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Why Bastiat is Still Great

Mark Thornton

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If we were to take the greatest economists from all ages and judge them on the basis of their theoretical rigor, their influence on economic education, and their impact in support of the free-market economy, then Frédéric Bastiat would be at the top of the list. As Murray N. Rothbard noted: “Bastiat was indeed a lucid and superb writer, whose brilliant and witty essays and fables to this day are remarkable and devastating demolitions of protectionism and of all forms of government subsidy and control. He was a truly scintillating advocate of an untrammelled free market.”

Claude Frédéric Bastiat was born in Bayonne, France on June 29th, 1801. He was orphaned at age nine and raised by relatives. He worked in his uncle’s accounting firm and then became a farmer when he inherited his grandfather’s farm. After the middle-class Revolution of 1830, Bastiat became politically active and was elected justice of the peace in 1831 and to the Council General (county-level assembly) in 1832. He was elected to the national legislative assembly after the French Revolution of 1848. Bastiat was inspired by and routinely corresponded with Richard Cobden and the English Anti-Corn Law League and worked with free-trade associations in France.

Bastiat wrote sporadically starting in the 1830s, but in 1844 he launched his amazing publishing career when an article on the effects of protectionism on the French and English people was published in the *Journal des Economistes* and was held to critical acclaim. The bulk of his remarkable writing career, which so inspired the early generation of English translators—and so many more—is contained in a new edition of a book published by the Mises Institute.

The pocket edition of *The Bastiat Collection* brings together his greatest works and represents the early generation of English translations. These translators were like Bastiat himself, people from the private sector who had a love of knowledge and truth and who altered their careers to vigorously pursue intellectual ventures, scholarly publishing, and advocacy of free trade.

This collection represents some of the best economics ever written. Bastiat was the first, and one of the very few, to be able to convincingly communicate the basic propositions of economics. The vast majority of people who have learned anything ➡

about economics have relied on Bastiat or publications that were influenced by his work. This collection—possibly more than anything ever written about economics—is the antidote for economic illiteracy regarding such things as the inadvisability of tariffs and price controls, and everyone from the novice to the PhD economist will benefit from reading it.

The collection consists of three sections, the first of which contains his best-known essays. In “That Which is Seen, and That Which is Not Seen,” Bastiat equips the reader to become an economist in the first paragraph and then presents the story of the broken window where a hoodlum is thought to create jobs and prosperity by breaking windows. Bastiat solves the quandary of prosperity via destruction by noting that while the apparent prosperity is seen, what is unseen is that which would have been produced had the windows not been broken. According to Rothbard:

In this way, the “economist,” Bastiat’s third-level observer, vindicates common sense and refutes the apologia for destruction of the pseudo-sophisticate. He considers what is not seen as well as what is seen. Bastiat, the economist, is the truly sophisticated analyst.

Professor Jörg Guido Hülsmann credits Bastiat for discovering this counterfactual method, which allowed Bastiat to show that destruction (and a variety of government policies) is actually the path to poverty, not prosperity. This lesson is then applied to a variety of more complex cases and readers

will never be able to deny that scarcity exists and will always—hopefully—remember that every policy has an opportunity cost. If nothing else, they will not believe—as is often claimed—that earthquakes, hurricanes, and wars lead to prosperity. The remaining essays cover the important institutions of society—law, government, money, and capital—where Bastiat explains the nature of these institutions and disabuses the reader of all the common misconceptions regarding them.

The second section is Bastiat’s *Economic Sophisms*, a collection of 35 articles on the errors of protectionism broadly conceived. Here Bastiat shows his mastery of the methods of argumentation—using basic logic and taking arguments to their logical extreme—to demonstrate and ridicule them as obvious fallacies. In his “Negative Railroad,” Bastiat argues that if an artificial break in a railroad causes prosperity by creating jobs for boatmen, porters, and hotel owners, then there should be not one break, but many, and indeed the railroad should be just a series of breaks—a negative railroad.

In his article “An Immense Discovery!” he asks, would it not be easier and faster simply to lower the tariff between points A and B rather than building a new railroad to transport products at a lower cost? His “Petition of the Candle-makers” argues in jest that a law should be passed to require that all doors and windows be closed and covered during the day to prevent the sun from unfairly competing with the makers of candles and that if such a

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law were passed it would create high-paying jobs in candle and candlestick making, oil lamps, whale oil, etc. and that practically everyone would profit as a result.

The third section is Bastiat's *Economic Harmonies*, which was hastily written before his death in 1850 and is considered incomplete. Here he demonstrates that the interests of everyone in society are in harmony to the extent that property rights are respected. Because there are no inherent conflicts in the market, government intervention is unnecessary. The borrower wants lenders to thrive so that loans will be available and the lender wants borrowers to thrive in order to collect interest on savings and to be paid back the loan principal.

This book is the basis of charges that critics have levied against Bastiat, claiming that he made theoretical errors and failed to extend the corpus of theory. I have shown elsewhere that these criticisms must represent a misreading of Bastiat, and Rothbard showed that Bastiat made the vital contribution of returning economics to a focus on wants, exchange, and consumption, correcting the errors of British political economy.

In a more recent and very important reappraisal of Bastiat, Professor Hülsmann has shown my suspicions to be correct. He demonstrates that Bastiat's *Harmonies* is an important theoretical innovation that was widely dismissed by interventionists and attacked by equilibrium theorists. Interventionists dismissed it because the analysis proves that society can thrive without any government intervention in the economy.

Equilibrium theorists saw Bastiat's conception of harmony as competition for their own concept of equilibrium—and rightly so—because while equilibrium is at best a useful fiction, harmony is an accurate conception of what

actually exists in a free-market world. Therefore, the equilibrium approach can in some cases mimic or equal harmony, but it can also be applied to misleading ends and is inapplicable for others.

Hülsmann also brilliantly shows how critics have misread and therefore misunderstood Bastiat's concept of value and service and that their criticisms are invalid. The Hülsmann reappraisal smashes the critics and their echoes and is therefore an important primer for this section. Also see the important article by Joseph T. Salerno who shows that the marginalization of Bastiat and the French School involved a long process of deliberate distortion by their doctrinal enemies among the Anglo-American economists.

Patrick James Stirling translated Bastiat's *Economic Harmonies* (1860) and *Economic Sophisms* (1863), which are reproduced in this collection. Stirling was a student of Thomas Chalmers, an important Scottish economist of the first half of the nineteenth century and leader of the Free Kirk schism from the Church of Scotland. Stirling was the author of *The Philosophy of Trade*, in which he provided a theory of prices and profits and examined the principles that determine the relative value of goods, labor, and money. In *The Australian and Californian Gold Discoveries and their Probable Consequences*, he examined the impact of the large nineteenth-century gold discoveries and the laws that determined the value and distribution of money and where he exhibited a proto-Austrian theory of the business cycle. Stirling has recently resurfaced in the economics literature as the author of the oldest known undergraduate essay in economics.

We remain uncertain regarding the early translations of the essays in the first section of this volume (many translations of this period were unsigned), but what we do know

seems to reinforce the Scottish connection to Bastiat. William Ballantyne Hodgson, who held a chair in political economy at the University of Edinburgh, translated the essays from “That Which is Seen, and That Which is Not Seen” for publication in newspapers and later as a booklet. *Economic Sophisms* was first translated by Mrs. Louisa McCord (a Scottish surname) from Charleston, South Carolina.

The first section is based on the David Wells (also a Scottish surname) edition of the essays which contained

the long-out-of-print essay, “What is Money?”

This collection of early translations is dedicated to improving economic literacy and eliminating the frustration of economics teachers everywhere. No one is better able to do so, and in such a forceful and entertaining way, than Bastiat. He wrote about broad principles that apply in all times and places, and, for this reason, he speaks to us as clearly in our time and his writings spoke to his country in his time. Bastiat is for the ages. ■ FM

The Coming QE3

Llewellyn H. Rockwell, Jr.

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Austrian School economists have often explained the business cycle using the metaphor of liquor or drugs. The expansion of paper money and credit gives a sense of exuberance, an economic high that leads to excessive risk taking and balloons of production. But it can’t be sustained. There is a morning after.

Then what? There is a choice: more drugs and liquor—or sobriety. Sadly, the economy—meaning the choices made by you, me, and billions of others—is not permitted to make the choice. It is made for us by our lords and masters in Washington. Here are the meth dealers. Guess what choice they make.

And so we had Bush’s QE1 (QE stands for “quantitative easing,” a euphemism for printing money), but the effects didn’t last that long. Then there was Obama’s QE2 and the effects of that are likely to run out sometime this summer. (As an aside, maybe we should just start referring to the QE[n] administration, inserting the appropriate number, since otherwise these presidents are mostly interchangeable.)

Note the following important point: These various attempts to restore the inebriated happy time have unpredictable and uncontrollable effects, and the metaphor helps here, too. The body is weakened. It might take more of the drug to get the same effect. The drug

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promotes underlying disease. Each new dose makes the person ever less rational, ever more incoherent.

The stimulant can land anywhere but where it is intended to land by the money printers. The Fed wanted to lift housing prices and restimulate the entire real-estate sector. But guess what? Housing prices are still falling, and new home construction just tanked at a faster rate than at any time in 27 years.

What is being stimulated? Stock prices, certainly, but that is not wealth. Stock prices are just prices. They are no different than apple prices, coffee prices, and gas prices. When these go up, do we say, *fantastic news, we are wealthier*? Of course not. The belief that a rising stock price is great news remains one of the most wicked of all economic myths.

Then there is the problem of price increases more generally. The producer price index for February has generated terrifying results, though you probably haven't heard about them. Predictions were for a 0.6 percent increase but the reality was 1.6 percent, which points to double digits on an annualized basis.

And that is just the beginning. Food prices rose the most since November 1974. Prices of raw materials rose by 3.4 percent in February from the previous month. Intermediate prices climbed 2.0 percent, with diesel fuel up a monthly 12.6 percent in February. These huge increases were counterbalanced by falling prices in cars, trucks, warehousing, and other areas that have already been showing signs of a postboom slump.

Will there be a QE3? Most likely. Bernanke believes that as long as unemployment is high, the Fed should keep inflating. And aside from his theoretical problems, the Fed works as an errand boy for the big banks and Wall Street. That will drive his decisions, along with politics. And we can be all but certain that there will be plenty of

bad news around by the summer and fall, which will provide enough cover for another round of stimulus.

Meanwhile, what's anyone going to do about the problem of much higher prices, which is the ghastly beast waiting around the corner? The truth is that the Fed pretends as if it has nothing to do with this. Bernanke routinely says that prices are formed by supply and demand—which is true enough in a free market, but money creation complicates the picture.

Another truth is that the Fed doesn't really care about inflation as much as it cares about the solvency of the banking and financial systems. Bernanke would drive us right into hyperinflation to save his industries. Savers living on pensions just don't have the political clout to stop the money machine.

And contrary to Bernanke's promises, he does not have the ability to turn off the monetary spigot once prices start zooming. The economy is too globalized for that. Keep in mind that although the Fed has loads of power, it has no power to control inflationary expectations and the demand for cash generally—and in hyperinflationary environments these are the driving factors.

History is littered with monetary managers who believed they were in total control—until the disaster hit. It is hubris of the first order to believe oneself master of the universe—but hubris is endemic in Washington.

QE3 is playing with fire. Or with a third dose of meth. Or another bottle of Jack. Choose your metaphor. It is a bad and deeply dangerous policy, all built on the insane view that if you stimulate a zombie enough with fiat money, it will start to live and breathe on its own. The Fed and the government have hooked the American economy on a wicked drug. Our job is to drive the dealers from their seats of power. ■ FM

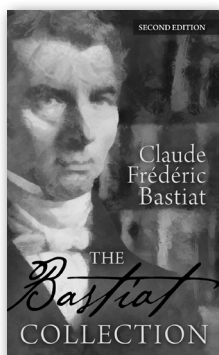
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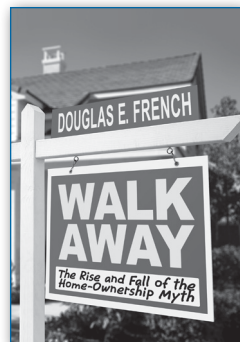
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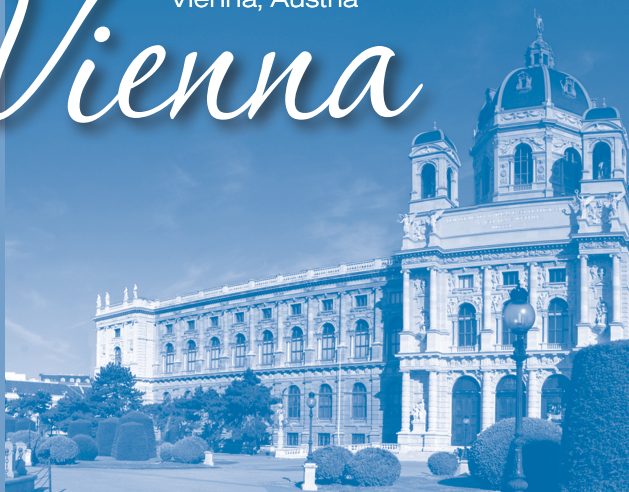
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