

The Classical Economics of the Pre-Classical Economists

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The argument of this paper is that much of classical economics was anticipated—so much and for so long that it ought to be considered an extension of the ideas that preceded it and not a radical departure from them or a distinctively new doctrine.

There are two ideas at its center. One describes what the market is and how it operates. It is an impersonal mechanism that sends people about their business in an efficient way. The other is a statement of what the market is for—the purposes it should serve.

The first is positive. It consists of statements that can be put to the test of fact or logic. The other is normative and consists of statements about values.

This paper is about the antecedents of both as disclosed in the writing done before the eighteenth century. Some goes back to antiquity. Most was done between 1500 and 1700, the period of mercantilism. I shall not say much about the anticipation of classical economists in the century when it began. Most of what should be said has been: that Smith was anticipated by the physiocrats and they were influenced by Cantillon. Something ought to be added (and is here) about the critical place of utilitarianism in classical economics. The period before 1700 has received much less attention. Schumpeter described the ideas that contributed to the progress of analytical economics, whether or not they have a bearing on classicism, and (in his *History*) he had

little interest in the development of normative economics.¹ The present writer has described the classical elements in mercantilism and some of their origins in Stoicism.² This paper draws on those studies and others made since they were published. The findings are summarized and related entirely to the classical conception of the market and its purpose.

I. The Market and its Operation

The classical conception of the market includes a theory of how relative prices are determined, how they cause resources to be allocated, and how they determine the distribution of the product. That is, classical economics explains that the market determines relative prices and they determine what is to be produced, how it is to be produced, and how it is to be distributed.

That is an important thing to have done. In every economic doctrine, whatever its normative elements are, there is the idea of an authority or power that coordinates the activities of individuals. The classicists contributed

¹Joseph A. Schumpeter, *History of Economic Analysis* (New York, 1954), Part II, esp. ch. 7.

²William D. Grampp, 'The Liberal Elements in English Mercantilism,' *Quarterly Journal of Economics*, 66:4 (Nov. 1952), 465–501; and 'The Moral Hero and the Economic Man,' *Ethics*, 61:2 (Jan. 1951), 136–150. These studies appear in a slightly altered form in *Economic Liberalism* (New York, 1965), 1, chs. 1 and 2.

How economists and historians have treated mercantilism is indicated in my study but to describe it completely would require an article in itself. Not so, their treatment of the place of Stoicism in the development of economics. Most have ignored it.

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to the conception of the market as that authority. But so did economists before them.

The classical theory of price was that the long run exchange value of a good is measured by the quantity of labor it commands or is needed to produce it. In the short run, price is determined by demand and supply. Related to the price theory but logically distinct is a theory of human behavior. It consists of positive statements about psychology. The most important is that men are directed by self-interest. It is expressed in many ways. The maximizing of material returns is one but is not the only way.

Both the price theory and the psychology were anticipated. The idea that labor is the source, measure, or justification of value is quite old. In Genesis we are told that what we value we must labor to get. Aristotle measured justice in exchange by the proportionality of work to the merit of the workmen.³ One of the last appearances of the labor theory of value prior to the period of classical economics was in Locke's statement that a man is entitled to the property with which he has mixed his labor.⁴

The theory is one of a class that makes value an intrinsic property or essence. Cantillon's value theory was of this class. He said relative prices, including wages, are determined by the amount of land required to produce goods and people.⁵ When the labor theory of value reached Smith, he changed labor from the essence to the measure of

value. So did the other classicists.⁶ Marx restored labor as the embodiment of value and returned the theory of its earlier form.⁷ The class of which it is a part includes utility theories of value. That idea is suggested by Smith and is made explicit by Senior.⁸ It too has a long history, and Emil Kauder has written it with great learning.⁹

Supply and demand have a smaller place than the labor theory of value. But they are present, and Malthus made much of them. He did so because he believed economics should explain the world as it is. (One finds that has been said repeatedly, tirelessly, and tiresomely. What economist ever said his work was to explain the world as it isn't?)

Malthus believed he was closer to the spirit of Smith than the Ricardians were. Actually he was near to mercantilism. In 1549, there appeared an anonymous pamphlet entitled *Policies to Reduce England Unto a Prosperous Estate*.¹⁰ It said that if the price of a good is reduced, the quantity supplied will fall. It also said that the smaller is the quantity supplied, the higher will be the market price. The work implied the idea of supply and demand as schedules.

That is not all the writer knew. He was opposed to fixing the price of food in London.

⁶On the meaning of the labor theory of value in classical economics, see the discerning paper by Donald F. Gordon, 'What Was the Labor Theory of Value?' *American Economic Review* 49 (1959):462-72.

⁷Marx, *Capital*, trans. Samuel Moore and Edward Aveling (New York, 1936), I, 73: 'value in its true light [is] a congelation of undifferentiated human labour.' To Smith, on the other hand, 'Labour . . . is the only universal, as well as accurate measure of value, . . .' *The Wealth of Nations* (New York, 1937), p. 36.

⁸To say that marginal utility determines value is to say value varies inversely with quantity. That is what Smith said in his chapter 'Of the Natural and Market Price of Commodities,' *op. cit.*, esp. pp. 56-77.

⁹Emil Kauder, *A History of Marginal Utility Theory* (Princeton, 1965).

¹⁰The pamphlet is reprinted in *Tudor Economic Documents*, ed. R. H. Tawney and Eileen Power (London, 1924), III, 339, 340.

He said a reduction of the price paid to farmers would reduce the amount of food they brought to the city. The retail price would then rise, and merchants would profit from the stocks they held. They, he said, were the sponsors of price control. Thus, the sneaking arts of underling tradesmen are erected into the maxims of policy. The words are those of Smith.¹¹ The idea is much older.

That men are self-interested was commonly assumed by the mercantilists just as it was by the classicists. Both believed they had not only to say that demand curves slope downward and supply curves do not. They also believed they had to explain why. That is, they believed psychology was a necessary component of positive economics.

Psychology has a place in *A Discourse of the Common Weal of This Realm of England*. It too was published in 1549. It is familiar to historians as the work of John Hales. Lately it has been attributed to a writer named (by a fine coincidence) Smith, this one Thomas.¹² He said the enclosure movement could be reversed if the price of corn were permitted to rise, just as the price of wool was allowed to do. Cultivation would then become more profitable and replace grazing. The reason is that, "Everyman will gladder follow that wherein they see more profit and gains."¹³ The author of *Policies* took things a little further. He said the export of wheat should be permitted (which would raise its price) and a tax should be levied on sheep. It was indeed to be a progressive tax: four pence a year on every sheep in a flock of 200 or more.

¹¹Smith, *op. cit.*, p. 460.

¹²The most recent edition of *A Discourse* and that which attributes it to Thomas Smith is edited by Mary Dewar (Charlottesville, 1969). The quotation above is from the edition edited by Elizabeth Lamond (Cambridge, 1893), who attributed it to John Hales, and appears on p. 59.

¹³*Policies to Reduce England Unto a Prosperous Estate*, p. 327.

Another example of analytical economics is the controversy over usury in England in the seventeenth century. The advocates of usury legislation said it initially would reduce the rate of return from lending relative to that from owning land, would then increase the demand for land, the price of which would rise until its rate of return had fallen to what it had been relative to that from lending. There were even numerical estimates of how much the price of land would change. Barbon maintained that if the rate of loans were reduced from 6 to 3 per cent, the price of land, instead of being equal to the rent of 20 years, would equal that of 40.¹⁴ This implies the return to land is $\frac{1}{2}$ ths of that on loans. The reason given was that owning land is less risky than lending.

The opponents of legislation agreed that a reduction in the interest rate would raise the price of an asset but only if the annual income did not fall as much as the rate. They argued the annual income would fall and, moreover, that the interest rate would rise. They said a reduction of the legal rate on loans would actually increase the market or effective rate. To the other risks of lending there would be added the risk connected with violating the law. It surely would be violated, they insisted, so that a higher market rate was inevitable. This would reduce trade (that is, investment, income, and employment). Agriculture would not escape. Rent would fall which, in itself, would reduce the price of land. But the price would fall in greater proportion because the interest rates would rise.

Among the advocates of usury laws were Francis Bacon, Child, Samuel Fortrey, and the nearly forgotten Culpepers, father and son. But they were not the only people who showed some understanding of the market. There also were Misselden, Malynes, Dave-

¹⁴Nicholas Barbon, *A Discourse of Trade* (London, 1690), p. 41.

³In the sweat of thy face shalt thou eat bread, . . . *Genesis*, 3:19.

⁴There will, then, be reciprocity when the terms [of exchange] have been equated so that as farmer is to shoemaker, the amount of the shoemaker's work is to that of the farmer's work for which it exchanges.' *Nicomachean Ethics*, V, 5.

⁵John Locke, *Of Civil Government* [1690], II, 5.

⁶Richard Cantillon, *Essai Sur la Nature du Commerce en General*, ed. and trans. Henry Higgs (London, 1931), p. 41. The work was written some time before 1735 and published in 1755. He was not entirely understood by the physiocrats.

nant, and Temple in the seventeenth century and John Law, Daniel Defoe, and Bishop Berkeley in the eighteenth.¹⁵ They were not equally knowledgeable. Temple barely managed. Child bungled badly. Locke and most of the others slipped now and then. Yet they also could put things nicely, as Berkeley did in this rhetorical query: "Whether the value or price of things, be not a compounded proportion directly as the demand, and reciprocally as the supply?" And, this, "Whether, "caeteris paribus," it be not true that the prices of things increase, as the quantity of money increaseth, and are diminished as that is diminished?"¹⁶

The mercantilists were by no means the first to describe the market. There were Scholastic writers who did that also. Their contribution to economics was brought to our attention by the late Raymond de Roover.¹⁷ His

¹⁵Francis Bacon, 'Of Usury' (1625). Josiah Child, *Brief Observations Concerning Trade, and Interest of Money* (1668), and *A New Discourse of Trade, etc.* (1693). Samuel Fortrey, *England's Interest and Improvement. Etc.* (1673). Thomas Culpeper (Elder), *A Tract Against Usurie* (1621). Thomas Culpeper (Younger), *A Discourse Shewing The many Advantages which will accrue to this Kingdom by the abatement of Usury, etc.* (1668), and *The Necessity of Abating Usury Re-Asserted; etc.* (1670). Thomas Mun, *England's Treasure by Forraign Trade, etc.* (1621). William Petty, *Quantulumcunque Concerning Money* (1682). John Locke, *Some Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money* (1696). The ideas of these and others are described in the present writer's 'The Controversy over Usury in the Seventeenth Century,' *Journal of European Economic History*, forthcoming.

¹⁶Edward Misselden, *Free Trade. Or, The Means to Make Trade Flourish. Etc.* (1622). Gerard Malynes, *The Maintenance of Free Trade* (1622). Charles Davenant, *An Essay on the East-India Trade* (1696). William Temple, 'Observations on the United Provinces of the Netherlands' (1671). John Law, *Money and Trade Considered, with a Proposal for Supplying the Nation with Money* (1720). Daniel Defoe, *The Complete English Tradesman, etc.* (1732). George Berkeley, *The Querist, etc.* (1735-37).

¹⁷Four of the papers of Raymond de Roover are reprinted in *Business, Banking and Economic Thought* (Chicago, 1974), a posthumous collection. To them must be added 'The Concept of Just Price: Theory and

studies should dispel the notion that all medieval economic ideas were derived from the Aristotelean notion that exchange is a useless activity.

II. The Purposes of the Market

There are still earlier suggestions of the classical conception of the market, and they are about its normative element. These cannot be described as simply as the positive elements, but enough can be said to show that they also were anticipated.

In classical theory, the market was to serve many purposes, which were not all consistent with each other. The most familiar is the freedom of the individual. Others are the accumulation of domestic capital, the efficient use of resources, the provision of public works, the defense of the nation, peace and order within it, the strengthening of the character of individuals, the safeguarding of religion, the provision of education, and the improvement of taste and manners. The classicists believed a free market would serve many of these purposes. But many is not all. If the market seemed unlikely to serve a particular purpose, they favored regulating it and, in rare instances, dispensing with it.

Smith believed naval power was more important than wealth and approved of regulating merchant shipping. He believed a clergyman should receive a fixed stipend from the state because if he had to rely on his congregation he would appeal to its delusions, which implies that neither he nor it but the state is the proper guardian of religion. In support of

Economic Policy,' *Journal of Economic History* 18:4 (Dec. 1958), pp. 418-434. His work and that of Marjorie Grice-Hutchison, *The School of Salamanca* (Oxford, 1952) are summarized by Murray N. Rothbard, 'New Light on the Pre-history of the Austrian School,' in *The Foundation of Modern Austrian Economics*, ed., Edwin G. Dolan (Kansas City, 1976).

this opinion, Smith quoted Hume (of all people) who expressed concern for (of all things) 'true religion.'¹⁸ Ricardo implied that an efficient use of the capital stock was more important than the freedom of choice for buyers. He proposed a duty on grain equal to the additional tax burden on agriculture in order to assure agriculture the proper amount of capital.¹⁹ Mill believed free trade would reduce the cost of living of workers and cause them to have larger families because (he said, regretfully) their habits with respect to population were stronger than those with respect to comfort. He concluded they had little to gain from the repeal of the Corn Laws.²⁰

Every schoolboy knows Smith made 'the invisible hand' a metaphor of the power of self-interest. But not all of them have noticed (or have their teachers) that its desirable effect is to increase the domestic capital stock by restricting the export of capital. The words appear in Smith's argument that no law is needed to restrict its export.²¹ Businessmen will keep their capital at home because it is more profitable there than abroad. And why should it be kept at home? Because there it adds to the power of the nation. If keeping capital at home were less profitable than sending it abroad, what then? Would Smith have replaced the invisible hand of self-interest with the visible hand of the state? His approval of the Navigation Laws implies that this is what he would have done.

In classical policy, whether the market was to be free or was to be regulated depended on the end it was to serve. If the end was freedom, as often it was, the market obviously was to be free. But when the classicists advo-

cated a free market they did not always do so because freedom was the end it was to serve. The advocacy could mean that a free market rather than a regulated market was the most effective way to achieve an end which itself had no necessary connection with freedom. McCulloch said a free market in merchant shipping would add more to naval power than a market regulated by the Navigation Laws.²² In such circumstances, when freedom was consistent with other ends, the invisible hand was operating.

Freedom was not always believed to be consistent with other ends. The market then was to be regulated, usually by tariffs, occasionally by taxes or subsidies. In a few instances (as in the matter of religion) it was to be eliminated.

The classicists looked on the free market as an instrument that was to be used if it served the purposes of policy and was to be regulated or not used at all if it could not serve those purposes. This instrumental view of the market was not new. It was anticipated in the two tracts of 1549 that are referred to above. It was also the view of the mercantilists who argued that imports should be restricted in order to increase the money stock which in turn, would increase income and employment. It was, similarly, the view of those mercantilists who said free entry into the markets monopolized by the trading companies would increase efficiency.

There were a few mercantilists who advocated extensive use of the free market. North is one. Another is the anonymous author of *Considerations on the East-India Trade*. Mun sometimes is included in this group. Historians have not known what to do with them except to say they did not belong in their time. North has been called a swallow who

¹⁸Smith, *op. cit.*, p. 473. The quotation is from Hume's *History* (1773), IV, ch. 29.

¹⁹David Ricardo, 'On Protection to Agriculture,' *Works*, ed. Piero Sraffa (Cambridge, 1951), 4, 244.

²⁰John Stuart Mill, *Principles of Political Economy* (London, 1891), p. 240-41.

²¹Smith, *op. cit.*, pp. 421-23.

²²J. R. McCulloch, Art. XI, *Edinburgh Review*, 76 (May, 1823), 482.

didn't make a summer.²³ I believe they belonged just where they were.

North advocated a free market in lending because, he said, it would increase trade.²⁴ Mun said the export of specie should be allowed because it would return in greater quantity.²⁵ Both men may have believed in freedom for its own sake, but they did not rest their argument on the belief.

The instrumental view of the market is to be found still earlier. In 1480 the Italian cleric, Francesco Patrizi, wrote that in the ideal commonwealth the market has a respected place. He took exception to the belief, which he attributed to Socrates, that buying in order to sell again is reprehensible.²⁶ Scholastic writers said buying and selling is a beneficial activity. They usually added (as Patrizi did) that it should not be entirely free. If it is, self-interest would know no limits. One of the earliest statements of this kind is in Cicero's *Of Moral Duties*. He said 'by giving and receiving, by mutual exchange of commodities and conveniences, we succeed in meeting all our wants.'²⁷ The defense was again qualified. Some occupations are more honorable than others: farmers are better than usurers.

Cicero anticipated another value in classical economics: individual freedom. An early justification of it came by way of the defense of self-interest. Most of the defense was (and still is) that men are more industrious when they can benefit from their industry. But that is not the only defense. Self-interest was said

to be a psychological trait and selfishness a part of human nature. In time what was said to be the nature of men was said to be their right as well. What they were, they had a right to be, because being so was their nature. This is the idea of natural right. It is the foundation of what Smith called the simple system of natural liberty. It is simple because it is the way men naturally behave. It is natural because it is the way they behave in the absence of coercion.

The idea is to be found in Stoic philosophy, most noticeably in Epictetus. He justified economic self-interest on two grounds. One was that it enabled men to improve their material welfare. That is the instrumental defense. The other was that doing what one wants with one's own is reasonable, hence is natural, and so is morally right.²⁸ Each justification appeared again, 1800 years later, in the classical argument for the free market. Freedom is good in itself, and it is good because it brings about other good things. The classicists did not believe it always brought them about. Did they value freedom less than the Stoics did? I believe they did value it less, because, unlike the Stoics, they were prepared to set it aside on occasion. That is a troubling thought but it should not be surprising. There was a pronounced element in their thinking of what philosophers call rule utilitarianism and what I have called the instrumental view of the market.

III. Some Objections Anticipated

There are least three sorts of objections that might be made to what I have said even if

²⁸*Discourses of Epictetus*, trans. P. E. Matheson, I, xix. Of considerable interest is the fact that Epictetus found each person's pursuit of his own interest is in the interest of others, that is, he found harmony in individualism. 'It is natural to man . . . 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.' *Idem*.

it is accepted as factually correct (which not everyone may do).

One might be that I have omitted many ideas that are associated with classicism, such as diminishing returns and the distribution theory derived from it, the principle of population, the iron law of wages, the wage fund, the capital theory, comparative advantage, and reciprocal demand. I have omitted them because they are logically distinct from the classical conception of the market; that conception does not depend on them. Diminishing returns, for example, tells us why supply curves slope upward but does not tell us how the market coordinates the activities of independent individuals and whether it does so for the sake of their freedom or for some other reason.

A second objection might be that the conception of the market, even if held in early times, was taken forward by the classical economists, was enlarged and enriched by them, and made into something greater than it ever had been. I agree. My argument is that classical economics is an extension of what preceded it. My argument is not that it was no better than what preceded it.

A third objection might be, What does all of this signify? Have I done anything more than to make molehills out of a mountain? What it signifies to me is that we should look at the history of economics in a different way:

I suggest it be looked on as an evolutionary development, one of gradual change and improvement by way of refining, enlarging, and extending what has come before. I would not look at it as movements from one set of ideas to their opposites, of revolutions and counter-revolutions, and of radical changes. If the history of economics has been evolution-

ary, the search for paradigm changes is not a useful activity.

In the evolutionary view I suggest, the economists who came before the classical period are better than they have been made out to be, and historians should return to them and expect to find more than they hitherto have noticed. In particular, there should be a re-examination of the mercantilists, with a view to recognizing that they are known to have favored the market, not to have opposed it, as they so often have been said to have done. The error originated with Smith and has been repeated ever since.

The classical economists were, in my view, less than they have been made to be and less than they thought themselves to be. I do not deny the school was an important stage in the development of economics, probably the most important stage. But it was important because it improved the ideas it inherited and not because it replaced them.

If economics today is an extension of classicism, which I believe it to be, it is a much older subject than has been thought. It did not originate in the eighteenth century but much earlier. If it is an old subject, that is a reason why it differs from the other disciplines that study social behavior. They are much younger. Economists are pleased to know their subject has more intellectual content than others. It should have, just as a man should know more than a child. One thing he should know is that more is expected of a man than of a child.

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²³Charles Wilson, *England's Apprenticeship, 1603-1763* (New York, 1965), p. 184, quoted by Joyce Appleby, 'Ideology and Theory: The Tension between Political and Economic Liberalism in Seventeenth Century England,' *American Historical Review*, 81:3 (June 1976), 499.

²⁴North, *op. cit.*, p. 520.

²⁵Mun, *op. cit.*, p. 135.

²⁶Francesco Patrizi, *A Moral Methode of civile Politie. Etc.*, trans. Rycharde Robinson (London, 1576 [1480]), p. 9.

²⁷Cicero, *De officiis*, trans. C. W. Keyes, ii, 4.