

III. CLASSICAL ECONOMICS (I): THE THINKER AND THE YEASAYER

“Never go to sleep, when your meat is on the fire.” Pueblo

“Those who have one foot in the canoe and one foot in the boat are going to fall into the river” Tuscarora

Quesnay had been the medical doctor who had strayed into the yet non-existent field of economics. With his natural-law approach and his habit of careful scrutiny of and respect for human nature as a whole had brought a king's economy back into sync. That economy should have been called a robber baron's economy to begin with and as such “economies” go, it was no wonder that it had gotten badly out of whack. Quesnay had diagnosed what was needed most alarmingly: Economic activity had become divorced entirely from its own nature, that is, land and natural resources, and it seriously needed to be brought back into harmony with those. In other words, in applying his medical tables from the human body to the body economic or Greater Leviathan as George calls it, he had literally given the movers and shakers of the day at the dashboards of power a tool for healing. “*Medicus curat natura sanat*” – it is not the MD that heals but nature. Quesnay applied one of the profounder principles of medical science to the nascent field of economic science – with literally salutary effects!

It was the financial wizard Turgot who provided the magic wand of the magician to help pull rabbits out of a top hat that had not yet become the fashion. And as economists strangely don't have much use for rabbits, what Turgot really pulled out of the hat, were not really rabbits but treasure troves. The treasure troves would soon be called wealth, the ‘top hat’ was the new science and the magic wand was called ‘laissez-faire’. Or as Quesnay put it in the just quoted passage from his Economic Tables: the *noli me tangere* or do-not-touch-me attitude.

The man who first saw the powerful elements that could end man's fight against want and put them all together for our use in a kind of rules-of-the-game manual or tool kit, was not Adam Smith [1723-1790] as has often been maintained, he had a name that oddly enough features rarely and if at all too little in the histories of Political Economy: His name was David Hume [1711-1776] and of this ‘economic toolkit’ and the man who invented it and the man who has wrongly been credited with it deals this following chapter.

Oddly enough the man who is credited most with the “invention” of modern economics would have least disputed the influence of the great enlightenment philosopher on his teachings. In fact, the mental debt that the younger man owes the older cannot be exaggerated and it has been lampooned in the bowdlerization of the famous proverb: “If Hume had told Smith the moon were a green cheese

the latter would have believed it.” This statement has to be exactly reversed with respect to economics. A World that had barely shaken its medieval superstitions and still marveled at that Columbus in fact had not fallen off the face of the globe in his epochal voyage with the Santa Maria – the world being a disc, remember! - still believed Mercantilist nonsense in economics, such as the emptier of goods your home was the richer you were and as long as the king’s coffers in the castle were full of gold and his mistresses could eat lots of cake while the rest of the population was starving everything was alright with the world!

So the Mercantilist school of economic thought – it should really be called school of economic nonsense – was telling people including the Glasgow Ethics Professor Smith that the world of economics was a “green cheese” till Hume came along and correctly informed them that the world of economics was not that at all, but a moon that is a satellite of a greater world called ‘human understanding’! In other words, how can we invent a new science of house-holding and land-husbandry if we don’t understand the first thing about a) this world and b) human understanding itself!

Hume, with Descartes [1596-1650], Locke, and Kant[1724-1804], was one of the giants of the Age of Enlightenment. It is no exaggeration to say that if we had not had that age-of-enlightenment movement in the 18th Century, we would not only live in a radically different world nowadays, we would, in fact, not have much of a world to live in at all. Let’s take a closer look at what happened:

The Swedish theosophist philosopher Swedenborg [1688 – 1772] had a nightmare one night. This nightmare made the Guinness book of world records’ of the history of philosophy, so to speak. In that nightmare, Swedenborg saw Stockholm go up in flames. When the town was in fact later partially destroyed by a great fire, he claimed that nightmare to have been part of a ‘divine vision’. The impressionable young Koenigsberg scholar Immanuel Kant read a lot of Swedenborg’s ‘visionary writings’ and was only saved by Hume’s categorical skepticism which held any experience not borne out and verifiable by sensual experience to be errant nonsense! The fruits of this three-way debate were published by Kant in his rather curious *Dreams of a Spirit-Seer*, in 1766. What may today appear like an assortment of oddball arguments was actually the culminating battle cry of the Age of Enlightenment that directly caused and ushered in the American and French Revolutions.

Our entire modern world including the industrial revolution, the Great Depression, the two World Wars, not to count the smaller ones, the Atomic bomb, down to our revolution in information technology, would have been unthinkable without the

men of various nations, mainly France, England, Germany, and later the US, who founded that School of thought. It is only unfortunate that Hume, in trying to save Kant from the hell of the subconscious, meaning so-called premonitional nightmares, spilled out the baby with the bathwater. In convincing Kant, the most systematic and culminating of the enlightenment philosophers, to deny any ascertainable knowledge except through the senses, he spearheaded the materialist movement that culminated in Marx and our consumerist slant on reality! But at the same time, he impoverished the range of life and experience to a near unbearable degree! If you want: the diehard rationalist-materialists among the enlightenment philosophers didn't only steal Christmas, they did steal the rainbow! It took Hegel's *Phenomenology of the Spirit*, in 1807, Sri Aurobindo's groundbreaking discovery of the Superconscious in the first half of the 20th Century, and Joseph Campbell's life-work elucidating *The Power of Myth*, among other great thinkers, to set that record straight. Of course we want to be saved from the hells and holocausts of the subconscious, which in plain evolutionary terms are nothing else but our Neanderthal, man-eating, warmongering past.

But that does not mean that we want to exclude ourselves from the Kingdom of Heaven, which may, again in evolutionary terms by nothing else but our evolutionary destiny and future.

Hume, meanwhile, the modest heir of the laird of a landed estate near Ninewell-upon-Chirnside, in his wild and ever rain-dreary Scotland, forgot all about his "categorical skepticisms" in all matters philosophic – he had declared after all in no uncertain terms that gaining knowledge and understanding for the human mind was a sheer and impossibility – and, good Scotsman that he was, set out to expound on very sensible and ascertainable knowledge in matters economic. After all, lack of understanding in matters of estates, industry and trade would lead only to your losing a fortune! And that, for our dear Scotsman, would have been impossible and shockingly bad form!

Hume picked up the 'laissez-faire' magic wand from Turgot and the Physiocrats with the sure instinct of the savvy tradesman who knows which item in his store is going to be a moneymaker and which isn't. "Laissez-faire" is not this monstrous ghoulish justifying greed under which the so-called free world has been smarting ever since the industrial revolution really took off. "Laissez-faire" as explained by Henry George is something much more benign, sober, and down-to-earth. In the Medieval jousting tournaments it was the battle cry just prior to the gallop of the steeds: a fair field and no favors! Everybody was given fair initial conditions and then let the best man win! Until the forces of the market were given reign to 'self-adjust' a given economy, there were only two ways to establish economic

order. One was by way of tradition, you took up your father's trade, as he had taken up his father's trade since time immemorial without question, and the other one was by way of command: the king's or queen's mere whim or wish was your absolute order! So according to 'laissez-faire' - that is in theory! - every one may produce, distribute, buy, or sell as he or she pleases. This maxime became the great thawing period of spring after an interminably long winter of despotism run by the twin despots of command economics and tradition economics.⁷

It became also literally a winter of discontent, not for the despots who were having a perpetual ball eating cakes, frolicking with their mistresses, sending off the young eligible best men to bloody wars and having the serfs, servants, and feudal slaves - meaning everybody else like you and I - sweat away in performing all the necessary labor without being permitted to enjoy more than a fraction of the fruits of their labor! It became a winter of discontent for "everybody else", meaning everybody who wasn't at least nominally declared noble and had no absentee landlord's estate to leech off from.

Now that was the upside of laissez-faire. The downside of it was that the "fair field" left to its own devices would inevitably breed the old dog-eats-dog mannerisms, meaning it would be a time-travel back into the wrong direction, back into Neanderthal Valley or its more modern equivalents: Naziland.

What is the solution out of that seemingly inescapable socio-economic dilemma? The solution was to set up a framework of pliant, lucid, just, and flexible rules to secure and safe-guard the 'fair field'. Then to vote into office or appoint the necessary number of 'untouchable' and incorruptible guardians to keep those rules. This could be done much in the manner of Theodore Roosevelt's anti-trust laws, his trust-busting, and nature preserving activities, a policy set of course, upon the premises of Henry George's land philosophy. The guardians would have much the same function that dueling seconds would have later. But all of this is asking too much to extrapolate from the works of even such a philosophic genius and giant as Hume. We are jumping too far ahead.

What should interest us now is exactly what Hume said in his economic essays? It is important here to note only that Hume did inadvertently follow the advice of the Pueblo chieftain given at the beginning of the chapter. He certainly "did not go to sleep while his meat was on the fire" and in that respect our modern age is all the better for it. Hume's insights into economic theory are generally considered - with the possible exception of Berkeley - to have been way ahead of its day.

⁷ . A useful distinction we owe to Heilbroner

They can be summarized as follows:

- ξ Wealth is made up of commodities not money
- ξ His quantity theory of money stipulates that the amount of goods in circulation in a given economy should determine the amount of money in circulation
- ξ In an early anti-Mercantilist slant, he denies that an economy can be kept running by exporting for gold returns
- ξ In anticipation of the “law of comparative advantage” Hume saw that the given special features of a nation’s domestic economy, such as natural resources, geography, climate peculiarities, and skill in crafts make exchange mutually desirable
- ξ In paralleling the adage that it is bad to “throw good money after bad” he felt that industry-wise poor nations would drag down richer ones in not being able to partake in the minimum trade necessary to sustain and increase wealth on an international scale
- ξ That low interest rates be the beneficial results of a booming trade rather than the disadvantageous backlash of a monetary glut

Now what did Smith “the father of Modern Economics” do with Hume’s teachings and insights? Regarded in the sober daylight of the 21st Century, he is rather the forgotten stepchild of the Age of Enlightenment who tried to translate the great philosopher’s work into the realm of economics. He did his homework or his job none too well. But pioneers at the dawn of economic time may be forgiven their weaknesses. After all Columbus died with the certain belief of having discovered the West Indies. The point here isn’t that he was wrong regarding the label he attached to his discovery. The point is that he didn’t fall off the face of the earth and that he had the courage and drive to make his discovery after all! And the point is not that Hume was spilling the baby of higher truths with the bathwater of extra-sensory perception or that Smith turned Hume’s moon back into a green cheese, or at least was trying his best to do so. The point is that both were there at a decisive stage of human history to usher in a New Age: the Age of Enlightened Economics.

Smith thus managed to encapsulate Hume’s philosophy into a set of fallacies and prejudices that are still haunting us to this very day! Hume did not treat Political Economy in the systematic manner of Smith but in an essayistic manner more in line with his own temperament. Where he treats the same subjects he never the less manages to avoid most of Smith’s errors..

It may be remarked Smith's detours and byways are rather Macchiavellian:

- ξ Smith is hopelessly muddling the factors of productions. He is classifying land, labor, and money as capital, and then he throws in the kitchen sink for good measure
- ξ The invisible hand stands in symbolically for the self-regulatory mechanisms of nature. It presupposes an invisible being
- ξ In maintaining that the "government governs best which governs least" he overreacts to the preceding night of despotism of the Feudal and Mercantile Ages
- ξ In positing that competition is a cure-all he disregards social justice as a necessary factor of the economic equation
- ξ Smith further disregards the factor nature, and all activity grounded in it to be in necessary balance with it
- ξ H contrives an actually rather charming kind of economic theodicy which derives from the sum of ignorant striving self-interests a magical enlightened common wealth for all. Whether it works is another question. At the latest since Black Thursday, October 24, 1929 we know it doesn't
- ξ He holds that growth is an economic goal that needs to be pursued at any expense
- ξ On the one hand he sounds the alarm bell stating that the employer of capital, unlike the landlord and the laborer, had no interest in conformity but in conflict with the general interest. Here presaging like concerns of Karl Marx by about a century
- ξ On the other hand he finds princes and royalty inept and only the entrepreneur to be able really to manage the economy for the good of all!
- ξ He confuses money hopelessly with capital and hence with real wealth, an error in which he is later joined by the Monetarists
- ξ In criticizing the Mercantilists for their export-over-import obsession and their confusing precious metal too closely with wealth he is never the less doing the same in worrying about the gold and silver standards of money
- ξ Last but not least his Wage Fund Theory: He is falling hook, line, and sinker for the canard that the manufacturer is laying out wages to his workers, advancing his wages, in fact, out of capital. The manufacturer is doing no such thing at all! He would be broke quickly if he were even to contemplate that, and he can well refrain from doing so otherwise he will have been a manufacturer – today we would say industrialist – for the longest time

As we have also seen with Columbus to great pioneers and great geniuses we have to concede the right to be wrong. Even a mega-blunder like mistaking one continent for another, America for India, does not detract from the outstanding trailblazing achievement. Smith's more than fuzzy and confusing terminology and

his unwitting muddling of theology, the “invisible-hand paradigms”, with commerce, each acting out of all but self-interest, does not detract from the fact that with Hume and the Physiocrats, he became one of the first surveyors of a vast, fascinating new continent today called ‘Economics’.

There is an anecdote relating that for Smith, albeit not for Hume, there is a Scotsman in every man, alluding to the proverbial, if possibly legendary frugality of the Scotch national character much in line with those fabled in the same vein of the Swiss and the Swabians.⁸ What comes out of this curious piece of alleged national psychology in Economics is nothing less than the Dr. Frankenstein monster conception of the “economic man” or homo economicus. There is here a tacit agreement between Smith, Ricardo, and even reaching down to Stuart Mill including most classical economists, that man is solely engaged in the acquisition of wealth. Economic man fallaciously standing in for the integral human being as a whole is hence supposed to be guided mainly if not exclusively by the following:

- ξ Self-interested action
- ξ The maximizing of his returns under all circumstances
- ξ Taking the greater to the lesser profits always
- ξ Paying the lowest price with no exception
- ξ Lowering costs by all means possible
- ξ The limitless acquisition of material wealth

Nature is factored into the Smithsonian equation as land, but then it is soon forgotten and becomes a negligible quantity. In a curious and quite hypocritical duplicity, mimicking Hume’s denial of knowledge in all things non-economic, Smith maintains “economic man” to be motivated exclusively by self-interest while conceding that “moral man” – another species from other celestial spheres apparently – is motivated mainly by altruism. Unless we take this to be an early version of our postmodern psychological truism that ‘man be from mars’ while ‘woman be from Venus’ it is not difficult to see that this monster is not only heading for a full-frontal crash but that it would take the world with it in its destructiveness. Environmental disasters happily condoned by the heirs of classical economics are preprogrammed in this very misconception beyond a shred of reasonable doubt. It would take an economic gadfly, like Thorstein Veblen, with his ‘conspicuous consumption’ to explode the myth of the economic man never to be revived here ever after.

⁸ . Quoting Bagehot after Eugene Rotwein in *Introduction to David Hume’s Writings on Economics*, Madison 1970, p. CVII

On the upside of things, Smith did correctly take over the Physiocrats macroeconomic perspective: You can't set a coherent set of policies unless you understand the parts as well as the whole [synthesis – analysis / the engine taken apart by the 'analyst' needs to be put back together by the 'synthesist' otherwise it doesn't run] and he did correctly add the upcoming industry to trade [Mercantilists] and land [Physiocrats] as the sources of wealth. Smith's forte lies in anticipating intuitively the industrial age, recognizing and analyzing correctly the importance of the division of labor – today we would say economy of scales – for that upcoming age, and over long stretches handsomely criticizing the Mercantilist or Protectionist system: Foreign trade does not have the function to increase the gold reserves of a given country but to carry out the surplus produce to foreign markets and import those goods that the home market can't satisfy.

Prosperity does not derive from a “positive balance of trade” but from a positive balance of product and consumption. He here picks up the clues from his mentor Hume: Watch the flow of goods not the flow of money! He correctly exploded Mercantilism as the ‘spirit of monopolism’ which is ultimately not wealth begetting but poverty-begetting and as “the sneaking art of underling tradesmen erected into political maxims and commerce” having “become a source of discord instead of unity”.

His forte lies further in having intuitively anticipated the economic advantages of those unruly soon to be break-away colonies today called United States of America. While he sees here the importance of the land question he unfortunately soon forgets about it again as we have seen. Adam Smith's sudden Progressivism is not surprising with regards to the nascent US if you consider that they were practically ghostwritten by Benjamin Franklin, then ambassador to England and in demonstrably close contact with Smith at the time of his writing about the “New Colonies”. It might in this context seriously be doubted whether these passages on the colonies in the *Wealth of Nations* had been so extensive & so progressive had this contact not come about at all. Henry George speaks of these strange vacillations between the perception of clear truths and the falling for the most preposterous fallacies in Smith's mind with the metaphor of a bright clear sunny sky that soon gets beclouded and befogged by heavy weather so rampant in Scotland.

Today Smith is looked upon as the conceptual father of Capitalism, and as the apostle of the free-market system. He is even hailed as the promulgator of the “Declaration of Economic Independence” which in the shape of his *Wealth of Nations* came about at virtually the same time as its American political counterpart in the magical year of Liberty, 1776. While we cannot foretell how

long Capitalism will last, economic history tells us that no system lasts forever and an evaluation of the man and his work will surely look different when assessed from the perspective of the system that is to follow.

As a curious aside and epithet on the tomb of Adam Smith, it may be noted that in his day and age the term “undertaker” stood for what we today call the “entrepreneur” and as he and all the other classical economists until the advent of Henry George forgot to factor in ‘nature’ as an element of the equation which leaves ‘greed’ as the prime engine of the economy. This in a macabre denouement may well be the true function of the enterpreneur on our blue jewel of a planet by violating, exploiting, polluting, strip-mining it till it has become fully uninhabitable for all future generations. The enterpreneur unchecked will than decidedly, as an irony of fate and economic history, and in fact have become the “undertaker” of the planet!

Not long ago the British Prime Minister Tony Blair related to a bemused press corps after a conference with the President of the United States that the President had told him he knew what was wrong with the French economy. And when the Prime Minister asked to be told the President answered: “The problem with the French economy is that they don’t have a word for entrepreneur!”

In view of the term “undertaker” the President may have been more on the ball on several levels of meaning than he himself may have been aware of.