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# Working Paper No. 30, On the Origins of Laissez-Faire

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# On the Origins of Laissez-Faire

**Working Paper No. 30**

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**Abstract:** This paper traces *laissez-faire* back to its French roots, and in particular, to its origins as a political philosophy evoking an economic approach. Related to his visit to France in the 1760s and his personal contacts, we suggest that Adam Smith serves as the link between selected French thinkers and what after Smith's *Inquiry* would be widely accepted as a quintessentially Anglo-Saxon tradition in economics. Exploring doctrine, we offer linkages between F. Quesnay, A. Turgot, J.J. Rousseau, and Smith's ideas. Similarities in Smith's understanding and the French exponents regarding economic activity *vis-a- vis* a public sector are presented, along with what we characterize as their minor departures related to relative size and tasks of the public sector, agriculture policy, role of competition, taxation and expenditure, as well as consumption by the wealthy.

***Journal of Economic Literature* Classification Codes:** B11, B12, B31

***Key Words***: *Laissez-faire,* Adam Smith, Francois Quesnay, Anne Robert Jacques Turgot, Jean Jacques Rousseau, French Enlightenment, Public Sector, Public Receipts, Public Expenditures

The term "*laissez-faire*" is used freely in modern Economic Science as though it were just another awkwardly pronounced English language word. Such is far from the truth. As the foreign origin of the word suggests, *laissez-faire* is rooted in the French language and this term connotes a philosophical movement in France that was in full swing in the second half of the 18th century. This movement would not only provide some of the explosive fuel that fired the French Revolution of the late 1780s, but would also generate key ideas that would find their ways into the foundations of what later would be lionized—and also vilified—as an Anglo-Saxon tradition in Economic Science.

How is it that the French term "*laissez-faire*" found its way into the English language? More importantly, how is it that this French term would remain active, useful, descriptive, and continuously evocative for more than two centuries—as a familiar and still frequently used term found in contemporary text books describing much more than just an economic system of yore?

We think this story deserving of consideration. To begin we have to consider who we suggest is the likely link between the French and English philosophical worlds: Adam Smith, a Scottish thinker of renown. Of special interest to us is how it is that Smith initially came into contact with the term, the concepts, and principles of *laissez-faire*, and how it is that this term and its meanings were incorporated into his seminal and highly influential contributions to classical political economy, especially what is widely recognized as his masterwork, *An Inquiry into the Nature and Causes of the Wealth of Nations,* first published in 1776.

Biographers note Smith as a man of modest origins, borne into the world on the north bank of the Firth of Forth in the Scottish town of Kirkaldy in about 1723. His formal education and academic career—though stellar—were limited to institutions based in Scotland and England. It was after his studies that the highly educated Smith accepted a contract to tutor the young Duke of Baccleuch from years 1763 to 1766. We think that this job and these few years provide the key piece to help us assemble the *laissez-faire* puzzle.

In his *Great Economists before Keynes*, Mark Blaug (1986, pp. 233-234) notes that Smith traveled with the young Duke to the Continent and to France, where he would meet with thinkers of the day: such as Francois Quesnay and Anne Robert Jacques Turgot, as well the *philosophes* Jean Jacques Rosseau and Voltaire. Robert Heilbroner (1999, pp. 49-50) suggests that Smith spoke the French language "passably well" and developed a personal affinity for Quesnay to the degree that he almost dedicated his *Inquiry* to him.

**Origins of Laissez-Faire as a Philosophical Approach**

Quesnay, Turgot, and Rousseau emerged as exponents of ideas that would connect them with a cultural movement characterized as an "enlightenment." Lionel Rothkrug (1965) traces the origins of the French Enlightenment, in particular, to popular reactions and oppositions to policies Louis XIV, the late 17th century monarch.

Like Rothkrug we also view the French Enlightenment as a reaction to controlling institutions of the 17th and 18th centuries, and as a ground swell that would formidably challenge the monarchy and the Roman Catholic Church.

With respect to the latter, the Enlightenment challenged views that had long been supported by doctrines and carried out in practices by the Church. In his seminal *Summa Theologica,* 13th century scholastic Thomas Aquinas (1956, Vol II, p. 959) notes in Question 83 "Of the Subject of Original Sin:" that the "… rebellion of the flesh against the mind arises from the corruption of original sin." In Aquinas's influential view, human beings are also thought to be tempted by qualities inherent in their flesh to commit others sins, both venal and mortal. Since human beings are born with original sin and then face temptation to commit other sins, Aquinas—like Augustine from whom he draws (Cantor, 1969) —recognizes the importance of "redemption:" what the Catholic Church, in particular, specialized in offering as the foundation for eternal life.

As a departure from Church teachings exponents of the French -- as well as the broad based European Enlightenment -- promoted a seemingly radical position: namely that human beings were basically and inherently good. Frank Manuel (1965, p. 5) notes that a moderated version of enlightenment opinion accepted that human beings were "… at least capable of becoming good."

The enlightenment view purports that prominent and powerful social institutions—that would certainly include institutionalized religion as well as monarchy—prevented human beings from realizing their goodness. With this perspective in mind, and as a way toward improve the inhibiting character of social institutions, Enlightenment thinkers purported a corollary: namely, that human being could live outside of the controls of these two institutions, and govern themselves. In addition, enlightenment thinking—and especially in France—purported that human beings and society at large would more readily achieve higher goals of individual liberty and personal freedom, as well as fraternity and equality: if economic activity were unfettered from the shackles of tradition held on to by the Church and the ancient institution of monarchy.

France's monarchy, in particular, was cited by Enlightenment thinkers for its influences on economic activity through economic policies generating economic outcomes. In the second half of the 17th century during the reign of Louis XIV, a minister by the name of Jean Baptiste Colbert (1618-1683) created and implemented a wide range of regulations often characterized as "mercantilist" to protect and attempt to foster agriculture and nascent industry. As French historian Charles Cole (1943, p. 112) teaches us, M. Colbert relied on "… a technique of encouraging industry by government support, by the granting of privileges, and by the extension of tariff protection…." So powerful was Colbert and his interventionist approach that his legacy lives on and is evoked by the term *Colbertisme*, an *Étatist* philosophy: and an *-isme* or -ism deemed anathema to principles of modern economics based on private ownership of property, and allocation through markets tempered by forces of competition—what we as coauthors hold would later be characterized as a quintessential, Anglo Saxon economic view.

**Seminal Contributions to Laissez-Faire**

Quesnay in his *Tableau Economique* (1768), Turgot in his *Reflections on the Formation and Distribution of Riches* (1774), and Rousseau in his *Discourse on Political Economy* (1755) provides examples whereby public administration directly infringes on the functioning of markets via direct regulation, and indirectly via excessive taxation.

Both Quesnay and Turgot were leaders in a movement known as "Physiocracy," a school of thought emphasizing agricultural production, and with the soil as the sole generator of economic surplus taking the form of grain. They advocated that the public sector's influence in the agricultural economy should be minimized. Many of Quesnay's notes purporting a philosophy introduced by the term "*laissez-faire"* are found in his famous *Tableau Economique*, as critiques of public sector intervention in the agricultural economy of his day. Turgot would establish himself as Minister of Finance, Trade and Public Works under Louis XVI, a position from which he could advocate extensive reforms that included abolishing monarchical restrictions on grain trade, dissolving of medieval guilds, as well as ending, as Blaug, (1986, p. 254) notes, the controversial *corvée* labor that was relied upon for public construction projects and road maintenance. Turgot promoted a policy shift: whereby those laboring for public projects would not be fulfilling *corvée* feudal obligations, but would be compensated with wage payments.

In short, Turgot advocated freeing up economic activity from centralized, public and monarchical influences. Smith would have come into contact with Turgot toward the start of his tenure when he was employed as chief administrator for the District of Limoges from years 1761-1774 (Blaug, 1986, p. 254), some years before he began his more influential administrative posts.

Rousseau is better known as a philosopher and a social critic than as an economic theorist. He achieved both celebrity as well as notoriety in his day: especially for his *Discourse on the Sciences and Arts* (1750) and his *Discourse on the Origins of Inequality* (1750). Blaug (1986, p. 234) teaches us that Rousseau and Smith met in France. In his lengthy autobiography, *The Confessions* (1781), Rousseau, however, fails to mention his contacts with Smith. As much as Rousseau and Smith's personal contacts remain neglected, the two, nevertheless, as we suggest below, articulated comparable opinions regarding taxation and economic regulation.

## Natural Law and *Laissez-Faire*

Quesnay's writings on natural laws of commerce serve as a useful starting point for our presentation. Section Five of Quesnay's *Observations of the Natural Rights of Men United in Society* (*Le Droit Naturel*) (1765) proposes that specific natural laws regulate commerce. Quesnay claims that governments can and should institute "positive" or secular laws to ensure that "natural" laws are observed. A nation's prosperity, according to Quesnay, depends on its government's ability to generate laws conforming with natural laws. Quesnay mentions that many natural laws emphasize preservation of private property, and that an effective government should and is bound to defend an individual's property. In "Observation Five" of his famous *Tableau,* Quesnay refers to monopolies and surcharges as conditions in commerce that should be reduced to a necessary minimum by a public sector.

About one decade later Smith would introduce suggested natural and commercial laws and note consequences of diverging from them. In Chapter Seven of Book I of his *Inquiry*, Smith (1952, pp. 22-27) discusses the existence of natural rates for wages, profits, and rents. These natural rates, in turn, affect and even serve to regulate – and with a degree of precision -- not only values of commodities, but also their supply to markets. Price competition is suggested to prevent both shortages and surpluses. According to Smith, therefore, markets efficiently regulate themselves through forces of competition.  Similar to Quesnay, Smith writes of  external influences as interfering with a natural flow of commerce.  Smith (1952, pp. 233-234) notes in Chapter Six of Book IV of his *Inquiry* that allowing privileged trading status to organizations reduces competition, permitting such organizations to charge prices above natural prices.      In Chapter Nine of Book IV, Smith (1952, p. 300) suggests a commercial economy with limited governmental restraints: as a natural state of liberty in which people as agents are free to follow and pursue their noble interests that are suggested to generate desirable societal outcomes.  Smith's view runs parallel to Quesnay's conclusion:  that allowing natural laws of commerce to wield influence over markets would not only prove  fair, but would also prove beneficial to society.

**Turgot and Smith on Financial Markets and Government Expenditures**

Both Turgot and Smith reflected on the role of government in setting interest rates for money.  Smith's opinions are not identical to Turgot's, though we find a similar thrust.

Turgot's  *Reflections* were  published in 1793 almost twenty years after Smith's *Inquiry.* However, as his title suggests, this work could well contain ideas held prior to Smith's book, and from the time that he met with Smith.  Turgot (1971, pp. 92-93) argues in Section 76 that markets efficiently determine interest rates.  Turgot notes that demand for money fluctuates in a similar way that demand fluctuates for physical commodities. Thus he suggests there exists no greater reason to institutionally fix interest rates for money than it does to fix prices of commodities moving through markets.  Smith considers similar views, however, he introduces selected qualifications worth noting.

Smith (1952, p. 154) suggests in Chapter Five of Book II of his *Inquiry* that interest rates could be set slightly above the lower range of market rates.  He adds that setting the interest rate for money either below or above the market rate, would eliminate usury and borrowing altogether. Heilbroner (1996, p. 196) considers in his *Teachings from the Worldly Philosophy*  that Smith supported the institutional establishment of ceilings on interest rates, making Smith less *laissez-faire*—so to speak—with regards to interest rates, compared to what was advocated in the writings of Turgot.

Turgot and Smith do, however, agree that taxing interest revenues would prove economically harmful.  In Section 76 of his *Reflections*, Turgot (1971, pp. 92-93) argues that a lender requires a stable return for the cost of his using money, and that taxing said return would lead a lender to charge a higher interest rate: what would serve to discourage borrowing.  Smith

(1952, pp. 372-374) makes the point in Chapter Seven of Book V of his *Inquiry*, that taxing interest on money tends to discourage investment in a nation, and consequently leads to reduced levels of employment and declining wages. Both Smith and Turgot concur that taxing interest on money generates predictable, negative outcomes for an economy. Smith and Turgot also comment regarding what they note as excessive public expenditures.

From his post as Minister of Finance and Trade and Public Works, Turgot stressed that the public sector should maintain a budget that balances expenditures with receipts. Blaug (1986, p. 254) notes Turgot as "strict" regarding public expenditures. Smith (1952, pp. 403-4) stresses caution and even pessimism toward the use of public expenditures in general. In Chapter Three of Book V of his *Inquiry*, Smith states that governments tend to be too indulgent in times of peace, and that governments also tend to run excessive deficits and accumulate debts during times of war. While Smith claims that war related deficits might be justified, he suggests that governments are not sufficiently frugal in times of peace to offset wartime expenses. Smith suggests that many European nations tend to perpetually run deficits that also generate ruinous outcomes.

**Toward a Common Agriculture Policy**

Turgot, Quesnay, Rousseau—as well as Smith—seem to find common ground when considering agriculture and related policies.

In Sections Two and Three of his *Reflections*, Turgot (1971, pp. 3-5) explains that production and output derived from agriculture is associated with a lengthy and challenging process requiring significant labor inputs. Turgot's claim regarding the arduous character of agricultural production suggests that it not be made even more challenging through poorly founded public sector policies. In the "Fifth Observation" in his *Tableau*, Quesnay states that tariffs and tolls serve to diminish levels of revenues for a proprietor developing agricultural lands. In Chapter Nine of Book V of his *Inquiry*, Smith (1952, pp. 288-9) notes that policies restricting flows of agricultural production -- such as export constraints as well as taxes on transport -- discourage a nation's agricultural development. Smith refers to protectionist policies of M.Colbert. Though a man long since dead, Colbert's tradition – in theory as well as in implemented policies – posed as a nemesis to Smith, Quesnay, and Turgot, especially when noting how trade regulations fetter economic activity. Rousseau also sides with Smith and Turgot. In *A Discourse on Political Economy Political Economy*, Rousseau (1992, p. 166) refers to the relatively more productive English, Dutch and

Chinese agricultural systems in which farmers have but light taxation burdens.

**Rousseau and Smith on Public Sector Growth**

Rousseau's reflections suggest an approach to economics that is comparable to Smith's, though not always in agreement. In his *Discourse* Rousseau (1992, pp. 162-163) also suggests that the state should assume duties such as defense and administration of justice, points articulated in Chapter One of Book V of Smith's *Inquiry*. Rousseau (1992, p. 163), however, voices greater skepticism than does Smith, especially regarding a state's proclivity to increase in size and impose yet heavier tax burdens on its citizens. Rousseau (1969, p. 127) likewise expresses a general skepticism concerning civil life: namely, that civil life would not likely be supportive of human well being. Rousseau (1992, p. 164) tends to associate expansion of a public sector as integral to exerting yet greater control over citizens, by making them poorer and more dependent on a centralized government.

Though skeptical of a public sector, Smith, nevertheless, fails to evoke the inherent skepticism of Rousseau. Smith (1952, p. 315-357) suggests in Book V of his *Inquiry* that government assume a range of responsibilities and duties. Heilbroner (1996, pp. 105-5) notes in his *Teachings* that Smith suggests that government is best suited to serve the public in areas such as regulation of banks, educating children and ensuring public health. In contrast, in his *Discourse* Rousseau (1992, p. 163) claims that establishing public granaries is a viable excuse for raising taxes. However, Rousseau (1992, p. 165) suggests that taxes should only be levied by public consent. Smith seems to think of taxes as less taxing. With these as differences, both Enlightenment thinkers agree that the wealthy, as well as public officials, are likely to manipulate markets in their own interests and for their own gain at the expense of the public.

**Smith and Rousseau on the Wealthy and on Public Funding**

Rousseau and Smith concur that governments are vulnerable to self interests of public administrators and influential individuals, and especially the wealthy. Blaug (1986, pp. 234-5) refers to Smith's assertion that businessmen will unite in their efforts to reduce market competition, and that legislatures tend to be untrustworthy. In particular, Smith (1952, p. 199) refers to the harmful character trade restrictions impose between France and England. In Chapter Three of Book IV of his *Inquiry*, Smith stresses that legislatures in their decisions are more likely directed by their petty interests than broader interests in economic progress. In *The Worldly Philosophers,* Heilbroner (1999, pp. 69-70) summarizes Smith's expectations: that businessmen will seek to create monopolies that will also prevent members of society from purchasing goods at the lowest possible prices.

Rousseau (1992, p. 162, 165) succinctly claims that civil servants will emerge biased toward their personal needs versus those needs of society, and that the wealthy will enjoy disproportionate political and social privileges for which they would confederate to defend.

Rousseau and Smith agree that spending on luxuries could serve as a resource for public funding. They both suggest several possible, beneficial outcomes from taxing luxury items. Rousseau (1992, p. 168) proposes that taxing expensive commodities would encourage the wealthy to spend their money on more economically productive ends. If such does not prove the case, then taxing would serve to raise money for the state treasury. According to Rousseau, the public would benefit from taxes in both cases. In Chapter Two of Book V of his *Inquiry*, Smith (1952, p. 384) claims that taxing luxury items discourages extravagance among the poor. Smith suggests in this passage that demand for luxury items is, in essence, price elastic: thus taxing luxury items should neither place an upward pressure on aggregate wages, nor serve to deter consumption, as would taxing necessities like food and clothing. Both authors agree that public funds should neither be increased in a manner that unnecessarily burdens the poorest citizens, nor interferes with workmen's wages and consumption. Taxing goods consumed by the wealthy are accepted both by Smith and Rousseau.

**Conclusion and Discussion**

This inquiry has noted several **s**imilarities between ideas of Adam Smith, regarding his understanding of *laissez-faire,* and those of Françios Quesnay, Ann Robert Jacques Turgot, as well as Jean Jacques Rousseau. I would like to qualify that it remains beyond the scope and even the aim of this inquiry to boast to have established a direct and causal relationship between Smith's visit to France and the later development of his ideas. However, I think that Smith's noted 'mingling'—as well as the commonality of thinking on several themes that were introduced—is certainly deserving of consideration, thoughtful pondering, and cautious conjecture.

This research leads me to conclude that Smith appears more analytical and detailed than was Quesnay; that he partially disagrees with Turgot, especially regarding interest rates; and that he is more optimistic than Rousseau with respect to allowing a public sector assume a role in economic society. Nevertheless, we are inclined to think of Smith's differences as minor departures, and we would thus like to characterize Adam Smith as a Scottish exponent of French *laissez-faire* in his own right.

We would like to note that since Smith came into contact with these exponents of the philosophy of *laissez-faire* while in France in the 1760s, he would have had almost a full decade to reflect on their thought tradition. Since its publication in 1776, Adam Smith's *Inquiry* is widely recognized—not only as the most seminal of contributions to Classical Political Economy—but also as the foundation of modern Economic Science that was consolidated in Alfred Marshall's *Principles of Economics* when it first appeared in 1890. We are of the opinion that Smith's master work would provide the intellectual cornerstone of what would later be appreciated as, thought of as, and boldly touted as: a quintessentially Anglo-Saxon—but not as a French—tradition in Economic Science.

Once John Stuart Mill introduced '*laissez-faire*', it would take its place as a key term connoting the Anglo Saxon and Anglo American approaches to economics and society.

The epoch of *laissez-faire* is typically traced from the early 19$^{th}$ century until its demise either at the start of World War One, or with the stock market crash in 1929. In his famous 1919 essay, "The End of *Laissez-Faire*," John Maynard Keynes traced this epoch's demise to world war one and the misplaced Versailles Peace Treaty. The bad years following Versailles, of which Keynes so righteously warned, were fraught by instability and economic decline, coupled with the rise of Bolshevism and the rise of Fascism along with Nation Socialism: programs designed to offer economic and social stability to regions of the world turn asunder by the demise of *laissez-faire*. In the wake of world war two, ideas Keynes had advanced in his *The General Theory of Employment Interest and Money* (1936) stressed the importance of effective demand and the role it could play in offering economic stability by increasing levels of employment and output. The Keynesian epoch proved a favorable epoch as it was associated with a post world war two recovery, generating a broadly shared world expansion often referred to as the 'Golden Era of Economic Growth'.

Neoliberalism would challenge and ostensibly replace Keynesian demand management starting with the so-called Reagan Revolution of the 1980s that also found its way as what is described as the 'Washington Consensus' influencing policy at multilateral institutions such as the International Monetary Fund and the International Bank for Reconstruction and Development.

Neoliberalism would finds its roots in doctrines of Classical Liberalism described as *laissez-faire*. It is important to keep in mind that

Classical Liberalism was based on freeing economic activity from control of French monarchies, especially. What exactly neoliberalism is freeing us from is less obvious. At the surface level, neoliberalism promotes policies that free us from Keynesianism, and the related rise of Keynesian states and their 'big govment', as voiced by the marginally literate.

However, a closer examination suggests Keynesian styled states and their demand management have not diminished in importance. A social consensus for bettering the lot of a nation's population through Keynesianism policies appears out of fashion. There is, however, at least on the part of vested interests, a consensus to rely on military spending to raise the levels of employment and output higher than what the neoliberal economy would warrant. Thus this current epoch of neoliberalsm, might be better defined as the era of a deteriorated, misdirected, and misused form of demand management often known as 'Military Keynesianism.' (Footnote 1)

**Note**
Thomas Breaden is a graduate of the Masters' Program in Economics at Portland State University.

**Footnote**
1. It is broadly accepted that Michaeal Kalekci introduced an understanding of 'Military Keynesianism' in his inquiry into the recovery of the Germany economy under the National Socialists in the 1930s. The purpose of this paper is not to undertake an exhaustive study of Military Keynesianism, but we would like to note a recent and popular presentation of Military Keynesianism described by the eminent political scientist, Chalmers Johnson in his 2007 article in *Harpers Magazine*.

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