

COMMERCE AND GOVERNMENT: CONSIDERED IN
THEIR MUTUAL RELATIONSHIP. BY ÉTIENNE BONNOT,
ABBÉ DE CONDILLAC. TRANSLATED BY SHELAGH ELTIS.
CHELTENHAM, U.K.: EDWARD ELGAR. 1997.

With the publication of Murray N. Rothbard's monumental work *An Austrian Perspective on the History of Economic Thought* in 1995, contemporary Austrian economists have become aware that they are the modern heirs to a grand intellectual tradition. The first fruit of further research in the Austrian tradition was *15 Great Austrian Economists*, a small volume edited by Randall G. Holcombe in 1999. In the meantime, some predecessors of modern Austrian economics have received more attention. This is the case with Richard Cantillon and, most notably, with Frédéric Bastiat whose bicentenary was celebrated in 2001. By contrast, three major figures have so far been unduly neglected: Friedrich von Wieser (1851-1926), Richard von Strigl (1891-1942), and Étienne de Condillac (1714-1780). In the case of the latter two, their pioneering works in economics have only very recently been translated into English and have not yet penetrated the contemporary communities most akin to their messages.¹ This holds true in particular for Condillac's *Commerce and Government*, a work that is indeed nothing less than one of the great milestones in the history of economic science and on equal footing with the works of Cantillon, Say, and Bastiat.² The ideas contained in this book not only have a strong affinity with Austrian economics, but they also had a considerable and direct impact on the development of Menger's thought. Menger acknowledged this influence in his

¹Of Richard von Strigl's four books, all of which are important contributions to economics, only his monograph on capital theory has been translated. See Strigl (2000).

²Rothbard (1995, pp. 409 ff., 526 f.) seems to have known Condillac's work only from secondhand sources. Otherwise he probably would have given him far more prominence in his history of economic thought. *Commerce and Government* is in fact the first full-blown axiomatic-deductive treatise of economics based on a subjective-value theory. As a systematic work it is far superior to Cantillon's *Essay on the Nature of Commerce in General* (1734), which work Rothbard presents as the foundational treatise of economic science.

Principles of Economics by quoting Condillac more than any other foreign author except for Adam Smith.³

When Étienne Bonnot, Abbé de Condillac published *Le commerce et le gouvernement* in 1776, he already had an established international reputation as one of the most brilliant philosophers of his time. But whereas his philosophical work was widely acclaimed and is still studied today, his economic thought has been systematically neglected. Almost 140 years ago, Macleod (1863, pp. 543 f.) expressed the hope that the historiography of economic science would now finally do justice to Condillac's treatise, which he believed was infinitely superior to the famous, but confused and contradictory, *Wealth of Nations*, which had appeared in the same year. But this hope was premature: the first English translation of *Le commerce et le gouvernement* didn't appear until 1997.

In part, this neglect is due to the fact that the book was Condillac's only work on economics and that he did not have the time to build up a school of followers. But as Shelagh and Walter Eltis explain in their very useful introduction "The Life and Contribution to Economics of the Abbé de Condillac," the main reason was that Condillac was not affiliated with the professional economists of the Quesnay School. France, in 1776, was the homeland of economic science and the mainstream school of the time was the Physiocrats. Their writings were quickly translated into English and thus vaulted into the Anglo-Saxon world. But not so in the case of Condillac, who was no disciple of François Quesnay. The work of an outsider *Le commerce et le gouvernement* was not deemed worthy of translation. And so it came that the only work that had the power to stem the tide of the new anti-subjectivist economics à la Adam Smith, was largely ignored in the nineteenth century, at a time when a great number of Anglo-Saxon economists still read French, and even more so in the intellectual dark ages of the twentieth century.

Before highlighting some of Condillac's insights about specific points of economic theory, let us emphasize a fundamental contribution through which he anticipated modern Austrian economics. *Commerce and Government* is indeed an exercise in deductive-axiomatic analysis of human action. Condillac starts by considering the most general economic phenomenon—value—and then proceeds step by step to study prices, pricing, markets, exchange, the market process, wages, wealth, the economics of cities, property rights, money, interest, equilibrium prices ("true prices"), monopoly, the supremacy of consumption in steering production, the allocation of resources, and taxes. Having thus completed the analysis of the free market, he turns, in the second part of the book, to studying the impact of various government interventions on the operation of the market economy. He calls these interventions "blows

³Menger quoted Condillac 6 times, while quoting Bastiat (2), Mill (3), Ricardo (5), Say (5), Senior (2), Smith (9), and Turgot (5). Even more to the point, whereas most of the Smith quotes are negative, Menger quotes Condillac only approvingly.

directed against commerce” (*atteintes portées au commerce*) and points out, again and again, their nefarious consequences.

Hence, the general structure of the book exactly parallels that of the best modern Austrian writings on political economy. And Condillac bases his radical free-market conclusions on precisely those facts that Jean-Baptiste Say, Frédéric Bastiat, Ludwig von Mises, and Murray Rothbard have emphasized too: that exchange is productive,⁴ that consumption steers production,⁵ and that every production is a market for other productions (“Say’s Law”). In a chapter entitled “How Needs, in Multiplying, Give Birth to the Arts, and How the Arts Increase the Mass of Wealth,” Condillac states (pp. 104f.):

It is the farmer who provides all the primary material. But such primary material, as would be useless and without value in his hands, becomes useful and obtains value when the artisan has found the way to make it serve the needs [“usages”] of society.

With each skill that begins, with each advance it makes, the farmer thus acquires new wealth, because he finds value in a product which previously had none.

This product, given value by the artisan, gives a fresh spur to commerce for which it is a new stock in trade; and it becomes a new source of wealth for the farmer because, as each product acquires value, he makes new consumption for himself.

Thus it is that all farmers, merchants, artisans, come together to increase the mass of wealth.

Condillac concludes:

It is therefore proved that in the final analysis industry is also a source of wealth. We shall expand on this matter some day soon. It has been much obscured by some writers.

No wonder he was not met with enthusiasm from among the ranks of mainstream economists of his day, who entertained precisely the erroneous notion that farming alone was the origin of all wealth.

In another brilliant insight about the workings of the market economy, Condillac rejected the conventional theory of the origin of money, arguing that money had emerged out of commodities like gold and silver, which had a large market and were therefore suitable to be “the common measure of all values” (p. 126).

Let us turn now to Condillac’s sober and pitiless analysis of government interventionism, an excellent contribution even by modern standards. Again

⁴The title of Chapter 6 (first part) reads “How Trade Increases the Mass of Wealth” (p. 99).

⁵The title of Chapter 24 (first part) reads “How Production Regulates Itself According to Consumption” (p. 176).

and again, Condillac points out that these interventions create disorder. He criticizes the stupidity of glorifying war as productive of wealth (pp. 230f.), explains that government grows through its attempts to suppress the black markets it has itself created (pp. 233, 238), and anticipates the economics of the Laffer curve (p. 233). He also argues that professional associations, seeking government intervention in their favor, spur bureaucratization (pp. 235ff.), and in a pre-Rothbardian manner ridicules the distinction between (civil) human rights and (economic) property rights: “The rights of humanity opposed to those of property! What gibberish!” (p. 269).

A short passage in his chapter on government meddling with money shows that he anticipated to some extent the Misesian theory of the business cycle. Here he describes how a speculative frenzy, induced by coinage debasement (“reductions”), is entertained for a while through further debasement. The frenzy comes to a violent halt and a crisis breaks out when the king stops making payments, even in money that is further debased. States Condillac (p. 246):

So people found it very easy to borrow. This ease deceived incautious merchants who thought they must seize this opportunity to form some new enterprises. They took this money that was offered them, and they bought, but dearly, either because their competing demands raised prices, or because they paid with money which, from one day to the next, was to fall in value.

However, after several reductions, the king himself began to lock up the silver in his strongboxes. Payment at his treasury ceased. So mistrust was general and one saw no more silver in circulation. Merchants who had borrowed it did not have enough for everyday essential expenditure. Then, forced to empty their warehouses and to sell at a 50 or 60 per cent loss, they saw how they had been deceived in their speculations. The majority became bankrupt.

But the most astounding insight of Condillac’s is his anticipation of the Misesian theory of interventionist dynamics, which he combines with a proto-economic calculation argument. Says Condillac (pp. 261f.):

When trade is perfectly free, the quantity and the need are apparent in all the markets. Then goods put themselves at their true price, and plenty spreads equally everywhere. That is what we have proved sufficiently.

But when one has once taken all freedom from trade, it is no longer possible to judge, either if there is really an imbalance between the quantity and the need, or what it is. If it were slight, it grows from day to day, through the people’s fear and the monopolists’ greed. Then circulation is constantly suspended by the obstacles it finds in its path; and it can happen that all the provinces have shortages at the same time, or at least that they experience scarcity one after the other.

It is true that the government redoubled its efforts in these circumstances. But its operations, always slow, could not bring help equally everywhere, as a crowd of merchants spread out on every side would have been able to

do. Yet it found itself compelled to all the greater expenditure as the purchases on its behalf were made lavishly and sometimes dishonestly.

It was making useless attempts to settle the disorders. Its first regulations had produced them: its last regulations were bound to perpetuate them, or even to make them grow more.

It persuaded itself that the high price or dearth resulted from a residue of freedom. Consequently, *It was forbidden to all persons to undertake trade in grain without having obtained permission for it from officials appointed for that purpose.* [He goes through a list of other regulations, then concludes:]

There you have what in an abuse of language was called *police regulations*, as if order could have emerged from the regulations.

These quotes should suffice as proof that *Commerce and Government* is an extremely important book in the Austrian tradition. Reason enough, I shall hope, for every Austrian economist to become acquainted with it. The book is essential reading for students of the history of economic thought, but it could also be used with great profit as a supplementary reading assignment in any course on the principles of economics. Condillac's work is a timeless classic. Its elegant prose and the axiomatic clarity of the argument still make it a great introduction to economics.

JÖRG GUIDO HÜLSMANN
Auburn, Alabama

REFERENCES

- Condillac, Étienne de. 1997. *Commerce and Government Considered in Their Mutual Relationship*. Shelagh Eltis, trans. With an introduction to his life and contribution to economics by Shelagh Eltis and Walter Eltis. Cheltenham, U.K.: Edward Elgar.
- Holcombe, Randall G. 1999. *15 Great Austrian Economists*. Auburn, Ala.: Mises Institute.
- Macleod, Henry Dunning. 1863. *A Dictionary of Political Economy*. Vol. 1. London.
- Rothbard, Murray N. 1995. *An Austrian Perspective on the History of Economic Thought*. Cheltenham, U.K.: Edward Elgar.
- Strigl, Richard. 2000. *Capital and Production*. Auburn, Ala.: Mises Institute.