his estimates of the cost

of living. He said the weekly cost of food was two shillings *per person*, or about five pounds and four shillings annually and that the yearly cost of clothing was about 30 shillings. This implies the worker had about six shillings to buy shelter and other goods for the year *and* to provide for his family. One wonders where the money for gin and ale came from (for which the workers were so often scolded), not to mention the pennies spent on ribbons, ruffles, cockfighting, tea drinking, and such things.<sup>42</sup>

Whatever the accuracy of Petty's figures, unemployment and poverty seem to have been extensive. The management of those two problems was made more than usually difficult by a factor arising from the Reformation. When the power of the Catholic Church was destroyed, so too was its organized system of charity. An effort was made to place the responsibility upon local governments but they did not accept it entirely. In many areas they refused charity to persons from other localities, a practice which added immobility to unemployment. The guilds did look out for their members, but were unable to care for the newly created poor from agriculture even if they had wished to.

Not only was there less providing for the lower classes, but, after the middle of the seventeenth century, there was less interest in doing so and less concern over the problem of unemployment. Under the Tudors there seems to have been a genuine solicitude for the lower classes, a feeling which perhaps came of the knowledge that disaffection with an absolute monarch can have disastrous results. After the revolution of 1688, the power of the monarchy was severely abridged and therefore it was less responsible for the general welfare, while Parliament could be only a diffuse object of resentment to those who thought the state was not looking after them properly. Elizabeth could say with reason, "Yet this I account the glory of my crown, that I have reigned with your loves." It is difficult to imagine words of the same sincerity coming from a sovereign after 1688.

The unemployment of the sixteenth and seventeenth centuries was, in the language of today's economics, the result of (a) frequent deflations, some of them quite severe; (b) the long-run decline of particular industries such as the manufacture of woolens and the raising of grain; (c) the immobility of resources and especially of labor; and (d) the wage and price rigidity caused mainly by the monopolistic practices of the guilds. The unemployment might have been eliminated (one easily can say 300 years later) if labor could have been moved from areas where it was abundant to where it was scarce and if certain wages and prices could have been reduced in order to make increased employment profitable to the entrepreneurs of the age. But the mercantilists seem not to have thought this solution was adequate. Although they did propose to increase labor mobility and to make wages and prices more flexible, they did not rely entirely on these measures. Instead, they appear to have had greatest confidence in measures that had an inflationary effect—those that would have increased total spending by increasing the money supply.

It is interesting to note that Great Britain had a similar unemployment problem about 200 years after the close of the mercantilist period and solved it by methods quite suggestive of the mercantilists' proposals. After World War I there was substantial frictional employment, and a lowering of money wages was not feasible. A few years

after World War II, when the inflationary policies of the Labour Government had shown their effect, a United Nations report on economic stability observed that the frictional unemployment “which had previously been attributed mainly to lack of mobility of labour, melted away, leaving an acute labour shortage.”<sup>43</sup> This report was written mainly from the viewpoint of Keynesian economics, which, the reader may have noticed, has an affinity to mercantilist doctrine.

When classical economic doctrine developed, circumstances were much different from those of the period of mercantilism. There no longer was the problem of managing a large amount of permanent unemployment. The system of poor relief was improved and contributed much less to labor immobility than formerly. The internal market of Great Britain was much better organized, in the sense of there being greater mobility of labor and of commodities and capital as well. By 1750 the government no longer enforced any important controls over the internal market. The obstacles to price and wage flexibility were much less formidable than they had been in the preceding three centuries. Improvements in transportation, especially after 1800, brought the parts of the internal economy into closer connection and increased the extent of competition. Finally, there was an expansion of British foreign trade, resulting from the decline of the Dutch empire at the end of the seventeenth century, from the weakening of the imperial power of Spain, and from the increased efficiency of British manufactures and shipping which gave the nation a cost advantage in the world market. These circumstances dictated a much wider use of the market as the appropriate economic policy, just as the different circumstances confronting the mercantilists required restrictions on the market.

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## 6

### ***Comment On The Commentaries On Mercantilism***

The interpretation of this chapter makes English mercantilist doctrine a predecessor of economic liberalism. In order that the meaning be clear, it may be compared with other interpretations of mercantilism. Works on the history of economic thought usually abide by the judgment of Smith and Mill—that the mercantilists believed money was wealth and therefore that the nation became richer as it acquired more monetary metal. That the mercantilists should be judged in this way is understandable. If their goal of full employment is neglected, there is no way to explain their preoccupation with the money supply other than to suppose they thought money was wealth. The exposition here of their monetary theory should demonstrate that few of them made the simple error of which they so often have been accused.

Another interpretation looks on mercantilist doctrine as a collection of mistaken ideas, not only in the area of monetary theory but in others as well. The mercantilists in this view are regarded as rudimentary economists who sensed the importance of the problems they faced but were defeated by them. The mercantilists did express certain ideas crudely and did make mistakes (what economists have not?). But there was nothing primitive about their central ideas. The most important aspects of the price mechanism, for example, were understood as long ago as 1549 when Hales's *Discourse* was published, and the way he wrote of them suggests they were known even before his time. Modern economics has expressed these principles in more rigorous form but has not altered them. We still believe that unequal rates of profit can cause a reallocation of resources. Indeed only in this century has economics tried to reintegrate monetary and price theory in order to bring together the money and the real sides of the economy—a theoretical achievement sought by the mercantilists.

By a third interpretation, the mercantilists were apologists for the economy of their time. To look upon social thought as a rationalization of prevailing institutions is now commonplace. One is told, for example, that Aquinas was justifying the ways of God to man, that *The Leviathan* of Hobbes was a defense of the absolute monarchy of the Stuarts, that Adam Smith rationalized the behavior of the burgeoning middle classes, and that the mercantilists justified commercial capitalism. This view makes the motivations of the writer inseparable from what he said. Two conclusions usually are drawn about the mercantilists. One is that their doctrine was meant to explain the circumstances of their time. If this means the mercantilists were interested only in the present, it is wholly correct. Economists always are interested in the problems of the time, some of which are transitory and others nearly everlasting. The other conclusion is that the mercantilists sought to advance private interests by disguising them in a tissue of abstraction. When they wrote in favor of the principle of the free market they really were opposing only those kinds of control which injured particular interests, and when they proposed certain controls they wished to advance these interests. I do not know how such an interpretation could be upheld (in addition to contrary

statements in their works, there is the awkward difficulty of uncovering the private thoughts of men who have been dead 200 years and more), nor do I see just what significance the proof would have. Perhaps John Hales was trying to increase the income of corn growers and Thomas Mun wanted greater dividends for the East India Company. Nevertheless, they had something of lasting interest to say.

The most cogent of all interpretations of mercantilism is that which makes it a continuation of the ideas of medieval society. This is the view of Schmoller and of Heckscher.<sup>44</sup> Schmoller stated the principal tenet of mercantilism was the identity between political and economic institutions, such that the economic conduct of the individual was made to conform to the objectives of the state. Mercantilism was thus a system of national power and one of a number of forms which idealism as a political philosophy can take. Prior to the twentieth-century dictatorships, the most notable expression of idealism was medieval society. In their remarks on economic conduct, the Schoolmen stated that free individual behavior was inimical to the welfare of society. They accepted the Aristotelean notion that exchange was “unnatural” because it caused men to lose sight of the proper use of commodities, which was consumption, and to make an improper use of them, which was unlimited accumulation.<sup>45</sup> In the Aristotelean and medieval conception, exchange is condemned if its purpose is anything more than the satisfaction of limited wants. It is wrong if it becomes a means of expressing acquisitive desires because they are improper in themselves. In its practical aspect, the conception condemns exchange as a useless act and proposes it be controlled. This was the prevailing medieval view after about the twelfth century. There were exceptions to it. And as time passed the doctrine gradually altered from an explicit condemnation of exchange to the prescribing of rules under which exchange was permissible, and at last to a justification of exchange. One of the writers of the transition period was the Italian, Francesco Patrizi, who stated about 1480 that “they which trade in merchandise with modesty and do take no usury . . . and they which do not lie . . . I deem them worthy to be enriched with the benefits of a commonwealth.”<sup>46</sup> In the next century, the Spanish Jesuit Molina (whose work now is attracting attention) expressed liberal ideas of exchange.

In English mercantilist writings I have found only one statement that in any way suggests the prevailing medieval idea about exchange. It is Cary’s assertion that buying and selling “whereby one man lives by the profit of another, brings no advantage to the public.” However, one cannot be certain that Cary endorsed the medieval idea. His observations of the price mechanism were anything but medieval. Admittedly, the mercantilists stated that self-interest was inimical to the public good, but the statement is, I believe, of no significance. The kind of economy they proposed could not possibly have operated without the expression of self-interest, just as the economy proposed by the classicists could not have operated without it. They too condemned self-interest, but neither they nor the mercantilists believed it wholly bad or even mainly so, and they did not want it suppressed. Both wanted the power it gave to men to be used in the national interest. Hales wrote about enclosures:

To tell you plainly, it is avarice that I take for the principal cause thereof, but can we devise that all covetousness may be taken from men? No, no more than we can make men to be without ire, without gladness, without fear, and without all affections. What

then? We must take away from men the occasion of their covetousness in this part. What is that? The exceeding lucre that they see grow by these enclosures, more than by husbandry. And that may be done by any of these two means that I will tell you: either by minishing the lucre that men have by grazing, or else by advancing of the profit of husbandry, till it be as good and as profitable to the occupiers as grazing is.<sup>47</sup>

To exploit the selfishness in men, to reward them for it, to see in it a power for good as well as harm—there were ideas as remote from the ruling thought of the middle ages as ideas could be. One cannot discover the roots of English mercantilist doctrine there. They took hold after the power of medievalism in England was spent. The direction of the doctrine was not to the past but to the future—to the ideas of classical economics, however much it disdained its predecessors.

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3

## THE ORIGINS OF AMERICAN LIBERALISM

In the history of liberalism, the men who made the American Constitution are important in two ways. They were political craftsmen of the highest order, a fact which is well known and a little commonplace. What is not so well known and just as important is their theoretical achievement, not simply in the history of liberalism in America but in the Western world. The achievement consisted in bringing together two elements in liberal doctrine which never before had been integrated and which are in fact quite difficult even to reconcile. One was the idea that the individual in order to be free must have power. The other was that the state in order to maintain its independence and to protect individual freedom also must have power, some of which must be taken from the power of the individual and hence from his freedom.

The Americans of the constitutional period therefore are important for their ideas about power. That, as one thinks of it, is to be expected from political theorists who become politicians (a word that need not be pejorative). The way they related the two kinds of power was the distinctive feature of their liberalism. In it the political and economic aspects were closely connected. They are explained separately here only for analytical reasons. My emphasis on the economic aspect does not mean it was the more important or received the greater attention, but that I have emphasized that which is the subject of this book.

The American doctrine was an interpretation of British liberalism according to the needs of a new nation. The men who developed it wanted to do two things—to establish a government that would provide more individual liberty than any other had yet done and at the same time to establish a government that quickly would become powerful in the world. There is no necessary conflict between individual liberty and government power once that power has been asserted and has been accepted by those whom it rules and by other nations. The compatibility is suggested in many ways by the history of England. But a conflict is possible, and indeed probable, while national power is coming into being and has not been entirely asserted and accepted. This was the condition in the period covered in this study, from about 1787 to 1815.

There were many areas in which the interests of the individual could conflict with those of the Federal government, and the conflict presented issues like these: Should the individual trade freely with foreigners, thereby keeping agriculture in its ruling position and retarding the development of manufacturing which in turn would reduce the potential military power of the United States? Or, conversely, should the government intervene in order to hasten the development of manufacturing and military power, thereby turning the economic development of the United States away from the course to which it would be directed by a free market? Again: Should the Federal government establish its financial reliability by guaranteeing the entire debt of the Confederation and of the state governments, an act which alone would make the



government the major power in the economy? Or, conversely, should its financial power be limited in order to increase the power of the individual, thereby weakening its ability to act when either domestic or foreign affairs made action desirable? The conflict between individual and national power also was manifested in such measures of policy as the Bank of the United States, the chartering of corporations by the Federal government, the direction of internal improvements, the control of monopoly, and the distribution of land.

These issues and the double objective of individual and national power are the subject of this chapter. So much has been written about the founding fathers that the reader may wonder if there is anything left to say about them. There is, because there in fact has not been much written about their economic ideas, and what has been written has been from the viewpoint of the period of the writer more than that of the period of those written about. Each generation likes to rewrite its history to confirm its presuppositions, as Henry Adams once suggested, and in America the generations have been especially fond of discovering they want to do just what the founding fathers would have done in the same circumstances. I do not belittle the earnest effort in such writing; I am impressed by its ingenuity. But I do not think it is intellectual history. To interpret the ideas of the past according to the problems and longings of the present is not history—it is rhetoric or argumentation. In the period between the world wars of this century, most American intellectuals believed the Federal government should exercise more economic power, and there were many historians who discovered that the men who wrote the Constitution intended the Federal government to have just that power. In the same period there was unrest and some longing for radical changes. Jefferson was then discovered to have been a revolutionist. After World War II such ideas became unpopular and were replaced by some quite conservative beliefs. Hamilton then was discovered. In writing this chapter I have tried to keep in the front of my mind the question, What were the founders of America trying to do? My conclusions are derived from what they themselves wrote and said, and have been very little influenced by what others have written about them.<sup>1</sup>

Most of the ideas described here were expressed between 1787, when the constitutional convention met, and 1815 when the second war with Britain ended. They were in letters, speeches, state papers, books, and tracts by the men who were the leaders of thought and usually of government as well—men like Franklin, Hamilton, Jefferson, Madison, Paine, Barlow, Taylor, Gallatin and a few others. Their political and economic ideas usually were put forward together, and hence a description of their political theory usually helps to understand their ideas about economic policy. The theories were not always consistent in themselves nor with each other and they changed as those who held them grew older. I have therefore noted the inconsistencies and changes of belief that were substantial. Except for the general division between the Federalists and the Republicans, the order of explanation is chronological. The first important event in the intellectual—and general—history of the period was the constitutional convention in 1787.

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## 1

### *The Constitutional Convention*

The reason most often advanced for calling the convention was the necessity of “regulating commerce,” this being the term for what today is called economic policy. Regulation, over all of the colonies taken together, had not been an issue of long standing. The Americans did have experience with particular regulations in particular colonies and they were familiar with the history and practice of economic policy in Britain. But they had not had any significant experience with the problems of making, executing, and obeying policy for their own country in its entirety. After 1763 Parliament for the first time seriously tried to regulate the economic life of the colonies. The following twenty-five years, until 1787, were all the Americans had in which to become familiar with economic policy. In the first thirteen of the years—to 1776—what they learned best was how to evade and resist the law, a lesson that was useful to them as rebels but served them badly when the law was their own. The following seven years did not provide much experience that was useful in peacetime, and when the Revolutionary War ended in 1783 a depression began from which the country did not fully recover until the Constitution was ratified in 1789. Even if their experience had been more instructive it could not have taught them much in so short a time as twenty-five years. Moreover, the men who were most influential in making American policy were comparatively young when the convention met. Madison was thirty-six and Hamilton was thirty. Jefferson was in France, as ambassador, during the convention. Franklin and Washington had an important part in it but their role was less to initiate than to mediate and unify.

Nor were the delegates merely young and inexperienced, which in the great world are regarded as handicaps. They set to their work in a climate of disillusionment. In 1776 the Americans had believed that once their country was independent, it quickly would find a lucrative place in world trade. But in 1783 they discovered that Europe was not eager to trade with America, and if there was to be a flourishing commerce it would have to be obtained on American initiative and European terms. The principal commercial city of the United States was Philadelphia, where the convention was held. Its distressed condition was described by Mathew Carey, the pamphleteer:

I have in 1786 seen sixteen houses to let in two squares, of about 800 feet, in one of the best sites for business in Philadelphia. Real property could hardly find a market. The number of persons reduced to distress, and forced to sell their merchandize, was so great, and those who had money to invest were, so very few, that the sacrifices were immense. Debtors were ruined, without paying a fourth of the demands of their creditors. There were most unprecedented transfers of property. Men worth large estates, who had unfortunately entered into business, were in a year or two totally ruined—and those who had a command of ready money, quadrupled or quintupled their estates, in an equally short space. Confidence was so wholly destroyed, that interest rose to two, two and a half, and three per cent per month. And bonds, and

judgments, and mortgages were sold at a discount of twenty, thirty, forty, and fifty per cent. In a word, few countries have experienced a more awful state of distress and wretchedness.<sup>2</sup>

The depression affected all of the states and frequently was advanced as the reason why they should ratify the Constitution. To every doubter in the Virginia ratifying convention, Francis Corbin said:

Let him go into the interior parts of the country, and inquire into the situation of the farmers. He will be told that tobacco, and other produce, are miserably low, merchandise dear, and taxes high. Let him go through the United States. He will perceive appearances of ruin and decay everywhere. Let him visit the sea coast—go to our ports and inlets. In those ports, Sir, where he had every reason to see the fleets of all nations, he will behold but a few trifling little boats, he will everywhere see commerce languish, the disconsolate merchant, with his arms folded, ruminating in despair, on the wretched ruins of his fortune, and deploring the impossibility of retrieving it.<sup>3</sup>

The economic crisis however was probably no more important in securing ratification than the deeply felt need for a government of greater authority than the Articles of Confederation permitted. Although the Americans had been made suspicious of power by their experience with the considerable authority of Parliament, they nevertheless acknowledged the need for a more commanding government than they had. The need was made urgent by several challenges to the Confederation, the leading one being the rebellion of the Massachusetts farmers under Daniel Shays. Madison said it had “a very sensible effect on the public mind.”<sup>4</sup> Hamilton excited support in New York for ratification by his frightening references to the disorders in North Carolina and Pennsylvania in addition to those in Massachusetts.<sup>5</sup> “Toward the prevention of calamities of this kind, too many checks cannot be provided,” he said.

The need for more political and economic authority was before the delegates when they met. They had to create a government with enough power to maintain domestic peace, to make the independence of the United States secure, and to assist the economic growth of the nation. And they wanted to do all of this without greatly restricting individual liberty.

## “THE REGULATION OF COMMERCE”

On the need for more economic power, all of the delegates agreed. The consensus is disclosed in their numerous proposals to “regulate commerce.” Some of the men who made them were Hamilton, Madison, Franklin, Edmund Randolph and Richard Henry Lee of Virginia, James Wilson of Pennsylvania, and Charles Pinckney of South Carolina. The power was written into the first draft of the Constitution, and the agreement is reflected in the fact that the official journal of the convention does not mention any debate but merely records that the power was adopted. The point receives less mention than the vote to establish the post office.<sup>6</sup> During the ratification period, some of the opponents of the Constitution, like George Mason of Virginia, indicated there was a clear feeling in favor of regulation. Others opposed the

Constitution but did not oppose regulation, stating it could have been incorporated in the Articles of Confederation.<sup>7</sup> After the Constitution was adopted, the agreement was expressed as clearly as before. In one of his first messages to Congress, Washington said the interest of a free people required Congress to “promote such manufactures as tend to render them independent of others for essential, particularly military supplies,” and the house replied, “We concur with you. . . .” Jefferson in a presidential message in 1802 said the government had a duty to “maintain commerce and navigation; to foster our fisheries; and protect manufactures, adapted to our circumstances.” Monroe in 1818 urged the protection of manufactures.<sup>8</sup>

The consensus proves one point: that the founders believed economic policy was an important part of the work of government. In addition, it suggests they knew something about economic affairs and held opinions about how they should be regulated. *That, however, is all the consensus proves.* It does not prove there was any agreement on *how* the economy should be regulated. An enterprise economy is “regulated” (by competition which in turn can be enforced by the government), fascist, communist, and socialist economies are regulated, and so is a mixed economy. What separates them is the kind of regulation and its purpose. If these simple considerations are not attended to, one is likely to believe that because the word “regulation” was used so commonly it must have had a common meaning. It is, moreover, easy to move from the word “regulation” to “control,” then to “power,” and finally to conclude that the delegates gave the Federal government the power to control the economy in detail, from which it follows that they must have been hostile to the idea of *laissez faire*. Some such free association must be the explanation for those writings that contend the constitutional convention meant Congress to regulate the economy in whatever way it thinks necessary.

Actually in the proposals to regulate commerce there were four different kinds of economic policies implied. (a) Regulation meant to some only the establishment of uniform trade relations among the states and the removal of barriers to interstate trade. (b) To another group it meant that Congress should use the tariff and other controls over foreign trade in order to advance the international power of the United States. (c) To a third group, it meant the use of tariff duties as the major source of Federal revenue. (d) To a fourth group, it meant the Federal government should assist the economic development of the nation in particular ways, that most often proposed being “the encouragement of manufactures.”

(a) The first view was held by the delegates who insisted on state sovereignty and by those who believed in complete *laissez faire* in the customary sense, i.e., no interference by the government other than to assure free domestic and international trade. Among the delegates holding this first view were Elbridge Gerry and Hugh Williamson, and they defended it more by political than by economic reasoning.<sup>9</sup> They believed the Federal government would acquire an alarming amount of power if it were able to create corporations, grant monopoly rights, pay bounties, and protect manufactures.

(b) Regulation in order to strengthen the international power of the United States was the least important of the four positions advanced in the convention. But it became

more important shortly afterwards. James Iredell said that Congress needed regulatory powers in order to secure favorable terms of trade from other countries.<sup>10</sup> The many proposals for a commercial policy of reciprocity were expressions of this position, which was the position of the Republican party until 1805.

(c) That revenue should be the purpose of regulation was contended by many, and they later insisted that such was the meaning of the clause of the Constitution which gives Congress the power to regulate commerce. In one of the papers of the Committee on Detail of the convention is the statement: “That the United States in Congress be authorized . . . to pass acts for the Regulation of Trade and Commerce as well with foreign Nations as with each other to lay and collect taxes.” The delegates from Connecticut maintained the principal revenue source would be the tariff, and their opinion was repeated in one of the broadsides addressed to the citizens of King’s County in New York. Charles Pinckney had wanted regulation to mean more than revenue but after the convention he said that revenue was all it had come to mean.<sup>11</sup>

(d) That the economy should be regulated in order to hasten its industrial development was the position of Hamilton, Madison and of others whom hindsight shows to have been the leading members of the convention. They did not, however, rule it, and one must be cautious in appraising their influence.

Hamilton on August 18 proposed that the government be empowered to charter corporations where the public good required them, but the proposal was not discussed at the time. It raised the issue of how much economic power the Federal government should have. The issue was raised again on September 14 when Franklin—dropping for a day his role as peacemaker—proposed that the power to establish post offices and post roads be enlarged to include “a power to provide for cutting canals where deemed necessary,” which implies public enterprises. Madison then moved that Franklin’s proposal be enlarged to include the power of incorporation, which would have given the Federal government power over private as well as public enterprises. What is interesting is that the proposals—all of them controversial, almost provocative—should have been made only a few days before the convention adjourned, when unanimity was urgently needed and when many delegates were trying heroically to find compromises that would produce it. Proposals such as that made by Madison had been made earlier in the convention. That they were made again so near the time adjournment suggests that their advocates were making a last great effort to write broad economic powers into the Constitution. Perhaps they prevailed upon Franklin in the belief that his great authority would be decisive. But they were defeated. One can obtain some notion of how the delegates reacted to the proposals from the following entry in Madison’s journal (he was both the leading participant in the debates and their principal recorder):

Mr. Madison suggested an enlargement of the motion into a power “to grant charters of incorporation where the interest of the U. S. might require and the legislative provisions of the individual States may be incompetent.” His primary object was however to secure an easy communication between the States which the free intercourse now to be opened, seemed to call for—The political obstacles being

removed, a removal of the natural ones as far as possible ought to follow. Mr. Randolph 2ded. the proposition.

Mr. King thought the power unnecessary.

Mr. Wilson. It is necessary to prevent a *State* from obstructing the *general* welfare.

Mr. King—The States will be prejudiced and divided into parties by it—In Philada, and New York, it will be referred to the establishment of a Bank, which has been a subject of contention in those Cities. In other places it will be referred to mercantile monopolies.

Mr. Wilson mentioned the importance of facilitating by canals, the communication with the Western Settlements—As to Banks he did not think with Mr. King that the power in that point of view would excite the prejudices and parties apprehended. As to mercantile monopolies they are already included in the power to regulate trade.

Col: Mason was for limiting the power to the single case of Canals. He was afraid of monopolies of every sort, which he did not think were by any means already implied by the Constitution as supposed by Mr. Wilson.

The motion being so modified as to admit a distinct question specifying and limited to the case of canals.

N- H- no— Mas. no. Ct. no— N- J- no— Pa ay. Del. no— Md. no. Va. ay. N- C- no— S- C- no— Geo ay. (Ayes — 3, noes — 8.)

The other part fell of course, as including the power rejected.[12](#)

The vote settled an issue that was raised on the first day of the convention when Edmund Randolph in presenting the Virginia plan included in regulation “the establishment of great national works—the improvement of inland navigation—agriculture—manufactures—and a freer intercourse among the citizens.” The vote on Madison’s amendment was a rejection of both Hamilton’s proposal of August 18, and of the proposal of Robert Morris to include in the Constitution a provision for a national bank. Finally, the vote rejected not only Madison’s amendment but the more formidable proposal he had made earlier—also on August 18, possibly a day set aside for economic planners—to give Congress the power “to establish public institutions, rewards, and immunities, for the promotion of agriculture, commerce, trades, and manufactures.”[13](#) The very extensive powers proposed by Randolph, Morris, Franklin, Hamilton, and Madison were reduced to the limited provisions of Section 8 of Article I, which include the power to tax, borrow, regulate commerce, pass uniform bankruptcy laws, coin money, establish post offices and post roads, and grant patents.

The only other form of economic control considered was the regulating of consumption or sumptuary control. It was proposed by George Mason of Virginia and was defeated. Gouverneur Morris spoke against it, stating it would create a landed

nobility “by fixing in the great land-holders, and their posterity their present possessions.”<sup>14</sup>

It is instructive to consider the forms of control that *might* have been adopted. They can be deduced from the controls which the governments of France and England exercised or tried to exercise during the period of mercantilism, from the sixteenth to the middle of the eighteenth century: the fixing of prices, wages, and interest rates, prohibitions of forestalling and engrossing, regulating the quality of goods, licensing of labor, programs to increase the population, sumptuary control, monopoly grants and other exclusive rights, incorporation, state enterprise, and the control of foreign trade and finance including the protection of domestic industries. The convention considered only four: monopoly and other exclusive rights, control of foreign trade, state enterprise, and sumptuary control. The last two were rejected. The granting of monopoly rights was restricted to patents and copyrights. The control over foreign trade was left in an ambiguous state, except for the prohibition of export taxes. Although not made explicit, the Constitution allowed some power to increase the population, because the Federal government could offer free land as an inducement to immigration.

Not even proposed were the powers to control prices, wages, interest rates, the quality of goods, the conditions of their sale, and the allocation of labor. All of these powers were cherished by the *practitioners* (although not the theorists) of mercantilism, and could they have been asked for an opinion of the Constitution they would have said it provided a feeble economic policy indeed. Those who today believe the Federal government has extensive economic authority to exercise, if it will, cannot support their belief by the records of the constitutional convention (nor the Constitution of course), because the delegates were not agreed upon the issue.

However the Federal government usually has exercised more power than is explicitly given it by the Constitution and has in fact exercised powers which were explicitly rejected by the convention delegates, as when it established the Bank of the United States, a semipublic corporation in 1791, only four years after the convention. One reason for the government’s action is that certain disputed issues, like incorporation and protection, were left in an ambiguous state. Another is the great influence in the formative years of the country of men like Hamilton who believed the government should have substantial economic power. A third reason is that less than twenty years after the Constitution was written almost all of the leading men acknowledged that the national interest required the exercise of considerably more power than they had believed was necessary.

## THE AMBIGUITY ABOUT POLICY

When the convention ended, some of the delegates believed a limited mercantilist government had been established. Of those who did, not all approved it. Hamilton did not believe the Constitution did this, although he was determined to make the most of what it did do. Other delegates believed the government had only those few economic powers which the Constitution explicitly enumerates. Still others were uncertain about what had been decided on particular points, if in fact anything had been decided at all.

They believed the Constitution was ambiguous, perhaps contradictory, in these matters.

It was. However, it is doubtful that the delegates could have made it any better. As the convention went on, their differences became more apparent and more profound, and the decision that they made, although unclear and contradictory, probably was the only alternative to no decision at all, in which event the thirteen states might have tottered along to collapse under the Articles of Confederation.

The ambiguity and contradiction are apparent in the fact that there were four different ideas about what policy should be, that is, of what was meant by the phrase, “the regulation of commerce.” It produced a continuing controversy, and the controversy was sharpest over the powers of protection and incorporation. Even though the former was neither accepted nor denied and the latter was expressly rejected, some of the delegates left the convention believing both powers were implied in the Constitution, others believing neither was implied, and still others believing that the issues had not been settled. Hamilton and Madison believed (they said) that the Constitution empowered Congress to levy a protective tariff and also to create public corporations with monopoly power. Madison was candid in saying the powers were not made explicit, and explained they could not have been made so at the time without evoking unwarranted hostility and an unfounded suspicion that they would be abused. He seems to have meant that the public outside the convention, and not the delegates, would be hostile and suspicious. What he said about the public seems to have been quite true. About forty years after the convention, when the issues still were being debated, he said that if Congress had *not* had the powers of protection and incorporation that fact would have been made known when the first Congress discussed the issues. In it were many delegates to the constitutional convention and to the state ratifying conventions.<sup>15</sup> This, however, is slim evidence when set against Madison’s own record of the convention in which he noted the defeat of his proposal to give Congress the power of incorporation. The defeat implied a rejection also of his proposal for the encouragement of manufactures.

The delegates actually may have favored Madison’s motion but defeated it because they thought such powers would prevent the Constitution’s being ratified. If so, the public and not the delegates determined the content of the Constitution, in which case one cannot assert that the powers of protection and incorporation are certain. At most they are only possible (if public opinion changes). The powers in fact were used later, but the constitutionality of incorporation was never wholly acknowledged and that of protection was extensively questioned down to the Civil War.

There is ambiguity also in the “general welfare” clauses of the Constitution—in the preamble, which declares the intention to “promote the general welfare,” and in Section 8 of Article I in which Congress is given the power “To lay and collect taxes, duties, imposts, and excises, to pay the debts and provide for the common defense and general welfare of the United States. . . .” Those who believe the premise of constitutional government is limitation argue that the welfare clauses do not confer any discretionary powers on Congress. They believe a constitution enumerates particular powers (which the welfare clauses do not) and prohibits general powers;



that if Congress can do what it believes is essential for the general welfare, then it possesses general powers and the Constitution is thereby made meaningless. They explain the appearance of the term “general welfare” in the preamble as a part of a statement of intention which is specified in the body of the Constitution and the term there as being directly related to the enumerated powers which precede it. In this interpretation, Section 8 of Article I means that taxes, duties, and imposts are to be used *in order to* provide for the general welfare, and does not mean that Congress can provide for the general welfare by other means than such levies; it cannot, in this view, create corporations, grant monopoly rights, subsidize manufactures, etc., in the interest of the general welfare.

Against this interpretation is the view that the welfare clauses, particularly that in the body of the Constitution, empower Congress to use its discretion in order to provide for the general welfare, which means that it can use methods that are not enumerated or clearly implied in the Constitution. If the view were carried to its logical conclusion, Congress could do anything it wished and would be the supreme power in government. The Constitution then could not serve to limit the authority of Congress. The view hardly ever is carried so far and therefore has escaped the criticism to which a consistent statement would open it. Those who hold the view can, however, find support in the fact that Congress has exercised powers which are not enumerated or implied, in the fact that the Constitution was not interpreted strictly even in the early years of the nation, and in the fact that it must be viewed flexibly if the government is to meet the problems which changing conditions present.

The welfare clauses are noted here in order to describe a source of ambiguity in the Constitution and hence to suggest an explanation of the controversy over economic policy. My purpose is not to explain the issue in constitutional law, which I am not able to do. I do however feel able to appraise the issue according to the criteria of the political and economic doctrine of the period. The logical implication of the second interpretation is an unlimited government and is wholly inconsistent with the ideas of the founding fathers. Their doctrine does, however, make possible the exercise of powers which are not enumerated because the doctrine itself is not entirely consistent.

## THE CONTRADICTIONS IN POLICY

In addition to ambiguity, there was contradiction in the Constitution. Export taxes were prohibited, but the tariff was not. A protective tariff was neither acknowledged nor explicitly denied. A tariff for the purpose of revenue was admitted, even by those delegates who believed in complete free trade. Most of them were from the South and they accepted a revenue tariff in return for a guarantee of slavery. Yet if the South had wanted no restriction whatever on *exports*, it also should have opposed any restriction on imports. Not much economic sophistication is needed to see that if imports are reduced, exports probably will be also. After the tariff had been in effect, the South understood the connection very well.

Another contradictory feature of the Constitution was the prohibiting of special preference to any state and yet permitting the tariff. The revenue might have been used in the general interest, but the tariff's effect on resource allocation (especially the

effect of a protective tariff) was to favor particular sections of the country at the expense of others. The provision for patents and copyrights perhaps did not wholly contradict the many expressions of hostility to monopoly. On the other hand, it was not consistent with them either, and the provision surely has created many monopoly problems.

Rather than being called ambiguous and contradictory, the Constitution usually has been called a structure of compromises. But “compromise” is not quite the word to describe the more fundamental provisions. It hardly does for economic policy. It also is not appropriate for the major political decision which was made—the distribution of power between the Federal government, the state governments, and the people. Did the founding fathers create a federal government or a national government? Madison thought it was national. Hamilton thought the issue had not been decided. Others thought a federal government had been created. Hamilton probably was right, as he was about many other matters. The major political issue, like the issues of economic policy, had to be decided as the nation lived under the Constitution, grew and confronted problems, and settled them. The convention in 1787 was a remarkable assembly, but it did not solve in a certain, clear, and straightforward way the principal political and economic problems before the country. No one was more aware than the delegates themselves of the fact that their work was imperfect and that their achievement, although great, was limited. The convention was one phase of an evolving movement which had the result of creating and enlarging the national power of the United States.

The next phase was the discussion and debate (which are not the same thing) from 1787 to 1815. The issues then were defined more clearly and met more directly. The most remarkable feature was the substantial agreement reached on the economic powers of the Federal government. It was not, however, reached until each group had made its ideas known and opened its policy to the critical examination of the opposition. The economic policy of each group. Federalist and Republican, had a political premise, and the policy was justified by the premise. The first to develop a distinctive political and economic doctrine was the Federalists.

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## 2

### ***The Ideology Of The Federalists***

The economic policy of the Federalists was designed to increase the national power of the United States, whereas the economic policy of the Republicans was meant to improve the capacity of the people for self-government. It is by their purposes, more than by their means, that the two groups can be most clearly differentiated. There were other differences between them, but none was as continuously maintained and none was as important.

Like the English mercantilist writers and the classical economists, the Federalists under Hamilton were devoted to the national interest. It presented however a more complex problem to the Federalists than it did to their English predecessors. I have described how the political and economic weakness of the country under the Confederation was the force that led to the constitutional convention and to ratification. Not all of the Americans, however, were equally disturbed by the political and economic distress. Although most of them agreed that the Federal government must have more power if the nation was to survive, they did not agree on how much more was necessary. Those like Hamilton and Madison believed power had to be increased very much, and to do so an entirely new structure of government was necessary. Power had to be increased in order to remove the contesting authority of the states and to make the independence of the nation secure. Thus, the nationalism of the Federalists had two aspects: the supremacy of the Federal over the state governments (the domestic aspect) and the ability of the Federal government to assert the authority of the United States in international affairs (the foreign aspect).

The Federalists did not believe in a federal government—one in which the state and national governments have coordinate authority. What they actually favored was a national government. They would have been more candid had they called themselves “Nationalists” or at least something like “Continentalist,” which is the name Hamilton gave to a series of papers expressing his early political and economic ideas. The Federalists were not at first explicit about their belief in the supremacy of the Federal government. The belief is elaborately qualified by protestations in favor of individual liberty and the integrity of the states, as in *The Federalist* papers from which they took their name. They kept the name even when they clearly showed they did not accept genuine federalism. When those who did accept it formed an opposition, they at first called themselves anti-Federalists. (Later the terminology became more confusing. The anti-Federalists became the Republican party. The Federalists after about 1805 divided, some of them advocating the coordinate authority of the states and becoming actual federalists—small “f”—and in one of the most querulous spectacles in American history they attempted a secession of New England in 1814. Another group of Federalists—large “F”—retained their nationalism and became National-Republicans from whom the original Republicans, or anti-Federalists, distinguished themselves by forming the Democratic-Republican party which was the

predecessor of today's Democratic party, while the Republican party of today comes from the Federalists who did not become federalists, but National-Republicans who became just Republicans after first being Whigs.)

## THE DIFFERENTIA OF THE FEDERALISTS

To say the Federalists were the party of national power does not mean their opponents were indifferent to that power. But they did not think it was as important as the Federalists thought it to be. The object of the opposition was to extend individual liberty, to make it the property of many and not only of those who at the time were capable of exercising it. That not everyone was capable at the time was admitted by the Republicans, but they believed the government's responsibility was to enlarge the capacity for freedom. They believed also that the government did not need a large amount of power to discharge its responsibility. To the Republicans, government power was the enemy of individual liberty. They wanted to limit it by increasing the power of the electorate and by guaranteeing the authority of the state governments. Their ideas are described in detail below. They are noted briefly here, because so often the Republican opposition is explained in a different way.

What usually is said is that the Federalists were conservative and the Republicans were liberal, because the Federalists wanted a government only of "the rich and well born," while the Republicans wanted a government of the people. The distinction is not useful. It does not explain *why* Hamilton's measures were conservative and Jefferson's were liberal, it does not describe the issues of political and economic policy as they appeared to the men themselves; and it breaks down completely when the policy is analyzed by the modern definition of "conservative" and "liberal," as almost always is done. By using the words in their modern sense, one can say Hamilton was conservative for wanting to limit the franchise but liberal in wanting to manage the national debt in a way that would increase employment. Jefferson was liberal in wanting to enlighten the mass of the people, but illiberal in believing many of them urgently needed to be improved. The difficulties can be compounded. The reader may decide whether Hamilton was a conservative or a liberal (in the modern sense) in proposing the following measures: (1) the protection of manufactures, (2) tolerance of monopoly, (3) taxes on luxuries, (4) the establishment of a central bank. Or whether Jefferson was liberal or conservative in the following measures: (1) opposition to immigration on the grounds that European morals are depraved, (2) opposition to Federal powers of incorporation, (3) the redistribution of wealth in land, (4) the encouragement of agriculture. By today's meaning of conservative and liberal, one would have to say that each man proposed conservative measures (the first two in each list) and also proposed liberal measures (the last two); and therefore each must have been conservative at one time and liberal at another. But because both kinds of measures were proposed at the same time, that is rather like saying that a spotted dog is black at times and white at times. The difficulty of course is in the definition of conservative and liberal; the definition is alien to the period. In today's usage, a liberal is one who believes in a popular government with extensive economic powers, a conservative one who wishes to limit the economic powers of government and has little confidence in the electorate.

Rather than try to separate the Federalists and the Republicans according to today's definitions, it is more useful to regard the distinctive feature of Federalist policy as being nationalism and the distinctive feature of Republican policy as being popular improvement. The distinction does not require ignoring the other features of the two doctrines or supposing them to be unimportant. Actually they become more understandable. An example is Hamilton's belief that the franchise should be limited because the mass of people is incapable of participating in government. The belief easily can be related to Hamilton's nationalism. If the end of government is power and if the need for power is urgent, the quality of the people participating in government is important. If the mass is in fact incompetent its participation will defeat the purpose of government. As Hamilton believed the survival of the nation was imperiled by the want of power in the Federal government, his opposition to popular representation was therefore all the stronger. An even closer connection between the means and the end of his doctrine is seen in his belief that the state governments should be deprived of all authority that would interfere with the authority of the Federal government. In the area of economic policy, each of his measures if adopted would have increased the industrial capital of the United States and hence, so he believed, have increased its economic power.

Hamilton, however, did not always make his belief in power explicit. Although he did so in the constitutional convention where frankness was possible, he did not when he urged the public to ratify the Constitution, as in *The Federalist* and before the ratifying convention of New York. In his public statements, he moderated the belief in strong government by assertions of faith in individual liberty. He submitted that limiting the franchise would not deprive the people of freedom, because they would be represented by the merchant class and the "middling farmers" who knew the interest of the people better than they themselves did.<sup>16</sup> He reassured the state governments that the Constitution did not threaten their power. Within the Federal government itself, no single branch would be able to monopolize power because each was restrained by the others. Nor was there any danger that a single group in the country, inside the government or out, would be able to monopolize power permanently, because the republic extended over a large area and over a great diversity of interests, each of which had enough power to advance its legitimate purposes and to protect itself.

There was, however, one intimation of power in his public statements. It was in his intransigent opposition to a frequent amending of the Constitution. To look upon it as open to continual alterations would call into question the very basis of government, which is the certainty of law. Moreover, from a practical viewpoint, continual amendments might make the Constitution worse instead of better, especially if everyone was prepared to make additional amendments to correct the mistakes in the amendments meant to correct the mistakes in the original document. He felt, it seems, that those who wanted to amend the Constitution frequently were irresponsible. One must guard, he said, against "interesting too strongly the public passions," which is what he thought frequent amendments would do.<sup>17</sup>

The public was not persuaded however Although impressed by *The Federalist* papers—at least to the extent of believing that the structure of the government was

sound—the public hesitated to accept the Constitution as it stood because of the substantial power which the structure made possible. Hamilton tried to dismiss the fear by an exercise of logic. He said to the New York convention:

After all our doubts, our suspicions, and speculations on the subject of government, we must return at last to the important truth, that when we have formed a Constitution upon free principles, when we have given a proper balance to the different branches of administration, and fixed representation upon pure and equal principles, we may with safety furnish it with all the powers necessary to answer in the most ample manner the purposes of government.<sup>18</sup>

There is a note of exasperation here. He seems to be saying: You have admitted the liberal premise of the proposed government. You have acknowledged its structure is consistent with the premise. Why, then, do you draw back before the natural conclusion: Give it power!

Eventually the public did accept the Constitution—but only after a bill of rights had been promised and the fear of power allayed. The fear was not unfounded. In his major speech to the convention,<sup>19</sup> Hamilton had proposed a government like that of Great Britain—“the only government in the world which unites public strength with individual security,” he called it. The president of Hamilton’s government and the senators would serve for life (like monarch and Lords), and the government would have the power to nullify all state actions which interfered with the national interest. The house of representatives (Commons) would be elected by direct and comparatively wide suffrage. Hamilton said:

In my private opinion, I have no scruple in declaring, supported as I am by the opinion of so many of the wise and good, that the British government is the best in the world; and that I doubt much whether anything short of it will do in America.

When the convention created a very different kind of government, he had grave doubts, but nevertheless signed the Constitution as being “better than nothing.”<sup>20</sup>

The possibility, indeed the probability, of “nothing” was alarming, and Hamilton did as much as anyone to secure ratification. He told the people of New York state that the Constitution was “as perfect as human forms can be,” which to a lawyer might stand as a synonym for “better than nothing” although not to the common listener. The reader of *The Federalist* is not likely to think the authors are defending a lesser evil. He is more likely to believe that a very great thing was done at Philadelphia, that those who opposed it were pig-headed, so thoroughly is each of their objections met and put down. All that might make him wonder is why so invincible a plan of government needed so elaborate and repetitious a defense. The reason is the skepticism of the authors’ contemporaries. Most of it has vanished, and *The Federalist* today is regarded as one of the great tracts on political philosophy. Whether or not it is that, it certainly is a great lawyer’s brief.

## *The Federalist* PAPERS

From the viewpoint of economic policy, there are three ideas in *The Federalist* which are of particular interest: the theory of society, the conception of self-interest, and the statement of the general powers of government. All are consistent with the ideas of the English liberals. On two of the ideas, the correspondence is close enough to make one think Hamilton and Madison had Adam Smith in mind when they wrote.

Society, according to *The Federalist*, is a collection of contending individuals and groups called “factions.” Each is interested in its own purposes and is unwilling to defer to the purposes of others. The purposes are numerous and the most important is the accumulation of wealth. Left to themselves or to an inadequate government the factions will clash, there will be disorder and violence, and liberty will be destroyed, either because the peace which is essential to liberty will be absent or because peace will be established on Draconic terms that make liberty impossible. There is no way to prevent factious behavior without rooting out its causes in human nature—a remedy, Madison said, which is worse than the disorder. Hamilton was even more explicit in not wanting to tamper with human nature. “We must take man as we find him,” he said, referring to self-interested men (which he regarded the majority of them to be). Since factious behavior cannot be prevented, it must be controlled, and the Constitution is designed to do that (Madison). It allows rival groups to contest with each other and thereby assures them their liberty. But none of the factions can acquire enough power to destroy the liberty of others. Each is restrained by the constitutional devices for dividing power: the division between state and Federal governments, the separation of powers within the Federal government, the power of each branch to restrain the others, the difficulty of making fundamental political changes by amending the Constitution, and finally the fact that the aggregate power of the government, or things it can do, is limited. There is an additional obstacle in the large area of the nation: a faction would have difficulty in obtaining support from all parts of the country.

The rivalry of factions for political power has an analogue in the rivalry of firms for economic power. Each faction, like each firm, wishes to advance its interests, and the interests of a group (faction or firm) are most completely realized when it has a monopoly of either political or economic power. This means that a group is in the best possible position when none other has any freedom at all and rivalry has been eliminated. Therefore, in order to maintain freedom, rivalry must be maintained. In economic conduct, rivalry is perpetuated by a competitive structure of the market—that is, by providing an opportunity to all to engage in rivalry. In political conduct, rivalry can be assured by a structure of government that allows each group to express its interests but prevents any of them from acquiring a monopoly of power. In other words, competition is the method of maintaining and also of controlling rivalry in both its economic and political aspects. The Federalist conception of political competition is analogous to the conception of economic competition in classical economics.

Another idea which the Federalists had in common with the economic liberals was that self-interest can be used to keep men interested in the competitive game. They are

held to economic rivalry by the rewards that go to the successful. The rewards are greater to those who acquire monopoly power. The more likely it is that men will obtain that power, the more vigorously will they compete for it. If the power is impossible or unlikely to obtain, they will tire of the game and try another. They are not like the donkey which can be coaxed forward simply by the sight of a carrot just beyond its nose—they must have a nibble at the carrot now and then. Usually they get no more, because monopoly power is likely to be temporary and to be eliminated by subsequent rivalry. But there must be a great likelihood of temporary monopoly if men are to be held to competition. If there is not, competition erases the motive that produces it and becomes a transparent scheme of frustration. Men will detect the scheme and replace it.

The interest of men can be held to competitive politics, and their loyalty to government thereby secured, by appeals to their self-interest and by rewards for their successful competition. Some of the rewards are monetary and others are political power. When the idea was advanced in *The Federalist* it seems not to have incited any opposition. But when as Secretary of the Treasury Hamilton showed he meant to practice it, the hostility was immediate: “base self-interest,” “depravity,” and “corruption” were some of the ways it was described by the anti-Federalists. Hamilton’s attitude was unshakable. “We must take man as we find him; and if we expect him to serve the public [we] must interest his passions in doing so,” he told the constitutional convention.<sup>21</sup> The attitude was elaborated in the papers:

Ambition must be made to counter-act ambition. The interest of the man must be connected with the constitutional rights of the place. . . . This policy of supplying, by opposite and rival interests, the defect of better motives, might be traced through the whole system of human affairs, private as well as public.<sup>22</sup>

Men’s loyalty can be secured by opening the prospect of power to them and making the realization of it likely. They would be prevented from abusing their power by the restraints the Constitution imposes. Moreover, the government can use other rewards than power to secure loyalty and it can offer them to the many who are excluded from government by the necessarily few positions in it. Such rewards were dispensed by Hamilton in his funding program, which by guaranteeing the national debt gave a large number of people an interest in supporting the government.

What made the opponents of Hamilton most indignant was his respect for self-interest. The man was bewitched by notions of human depravity, Jefferson said, adding generously that Hamilton himself had escaped it. Hamilton seemed to be saying that the new government could not have the loyalty of men merely by offering them liberty but also had to buy their support and thereby pay for the government’s survival. Such an act was, to the anti-Federalists, a repudiation of the principle that liberty is its own reward. Moreover, the act did not merely acknowledge the reality of base instincts. It asked that men be ruled by them. In addition, there was in Hamilton’s remarks on self-interest an Olympian quality which could add irritation to indignation. His opponents may have wondered, who exactly *are* the men who have to be paid for their loyalty? Not themselves surely. They disdained such motives. Not Hamilton himself, because they acknowledged his personal integrity. Did he have the



common people in mind? Partly, but not entirely, because they did not have enough influence to require such an elaborate scheme of rewards and restraints. Was he thinking of his followers? If so, that was another reason for keeping them out of office.

Hamilton could have asked why the opposition was so agitated. They certainly had been prepared for his proposals, both by what he had said earlier about self-interest and by what they themselves had said. It was an idea as common to America as to Britain that men are self-interested, especially in economic affairs. “For it is an observation, as true as it is trite, that there is nothing men differ so readily about as the payment of money,” Hamilton wrote. The remark suggests the statement of Smith that, “It is only under the shelter of the civil magistrate that the owner of . . . valuable property . . . can sleep a single night in security.” In 1774, at the age of seventeen, Hamilton wrote:

A vast majority of mankind is entirely biassed by motives of self-interest. Most men are glad to remove any burthens off themselves, and place them upon the necks of their neighbors. . . .

He told the constitutional convention: “one great error is that we suppose mankind more honest than they are.” He told the citizens of New York, in *The Federalist*, that “a power over a man’s support is a power over his will.”<sup>23</sup>

Hamilton was not alone in these ideas. Earlier, Noah Webster (who was a political writer as well as the maker of the dictionary) had written that property is the basis of all political power, and John Adams in supporting his contention that self-interest is the most important feature of human nature had quoted from Harrington’s *Oceana*:

Men are hung upon riches, not of choice as upon the other, but of necessity and by the teeth; for as much as he who wants bread, is his servant that will feed him, and if a man thus feeds a whole people, they are under his empire.<sup>24</sup>

In *The Federalist*, Madison said the different abilities, or “faculties,” of men produce an unequal distribution of property, that the protection of their faculties is “the first object of government,” and that the protection creates “a division of the society into different interests and parties.”<sup>25</sup>

The protection of property meant more than preserving the particular distribution of wealth in its economic sense (as capitalized income) and it did not mean preserving the status quo for its own sake. It meant making individuals secure in their lives, liberties, and economic goods—which is “property” as the word was used by Locke. He had much influence on the Americans. It is indicated in Madison’s statement that property becomes private when it has been improved by the labor of an individual and in another statement which implies that the ability to work is a part of an individual’s property. On occasion Hamilton also used the word “property” as Locke did.<sup>26</sup> When therefore the Federalists said that government exists in order to protect property, they frequently meant its purpose is to protect the life, liberty, and economic interest of the individual. (If they had been asked how this purpose was related to their belief in

power as the purpose of government, they probably would have said that government must have power in order to protect property.) The particular powers of government could not only be those explicitly given it by the Constitution. The men who wrote it could not know what the future would require except (as Hamilton said) that the problems would be “illimitable in their nature.” Hence the Federal government, according to Hamilton, has extensive powers and most of them are implied or “resulting” (i.e., follow from given duties of government).

In *The Federalist*, however, this interpretation of the Constitution is not made explicit. One would not infer it from Madison’s statement of the six specific powers of the Federal government. They are similar to the powers which Smith believed were appropriate to a policy of *laissez faire*. The powers according to Madison are:

1. Security against foreign danger, 2. Regulation of the intercourse with foreign nations, 3. Maintenance of harmony and proper intercourse among the States; 4. Certain miscellaneous objects of general utility, 5. Restraint of the States from certain injurious acts; 6. Provisions for giving due efficacy to all these powers.[27](#)

Smith stated the government should have the power to (1) provide national defense, (2) maintain justice, and (3) undertake certain kinds of public works of great utility which would not be undertaken by private enterprise because they required a large amount of capital and were not certain to yield a profit.[28](#)

Madison’s third and fifth classes are mainly determined by uniquely American conditions. The sixth is implicit in Smith’s or in any other conception of power because it is simply the provision of means to given ends. Smith’s defense corresponds to Madison’s first class, his justice to the third and fifth classes when the American elements are removed from them, and his public works correspond to Madison’s fourth class. There remains the second power in Madison’s statement. It includes the control of foreign trade. Smith condemned such control in principle, but he did not always condemn the use of particular kinds of control. He approved of them if they served the national interest, which, he believed, they usually did not do. The Americans however believed controls often were in the national interest, and the first to make the belief known were the Federalists.

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### 3

## *Economic Policy Of The Federalist Party*

The economic policy of the Federalists had two objectives. One was to promote the economic development of the country, particularly to increase the amount of industrial capital; the other was to make the country's independence secure. The measures which they proposed are easier to understand if the objectives—the first economic and the second political—are recognized. The measures are difficult to describe in a single term. Some would have required extensive Federal power, such as the program to aid manufactures by tariffs, rebates, premiums, subsidies, bounties, quality inspection, and a board of industry to supervise it. Hamilton has been called a practitioner of mercantilism for the program. But other measures were designed to increase free exchange, such as establishing the credit of the Federal government, the Bank of the United States, and eliminating obstacles to trade among the states. The policy was not a free-market policy in all aspects, although the Federalists believed it was a modification of that policy and they wished to make markets as free as possible. They, and the Republicans too, were quite familiar with the doctrine of *laissez faire* in the sense of a free-market policy. They acknowledged it sincerely as a guiding principle, but were not prepared to allow it to determine entirely the economic development of the United States. They believed the policy would place the country at a disadvantage in the world and could imperil its independence. Their opposition to *laissez faire* was not opposition to economic liberalism as such, because *laissez faire* is only one form that economic liberalism can take. The other forms are forms of state direction done with the consent of those affected by them. They were proposed by the mercantilist writers, as the preceding chapter of this volume explains, and they were proposed in the nineteenth century by the liberal economists then, as the concluding chapter of the second volume explains.

## LAISSER FAIRE AND NATIONALISM

*Laissez faire* and nationalism, it is helpful to recall, had been mixed before the Americans tried to combine them. The mercantilist writers of England believed that free markets should be encouraged if they served the national interest and controlled if they did not. Smith, and Hume before him, tried to reconcile the power the individual must have to be free with the power the state must have. When Smith stated that one of the functions of government is defense, he acknowledged the state had a legitimate claim to power. The statement is a substantial qualification of his principle that free trade is superior to controlled trade. A nation that practiced free trade could become so specialized that it could not maintain itself in war when its shipping was curtailed. But if it placed defense before free trade it would have to protect all industries of possible military value. Smith explicitly examined the problem in his pages on the Navigation Acts and concluded that if military necessity conflicts with free trade, military necessity must rule. That is because “defense is of much more importance than opulence.” Smith also acknowledged, in a passage rarely

quoted, that by means of a tariff “a particular manufacture may sometimes be acquired sooner than it could have been otherwise, and after a certain time may be made at home as cheap or cheaper than in the foreign country.” He immediately added that protection could not increase the total amount of capital, even though it could increase particular kinds, and that it would cause the nation’s wealth to be less than it would be if trade were free. He made still other exceptions to the principle of free trade.<sup>29</sup> So did Ricardo and other classical economists.

Smith did not believe the best policy was always that which increased the nation’s wealth. He occasionally judged measures by their contribution to national power. By this standard he approved of the protection of shipping and proposed the creation of government enterprises for those works which were beyond the scope of private business. To be sure, he did not believe that the nation often had to choose between wealth and power. He believed they usually were consistent. What is noteworthy, however, is that he did not think they always were so, and that when they were not he placed “defense” above “opulence.” This had been done at the very onset of economic liberalism and it was done also by the last of the great classical economists, John Stuart Mill. In a celebrated passage, Mill stated the condition in which protection could be justified by the test of opulence (that is, by the test of “political economy”):

The only case in which, *on mere principles of political economy*, protecting duties can be defensible, is when they are imposed temporarily (especially in a young and rising nation) in hopes of naturalizing a foreign industry, in itself perfectly suitable to the circumstances of the country.<sup>30</sup>

What is most interesting is the phrase, “on mere principles of political economy,” because it implies that protection can be justified in other ways as well.

We do not suppose too much when we suppose the Federalists knew the distinction in liberal doctrine between wealth and power. In reading over their letters and documents one is impressed by the numerous references to Smith. His influence on the Americans has not often been noticed. That is ironical in view of his saying in *The Wealth of Nations* that the education of its leading men was all that America owed to Europe. There are other European economists mentioned in the American writings—most of the French Physiocrats, Hume and Dugald Stewart, but none as often as Smith.

The liberal influence is also apparent: (a) in some of the measures proposed by the Americans; (b) in the language which they often used, like Madison’s “the theory of ‘let us alone’ ”; and (c) clearly in some of the passages of Hamilton’s *Report on Manufactures* which so closely parallel *The Wealth of Nations* as to be plagiarism.<sup>31</sup> There was an important precedent for it, because Jefferson inserted in the Declaration of Independence a paragraph very similar to one in Locke’s *Second Treatise on Civil Government*.<sup>32</sup> American liberalism was not however wholly derivative. Franklin collaborated with the Englishman George Whately on *Principles of Trade* (1774) which uses the expression “*laissez-nous faire*,” and cites its origin. During the Revolution there appeared a number of *Essays on Free Trade* written by Peletiah

Webster in opposition to the attempted control of prices and provisioning. In the first of them he stated:

Freedom of trade, or unrestrained liberty of the subject to hold or dispose of his property as he pleases, is absolutely necessary to the prosperity of every community, and to the happiness of all individuals who compose it; . . . [33](#)

The essays disclose a considerable knowledge of the effect of price movements on the output and distribution of goods and present some acute observations on the usefulness of free markets in wartime. Webster stated that a free-price system was essential to the securing of an adequate supply of goods. What is perhaps most important about the essays is their unexpected conclusion that a restrictive commercial policy is necessary in order to advance the economic development of the United States. The conclusion is typical of American economic thinking from at least 1750 onward. The writers usually would elucidate the principles of economic liberalism and then conclude that state interference was necessary in the American environment. In some the conclusion was nonsense because it bore no relation to the principles, but in others it was not. There is no necessary inconsistency between the postulates of economic liberalism and the exercise of economic authority by the government. The two may or may not be consistent, depending on the power of the individuals to express their choices or (to use language fashionable today) to participate in the decision-making process. The consistency between the economic freedom of the individual and the economic authority of government became clear in the nineteenth century in Britain and is explained in the concluding chapter of the second of these volumes.

Madison, who was probably the most influential of all the men who made the Constitution, had a considerable interest in economic policy. In his later years he made an elaborate statement about a free-market policy, and the statement represents what most of the founders believed. It was not something mustered up for a transient debate but was the conclusion of a remarkable statesman about a major issue. He had begun as a Federalist and in the 1790s became a Republican. He wrote in 1828:

I will premise that I concur in the opinion, that, as a *general* rule, individuals ought to be deemed the best judges of the best application of their industry and resources.

I am ready to admit, also, that there is no country in which the application may, with more safety, be left to the intelligence and enterprise of individuals, than the U. States.

Finally, I shall not deny, that, in all doubtful cases, it becomes every government to lean rather to a confidence in the judgment of individuals, than to interpositions controlling the free exercise of it.

There are however exceptions.

1. The theory of “Let us alone” supposes that all nations concur in the perfect freedom of commercial intercourse. Were this the case, they would, in a commercial view be but one nation, as much as the several districts composing a particular nation; . . . But

this golden age of free trade has not yet arrived: nor is there a single nation that has set the example. . . .

A nation leaving its foreign trade, in all cases, to regulate itself, might soon find it regulated, by other nations, into a subserviency to a foreign interest. . . .

2. The theory supposes, moreover, a perpetual peace; a supposition, it is to be feared, not less chimerical than a universal freedom of commerce. . . .

3. It is an opinion in which all must agree, that no nation ought to be unnecessarily dependent on others for the munitions of public defense; . . . [34](#)

## THE OBJECTIONS TO FREE MARKETS

The principal objections which the Americans consistently could have to *laissez faire* were that: it could make the country subservient to a foreign economy and thereby weaken its independence; it could reduce the military power of the nation and in this way also weaken its independence; and it could deprive a nation of the power to determine the direction of its economic growth (an argument, it will be noted, that is often used today in underdeveloped countries).

Daniel Raymond was, in his way, the first professional economist in America. In 1820 he wrote of free trade:

It is a miserable, short-sighted, beggarly policy, calculated to prevent all improvement in the capacity of either individuals or nations, for acquiring the necessaries and comforts of life.

He felt so strongly that he could not admit that anyone who believed in free trade might also believe in promoting the nation's interest. Hence he condemned Smith, and although the criticism is unfounded it is worth quoting because it expresses candidly a typical American objection to *laissez faire*:

It seems to be an admitted dogma with Dr. Smith, that national interests and individual interests are never opposed, but a more unsound doctrine in principle, or a more abominable one in its consequences, cannot well be imagined. [35](#)

There were other Americans however who while objecting to a policy of entire *laissez faire* did not want to abandon it completely, as Raymond did. They wanted to adapt it to the particular requirements of the United States, which they thought were different from those of Britain. Their ideas gave American political economy its distinctive feature. I wish there were satisfactory words to label their doctrine. All I can think of is "liberal nationalism" or "national liberalism," which, in the twentieth century, are hopeless.

The most common objection made to *laissez faire* in foreign trade was that all nations would have to practice it before it could be useful to any of them. The objection is the kind made to every principle of social conduct, from honesty in elections to

conserving water in a drought—all or none. To this objection there was added another. It was that the United States must restrict trade in order to develop a manufacturing industry. In the thinking of the time, the two objections often were made together. But conceptually they are two distinct ideas. Among those who did not want a manufacturing industry and who did want the country to continue to be agricultural, there was opposition to free trade on the grounds that the trade restrictions of other countries would injure the American economy. They were not explicit about why unilateral free trade would injure America, and merely felt that in some way it would. An economist today could devise a model to substantiate their fear: for example, by assuming (to be technical for a moment) that the terms of trade would move against the United States and so force it to export a larger quantity of goods in order to obtain a given quantity of imports. This group—those who wished to continue agricultural specialization—were opposed to free trade because not all nations practiced it. This is the group whose opposition was expressed in the common objection to *laissez faire* in foreign markets (that the United States should not trade freely because other countries did not).

The other objection (that free trade would prevent manufacturing development) was made by those who wanted the economy to become industrial. They would have opposed free trade even if every other country in the world had practiced it. When this group expressed the common objection to free trade—that America could not practice it because other nations did not—the group was not saying what it meant and indeed was using a convenient argument for an extraneous purpose.

If one accepts the premise of the Federalists that economic policy should foster industrial growth (adding even at the cost of some inefficiency in the total allocation of resources), one must acknowledge that they were logical in urging the intervention of the state. One also must acknowledge (as Ricardo later did in connection with the Corn Laws) that the allocation of resources will not be optimum in an economy (national or international) where the rates of return are affected by taxes and subsidies. This I take to be implied in the following statement that Hamilton made in his *Report on Manufactures*:

Whatever room there may be for an expectation, that the industry of a people, under the direction of private interest, will, upon equal terms, find out the most beneficial employment for itself, there is none for a reliance, that it will struggle against the force of unequal terms, or will, of itself, surmount all the adventitious barriers to a successful competition, which may have been erected, either *by the advantages naturally acquired from practise*, and previous possession of the ground, or by those which may have sprung from positive regulations and an artificial policy.<sup>36</sup>

In the italicized portion is the additional implication that the Federalists would have wanted to restrict trade even if foreigners had not, so long as American costs were higher than others.

It is instructive to compare the ideas Hamilton expressed in those of *The Federalist* papers he wrote and in his state papers with the ideas he expressed in *The Continentalist* papers of 1781.<sup>37</sup> In the early writings he admired the mercantilist

practices of England and France and he proposed fairly extensive control of economic life in America. His reason was that if individuals are left to manage their own affairs the national interest will be impaired. He conceded that trade has its natural laws which must be respected, but he believed that it should be controlled within the limits of its laws—which is a common kind of double-think known before Hamilton’s day and since. (M’Culloch once said “the laws which regulate the prosperity and decay of nations are as certain as those which govern the celestial bodies; but more interesting, inasmuch as man may modify them by his interference.”)

About the purpose of control the early Hamilton wrote: “To preserve the balance of trade in favor of a nation ought to be a leading aim of its policy.” To support his proposals he cited the economic progress of England under Elizabeth and her successors, of Holland under mercantilist control, and France in the hands of “the great Colbert.” He was scornful of those who opposed the control during the Revolution, stating that only the form and not the principle of control was at fault. “It became a cant phrase among the opposers of these attempts, that trade must regulate itself,” he said, when in fact what was needed was more effective regulation. He submitted a “revision” of the Articles of Confederation in order to make effective regulation possible. The Continental Congress was to be replaced by an “executive ministry” composed of “individuals of established reputation, and conspicuous for probity, abilities, and fortune.” *The Continentalist* papers did not win much popular support, which is not surprising. Sometime after writing them, Hamilton read *The Wealth of Nations* and in 1783 wrote an extended commentary which unfortunately is lost.

One cannot know for certain why Hamilton proposed a different economic policy in 1787 and after. *The Wealth of Nations* may have changed his mind. Or the public hostility to a controlled economy may have changed it. Whatever the reason, his policy after 1787 was not like that in 1781. If he is to be scored off—or praised—for being a practitioner of mercantilism, he will have to be made a quite young one, because he was twenty-four when *The Continentalist* was published.

In his later and more persuasive expressions, Hamilton disclaimed any wish to impose direct and detailed controls over the economy and he said his policy was directed only to “those general political arrangements concerning trade on which its aggregate interests depend, rather than to the details of buying and selling”—details, he said, which are in the province of local and state governments and not of the Federal government. The idea was expressed in his statement on the constitutionality of the Bank of the United States. The statement continued:

Accordingly, such only are the regulations to be found in the laws of the United States, whose objects are to give encouragement to the enterprise of our own merchants, and to advance our navigation and manufactures. And it is in reference to these general relations of commerce that an establishment which furnishes facilities to circulation, and a convenient medium of exchange and alienation, is to be regarded as a regulation of trade.[38](#)



The intention of the statement seems to be to reassure the opponents of big government and not to describe Hamilton's conception of the "regulation of trade." He meant much more by regulation than this, or else he wished the government to do more to trade than "regulate" it. In the same paper, he takes away most of the limitation on government which the above statement imposes. He later said:

The means by which national exigencies are to be provided for, national inconveniences obviated, national prosperity promoted, are of such infinite variety, extent, and complexity, that there must of necessity be great latitude of discretion in the selection and application of those means. Hence, consequently, the necessity and propriety of exercising the authorities intrusted to a government on principles of liberal construction.<sup>39</sup>

If the means of promoting national prosperity are of "infinite variety, extent, and complexity," they surely can include control over "the details of buying and selling." Or if they are not to include such obvious measures, they clearly are not of "infinite variety." What Hamilton seems to have wanted was a varied selection of economic controls which could be employed at the discretion of reasonable and capable men. The controls at times would affect only the aggregate interests of trade and at other times would be specific, detailed, and prescriptive.

### ***The Report On Manufactures***

An example of the second kind is in the program for protecting manufactures which he submitted in his *Report on Manufactures*. He proposed such controls as: nonprohibitory duties on manufactured goods which the country did not then produce but would in the future; prohibitory duties on manufactured goods then being produced; the prohibition of the export of raw materials used in manufacturing; the use of bounties or subsidies, instead of tariff duties, to the farmers growing materials used in manufacturing or to the manufacturers using domestic instead of imported material, the granting of rebates to manufacturers using raw materials that of necessity had to be imported and that also were used in the household, the encouragement of invention by patents, monetary rewards to inventors, and an embargo on American inventions, the inspection of manufactured goods; and the creation of a board "for promoting arts, agriculture, manufactures, and commerce."

This is a substantial amount of government intervention. To say the anti-Federalists found it distasteful would be an understatement. It alarmed them. Hamilton seems to have known it would, and in the *Report* he tried to draw the sting of the opposition, to reassure it that each recommendation was constitutionally proper, to refute objections before they were raised, and to cite precedent for his proposals.

The effect of the *Report* is illuminating. It was not well received by Congress. None of the important recommendations was enacted. When the Republicans adopted protection in 1805, they did not use any of Hamilton's elaborate economic reasoning and except for the tariff did not use any of his protective methods. After 1815 protection became a permanent feature of the economy, and the *Report* often was cited, but usually by men who had no intellectual excuse to invoke Hamilton. Much of

their tariff propaganda was a crude display of self-interest. The protective methods they proposed had little in common with Hamilton's except the tariff, and he actually had not placed much reliance on it.

In a practical sense the *Report* was not a success. In a more important sense however it was. Underlying its complex techniques and the economic reasoning that supported them was a simple idea. It was that the United States must have industrial capital if it was to be powerful. That idea was forced on everyone after about 1805 when America found its foreign trade menaced by the Napoleonic Wars, its domestic economy imperiled by the uncertainty of imports, and its independence so threatened that it again had to go to war. The country did not welcome an industrial system nor accept it gracefully. There was nostalgia for an agricultural ideal and there were many regrets. "But who in 1785 could foresee the rapid depravity which was to render the close of that century the disgrace of the history of men?" Jefferson wrote in 1816. He continued:

We have experienced what we did not then believe, that there exist both profligacy and power enough to exclude us from the field of interchange with other nations: that to be independent for the comforts of life we must fabricate them ourselves. We must now place the manufacturer by the side of the agriculturist. . . . Shall we make our own comforts, or go without them, at the will of a foreign nation? He, therefore, who is now against domestic manufactures, must be for reducing us either to dependence on that foreign nation, or to be clothed in skins, and to live like wild beasts in dens and caverns. I am not one of these; experience has taught me that manufactures are now as necessary to our independence as to our comfort. . . .[40](#)

The acceptance of Hamilton's position meant that nationalism finally came to rule the thought and action of the leaders of the country. Jefferson's question was perhaps meant to excuse himself for not having accepted nationalism sooner. No one in 1785 could have foreseen just how the century would end. But Hamilton then had been able to foresee the necessity of national power.

When the country acceded to protection it was not however led into a system of detailed controls. It relied on the tariff and rejected the other measures that Hamilton had proposed. Whether the consequence was a slower rate of industrial development is an interesting question. The protectionists after 1815 said that manufacturing was retarded by the low duties, but then they never were satisfied. The opponents of protection said there was far too much industrial development at the expense of agriculture, but anything short of complete free trade would have dissatisfied them. Another interesting question is the cost at which America obtained its manufacturing plant, which is the cost at which it purchased national power. On this issue the protectionists after 1815 were massively unimpressive, their major point being that the aggregate national wealth was higher than it would have been under free trade. That is one of the purest items of nonsense in American political economy. The free-trade forces were correct on the issue, saying that industrial development was being fostered at the expense of agriculture and that the national wealth on balance was less than it would have been under free trade.

Of more immediate effect than the program of protection was Hamilton's policy for the domestic economy. The policy was principally a fiscal and monetary program: a method of managing the debt of the state governments and of the Confederation, a system of taxation, a new monetary standard, and a central bank. The domestic policy of other Federalists was not limited to fiscal and monetary measures. Madison, it has been noted, wanted the government to establish corporations for building roads and canals. (Hamilton at one time concurred but later dropped the idea.) None of the Federalists included in their domestic policy any measures for the control of monopoly or inequality. The neglect was not the result of the problems being ignored by everyone at the time. The Republicans attended to them, and there was much feeling among the people about them. A constitutional amendment prohibiting the granting of monopoly rights was proposed by four states in the period when a bill of rights was being drawn. The use of public lands and taxation as methods of reducing inequality were proposed by the anti-Federalists.

## THE FISCAL AND MONETARY PROGRAM

In the 1790s the attention of everyone was on Hamilton's fiscal and monetary program, and the other aspects of domestic policy had to wait upon its being settled. It excited much more controversy than protection. The debate began when he proposed that the Federal government assume the entire debt of the state governments along with the debt of the Confederation, about \$72 million in all. The debt certificates were to be redeemed at par in cash or in new bonds issued by the Federal government.

The most controversial point was whether the old debt should be redeemed at par. Many who held bonds at the time the funding of them was proposed had bought them up in the expectation of redemption at par. They were dollar patriots who deserved no consideration, according to opponents of Hamilton. There was, however, another point and it was more important. It was whether the government should have the great financial power which the management of the debt would give it. Hamilton contended that redemption at par would make the country confident of the financial responsibility of the government and would have a favorable effect on trade. Redemption also gave a number of people a clear economic interest in the survival of the government, a fact of which Hamilton was doubtlessly aware, believing as he did that "if we expect the [citizen] to serve the public [we] must interest him in doing so." The opposition also was aware of the connection and accused Hamilton of corrupting the American people by offering to pay for their loyalty. He was accused also of corrupting others in order to increase his power and then was accused of wanting to create a financial oligarchy in order to destroy liberty. Hamilton's reply was that only the Federal government could manage the total debt of the states and of the Confederation and that to give the states the power to settle their debts would be to invite the expectation that it never would be paid (because the state governments were irresponsible about their financial obligations).

Much of the opposition to funding was ingenuous, and some of it was irresponsible. There was no way to reward the original holders of the debt, because there was no record of them, and even if there had been the states could not be relied upon to do it. The credit position of all governmental units was deplorable and could be improved

only by some such drastic action as Hamilton proposed. These facts apparently were accepted by Congress, because in the end it adopted his program.

An interesting feature of the argument is the statement that funding would increase trade, or what today is called income and employment. A century or so earlier the English mercantilist writers had tried to establish a connection between the money supply and the amount of trade, and a century and a half after Hamilton economists again made the effort, in the 1930s. The conclusion in the three instances is the same, even though the reasoning is not: that an increase in the money supply will (or usually will) increase employment and income. Hamilton said a “sound and settled state of the public funds” would give businessmen confidence in the government, make the future seem more secure, and improve what today is called their expectations. The new debt certificates, which Hamilton proposed to issue to replace the old, would be negotiable and add to the supply of money. They could be used as a medium of exchange or as cash balances. If used in the latter way, they would yield an interest income to merchants, reducing the cost of liquidity and hence the costs of doing business. Hamilton also said, in another connection, that the increased supply of money would directly reduce the rate of interest. The lower interest rates and greater money supply would increase the merchants’ turnover, and the resulting expansion of trade would be favorable to agriculture and manufactures. Hamilton’s doctrine was put to the test of events in 1792 when there was a financial crisis, and he intervened by causing the Treasury to buy government securities on the open market in order to maintain their prices and to arrest the rise in interest rates.

His funding program was inflationary, and its immediate objective (as distinct from the long-term objective of establishing the credit of the government) was to avoid another depression such as that which had alarmed the country in the 1780s. One cannot help but speculate over what the consequences would have been if the nation had adopted the funding program as a permanent, guiding principle and not just as an expedient to set the economy going. Had the country agreed to employ the Federal debt for the purpose of avoiding depressions, our economic history might have been different. The damage that was done to industrial development by recurring depressions probably was greater than the benefits which protection gave, and the cost to agriculture of depressions probably was greater than the burden of the tariff. But the country would not agree to vesting great financial power in the government. Hamilton himself seems not to have been wholly aware that his funding program could be used to maintain trade. His remarks are defensive. He said he was opposed to the growth of the public debt and he insisted his ideas on public finance were as orthodox as those of the opposition. As Britain was conquered by classical economics, which while giving it an excellent policy for maintaining efficiency in particular markets turned it away from the problem of aggregate stability, so the United States accepted the same canons, except that having had an opportunity to see how unemployment could be managed it had less excuse for later neglecting the problem. The episode is, I think, one of the most disappointing in the history of economic doctrine.

That Hamilton had no wish to control the aggregate stability of the economy is clear also from his remarks on the Bank of the United States and on the bimetallic

monetary standard which he proposed. Both these measures were designed to provide a stable monetary unit and were not meant to stabilize income. Like the classical economists, Hamilton wanted the supply of money to be determined by the amount of employment (rather than the other way around, as the mercantilist and modern writers would have it). He believed that in this way the value of money could be made stable. Smith had explained the idea in his theory of banking, and elements of the theory are noticeable in Hamilton's report on the Bank.<sup>41</sup> Smith said that a nation should fix gold or silver, or both, as the basic monetary unit and should give the banks the power to issue paper money. If only paper circulated, the metal would not wear out and hence not force a deduction from the net revenue of society. The banks would keep only a fraction of the metal as reserve against their notes and would invest the remainder abroad. By making loans (and issuing notes) only for legitimate business purposes and for short periods, the supply of paper money could not increase more than the supply of goods produced by borrowers, nor could the money supply ever diminish more than the supply of goods. Hence the value of money would be stable. Hamilton, in an uncritical (hence uncharacteristic) moment, entirely accepted Smith's theory of banking.

In his report in 1791 on the establishment of the mint, he proposed bimetallism. Silver and gold were to be coined freely at the ratio of fifteen to one. The dollar was to replace the pound as the monetary unit. Some months earlier he had proposed the Bank of the United States. It was to make loans to the Federal government (which would own one-fifth of the stock), to state and to foreign governments. The rate of interest was not to exceed 6 percent. (He defended the maximum by saying, "whatever has a tendency to effect a reduction, without violence to the natural course of things, ought to be attended to and pursued.") He regarded the Bank as "not a mere matter of private property, but a political machine of the greatest importance to the State."<sup>42</sup>

There are other evidences of Smith in the proposal. The Bank was to "trade in nothing but bills of exchange, gold and silver bullion, or in the sale of goods pledged for money lent." Loans were to be made only for short periods, no money was to be issued on the security of land, and the required reserves were to be set at the discretion of the Bank's managers—all of which would adapt the supply of money to the needs of trade. If too much was issued some would return to the Bank, and if there was too little the Bank would expand.<sup>43</sup>

The other element in Hamilton's fiscal and monetary program was taxation. Prior to the Constitution the most common taxes had been those on imports and exports. They had been levied by the states which now were deprived of the power (although they could levy other kinds of taxes). One of the purposes of the Federal government's assumption of the debt of the states was to limit their need and hence their power to impose taxes and another purpose was to make the Federal government the principal tax collector. The tax system, like the Bank and the new monetary standard, was not meant to stabilize trade.

The best tax system, Hamilton said in *The Federalist*, is that which is least oppressive, and the least oppressive is that which makes

the luxury of the rich tributary to the public treasury, in order to diminish the necessity of those impositions which might create dissatisfaction in the poorer and most numerous classes of the society.

Convenience is another quality of a good tax system, and the most “convenient branch of revenue” would be tariff duties, over which of course the states had no power. Certainty was another. Arbitrary taxes, “that leave the quantum of the tax to be raised on each person to the discretion of certain officers are as contrary to the genius of liberty as to the maxims of industry.”<sup>44</sup> After he had expressed an ability to pay doctrine, in *The Federalist*, he disavowed it in certain practices, opposing taxes on business profits because they were easy to evade. The most controversial tax was the excise on whiskey. He justified it as a means of restricting a “pernicious” luxury of the poor while placing a burden on the rich (to whom perhaps it was a pernicious necessity).<sup>45</sup> He had no sympathy at all with the farmers of western Pennsylvania whose wheat growing and distilling were drastically curtailed by the tax and who brought their problem to the public’s attention by armed insurrection, which finally was put down by Federal troops under Hamilton’s command. In his correspondence about the Whisky Rebellion Hamilton viewed it less as an issue of justice in taxation than as a challenge to the authority of the Federal government.

It is interesting to compare Hamilton’s ideas about taxes with those of Smith. Smith said a sound tax was: (a) proportionate to the individual’s ability to pay, (b) certain, i.e., not arbitrary; (c) convenient, and (d) inexpensive to collect. He favored taxing goods and services consumed by the rich (consistently with the first characteristic, which ostensibly was Hamilton’s attitude also). Hamilton’s opposition to arbitrary taxes rests on the reasoning Smith used. In his “First Report on Public Credit,” Hamilton explained that the collection of excises and imports would be controlled with the “most scrupulous care” in order to protect businessmen from “every species of injury” from the revenue collectors.<sup>46</sup> He believed tariff duties were inexpensive to collect. On their desirability however there was a difference between Hamilton and Smith.

## MONOPOLY AND INEQUALITY

They also differed on the problems of monopoly and inequality. Hamilton was quite unmoved by Smith’s sympathy for the poor, by his lively opposition to monopoly, and by his hostility to merchants (whom as a group Hamilton seems to have found more congenial than any). There is some notice of the problem of inequality in Hamilton’s proposing luxury taxes, but their purpose was to remove potential discontent (another purchase of loyalty), and he also noticed the problem in a limited way in his policy for the management of public lands. He said land policy should have two objectives: to assist the settlement of the West, and to raise revenue, which he thought was the more important. He proposed that the government attract “monied individuals and companies, who will buy to sell again.” He hoped in this way to reduce the government debt and proposed that debt certificates be made redeemable in land. The government, however, would not accept certificates worth less than 500 acres. The purpose of that stipulation was to induce large transfers of land. It was not

meant to assist those who wished to settle on the land themselves; they were not permitted to buy more than 100 acres.<sup>47</sup>

The only Federalist who proposed a redistribution of wealth was Noah Webster. He submitted that “a general and tolerably equal distribution of landed property is the whole basis of national freedom.”<sup>48</sup> He made the proposal during the ratification period, but nothing came of it when the Federalists were in power. There is in fact no reason why the party should have wanted to do anything about inequality because its premise was to take men as they were.

On the issue of monopoly, the Federalists were majestically silent. They did not support the proposed constitutional amendment to prohibit monopoly grants nor did they identify themselves with the popular opposition to monopoly. Their silence can only mean they did not believe the monopoly problem was worth notice; and some of their measures show that they were willing to support certain monopolies. The Bank of the United States was one. Another would have been the Federal corporations that were to make internal improvements. More important than either were the monopolies that protection could have created.

It perhaps should be remarked that the Federalist attitude toward monopoly was less consequential than the same attitude in a leading party would be today. One reason was that a large part of the economy was agricultural and did not present a monopoly problem. Another reason was the hostility to monopoly which was expressed by the anti-Federalists, who early in the 1790s became a formidable opposition and who were important in deciding the government’s economic policy. It is to their political economy that the chapter now turns.

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4

## ***Republican Economic Policy***

### THE DIFFERENTIA OF REPUBLICANISM

As power was the distinctive feature of Federalist doctrine, that which was distinctive about Republicanism was enlightenment, improvement, and education of the people in order to increase their ability to be free. The purpose is implied in the tracts which Paine wrote during the Revolution; it appears in the writings of Joel Barlow; and it is made most explicit by Jefferson. Men, he said can be “habituated to think for themselves, and to follow reason as their guide.”

Jefferson may have taken the idea from the French utilitarians, from Rousseau, or from Joseph Priestley’s *Lectures on History and General Policy* (with all of whom he was familiar). They believed the government should provide public instruction in order to enlighten the people. Jefferson’s utilitarianism however went beyond education and beyond the utilitarianism of the Europeans who influenced him. He believed the common environment of the people had to be controlled, and for most of them education—as formal instruction—was but a small part of it. They were much more influenced by what they saw of government, by the conduct of the men in it, and most of all by the circumstances of their economic life. Jefferson believed the government should be a model of rectitude and the conduct of those in it should set an example to be emulated, that the economic environment of the people should inculcate responsibility, independence, honesty, and the other moral qualities that are essential to liberty. He believed, in other words, that men were very much influenced by externals. Although not the captives of their environment, they were sensitive to it and for a considerable time could be under its rule.

On this premise, Jefferson quite reasonably opposed the policy of the Federalists, which was an appeal to self-interest. It did not evoke the best in men but the worst, he believed, because he found most expressions of self-interest to be pernicious. Instead of improving the environment of the people, the Federalists debased it. They deluded men instead of habituating them to the reason which would make them free. Against Hamilton’s belief that government must take men as it finds them, he set the opposite belief that government must improve them. That could be done, he said,

by education, by appeals to reason and calculation, by presenting . . . other motives to do good and to eschew evil, such as the love, or the hatred, or rejection of those among whom he lives, and whose society is necessary to his happiness and even his existence; demonstrations by sound calculation that honesty promotes interest in the long run; the rewards and penalties established by the laws; and ultimately the prospects of a future state of retribution for the evil as well as the good done while here.<sup>49</sup>



Joel Barlow likened the obligation of government to the “tender duty of a father.” The government, he said, can remove the natural deficiencies of men by education, by “tender ministrations,” by persuading them that they are free and equal. “This point once settled, everything is settled,” he said. He finished off his political tracts with the quatrain:

Of these no more. From orders, slaves and kings,  
To thee, O MAN, my heart rebounding springs,  
Behold th’ ascending bliss that waits thy call,  
Heav’ns own bequest, the heritage of all.[50](#)

Although it reads a little bumptiously today, there was reason in it at the time. Men are not the material of free government if they think they are inferior creatures, which they are apt to do after long subjection.

Barlow—to digress briefly on an attractive figure—had an astonishing amount of presumption but a winning way with words. He quoted the couplet:

Treason doth never prosper. What’s the reason?  
If it doth prosper it is not treason.

which is like Smith’s remark that rebels and heretics are those unfortunates who when matters come to a point of violence happen to be on the losing side.[51](#) During the French Revolution, Barlow addressed a *Letter to the National Convention* instructing it in the reform of France. He disavowed any presumption. He was moved to address them, he said, by “the interest which the human heart naturally takes in uttering the truth on a very important subject.” In another communication to it (he was a great letter writer) he accused John Locke, one of his intellectual predecessors, of betraying free principles in the constitution Locke wrote for the colony of South Carolina. John Adams, as noted below, had remarked on that constitution also. My favorite letter is Barlow’s *Advice to the Privileged Orders*. He told the French aristocracy:

Engrave it on the heart of man, that all men are equal in their rights, and that the government is their own, and then persuade him to sell his crucifix and buy a musquet,—and then you have made him a good citizen.

The early Americans, it is pleasant to observe, didn’t think they had to pull a long face when they talked of first principles.

When Barlow, Jefferson, and others said that the work of government was enlightenment, they did so because they believed the people in their present state were not fully capable of freedom. The Republicans did not, as is so often contended, believe the common people could be given complete power immediately and trusted to use it wisely nor did they condemn the Federalists for not holding this belief. Had the Republicans believed this, they would not have believed the people had to be improved. All governments have in them “some trace of human weakness, some germ of corruption and degeneracy.” The germ becomes virulent when men contend over property. It also has other manifestations. Men have an insatiable appetite for power,

they can be deluded for a protracted time, and they are belligerent: “In truth I do not recollect in all the animal kingdom a single species but man which is eternally and systematically engaged in the destruction of its own species.” All this was said by Jefferson and does not suggest an unqualified belief in human goodness.[52](#)

Nor did he hold the opposite view of human nature. If he had thought men were wholly depraved, he would not have thought the government could improve them. (Nor could Hamilton have believed men were wholly bad, because he then could not have supported any form of government other than one that was authoritarian.) What Jefferson did believe was that the evil in men exists alongside much that is good and that in favorable conditions the good will prevail. Along with the avarice, ambition, irrationality, and belligerence, “nature has implanted in our breasts a love of others, a sense of duty to them, a moral instinct, in short, which prompts us irresistibly to feel and to succor their distresses.” (Not quite “irresistibly,” because if we were irresistibly altruistic, government would be unnecessary and improvement would be as unnecessary as it would be impossible.) Jefferson attributed this conception of human nature to the founding fathers. He wrote:

We [Republicans] believed, with them, that man was a rational animal, endowed by nature with rights, and with an innate sense of justice; and that he could be restrained from wrong and protected in right, by moderate powers, confided to persons of his own choice, and held to their duties by dependence on his own will.[53](#)

This statement is as important for what it says about the power of government as about human nature. It expresses the Republican belief in the limitation of power and in the sovereignty of the people, the latter being both an end in itself and a means of limitation. Jefferson did not think the Constitution made the abuse of power impossible. Rather than rely on checks and balances, he preferred an “absolute acquiescence in the decisions of the majority—the vital principle of republics, from which there is no appeal but to force,” and upon the restraining power of state governments, “the surest bulwarks against anti-republican tendencies.”[54](#) Reliance on “majority” will must be taken to mean the will of the competent majority, or else the other elements of his political doctrine have no meaning.

## JEFFERSON’S ECONOMICS

To want to limit the powers of government is unusual in one who has been influenced by utilitarian doctrine and suggests its influence on Jefferson was not substantial, that it probably did no more than leave him with the idea that the government ought to “help” the people. The important question is what kind of help. Thoroughgoing utilitarians believe the state must have great powers so that it can provide the individual with all of those things he cannot provide for himself. They are especially insistent that the state exercise wide powers over the economy because he needs most assistance in managing his economic affairs. The ideas come from Bentham, the greatest of the utilitarians. His doctrine was one of those that justified the extension of the economic power of the British government in the nineteenth century which, as explained in volume two, was not, except in foreign trade, the golden age of *laissez faire* it is supposed to have been. In other countries economic control has been

justified as a means of providing the greatest good to the greatest number, or of increasing the power of the nation, or of providing for the general welfare—all of which have been supposed to be synonymous.

Actions of this kind do *not* correspond to Jefferson's conception of a proper economic policy (although they might to Hamilton who justified the Bank as essential to "the general welfare").<sup>55</sup> The economic policy that was nearest to the wishes of Jefferson was one that encouraged independent agriculture and required little government power. Although circumstances forced him to turn away from this policy, he did so regretfully and without abandoning his faith in the superiority of agriculture and in the wisdom of a minimum state.<sup>56</sup>

In the evolution of his ideas about economic policy, three periods are distinguishable: (a) Between 1774, when he wrote *A Summary View of the Rights of British America*, and 1790, when he returned from France and became Secretary of State in Washington's cabinet, he believed the government should not interfere with agriculture but should let it develop in its own way, which he thought (or hoped) would be in the form of independent homesteads. He was opposed to the state's offering any assistance whatever to manufacturing. He was opposed also to America's becoming involved in an extensive foreign trade and believed that what little trade was necessary should be conducted with entire freedom. (b) From 1790 to 1805, when he began his second term as President, he still relied on agriculture, but now favored more production for the market including the foreign market. In his foreign trade policy he urged a program of reciprocity in which the United States would trade freely with those countries that traded freely with it and would restrict its trade with others. In the second period, more of his statements of economic policy were in criticism of Hamilton than were positive proposals in themselves. He opposed the funding program, the Bank, and protection. (c) After 1805 his ideas changed substantially. He came to believe that agriculture could no longer be the only important industry, that America must have its own manufactures, and that foreign trade had to be regulated with a strict view to the national interest, i.e., in order to increase national power. After 1807 he secured the adoption of laws that prohibited imports and exports, the purpose being to isolate the United States from the disorder of the Napoleonic Wars. From 1807 until the peace of 1815 he proposed that manufacturing be encouraged by *state* governments, that it be conducted on a small scale, preferably on farms as household manufacturing. Actually, in the period of isolation the factory system of manufacturing was started and became so entrenched that when the war was over it was able to secure protection to perpetuate itself.

Although Jefferson proposed different measures of policy in each period, the premise of the measures did not change. It was that policy should be a means of improvement, that it would be so if agriculture were encouraged and if the powers of the government were held to a minimum. His ideal agricultural economy was a collection of self-sufficient homesteads on each of which there were household manufactures. To show how such an economy could be realized he made his estate, Monticello, into such a homestead. Jefferson's agrarianism was not like that of the physiocrats, and was even farther from the agricultural system which today's liberals, often in Jefferson's name, propose. It was in fact the atomization of the economy into isolated

units. It implied a collection of independent and economically isolated farms, on each of which the dwellers consumed only what they produced, and between which there was no buying and selling although there were noneconomic relations. The agrarian economy would not have been held together by the market, bringing together the supplies of specialized producers and the demands of particular buyers. There would be no specialization between farms, because each would be self-sufficient. There being no specialization, there would be no reason for exchange. Nor would there be any need for control by the government, because there would be no economic relations for it to control. In brief, there would have been no economic system. It follows there could be no danger of the government acquiring excessive power by controlling the economy.

Such was Jefferson's conception of the ideal economy. It suggests a Platonic construction, perfect in the mind and unknown outside it. The nearest the world has ever come to it is the medieval manor and life on the frontier. It has nothing to do with physiocracy, even though many historians and biographers of Jefferson say it has. The physiocrats had a distinctive theory of value: that for a given use of labor, agriculture yielded a larger return than other industries, the excess being the net product. They had a policy of free domestic and international trade and they proposed that the government support itself by taxing the net product of agriculture instead of harassing manufacturing and other urban industries as it had been doing for so long in France. Except for a passing remark in a minor state paper, Jefferson never showed any sympathy with physiocratic value theory, and in the same paper he concluded with the very un-physiocratic statement that trade should be restricted. Moreover, Jefferson later rejected Turgot's suggestion that the American tax system be revised by instituting a single levy on the net product of agriculture. Jefferson's belief in self-sufficient agriculture was contradictory to the physiocrats' belief in an exchange economy. To be sure he often mentioned the physiocrats in his letters, but he also mentioned Adam Smith frequently, writing on one occasion: "In political economy, I think Smith's *Wealth of Nations* the best book extant."<sup>57</sup>

However neither Smith nor the physiocrats were responsible for Jefferson's ideal economy. If he could have conjured it into existence—and only in this way could it have come into being—it would not have been an economic system as the world then or since has known one to be.

One may wonder why Jefferson entertained so fanciful a notion. The reason is partly his political doctrine and partly his polemical style. He believed that individuals should be protected from the government and that the government should help them to protect themselves. Those who live on self-sufficient farms are independent, and their material well-being cannot be impaired by the government. In economic affairs their protection from arbitrary power is complete, and being so protected they are secure also in their political liberty. As the government has no power over their subsistence, it has no power over their will—to adapt a phrase of Hamilton's that was thoroughly consistent with Jefferson's thinking. Or, to paraphrase Harrington, a man who feeds himself is under his own empire. His independence is different from that of individuals who prosper in a market economy, because his conduct is not affected by what others do and it does not affect them. The income and wealth of a self-sufficient

farmer would be much less than that of a farmer in a market economy, but the security of his economic and political freedom would be greater. Hence the independent farmer was thought to be the guardian of liberty and independent, atomistic agriculture to be the most desirable form of economic organization.

Taken literally, the policy was useless. As Mathew Carey said, "His Arcadia must have been sought, not in Virginia or Maryland, but in Virgil's or Pope's pastorals, or Thomson's seasons."<sup>58</sup> Jefferson, I believe, knew this as well as anyone. He did not mean the policy to be taken literally. Even in his most bucolic period (before 1790) he urged measures which were quite inconsistent with independent agriculture, such as free foreign trade. In a system of independent agriculture, there could be no trade, free or regulated. Later he developed his ideas of trade in more detail and suggested a number of ways in which it could be regulated in the interests of national economic development.

Why then did he make so much of independent agriculture? Even if it did have a logical relation to his political beliefs, of what importance could it be if it was entirely unrealistic? I think it was his way of emphasizing the idea that economic independence is the basis of political liberty. He customarily dealt in overstatement in order to impress others with his point, just as Hamilton had his own debating technique which was logic-chopping. Jefferson's Arcadian remarks were meant (it seems to me) to stress the point that the freedom of the individual is most secure when he is most independent and that he is most independent in an agricultural economy that is based as little on the market as possible even though the basis would of necessity be greater than was ideal. At all times he urged the government to foster agriculture, to foster as little as possible the development of an industrial exchange economy, and to promote the establishment of household manufactures on the farms. The "government" which was to do this was the government of each state, not the Federal government. That the Arcadian policy was not meant to be taken literally is indicated in a letter he wrote in 1785, one of the years when he most often proposed it:

You ask what I think on the expediency of encouraging our States to be commercial? Were I to indulge my own theory, I should wish them to practise neither commerce nor navigation, but to stand, with respect to Europe, precisely on the footing of China. We should thus avoid wars, and all our citizens would be husbandmen.<sup>59</sup>

As he grew older, Jefferson moderated his strictures on commerce and relaxed some of his opposition to the government's exercise of economic power. His final policy, however, embodied much less power than the policy of Hamilton did at all times. Although Jefferson abandoned his unqualified opposition to monopoly, he never became tolerant of it and always insisted it be restrained. When he adopted the view that internal improvements were the responsibility of the Federal government, he made the qualification that they be preceded by a constitutional amendment, which the Federalists never had believed was necessary.

Each of his later ideas was as consistent as the earlier with the principle that the state should do as little as possible and that little should improve the people. None however

had as direct a relation to the principle as his proposals for a redistribution of land. They were made at different times in his life. Since most of the national wealth was land, changes in land ownership would redistribute most of the national wealth. His land policy had two economic objectives: to eliminate gross inequality of ownership and to foster freedom in the use of land. In 1785, he wrote that although an equal distribution was “impracticable,” gross inequality could be reduced by “silent measures,” such as abolishing primogeniture and the levying of a tax in “geometrical progression.” At another time he recommended that free land be given to immigrants. He would have secured freedom in the use of land by eliminating feudal encumbrances and so allow each generation to use its land as it wished, with one restriction however: that it must not encumber the generations which follow it. He said that no generation should incur debts greater than its ability to pay them. The limitation would enable each succeeding generation to use its inherited capital as it chose.<sup>60</sup> The limitation also would assure to each generation an amount of capital no less than the amount with which the preceding generation began, thereby guaranteeing to each that its economic opportunities would not be curtailed by a declining stock of capital.

## THE EXTREME REPUBLICANS

The idea implies the state has an obligation to provide some amount of economic opportunity to the population, a provision which is clearly a measure of improvement. The obligation was made explicit by Joel Barlow, and a means by which it could be discharged was described by Paine. They addressed their statements to the French but the ideas were a part of the political currency of America also. In his ideas for promoting equality Jefferson had most in common with the extreme Republicans, whom Paine and Barlow typified. One of the birthrights of a man is a right to a living, Barlow said, and to the young of the poor the government is “bound in justice as well as policy, to give . . . some art or trade.” The duty is more important than the duty to protect impersonal wealth, because it is a law of God while the protection of impersonal wealth is a law of man. The government could perform its duty by putting the “common stock” to use. He believed there was abundance enough in the country to eliminate all poverty. Barlow was one of the first in America to express the belief. Since his time, it has been expressed so often that it hardly ever is questioned except by economists. They seem alone in doubting that if capital were equally distributed, poverty would vanish. It was not Barlow’s policy to abolish private property but to tax away a part of it for the benefit of the poor. What remained would have greater security, he said, because there would be no propertyless class to challenge it.<sup>61</sup>

A particular method of redistributing wealth was proposed by Paine in *Agrarian Justice* (1797). He said the state should levy a ground rent equal to 10 percent of the value of property at the time of the owner’s death. The total value of property was, he said, in part “the free gift of the Creator” and in part the result of the labor of the owner. The tax would make available to society some part of the value which was not the product of individual effort. Out of the tax receipts the government would pay everyone 15 pounds upon his or her becoming twenty-one years old and ten pounds a year to all over fifty. The rich, he suggested, could return their subsidies. Provision for the others “is not charity, but a right, not bounty, but justice” and it not only

eliminates injustice but increases the security of wealth. In an earlier work, *The Rights of Man* (1791), he proposed an annual progressive tax on wealth, beginning at 3d per pound on estates worth less than £500 and rising to 100 percent on estates over £23,000. Part of the proceeds would be paid directly to the poor and a part used to finance public works.<sup>62</sup>

Paine, like Barlow, was not opposed to private property. Indeed, he often protested that he approved of it. The capital tax was meant, he said, “not to set bounds to property acquired by industry” but “to place the prohibition beyond the probable acquisition to which industry can extend.” That is, the tax was designed to limit the inheritance of wealth. Paine and Barlow were aware of the objections which would be made to redistribution and they answered them in advance. It would be said that the poor were not entitled to assistance, which they denied by saying assistance was a right, that there was not capital enough to provide assistance, to which Barlow replied there was enough capital to eliminate poverty at least; that assistance would reduce the diligence (or incentive) of the poor, which they denied by the opposite assertion; that capital taxes violated the rights of private property, which they countered by asserting the superior right of the individual to a livelihood; and that redistribution would create disorder, to which they replied redistribution would make wealth more secure. The only argument for redistribution which is missing is the notion, current until a few years ago, that redistribution will increase spending and employment. Paine and Barlow probably were familiar with the idea, since it frequently was made in the economic tracts of the eighteenth century. It was not wholly relevant, however, because their’s was the long-term objective of equity, and they were not concerned with the short-run problem of unemployment.

## TRADE POLICY

The commercial, or international trade policy of the Republican party was restrictive, but less so than that of the Federalists; and there was a minority group in the party which believed in perfectly free trade.

Typical of the ideas of most Republicans were those of Madison whose declaration of 1828 on *laissez faire* is quoted above. When commercial policy was debated in Congress in 1794, he said he accepted the principles of free trade but believed them practical only when all nations had equal advantages in production and navigation or when all countries were willing to practice free trade. Meanwhile the United States should trade freely only with those countries that traded freely with it, and should use reciprocity to extend the area of free trade.<sup>63</sup> The Republicans urged that the principle of reciprocity be initiated by the United States and that the United States propose a commercial treaty to France. The Federalists opposed such a treaty. They favored equal treatment to all nations, excepting Great Britain, to which (they believed) concessions should be made in the interest of peace. The debate then moved into political policy: should the interests of the United States be turned toward France or Britain, or, more candidly, which commitment offered most to American security? Both sides, it is clear, regarded commercial policy as a means of strengthening the nation’s power and did not consider it mainly as a device for increasing the nation’s wealth. The Republicans became in time as nationalistic as the Federalists were. After

1805 American shipping became fair game to both France and Britain, and Jefferson eventually isolated the country from foreign commerce. Before this occurred, an interesting Republican made a curious appeal to Napoleon: “Dites à l’amerique, dites à l’angleterre; que le commerce soit libre, *et le commerce sera libre.*”<sup>64</sup> It came from Robert Fulton, the inventor of the steamboat. He was not altogether naive in urging this simple wisdom on the perpetrator of the Continental system, because many Americans at first believed Napoleon would extend the ideals of the French revolution which they took to be their ideals also. Later there was another simple statement, when the United States was at war with Britain and Stephen Decatur, the naval hero, offered the toast, “Free trade and no impressment.” On this occasion free trade had an entirely different meaning. It denoted the ability of the nation to determine its own trade policy without interference from other nations. So thoroughly had foreign economic policy become an instrument of national power that the words “free trade” could be used to mean trade regulated in the national interest.

The national interest did not, however, have the same meaning to all the Republicans. There was a difference between Paine and Jefferson on commercial policy—Paine believing in perfectly free trade—and a difference also over the proper method to redistribute wealth. In addition to these viewpoints, there were two others, those of John Taylor and of Albert Gallatin.

## JOHN TAYLOR AND AGRARIANISM

Taylor was the intellectual leader of the Southern opposition to Federalist policy. His objections were well reasoned and based on premises which he was good enough to make explicit. His conception of the human material out of which governments are made was suggestive both of Hamilton’s and Jefferson’s. With Jefferson he believed the motives of men were a mixture of good and evil, and with Hamilton he believed that evil should be assumed to be the stronger. Stable government could not be achieved, he said, “unless rights and duties are thus honestly balanced against each other—unless political good and evil are duly mingled, so as to assuage the asperity of the latter, by the pleasantness of the former.”<sup>65</sup> The idea suggests Hamilton’s belief that self-seeking must be controlled by a dispensation of “regular honors and emoluments” which would attach men to the government. However, Taylor’s ideal government had only enough power to maintain domestic order, and that was less power than even Jefferson in time came to accept. Taylor’s description of the proper division and limitation of power represents the most extreme expression made in America of the idea of the minimum state.

His economic policy, except for slavery, was appropriate to his political doctrine. He explicitly opposed all of Hamilton’s measures that would have increased the economic authority of the Federal government and he implicitly disagreed with the measures of Jefferson which would have had the same effect. Taylor was against the funding of the debt, the Bank of the United States, internal improvements under Federal guidance, monopoly grants, and was against the Federalist intention to industrialize the United States. He believed an industrial economy contaminated the people with “the avaricious passions of trade.” The ideal economy was one in which “the powers of the human mind” seek “the proud distinctions of science and refined



art.” Taylor agreed with Jefferson that economic conduct would elicit either the virtue in men or their evil depending on its environment. As Jefferson did, he asserted categorically that the proper environment was agriculture, because it begot “a love of virtue and independence.” It is more productive than other economic activity because it receives the bounty of nature (in a vague sort of physiocratic way), it is less subject to the hazards of the market, and it tends to equalize the distribution of wealth.[66](#)

In international economic policy, Taylor was an uncompromising free-trader. The Federalist policy of protection aroused him more than any other policy, and against it he marshaled all of his economic knowledge, arrayed his political principles, and wrote with a vigor and prolixity which were unusual even in his age. Protection, he said, was unconstitutional. The proposed higher duties taxed the many for the benefit of the few, destroyed agriculture, created a restrictive system, fostered a depraved (industrial) environment, and, finally, were unnecessary because existing duties were high enough.[67](#)

The exception to Taylor’s *laissez faire* was slavery, which he regarded as “a misfortune to agriculture, incapable of removal, and only within the reach of palliation.” He proposed that Negroes be removed to the Northwest Territory, where slavery was prohibited, and eventually to Africa. In his early writings he did not approve of slavery but was resigned to it because he thought abolition was impossible. As the controversy between southern agriculture and northern manufacturing became sharper, he left this moderate position and defended slavery on principle. The defense is noteworthy because it later was repeated by the spokesmen of the South. Taylor said the slaves were not to be pitied, but rather the workers of the North. Compared to their oppression by industrialism, the condition of the slave was a happy one. He was cared for by a sympathetic master while the northern worker faced an impersonal labor market; and the slave could look forward to an old age of security while the northern worker had a future offering only the poorhouse or the army.[68](#) On this theme, Calhoun later played many variations.

For his defense of slavery, Taylor has been called the prophet of secession. Actually the distinction (if it is one) antedates the controversy over slavery; and slavery, according to Taylor, was not an important issue of policy. The most important was *laissez faire*, which as early as 1795 he saw threatened in what seemed to be the unimportant matter of excise taxes. Taylor objected to them because they discriminated against some parts of the country in order that others might gain an advantage and therefore they violated the liberal principle of equal treatment. He warned then that there could be only one consequence if such discrimination continued:

If oppressed, states will combine—the grand divisions of northern and southern will retaliate, as majorities or ministers fluctuate—and a retaliation between nations, invariably ends in a catastrophe.

A decade later he warned again of the tendency. By then it had been arrested by the Republican administration, he believed, but had not been dispelled from the popular mind. To give the government “the control and direction of every branch of internal

manufacture” would be to give it “a power, so nearly approximated to despotism, as to have become hateful to every nation not degraded to the lowest condition.”<sup>69</sup>

Taylor is important for his support of free domestic and international trade. He made no significant concession to the national interest, and, excepting slavery, his economic policy was more thoroughly one of *laissez faire* than that of anyone else of his age including the British liberals. He was not as competent as some others were in the whole of economic doctrine. He occasionally was mistaken, egregiously so in his criticism of Hamilton’s funding program for which, ironically, he was best known and most valued by the Republicans. But in the important area of economics where its principles must be related to those of political philosophy and a program of public action made from both, Taylor made a substantial contribution. It was to warn of the danger to individual liberty which lay in the state’s exercising broad economic powers. The idea had been expressed many times before, but it was important enough to be repeated. Had he written less and that more lucidly, he perhaps would be better remembered today.

However he probably would not have had more influence on his contemporaries. He did not respond to the national interest as they did; indeed, compared to them, he was indifferent to it. They who in their doctrine and actions accepted national power were the more influential. The great influence of the Federalists, and especially of Hamilton, was the result, I believe, of their insisting from the very start that national power was the object of government. The power which the Federal government actually acquired was less than the Federalists wanted but was even further from the small amount which the Republicans originally thought was sufficient. In time the Republicans (except those like Taylor) accepted the inevitability of power and acceded to a nationalistic economic policy.

## GALLATIN

In the change, Albert Gallatin became their authority on economic affairs. He was the only Republican whose knowledge of economics could be set against that of Hamilton. Although not another Hamilton, in either economics or politics, he was nearer to him in stature than were any of the other Republicans, and he often was called Hamilton’s alter ego. There was a correspondence of ideas between the two men which helps to explain the eminence that Gallatin had. As Republican economic policy became nationalistic, the change affected Gallatin less than it did others in the party because he never had accepted the entire policy with which the party began. Although the party made much of him from its start, he never was as far from Hamilton’s policy as most Republicans were. He was so welcome an acquisition in the 1790s because he could understand the kind of economic analysis that Hamilton employed and could oppose him on theoretical grounds. Then as the Republicans changed their views the influence of Gallatin increased, because the change brought them to his position.

The point is illustrated by Gallatin’s remarks on the fiscal policy of Hamilton. On the controversial issue of redemption at par, Gallatin agreed with Hamilton. He set forth his position in the *Sketch of the Finances of the United States* which was published in

1796 after Congress had adopted Hamilton's program. Gallatin stated that since the decision had been made to redeem at par, the government must honor it scrupulously. His reasons were similar to those Hamilton gave when he proposed redemption. Failure to respect the debt, Gallatin said, would impair confidence in the Federal government and would injure the commerce of the nation.[70](#)

There is more to the *Sketch*. Its purpose seems to have been to show that the Republicans could speak on economic matters as competently as the Federalists. Its premise is that the government is an economic burden, and the idea is analogous to the Republican belief that the government is a political burden also. Its expenses are "a destruction of capital" (although the destruction may be unavoidable), whether the money is used to hire labor or to refinance a debt. It follows that Hamilton was wrong in saying that funding would stimulate economic activity and so increase the nation's wealth. The premise of the *Sketch* is pure Smith, whom Gallatin respected to the point of reverence. Government is unproductive, because it absorbs labor that otherwise would add to the economy's net revenue; it lives off the revenue produced by others.[71](#)

Hamilton's ideas of public finance were inconsistent with those of Smith. They were, as noted above, both older and newer—older in having first been set down by the mercantilists when they wrote that inflation would increase employment, and newer in having been revived in the policy of deficit finance in the twentieth century. Beyond the inconsistency however was an important correspondence of opinion between Hamilton and British classical economics. The classical argument was meant to restrict the power and corruption of government and was not directed to the problem of increasing employment nor to that of establishing the credit of a new government. How the classicists might have responded to these problems is best discerned in the writings of their predecessors, the English mercantilists, who were confronted with both unemployment and the unstable government. Many of the ideas of the mercantilists, including their conception of the national interest, were repeated in America by Hamilton.

It is unlikely that in Hamilton's policy there were any important measures to which Gallatin could take exception. There were points of doctrine on which Gallatin disputed Hamilton's views, but on the important issue of what actions the government should take he accepted Hamilton's policy. So it was on the issue of the Bank. When Gallatin was Jefferson's Secretary of the Treasury the charter of the Bank was about to expire, and Gallatin urged its renewal. Thirteen years earlier he had supported Hamilton's plan for the Bank and by implication had disassociated himself from the Republican notion that central banking was intrinsically wrong. He said the objections raised against it were only faults of administration, not of the principle of central banking. Later many Republicans were converted to that view. During the campaign to renew the charter, some of their newspapers reprinted the arguments Hamilton had used when he made the original proposal. When renewal was considered in 1811 it was defeated in Congress by the deciding vote of the Vice President. But the government, after being without a central bank for a few years, established the second Bank of the United States in 1816. Very little then was said about its constitutionality. Gallatin said it was constitutional because it was a "necessary and proper" means for

executing the powers of the commerce clause. Hamilton had said it fell within the general welfare power of the clause. Most Republicans seemed to think that constitutionality was not an issue. The utility of central banking was. In 1792 Hamilton had said that the most incorrigible opponents of the Bank would “be compelled to acknowledge that it is an absolutely indispensable engine in the management of the [government’s] finances and would quickly become a convert to its perfect constitutionality.”<sup>72</sup> The conversion was not as rapid as Hamilton had predicted, but it was thorough.

Gallatin agreed with Hamilton on the issue of protection as he had on funding and banking. The agreement was not supported by the same reasoning (just as it was not on the other issues). Moreover, he came to the position of protection by a circuitous, indeed a bewildering, route. Although he accepted it, one would not recognize the fact from a cursory inspection of his statements on commercial policy. “I was, as far as I know, the earliest public advocate in America of the principles of free trade,” he said in 1846. If this is so, he must have meant by “free trade” something odd indeed. As Secretary of the Treasury, he approved of Jefferson’s commercial policy of reciprocity. It was not antithetical to free trade, but neither was it the real thing. When Jefferson’s policy changed to protection, Gallatin raised no objections. He went over Jefferson’s second inaugural address before it was given and although he suggested changes in certain parts, he proposed none at all in the passage urging the subsidizing of manufactures. Later Gallatin was associated with the free trade movement, which actually was for free trade and which carried on its journal the banner, “Laissez-nous faire.” The movement held the Free Trade Convention in Philadelphia in 1831, and Gallatin wrote the memorial which was addressed to Congress. It was a genuinely free trade document. Yet fifteen years later, Gallatin again was in favor of protection. His support was qualified but real. He wrote that the duties which then were levied for revenue should be managed in a way which would aid “the progressive development of national enterprise and industry.” The statement is more than an expression of economic patriotism. He approved of duties as high as 25 percent, which is substantial protection even though the manufacturers wanted more. Manufactured goods which required more protection “must generally be considered as unnatural, forced hot-house products,” he said.<sup>73</sup>

The paradoxical quality of Gallatin’s views is to be explained, I believe, by the fact that like many other leaders of economic thought in America he eventually made the national interest the ruling objective of policy and like them he did so with hesitation, doubt, and reservations about the power which the policy implied. In their political economy they tried to compromise the powers which the individual needed in order to be free with the powers which the government needed in order to increase the strength of the nation. The compromise does not stand up well under logical examination. Logic however is not an indispensable requirement of policy. Certainly the policy of classic liberalism is not remarkable for its logic. What appears to be more important is the ability of the policy to provide for continuing economic endeavor, for growth, and national development. By this test the political economy of the early Americans was eminently successful.

## NOTES

1

### THE STOIC ORIGINS OF LIBERALISM

2

### THE MERCANTILISTS AS LIBERALS

3

### THE ORIGINS OF AMERICAN LIBERALISM

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Postlethwayt, *Great Britain's Commercial Interest, etc.*, II, 371.

North, *op. cit.*, pp. 27-28. Mun, *op. cit.*, ch. xv.

Davenant, *An Essay on Ways and Means of Supplying the War*, p. 139.

[40] Tucker, *op. cit.*, p. 74.

Postlethwayt, *Great Britain's Commercial Interest, etc.*, II, 377.

North, *op. cit.*, p. 12. Smith, *op. cit.*, p. 423.

[41] See D. C. Coleman, "Labour in the English Economy of the Seventeenth Century," *Economic History Review*, 2nd series, VIII (1956), no. 3.

[42] Petty, *op. cit.*, I, 244, 305.

[43] *National and International Measures for Full Employment. Report by a Group of Experts Appointed by the Secretary-General* (United Nations, Lake Success, New York, 1949), 25.

[44] Gustav Schmoller, *The Mercantile System and Its Historical Significance* (New York, 1896), p. 7.

Heckscher, *op. cit.*, II, 324.

[45] Aristotle, *Politics*, i, 9.

[46] Francesco Patrizi, *A Moral Methode of Civile Policie. Etc.*, trans. Rycharde Robinson (London, 1576), pp. 9-10.

[47] Cary, *op. cit.*, p. 4. Hales, *op. cit.*, pp. 121-122.

[1] Some of the commentaries that present an interpretation different from mine are: W. W. Crosskey, *Politics and the Constitution in the History of the United States* (Chicago, 1953), I, Pt. II, Joseph Dorfman, *The Economic Mind in American Civilization, 1606-1865* (New York, 1946), I, Bk. 2, Pt. I; the papers by Frederick K. Henrich, Oscar Handlin, Louis Hartz, and Milton S. Heath on "The Development of American Laissez Faire," in "The Tasks of Economic History," *Journal of Economic History*, Supplemental Issue, Dec., 1943, 51-100; and Daniel J. Boorstin, *The Lost World of Thomas Jefferson* (New York, 1948).

[2] Mathew Carey, *The New Olive Branch* (2nd ed., Philadelphia, 1821), pp. 15-16.

[3] Francis Corbin to the Virginia ratifying convention, in *The Debates of the Several State Conventions on the Adoption of the Federal Constitution, etc.*, ed. Jonathan Elliot (Washington, 1836), III, 104-105.

[4] "Madison to Jackson," in *The Records of the Federal Convention of 1787*, ed. Max Farrand (New Haven, 1911), III, 449.

[5] *The Federalist*, 6. (The number in all citations of *The Federalist* refers to the number of the paper and not the page.)

[6] "Journal of the Federal Convention" (Aug. 16), Elliot's *Debates*, I, 245.

[7] Farrand's *Records*, III, 336.

(Richard Henry Lee), "Observations on the System of Government Proposed by the Late Convention. By a Federal Farmer," in *Pamphlets on the Constitution of the United States, etc.*, ed. Paul Leicester Ford (Brooklyn, 1888), p. 301.

[8] Elliot's *Debates*, IV, 353.

[9] "King's Journal [of the constitutional convention]" (Sept. 15), Farrand's *Records*, II, 635.

Williamson's speech before the House, Feb. 3, 1792, Farrand's *Records*, III, 365-366.

[10] (James Iredell) "Observations on George Mason's Objections to the Federal Constitution. By Marcus.", Ford, *op. cit.*, p. 358.

[11] "Committee of Detail, VII," Farrand's *Records*, II, 157.

"Sherman and Ellsworth to the Governor of Connecticut," *ibid.*, III, 99.

"A Flatbush Farmer to the Inhabitants of King's County," reproduced in *Broadsides Relating to the Ratification of the Constitution* (Washington, n.d.), photostatic copy, no. 26. Charles Pinckney, "Observations on the Plan of Government Submitted to the Federal Convention, etc.," Farrand's *Records*, III, 116.

[12] "Madison's Journal" (Aug. 18), *ibid.*, II, 325.

"Madison's Journal" (Sept. 14), *ibid.*, II, 615-616.

[13] "McHenry's Journal" (May 29), *ibid.*, I, 26.

*Ibid.*, III, 375-376.

"Official Journal" (Aug. 18), Elliot's *Debates*, I, 247.

[14] "Madison's Journal" (Aug. 20), Farrand's *Records*, II, 344.

[15] "Madison to Professor Davis" (1832), Farrand's *Records*, III, 477, 478, 518.

[16] *The Federalist*, 35.

[17] *Ibid.*, 49.

[18] *The Works of Alexander Hamilton*, ed. Henry Cabot Lodge (New York, 1885-86), I, 466-467.

[19] *Ibid.*, I, 363-375.

[20] *Ibid.*, I, 370, 397.

[21] *Ibid.*, I, 389.

[22] *The Federalist*, 51.

[23] *Ibid.*, 7.

Adam Smith, *The Wealth of Nations*, ed. Edwin Cannan (New York, 1937), p. 670.

Hamilton, "A Full Vindication," *Works*, I, 15.

*Ibid.*, I, 389.

*The Federalist*, 73.

[24] John Adams, *A Defense of the Constitutions of Government of the United States, etc.* (London, 1794), I, 159.

[25] *The Federalist*, 10.

[26] Madison, "Note on the Speech on the Right of Suffrage," Farrand's *Records*, III, 450.

Hamilton, *Works*, I, 35.

[27] *The Federalist*, 41.

[28] Smith, *op. cit.*, p. 651.

[29] Smith, *op. cit.*, pp. 431, 425.

[30] John Stuart Mill, *Principles of Political Economy, etc.* (London, 1891), p. 593, italics mine.

[31] The passages were brought together by Edward G. Bourne in "Alexander Hamilton and Adam Smith," *Quarterly Journal of Economics*, VIII (1893-94), 328-344.

[32] Cf. the passage in the Declaration beginning, "Prudence, indeed, will dictate . . ." with Locke's, "Secondly, I answer, such revolutions . . .," in *Of Civil Government, Two Treatises* (London, 1940), p. 231.

[33] Peletiah Webster, *An Essay on Free Trade and Finance* (Philadelphia, 1779), p. 5.

[34] "Madison to Cabell," Elliot's *Debates*, IV, 349-351.

[35] Daniel Raymond, *Thoughts on Political Economy* (Baltimore, 1820), pp. 375, 355.

[36] *Industrial and Commercial Correspondence of Alexander Hamilton Anticipating His Report on Manufactures*, ed. A. H. Cole (Chicago, 1928), p. 268, italics mine. This work includes the “Report on Manufactures.”

[37] See papers IV-VI, *Works*, I.

[38] Alexander Hamilton, “On the Constitutionality of the Bank,” *Papers on Public Credit, Commerce, and Finance*, ed. Samuel McKee, Jr. (New York, 1934), p. 128.

[39] *Ibid.*, p. 108.

[40] *The Writings of Thomas Jefferson*, ed. Albert Ellery Bergh (Washington, 1905-07), XIV, 390, 391-392.

[41] Smith, *op. cit.*, Bk. ii, ch. i.

Hamilton, “Report on the National Bank,” *Works*, III, 125-178.

[42] *Ibid.*, III, 175-176, 159.

[43] *Ibid.*, III, 128, 150, 161.

[44] *The Federalist*, 36.

“Report on Manufactures,” p. 299.

[45] “First Report on Public Credit,” *Papers on Public Credit, etc.*, p. 38.

[46] Smith, *op. cit.*, pp. 777-778.

Hamilton, “First Report on Public Credit,” p. 43.

[47] “Plan for Disposing of the Public Lands,” *American State Papers*, ed. Walter Lowrie and Mathew St. Claire Clarke (Washington, 1832), pp. 8-9.

[48] “An Examination into the Leading Principles of the Federal Constitution,” Ford, *op. cit.*, p. 59.

[49] “To Thomas Law,” *Writings*, XIV, 142-143.

[50] Joel Barlow, “Advice to the Privileged Orders,” *Political Writings* (New York, 1796), pp. 72-73, 23-27.

“The Conspiracy of Kings,” *ibid.*, p. 250.

[51] The couplet is not Barlow’s, and he may have gotten it from Harington’s *Epigrams*.

[52] “Notes on Virginia,” *Writings*, II, 207.

“To John Taylor,” *ibid.*, X, 45-47.

“To Samuel Smith,” *ibid.*, X, 56-57.

“To James Madison,” *ibid.*, IX, 359.

[53] “To Thomas Law,” *ibid.*, XIV, 141.

“To Judge William Johnson,” *ibid.*, XV, 441.

[54] “First Inaugural Address,” *ibid.*, III, 321.

[55] Hamilton, “On the Constitutionality of the Bank,” *Papers on Public Credit, etc.*, p. 131.

[56] See, e.g., *Writings*, VIII, 352; XII, 294; XIII, 122, 123, 170, 207.

[57] “Circular to the American Consuls,” *Writings*, VIII, 352.

“To Thomas Mann Randolph,” *ibid.*, VIII, 31.

[58] Carey, *op. cit.*, p. 24.

[59] “To Hogendorp,” *Writings*, V, 183.

[60] “To the Rev. James Madison,” *ibid.*, XIX, 17-18.

*Ibid.*, IV, 275-277.

*Ibid.*, VIII, 454, 459.

[61] Barlow, “Advice to the Privileged Orders,” *op. cit.*, pp. 75-78.

[62] *The Life and Works of Thomas Paine*, ed. William M. Van der Weyde (New Rochelle, 1925), VII, 70-74, 79-81.

[63] Thomas Hart Benton, *Abridgment of the Debates of Congress, from 1789-1865* (New York, 1857), I, 458ff., 464, 465-467.

[64] “Robert Fulton on Canals for France and on Freedom of Trade, 1798,” *Bulletin of the New York Public Library*, V (Aug. 1901), 9, 364.

[65] John Taylor, *An Argument Respecting the Constitutionality of the Carriage Tax* (Richmond, 1795), p. 25.

[66] John Taylor, *A Defense of the Measures of the Administration of Thomas Jefferson* (Washington, 1804), pp. 18, 73.



[67] John Taylor, *Tyranny Unmasked* (Washington, 1822), pp. 132, 138, 141, 149-150, 162, 168, 177, 194.

[68] John Taylor, *Arator; Being a Series of Agricultural Essays, Practical and Political* (3rd. ed., Baltimore, 1817), pp. 40, 42, 47.

———, *A Letter on the Necessity of Defending the Rights and Interests of Agriculture, etc.* (Petersburg, 1821), pp. 3-5.

[69] *An Argument Respecting . . . the Carriage Tax*, p. 16.

*A Defense of . . . Jefferson*, p. 43.

[70] *The Writings of Albert Gallatin*, ed. Henry Adams (Philadelphia, 1879), III, 148.

[71] *Ibid.*, III, 143. See Smith, *op. cit.*, p. 315.

[72] Gallatin, *Writings*, III, 135.

Hamilton, "Objections and Answers, etc.," *Works*, II, 267.

[73] "To J. R. Ingersoll," *Writings*, II, 628, 629.

*The Journal of the Free Trade Convention, etc.* (Philadelphia, 1831).