UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

WORKING PAPERS IN ECONOMICS

No 477

Maximizing the Wealth of a Nation: A Paradigm for Political Economy

by

Joseph P. Kairys Jr.

December 2010

ISSN 1403-2473 (print)
ISSN 1403-2465 (online)

Department of Economics
School of Business, Economics and Law at University of Gothenburg
Vasagatan 1, PO Box 640, SE 405 30 Göteborg, Sweden
+46 31 786 0000, +46 31 786 1326 (fax)
www.handels.gu.se info@handels.gu.se

Maximizing the Wealth of a Nation: A Paradigm for Political Economy

Joseph P Kairys Jr[1]

Abstract

Politics and economics are inextricably linked. Government establishes and enforces the rules of the game for the economy, thereby determining not only how much wealth is created, but also how wealth is distributed across society. The *primary question of political economy* is easily stated: for whose benefit does government set the rules? This paper examines the fundamental conflict of interest between maximizing the wealth of a nation, versus maximizing the wealth of particular interests. The same distortions and deceptions have been used for centuries to obscure how government sets the rules of the game to benefit particular interests.

Key Words: political economy, rules of the game

JEL classification: A10, B20, B20, K00, P00

[1] P.O. Box 53, Rochester, MA 02770, USA; (email) joseph_kairys_ab81@post.harvard.edu

Introduction

In the battle between a planned economy versus a market economy during the 20th century, markets have won. Markets work. But in less than a generation since the collapse of communism, the dawn of the 21st century has revealed that the victory of markets remains incomplete. Instead of a victory lap for market economies, free market capitalism brought the global economy to its knees in 2008 with the worst financial crisis since the Great Depression of the 1930s. Why has this happened? What has gone wrong? The answers to these questions lie deeply hidden in the foundations of political economy.

There is a very simple truth which has been deliberately obscured across the centuries, time and time again. If government acts as an honest referee, minimizing the frictions between property rights, the total wealth of a nation's economy will be maximized. By establishing a level playing field for all her citizens, government can unleash the full creative power of market forces. But those same market forces will reduce profits to only the minimum level necessary to sustain long-term operations, as well as place limits on activities which cause harm to other property rights.

Here, deeply hidden, lies the most fundamental conflict of interest at the intersection of politics and economics, which this paper defines as *the primary question of political economy*. When government minimizes the frictions between property rights, the wealth created by the economy is maximized, and the distribution of wealth is determined by the hard work and creative genius of her citizens. However, if government can be influenced by particular interests to tilt the playing field, wealth is instead concentrated in the hands of those few who benefit from the tilt. By allowing frictions which interfere with market forces, the profits of particular interests can be increased, but only at the expense of society as a whole. Either government chooses to promote and support the market forces which naturally serve to constrain self-interest, or government allows the self-interest of particular groups to manipulate both the design and the enforcement of the rules of the game for the economy.

Tremendous effort has been expended across many centuries to hide and obscure the primary question of political economy – both at the level of economic theory, as well as at the level of debate in the public square. Once the primary question is brought into clear focus, the optimal role of government can be distilled to only four words: *Minimize frictions. Maximize wealth.* In order to maximize the wealth of *all* her citizens, government must resist the constant pressure from particular interests seeking to thwart market forces for their own selfish benefit.

Only at the point where frictions between property rights are minimized does the wealth of a nation reach its highest attainable point, its global maximum. Allais (1952) provides a wonderfully simple framework for thinking about how the optimal organization of society lies between the two possible endpoints of “no constraint” and “no freedom.” He states that the economic output at these endpoints “cannot be but very weak. Between these two minima exists a maximum position reached through a certain amount of regulation (p. 365).” “The best government,” according to Allais, seeks the "minimum of constraint and the best utilization of natural and spontaneous forces (p. 362)." Such a "situation of minimum constraint" lies "between the constraints of laissez-fairiste disorder and those of totalitarian order (p. 361)."

Allais is pointing to an even deeper truth which has been understood for millennia around the globe. The optimum point lies between the extremes. The Confucian Analects, for example, discuss the “Doctrine of the Mean,” 中庸, while Aristotle writes about μέσον, “in the middle of,” which has been translated as the “golden mean.” Although actually attaining the optimum is unlikely – because there will almost always be some particular interests who will succeed in having government tilt the playing field to their benefit – a simpler and more practical question can be posed. Is a nation moving *toward* the optimum because its government is actively working to reduce frictions? Or is a nation moving *away* from the optimum because of deliberately designed frictions to benefit particular interests, with the frictions increasing over time as the economic power of the particular interests grows?

But the “middle” is largely missing from the political debate, and the frictions between property rights are largely missing from economic theory, even though (or, perhaps, precisely because) these two simple concepts reveal the deepest insights about the primary question of political economy. Hayek (1948, p. 107) makes an invaluable contribution to the language of political economy when he introduces the term “pretending defenders,” thereby offering his explicit confirmation that the observed distortions and deceptions are deliberate. Hayek draws a sharp distinction between competitive order and “free enterprise” – the latter term often being used interchangeably with “free markets”, “*laissez faire*”, and “free market capitalism” in everyday usage. Hayek notes that those who loudly defend “free enterprise” may, in fact, be “defenders of privileges and advocates of government activity in their favor rather than opponents of all privilege (p. 107).” Hayek is very clear that “free enterprise” and competitive order “do not necessarily designate the same system (p. 111),” and that the “main concern must be to make the market work wherever it can work (p. 111).” In order to make markets work, Hayek clearly states that "competition can be made more effective and more beneficent by certain activities of government than it would be without them (p. 110)."

Both Allais and Hayek recognize that “free markets” do *not* represent an optimum point for society as a whole, because a policy of *laissez faire* by the government does not lead to a competitive order where the frictions between property rights are minimized. Coase (1988, p. 9), citing the example of organized stock and commodity exchanges, makes a similar point when he observes “that for anything approaching perfect competition to exist, an intricate system of rules and regulations would normally be needed.” The work of these three Nobel laureates, Hayek, Allais, and Coase, opens a window onto a radically different understanding of the optimal role of government from that which is constantly advanced by the pretending defenders of free market capitalism. Each of these economists has successfully penetrated through the accumulated distortions and deceptions in the language of political economy in order to find their way back to the deeper context in which the term “Laissez-nous faire” was first published by d’Argenson (1751), who skillfully argues for a balance between too much government and too little government.

Although specific expressions of the optimum being “in the middle” change with both time and place, the same point of convergence is repeatedly understood to exist. For a nation to actually reach, and then sustain, such an optimum point requires a widely shared understanding of the common interest. With such an understanding, d’Argenson (1764, p. 314) writes that the common interest is “incapable of being hijacked by particular interests who are the true enemies.” Without such an understanding, however, particular interests set the rules of the game for their own selfish benefit, time and time again.

Particular interests are able to hide and obscure the common interest by controlling the “narrative” which both frames and guides the debate in the public square about issues of political economy. Bodin (1576, p. 514) describes the misuse of rhetoric more than four centuries ago, and his description continues to ring true today:

> [Oratory] is nothing other than disguising the truth, & an artifice to make appear good, that which is bad, & right that which is wrong, & to make a great thing out of nothing, & from an ant to make an elephant, that is to say the art of lying well.

Particular interests routinely search out the equivalent of ants to ostensibly illustrate the grave harm to the public from proposed government regulations designed to reduce frictions, while completely ignoring the far greater benefits to the public which can be figuratively thought of as the “true elephants.” Lies, distortions, and deceptions have been used with great skill for centuries to advance particular interests at the expense of the common interest.

At the level of economic theory, research has carefully been guided *away* from the primary question of political economy through the introduction of two very deep distortions. The techniques which have been used are very simple to understand, once they are brought into clear focus. First, the frictions between property rights are assumed away, either explicitly or implicitly, unless a specific source of friction is the object of study. In a frictionless world of "minimum constraint," the economy naturally reaches its optimum point. When the "standard assumptions" of economic theory include both "perfect competition" and no harmful effects between property rights (i.e., no "externalities"), the effects of how government sets the rules of the game to benefit particular interests recedes quietly and unnoticed into the background. Second, a belief that markets are "self-regulating" has been deeply inculcated by pretending defenders, so that any regulations introduced by government are presented as harmful, even when such regulations are reducing frictions and supporting market forces. The harm from thoughtfully designed and effective regulations, of course, is to the profits of particular interests.

By explicitly studying the frictions between property rights, the "inflated" ants of pretending defenders can be reduced to their actual size as ants, while the "true elephants," which have remained hidden and obscured in the shadows, can emerge into their rightful place in the sunlight. The frictions between property rights can be broadly divided into two general categories: the costs of exchanging property rights, and the costs of protecting property rights. Many, but not all, of the institutional structures of advanced market economies are designed to minimize such frictions, and frictions of varying magnitudes can be found throughout the economy.

This paper focuses on two of the "true elephants," where frictions are deliberately introduced for the benefit of particular interests. In looking at the costs of exchanging property rights, the most important question is that of monopoly versus competition. More specifically, how do actual market prices compare to their "natural price" under conditions of "free competition"? Although Adam Smith (1776, v. 1, pp. 66-78) and Ricardo (1817, pp. 82-89) each devote a full chapter to a discussion of market price versus natural price, the term "natural price" has effectively been eliminated from the language of modern economics. Yet natural price provides the reference point from which to infer what the Dutch political economist de la Court (1669, p. 89) calls an "impost," what Adam Smith (1776, v. 1, p. 317) calls an "absurd tax," and what this paper terms a "private tax." When government fails to minimize the frictions associated with the exchange of property rights, particular interests are effectively allowed to levy private taxes on the general public.

As for the costs of protecting property rights, the most important questions are how does government assign liability for the harmful effects caused to other property rights, and what are the costs involved when those harmed pursue their claims for damages? Eucken (1952, p. 279) provides an exceptionally clear and simple premise from which to begin an investigation of these questions: "Who has the benefit, must also bear the loss." From this simple starting point, many of the laws and regulations passed by government, together with the level of their enforcement, reveal a repeated bias toward protecting the profits of particular interests. Similarly, pursuing legal action against the party causing harm reveals a process that is often made both costly and prolonged by design, and where legal action is only possible when the party causing the harm can be identified. When responsibility is diffuse, such as excessive leverage leading to a man-made "earthquake" like the global financial crisis of 2008, government bears the responsibility for creating the equivalent of a "building code" for the economy by placing thoughtfully designed limits on the total amount of leverage in the economy.

By bringing these "true elephants" of political economy into clearer focus, an even deeper truth begins to emerge which can be felt on an intuitive level. The frictions between property rights determine how the economy really functions. Political debates only represent an overlay. No matter how skillfully pretending defenders misuse their powers of oratory, a government which increases the frictions between property rights in order to benefit particular interests will see both growing income inequality among her citizens, combined with a rate of economic growth which is below its potential. Conversely, a government which chooses to reduce the frictions between property rights in order to advance the common interest will see both higher rates of economic growth and a lessening of income inequality among her citizens. As Milton Friedman (2002, p. ix) observes: "while economic freedom is a necessary condition for civic and political freedom, political freedom, desirable though it may be, is not a necessary condition for economic and civil freedom." Democracy, in and of itself, provides no guarantee that a nation will maximize its collective wealth. Only an informed electorate, with a clear understanding of the common interest, has the potential power to overcome the lies, distortions and deceptions of particular interests, and to demand of its elected officials that government maximize the wealth of the nation.

To explore these issues more deeply, the remainder of this paper is organized as follows. Section 1 reviews some of the early foundations of political economy from the late 16th century through the middle of the 18th century, with a special emphasis on the competing "playbooks" presented by Belloni (1750) and d'Argenson (1751). Whereas Belloni shows particular interests how to design the rules of the game for their benefit, d'Argenson provides a concise description of the limited functions of government required to reach the optimum point. Section 2 examines the foundation for modern political economy established by Adam Smith (1776, 1784) and documents his deep understanding of the fundamental conflict between particular interests and the common interest. Section 3 traces the evolution of some of the deepest distortions in the conceptual foundations of political economy. Section 4 looks at the issues arising from the assignment of liability for harmful effects, together with the need for government to create thoughtfully designed "building codes" to limit the total amount of leverage in the economy. Section 5 offers some concluding thoughts.

1. The early foundations of political economy

Only by understanding the foundations of political economy, can one gain an appreciation for how little truly changes across the centuries.   Particular interests continually seek to set the rules of the game in their favor, and they are generally successful. The very existence of the primary question of political economy is repeatedly denied, with vigorous assertions that there is no divergence between the common interest and particular interests. Yet if one looks closely, one can also find deep insights scattered throughout the literature revealing how to advance the common interest, and thereby maximize the wealth of a nation. On the surface, both the questions and answers of political economy may appear to change, but at the level of the taproot of political economy, the primary question remains the same: for whose benefit does government set the rules?

This paper searches out writers who reveal sharply divergent views about the primary question of political economy, starting with the 1576 publication by Jean Bodin of *Les Six Livres de la République* (translated into English in 1606 as *The Six Bookes of a Commonweale*). Bodin's work holds a special, if little known place in the history of political economy, because it inspired, at least in part, the introduction of the term "political economy" almost forty years later in Montchrétien's (1615) *Traicté de l'Oeconomié Politiqve* [Treatise of Political Economy]. Ashley (1891) explicitly links these two works by pointing out passages where Montchrétien has plagiarized from Bodin.

Bodin has already been mentioned in the introduction for establishing how rhetoric and oratory are skillfully used to distort and deceive by making ants appear to be elephants. But Bodin also reveals two additional insights about the deepest foundations of political economy. First, although particular interests may succeed in setting the rules of the game to their benefit, "the commonest cause of disorders and revolutions in commonwealths has always been the too great wealth of a handful of citizens, and the too great poverty of the rest (p. 543, [1955, p. 158])." Second, Bodin (p. 632, [1955, p. 188]) describes how the rules of the game should be set with regard to trade policy in order to maximize the wealth of particular interests: "The customs on raw materials imported from abroad should be lowered, and that on manufactured goods should be increased." Do these insights from the late 16th century have any relevance for political economy at the start of the 21st century? The answer is an unequivocal yes.

No matter what distortions and deceptions are used to hide and obscure how the rules of the game are set to benefit particular interests, the observed distribution of wealth and income reveals the truth. Growing income inequality in a society indicates that a nation is moving away from the optimum point. Moreover, the methods used to benefit particular interests have not changed. "Mercantilism" is very much alive and well, even though the term has been both defined and presented as if it is outdated and irrelevant in the modern age. The objective of particular interests remains unchanged: to push up the cost of finished goods to domestic consumers, while driving down the costs of raw material inputs for the production process.

Writing nearly 150 years after Bodin, the Spanish political economist Uztariz (1724, p. 6 [1751, vol. 1, p. 9]) makes an explicit observation about how the rules which maximize profits for finished goods are a "mirror image" of those for raw materials: "In regards to materials they observe a rule so contrary (but equally advantageous)." Uztariz notes that for finished goods, France, England, and Holland apply high import tariffs, but little or no export tariffs. In the case of raw materials, however, there are little or no import tariffs, while exports of raw materials are heavily taxed, if not prohibited altogether. Some of these same practices continue today, and for the same reason. They maximize the profits of particular interests.

Consider, for example, how in some important areas the United States closely follows the trade practices outlined by Bodin and Uztariz centuries ago. Imports of prescription pharmaceuticals are prohibited by law for American citizens, the ostensible reason being the grave danger from the quality of such drugs when monitored by other governments. As Mundy (2009) reports, "Pharmaceutical makers opposed [a measure to allow imports], saying the U.S. couldn't ensure the safety of drugs from Canada, Europe, Japan and Australia. Opponents cited a letter from the [Food and Drug Administration]'s commissioner that called the [measure] 'logistically challenging' and risky to consumers." By banning imports, the U.S. government has effectively granted the pharmaceutical industry the right to levy a private sales tax on American consumers.

Restricting imports of finished goods requires deliberate action on the part of government, yet permitting imports of raw materials can take the form of government passivity and inaction through a failure to enforce existing laws. Illegal immigration across the southern border of the United States has the effect of increasing the supply of labor in the United States, thereby pushing down domestic wage rates. American citizens and legal residents receive lower wages than they would in the absence of illegal immigration, while employers are able to reduce their payroll costs. By failing to enforce its immigration and labor laws, the U.S. government has effectively granted employers the ability to levy a private payroll tax on their employees. American workers receive lower wages, and employers earn higher profits.

What is the common element which underlies the design of trade policies as outlined by Bodin in the late 16th century and Uztariz in the early 18th century? Frictions are viewed as "good" when they increase the monopoly power of particular interests. Thus, monopoly power held by the sellers of finished goods is advanced through import tariffs, quotas, or outright prohibitions on competing goods from abroad. The monopoly power held by the buyers of raw materials is advanced through high export tariffs, quotas, or outright prohibition of foreign sales by domestic producers of raw materials. The same frictions, however, are viewed as "bad" when they reduce the profits of particular interests. Thus exports of finished goods should be unrestricted, and the import of raw materials should be similarly unrestricted. Setting the rules of the game to benefit particular interests thus involves a carefully chosen combination of both government action and inaction, which is "so contrary (but equally advantageous)," as Uztariz recognizes. It should come as no surprise, therefore, that the same voices which loudly call out for "free trade," combined with repeated denunciations of "big government," fall strangely silent when they are the beneficiaries of government created frictions and interventions on their behalf.

Frictions are not limited to foreign trade, and already in the 17th century one can find a clear understanding of how the domestic rules of the game are set to benefit particular interests. Guilds emerged during the Middle Ages to manage both the quantity and quality of output produced, as well as to control entry into designated professions through apprenticeships. In Holland, where the guild system was highly developed, de la Court (1669, pp. 88-89, [1702, p. 87, with emphasis restored from the original Dutch text]) describes a very contemporary understanding of the issues, where:

> through the mischievous Nature of some Men, who rather chuse *a sudden Profit*, tho to the general damage of their native Country,[rather] than that which *comes in by degrees* with continued Gain to the Republick: *For private or peculiar Profit* is the chief Foundation (tho it always goes under the Notion of a *general Advantage*) of all those Restrictions and Burdens imposed on the *Citizens* by *Corporations or Guilds*... to give the *Members of such Corporations* a lasting opportunity of being enrich'd by their fellow Inhabitants, and of selling their Goods and Manufacturers the dearer to their Neighbors, and so levying as it were an Impost upon them.

Note the specific comparisons which de la Court chooses to emphasize using italics: short-term versus long-term profits, self-interest versus common interest, and citizens versus corporations. De la Court also explicitly states that particular interests levy an "Impost," or private sales tax, in the form of higher prices as a result of their deliberately designed frictions. All of these issues remain as relevant today in the 21st century as they were in the 17th century.

While de la Court was observing in Holland how the rules of the game were set to benefit particular interests, Jean Baptiste Colbert, the French finance minister under Louis XIV, was designing detailed regulations for French domestic industry, in addition to implementing the optimal foreign trade rules for particular interests as noted above. Turgot (1808, p. 333) describes the system as it had evolved after Colbert's death as follows:

> The government deigned to regulate by expressly stated laws the length and width of each piece of cloth, the number of threads it was to contain … also of statutes without number dictated by the spirit of monopoly, whose whole purpose is to discourage industry, to concentrate the business in a small number of hands by the multiplication of formalities and expenses, in the imposition of apprenticeships and fraternal organizations of ten years, for trades that can be known in ten days.

By using such highly detailed regulations, carefully designed to the specifications of particular interests, competitors can effectively be forced out of business, thereby concentrating the remaining commerce in "a small number of hands." In addition, lengthy apprenticeships which extend far beyond the amount of time required to learn a skill, means that employers can pay lower wages for a long period of time, thus levying a private withholding tax on their more recent hires.

Such *dirigiste* traditions live on in the European Union, as illustrated by Commission Regulation (EEC) No 1677/88 of 15 June 1988 laying down quality standards for cucumbers. This regulation, which took effect on 1 January 1989, was "binding in its entirety and directly applicable in all Member States." Detailed size and weight specifications are given, the most famous being the use of curvature of a cucumber to determine its quality classification. The lowest quality class cucumbers which are classified as "slightly crooked" may have other defects provided that they have a "maximum height of the arc of 20 mm per 10 cm of length of the cucumber." For an arc greater than 20 mm, such cucumbers can be sold "only if they have no more than slight defects in colouring and have no defects other than crookedness," and they must then be packed and labeled separately. These regulations were in effect for twenty years, only being repealed by Commission Regulation (EC) No 1221/2008 of 5 December 2008, with an effective date of 1 July 2009.

The methodologies used to increase frictions for the benefit of particular interests bear a striking similarity across the centuries. What is important to understand is that regulations always serve a purpose, even though that purpose may not be immediately apparent. By focusing on frictions – the costs of exchanging and protecting property rights – this paper provides a simple metric which can serve as a simple common denominator. The paradigm for maximizing the wealth of nation can be easily understood and reduced to only two words: *Minimize frictions*. But it is important to highlight that this paradigm also requires the following explicit assumption: a well defined definition of a nation with control over its own borders.

Uncontrolled immigration, for example, harms the citizens and legal residents of a nation by putting downward pressure on wages, and thereby allowing particular interests to levy a private payroll tax. When government chooses *not* to vigorously enforce its laws, such as the decades of continuing illegal immigration across the southern border of the United States, a purpose is also being served. If a nation chooses to permit increased immigration *de jure* through the political process, such a choice represents the will of its government. But when government fails to enforce its own laws by allowing *de facto* immigration far beyond any legally established limits, the common interest of the nation is arguably being sacrificed for the benefit of particular interests.

For pretending defenders, however, a conflict of interest never exists. Viner (1937, p. 98) looks back from the 20th century to the 17th century and sees only "a natural harmony of interests" in the following passage from Misselden (1623, p. 17):

> And is it not lawfull for Merchants to seeke their *Privatum Commodum* in the exercise of their calling? Is not gaine the end of trade? Is not the publique involved in the private, and the private in the publique? What else makes a Common-wealth, but the private-wealth, if I may so say, of the members thereof in the exercise of Commerce amongst themselves, and with forraine Nations?

For both Misselden and Viner, maximizing the private wealth of particular interests is one and the same as maximizing the wealth of a nation – the Common-wealth. When the very existence of the primary question of political economy is actively denied and kept well-hidden in the shadows, it becomes difficult to ever find this simple question: *for whose benefit does government set the rules?*

In the middle of the 18th century the primary question of political economy did briefly emerge into the light of day, only to be distorted beyond all recognition within a quarter century, or a single generation. In late 1750, the Roman banker Marchese Girolamo Belloni, published in Latin and Italian, *De Commercio Disertatio / Del Commercio Dissertazione* [A Dissertation on Commerce (1752)]. The work was dedicated to Pope Benedict XIV in Latin, and it contained two "Approvazioni", or "Approvals," from the Universal Church stating that there is nothing contrary to the "holy faith" or the "holy religion." The work was an immediate best seller across Europe, as it was republished in 1751 in Livorno, Italy, as well as translated into French and published in Avignon, France and The Hague, Netherlands. By 1752 it was translated into English and published in London, as well as translated into German and published in both Frankfurt and Leipzig. When Palgrave (1894, vol. 1, p. 129) published the first volume of his *Dictionary of Political Economy*, the entry on Belloni notes the "extraordinary success" enjoyed by Belloni's work. "Belloni does not show himself possessed of any superiority over economists who were his predecessors" and "his great success is the more difficult to understand as his book is not free from some very gross errors, which even in his time ought to have been avoided by an acute and learned writer."

The most important part of Belloni's work is the Appendix, which in the English translation (1752, p. 63) begins: "Containing Inferences drawn from the preceding Principles, wherein some Methods are proposed for the Improvement of Commerce, to the great advantage of Kingdoms." The original text (1750, p. 41) in Italian presents the objective as "in vantaggio degli Stati", or "to the advantage of States," while in Latin a somewhat different tone is conveyed with "*publica patrimonia amplificanda,*" or "magnifying the public inheritance." In a series of 44 numbered topics, Belloni then goes on to present what may be thought of as a "playbook" to maximize the wealth of particular interests. This paper offers the following summary of Belloni's playbook: *the rules of the game should be made by particular interests, for the benefit of particular interests, allowing private taxes to be levied on the public, while denying that any conflict of interest exists between particular interests and the common interest.*

Belloni (1750 [1752]) believes that rules and laws passed by the government should be made by particular interests:

> It seems to me highly proper, that prudent Magistrates should be chosen... Among them it would be very proper to appoint Noblemen, Gentlemen, Bankers, and Consuls of Arts (p. 65 [p. 101]).

For the benefit of particular interests:

> [The Magistrates] should make Laws, enjoining Submission to the Rules laid down by those Magistrates, and punctual Obedience to all their Orders, and thus maintain in their full Vigour such wholesome Regulations, as would greatly contribute to the Improvement of the several Professions (p. 65 [p. 102]).

Allowing particular interests to levy private taxes on the public:

> It would, in my Opinion, be most proper to prohibit entirely all unnecessary foreign Manufactures. But after all, if the home-made Manufactures be found insufficient for the demands of the Inhabitants... supposing the Use of foreign Manufactures were tolerated, the Importation thereof ought to be loaded with such heavy Duties, that the Subjects might by Degrees grow weary of them, and, which would soon happen, earnestly desire them to be entirely prohibited (pp. 56-57 [pp. 88-89]).

While denying that any conflict of interest exists between the common interest and particular interests:

> The Views of the Sovereign, in the Government of a Kingdom, whether they regard Policy or Oeconomy, cannot be supposed inconsistent with the Interest and Advantage of his Subjects (pp. 41-42 [p. 64]).

A point which Belloni feels the need to repeat for additional emphasis:

> But to make it still more plain of how great Importance it is to a Prince to consider himself and his Subjects, as having but one common and undivided Interest, which is indeed the Truth of the Matter (p. 42 [p. 65]).

Belloni’s added emphasis on this last point serves as a warning. The narrative of pretending defenders relies heavily on erasing from the public consciousness the existence of a fundamental conflict of interest between particular interests and the common interest.

In April 1751, a competing "playbook" was published anonymously in *Journal Oeconomique* in Paris, written in response to Belloni's *Dissertation on Commerce*. Oncken (1886, pp. 77-79) identifies the author as René Louis de Voyer, Marquis d'Argenson, the retired French foreign minister under Louis XV. D'Argenson understands that it is necessary to strike a balance between too much and too little government, and that both government action and inaction can be selectively used to benefit particular interests. The minimum functions required of government, according to d'Argenson (1751, p. 109), are "good judges, the punishment of monopoly, equal protection to all citizens, sound money, roads and canals." D'Argenson is describing, in only a few words, government's responsibility for minimizing the frictions between property rights. The knowledge and understanding for maximizing the wealth of a nation is already clearly expressed in "seed" form, within a single sentence, published in the middle of the 18th century.

When d'Argenson writes that government is responsible for "the punishment of monopoly," he is assigning an active role to government, where government is responsible for reducing frictions. Both "good judges" and "equal protection to all citizens" require that government establish a legal system which reduces frictions, including the appropriate assignment of liability for harmful effects to those who cause harm to others. Unlike Belloni's view that judges are responsible for "advancing the various professions," d'Argenson believes that the legal system should be fair and should serve the common interest. In addition, by assigning government the responsibility for "roads and canals," d'Argenson recognizes that government also has a unique role to play in developing and providing infrastructure which reduces frictions such as transportation costs.

D'Argenson offers a clear vision that the purpose of government is to serve the common interest, unlike Belloni who regards government as a tool to advance the wealth of particular interests. At the time that d'Argenson wrote, the French government continued to follow Colbert's policies of deliberately over-regulating industry, thereby creating frictions which would increase the monopoly profits of particular interests. It is within this context that the following passage by d'Argenson (1751, p. 111) must be understood:

> It is reported that M. Colbert assembled several deputies of commerce at his house, to ask them what could be done for the benefit of trade; the most reasonable & least flattering among them, said only this word: *Laissez-nous faire*. Have we ever sufficiently reflected on the great sense of this word?

D'Argenson introduces this term, *Laissez-nous faire,* or "leave us alone," as a concise expression to reject the existing French government policies then in force in the middle of the 18th century. Government should not create frictions, but should instead actively work to reduce frictions.

This is the origin of the famous phrase, *Laissez-nous faire,* which has subsequently been shortened by pretending defenders to simply *laissez faire*. Its original meaning has been totally inverted. Instead of providing guidance to reduce frictions and thereby move the economy toward the optimum point where the wealth of a nation is maximized, pretending defenders wave the banner of *laissez faire* to resist any government regulations which are designed to reduce frictions, because such regulations would reduce the profits of particular interests.

D'Argenson's full article was translated by Smollet (1754) as one of a collection of essays from the *Journal Oeconomique* for English speaking readers in *Select Essays on Commerce, Agriculture, Mines, Fisheries, and Other Useful Subjects.* The phrase *Laissez-nous faire* does not appear, but only the English translation as "Let us alone (p. 331)." It would be another twenty years until Whatley (1774, pp. 33-34) introduces the French phrase *Laissez-nous faire* to an English speaking audience in the pamphlet *Principles of Trade* in the following form:

> *When Colbert assembled some wise old Merchants of France; and desir'd their Advice and Opinion, how he cou'd best serve and promote Comerce; their Answer, after Consultation, was, in three Words only,* Laissez nous faire. Let us alone. *It is said, by a very solid Writer of the same Nation, that he is wel advanc'd in the Science of Politics, who knows the ful Force of that Maxim* Pas trop gouverner: *Not to govern too strictly*.

D’Argenson is the “very solid Writer of the same Nation” referred to by Whatley, for the maxim “Pas trop gouverner” had already been credited to him in the *Journals des Scavans* (November 1768, tome 35, no. 13, p. 252).

So where is the distortion? It must be remembered that d’Argenson very clearly defines the role of government as one of minimizing frictions, which in turn leads to maximizing the collective wealth of a nation. Yet such a viewpoint is nowhere to be found in Whatley. Instead, Whatley (1774, pp. 16-17) reveals that his objective is to maximize the profits of particular interests. Consider, for example, his discussion of how wages for “the Poor” should be deliberately kept to a subsistence level:

> Providence has wisely ordain'd that there shou'd be diferent Ranks and Degres amongst Men, and that the Rich and Poor shou'd be actuated by diferent Wants, whether real or ideal. It is next to imposible that the Rich shou'd be without Desires, or Wishes for greater Acquistions; or the Poor without being necesitated to acquire what must suply his real Wants. If the Rich curtail his Desires, or Wishes, his Riches serve, in Proportion to his not using them, no more than Ore in an unwork'd Mine. If the Poor by *one* Day's Labor can suply his real Want for *two* Days, and sits idle the Half of his Time, he may be consider'd in such idle Time, as a Monk or a Criple with Regard to the Comunity. If aThrift for Acquisition move the Rich, he industriously employs al his Riches. If the Scarcity of Provisions compel the Poor to work his whole Time, he asuredly, by his Industry, must make more Manufactures than only working Half of it.

Whatley’s publication of the phrase *Laissez nous faire* thus became a starting point for pretending defenders to invert the meaning of d’Argenson’s contribution to the language of political economy. Instead of being used to restrain government from increasing frictions that benefit particular interests, the phrase would now be used by pretending defenders to resist government whenever it sought to reduce frictions and thereby advance the common interest. And this inversion of meaning was completed less than a quarter century after d’Argenson published his reply to Belloni, and two years before Adam Smith would create what many consider to be the foundation of modern economics.

2. Adam Smith and the modern foundations of political economy

The publication by Adam Smith of *An Inquiry into the Nature and Causes of the Wealth of Nations* in 1776, followed by the publication of *Additions and Corrections* in 1784, marks a perceived turning point in the study of modern political economy. Adam Smith presents a vast synthesis of existing economic knowledge in the late 18th century, but his deepest insights can be effectively summarized in only six words: *Markets work. Competitive markets work best.*

Adam Smith recognizes that market prices, determined by supply and demand, convey information to both consumers and producers. Price signals co-ordinate production and consumption decisions, and *under conditions of "free competition," individual self-interest is constrained by competitive market forces*. Smith does not speak of "frictions," as the term is used in this paper, but instead focuses on the process by which market forces are continually pushed toward what he calls "natural price." When frictions are minimized, and the wealth of a nation is maximized, market prices are approximately equal to their corresponding natural price.

What is natural price? A simple way to understand Adam Smith's description of how markets operate is to think of market prices falling along a gray scale, with white in the middle, and black at both ends. The endpoints represent monopoly power by a single buyer and a single seller, respectively. To more easily distinguish between the two extremes, the following distinctions will be made. Monopoly power by a single buyer – also known as "monopsony" – will be arbitrarily placed to the left of center, while monopoly power by a single seller – known simply as "monopoly" – will be arbitrarily placed to the right of center. In Book I, Chapter VII, "Of the natural and market Price of Commodities," Smith (1776, vol. 1, pp. 66-67) describes how free competition constantly pushes prices toward what he calls their "natural price," where wages, profits and rents are at their "ordinary or average rates" in the context of both the "general circumstances of society" and the "particular nature" of any given industry:

> When the price of any commodity is neither more nor less than what is sufficient to pay the rent of the land, the wages of the labour, and the profits of the stock employed in raising, preparing, and bringing it to market, according to their natural rates, the commodity is then sold for what may be called its natural price.

Smith observes that under conditions of free competition, the natural price "is the lowest at which [a dealer] is likely to sell [any commodity] for any considerable time; at least where there is perfect liberty, or where he may change his trade as often as he pleases." In terms of the gray scale, natural price is in the center and may be thought of as white.

Smith (1776, v. 1, p. 70) thinks of the natural price as providing an essential point of reference in a competitive market:

> The natural price, therefore, is, as it were, the central price, to which the prices of all commodities are continually gravitating. Different accidents may sometimes keep them suspended a good deal above it, and sometimes force them down even somewhat below it. But whatever may be the obstacles which hinder them from settling in this center of repose and continuance, they are constantly tending towards it.

Exogenous shocks, or "accidents," may cause temporary deviations of the market price from the natural price, so that prices may become grayer for a period of time. Smith also recognizes that some frictions naturally occur in market processes under free competition, so that a market price which is somewhat off-white may still be thought of as within the normal tolerances for natural price. Natural price thus becomes a range of possible prices between light shades of gray from monoposony power through pure white to light shades of gray from monopoly power.

Because profits are at their lowest sustainable level, or natural rate, in a competitive market, Smith (1776, v. 1, pp. 316-17) recognizes that self-interest will invariably lead to deliberate efforts to raise profits by reducing competition:

> The interest of the dealers, however, in any particular branch of trade or manufactures, is always in some respects different from, and even opposite to, that of the public… to

> narrow the competition must always be against [the interest of the public], and can serve only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an *absurd tax* upon the rest of their fellow-citizens. (emphasis added)

Smith calls the excess profits which are earned from pushing the market price away from the natural price to be an "absurd tax," thereby echoing de la Court (1669) who made the same observation more than a century earlier using the term "impost." This paper defines the difference between market price and natural price to be a "private tax," which particular interests levy either in the form of a sales tax, or in the form of a withholding tax. The larger the private tax, the darker the market price appears on the gray scale.

A full two centuries after Bodin (1576, p. 514) wrote about the "art of lying well," Smith (1776, vol. 1, p. 317) observes that misleading arguments are used to support the levying of private taxes and warns the public to be on their guard:

> The proposal of any new law or regulation which comes from this order [of merchants and master manufacturers], ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men, whose interest is never exactly the same with that of the publick, and who have generally an interest to deceive and even to oppress the publick, and who accordingly have, upon many occasions, both deceived and oppressed it.

When the legislature votes to permit the levying of a private tax by particular interests, the purchasing power drained away from the public is no different than if the legislature had voted for a tax increase by government upon its citizens. Only the public receives no benefit in return, unlike the government services received when taxes are paid to the government.

Unless government actively works to minimize frictions so that market prices move toward their corresponding natural price, unconstrained self-interest inevitably leads to efforts to set the rules of the game for the benefit of particular interests at the expense of the common interest. As Hayek (1948) recognizes nearly two centuries after Smith, “free” enterprise and competitive order are two separate and distinct concepts. Pretending defenders have skillfully obscured the distinction between constrained self-interest under conditions of “free competition,” versus unconstrained self-interest setting the rules of the game for the benefit of particular interests under the banners of “free markets,” “free enterprise,” and “free market capitalism.” While Smith (1776, 1784) and Hayek (1948) both clearly recognize the existence of a fundamental conflict of interest between maximizing the wealth of a nation and maximizing the wealth of particular interests, Misselden (1623), Belloni (1750), and Viner (1937) all provide vigorous denials that *any* conflict of interest could possibly exist.

Smith’s (1784) comments in *Additions and Corrections* can leave no doubt about his views on the fundamental conflict of interest because in a May 1783 letter to his publisher, Smith (1987, p. 266) writes, “This Edition will probably see me out and I should therefor chuse to leave it behind me as perfect as I can make it.” Smith (1784, p. 25) summarizes how the rules of the game in England were set for the benefit of particular interests, whom he explicitly identifies as “the rich and the powerful”:

> It is not by the sale of their work, but by that of the complete work of the weavers, that our great master manufacturers make their profits. As it is their interest to sell the complete manufacture as dear, so is it buy the materials as cheap as possible. By extorting from the legislature, bounties upon the exportation of their own linen, and a total prohibition of the home consumption of some sorts of French linen, they endeavour to sell their own goods as dear as possible. By encouraging the importation of foreign linen yarn, and thereby bringing it into competition with that which is made by our own people, they endeavour to buy the work of the poor spinners as cheap as possible. They are as intent to keep down the wages of their own weavers, as the earnings of the poor spinners; and it is by no means for the benefit of the workman, that they endeavour either to raise the price of the compleat work, or to lower that of the rude materials. It is the industry which is carried on for the benefit of the rich and powerful, that is primarily encouraged by our mercantile system. That which is carried on for the benefit of the poor and the indigent, is, too often, either neglected, or oppressed.

Smith is describing the opposite of the "natural harmony of interests" which Viner (1937, p. 98) claims to exist. Moreover, Smith also introduces the term "extorting from the legislature" to explain the process by which particular interests secure the right to increase frictions and thereby levy a private tax.

Just as pretending defenders actively inverted d'Argenson's definition of *Laissez-nous faire*, the insights of Adam Smith for maximizing the wealth of a nation would undergo a similar process of deformation and distortion. "Free markets," "free enterprise," and "free market capitalism" would replace any discussion of "free competition." The reference point provided by "natural price" would effectively be made to disappear, only to be replaced with a new emphasis on "equilibrium value." The frictions between property rights would be assumed away, either explicitly or implicitly, so that abstract, formal theory would point to the wealth of a nation being maximized, without any careful consideration being made of how closely the assumptions match actual conditions. By approaching these issues from the deepest foundations of political economy, a deep simplicity naturally emerges into view.

3. The Distortions of Political Economy

Adam Smith (1776, 1784) never uses d'Argenson's (1751) term *Laissez-nous faire*, even though he had multiple opportunities to encounter the term prior to the publication of *Additions and Corrections* in 1784. Following Whatley's (1774, pp. 33-34) use of the term in a pamphlet written in English, essentially the same passage appears in a collection of works by Benjamin Franklin (1779, pp. 52-53) published in London, although there is a shift in the translation of the phrase "*Pas trop gouverner*" to "not to govern too much." The editor includes the passage in a section called "Political Fragments" where he states that the fragments are "supposed either to be written by Dr. Franklin, or to contain sentiments nearly allied to his own (p. 48)." Two years later, the April issue of *The Scots Magazine* (1781, pp. 207-208) republished the passage as coming "From Dr. Franklin's Political Fragments," only without the qualification that Franklin might not be the actual author.

Both d'Argenson (1751, 1764) and Adam Smith (1776, 1784) point the way toward the optimum point where the wealth of a nation is maximized. But maximizing the wealth of a nation necessarily means restricting the profits of particular interests. As early as the 1820s, not only is the meaning of the term *"Laissez-nous faire"* inverted from its original meaning as first introduced by d'Argenson, but the term is now claimed to serve as the basis for Adam Smith's *The Wealth of Nations*. Consider how Everett (1827, pp. 124-125) presents his arguments to an American audience:

> The maxim of leaving the greatest possible liberty to individual action, which the character of our institutions enjoins, has also been declared by the soundest philosophers, and is now generally received throughout the world, as the one most conducive to the public wealth and prosperity. *Laissez nous faire*, was the well known answer of the French merchants to Colbert, one of the ministers of Louis XIV, who sent for them to inquire, what they wished him to do for the advancement of commerce. This laconic reply was quoted and commented on, with high approbation, by Dr. Franklin, in a short and pithy essay, which did much to makeit (sic) popular. It was afterwards adopted by Adam Smith, as the basis of his treatise on the wealth of nations, which has long and deservedly been regarded as the text book of political economy... The general operation of this principle, in practice, is to limit the internal action of the government to the maintenance of existing rights, and to entrust to every citizen the care of improving his condition and providing for his comfort, in the way that suits him best

The foundation for what would soon become the ideology of "free markets," "free enterprise," and "free market capitalism" is already being put in place in the early 19th century, while at the same time the path leading to the optimum point is receding from view.

In the middle of the 18th century, these distortions receive a more prominent place in political economy when John Stuart Mill (1848, vol. 2, pp. 512-560) devotes his final chapter to "Limits of the Province of Government," as the abbreviated chapter heading appears at the top of the pages within the chapter. The full title of the chapter is "Of the Grounds and Limits of the Laisser-Faire or Non-Interference Principle." Mill shortens *Laissez-nous faire* to the infinitive verb form of *laisser-faire*, and he sees no role for government to punish monopoly by minimizing frictions. Instead, Mill (1848, vol. 1, p. 292) discusses how "custom" serves to increase frictions to the benefit of particular interests:

> In many trades the terms on which business is done are a matter of positive arrangement among the trade, who use the means they always possess of making the situation of any member of the body who departs from its fixed customs, inconvenient or disagreeable... All professional remuneration is regulated by custom. The fees of physicians, surgeons, and barristers, the charges of attorneys are nearly invariable. Not certainly for want of abundant competition in those professions, but because competition operates by diminishing each competitor's chances of fees, not by lowering the fees themselves.

Free competition based on price would lead to lower fees for doctors and lawyers, to the benefit of the public, but Mill (1848, vol. 1, p. 287) inverts this relationship when he writes: "Custom is the most powerful protector of the weak against the strong; their sole protector where there are no laws of government adequate to the purpose." Thus, according to Mill, the higher doctors' and surgeons' fees resulting from a lack of price competition is motivated by the desire to "protect" consumers.

Mill's definition of *laisser-faire* does not point toward the optimum where the wealth of a nation is maximized, but instead provides pretending defenders with justification that there should be little or no government regulation of business. The predictable result is that the economy moves away from the optimum and towards the "laissez-fairiste disorder" described by Allais (1952, p. 362). Mill (1848, vol. 1, p. 541) does, however, continue to present the concept of "natural price" as used by Adam Smith and Ricardo, but he instead chooses to call it "Natural Value." Marshall and Marshall (1879, p. 66) subsequently define "natural price" to be "Normal Value" as follows:

> We have in this Book to examine *Normal Values*. For:--
>
> That condition of a thing which would be brought about by the undisturbed action of free competition is called its **Normal Condition**.

Whereas d'Argenson's meaning of the term *Laissez-nous faire* was already inverted within a quarter century of its publication, and then fully disappeared in less than a century with Mill's definition of *laisser-faire*, Adam Smith's meaning of "natural price" remained intact more than a century after its publication, but this would soon change.

Natural price, or Normal Value, provides the reference point from which the private taxes paid to particular interests can be calculated as the observed difference from actual market prices. As Marshall and Marshall (1879) recognize, the "undisturbed action of free competition" is synonymous with "natural price," or its equivalent expression, "Normal Value." Within three decades, however, Marshall (1907, 5th ed., p. 348 [1920, 8th ed., p. 347]) would reject this definition of "Normal Value" in a single sentence: "Of course Normal does not mean Competitive." The work of Alfred Marshall thus provides a rare opportunity to witness how a foundational concept in political economy is distorted.

Upon Marshall's death in 1924, his obituaries provide additional insight into his 1879 work. Taussig (1924, p. 1) writes: "The first of the publications that attracted wide attention was the little book on the *Economics of Industry* (1879), by 'A. and M. P. Marshall.' Compact tho it was, it showed the marks of an acute, independent, forward-making mind... As a piece of exposition it has qualities not always surpassed, not always maintained, in the later writings." Keynes (1924, p. 347) reports: "'This volume,' [Marshall] wrote in 1910 to a Japanese translator of the 1879 book, 'was begun in the hope that it might be possible to combine simplicity with scientific accuracy. But though a simple book can be written on selected topics, the central doctrines of Economics are not simple and cannot be made so.' Yet these sentiments do a real injustice to the book. It won high praise from competent judges and was, during the whole of its life, much the best little text-book available." Keynes then continues in footnote 2: "So much did the public like it, that 15,000 copies were sold before it was suppressed."

Why should Marshall suppress a book which was clearly well received, and which accurately reflects Adam Smith's understanding of the importance of "free competition"? In her memoirs, Mary Paley Marshall (1947, p. 22) confirms her husband's distaste for *Economics of Industry*: "He never liked the little book for it offended against his belief that 'every dogma that is short and simple is false', and he said about it 'you can't afford to tell the truth for half-a-crown.'" As Petridis (1990, p. 171) observes: “Readers of the *Economics of Industry* would have been left with the impression that normal values were the competitive values towards which prices (and wages) would tend to settle in the long run. This was an impression that Marshall subsequently wanted to erase.” Petridis cites Whitaker (1975, vol. 1, p. 73), who observes in footnote 21: "An 1886 printing of the *Economics of Industry* (once the property of Mrs Marshall and now in the British Library of Political and Economic Science) is annotated for an envisaged revision: 'Be careful to strike out everything w^h. implies that normal value = competitive value.’"

Consulting the archive copy of Mary Paley Marshall’s 1886 printing of *Economics of Industry*, Whitaker incorrectly reports the next to the last word of the passage which appears above the title on the title page as “competitive” instead of “competition”: “Be careful to strike out everything w^h. implies that normal value = competition value.” Of greater interest, however, are the planned revisions with page numbers which appear on the page opposite the title page, and which was left blank at the time of printing. Under “re-write,” followed by the page numbers “65-71,” appears the following text: “i.e. Book II ch I & put in it the theory of Equilibrium Value.” Normal Value is to be redefined to mean “Equilibrium Value,” thereby replacing Adam Smith’s (1776) now outdated definition of “natural price” under “free competition.” With Marshall’s revised definition, private taxes can no longer be calculated. The market price *is* the equilibrium price, and any private tax is now so deeply embedded as to become invisible.

Marshall’s shift of emphasis from “free competition” to “equilibrium” reflects a deeper underlying trend which was already underway in the late 19th century. In the 1870s, both Macleod (1872) and Jevons (1879) begin to use the term “economics” in place of Montchrétien’s (1615) term “political economy.” Jevons (1879, p. xiv) describes his decision to substitute the term economics for political economy as follows:

> I cannot help thinking that it would be well to discard, as quickly as possible, the old troublesome double-worded name of our Science... This term, besides being more familiar and closely related to the old term, is perfectly analogous in form to Mathematics, Ethics, Æsthetics, and the names of various other branches of knowledge, and it has moreover the authority of usage from the time of Aristotle.

But this switch to the term "economics" also reflects the growing mathemtization of economic theory which had begun several decades earlier.

Cournot (1838) is widely regarded as a seminal work of mathematical economics. But given the extent to which mathematical formalism now dominates the study of economics, it is valuable to reflect on the caveats which Cournot explicitly mentions in his work. In his preface, Cournot (pp. x-xi) makes no claim of a "dogmatic and complete treatise on political economy," and he admits that he has left aside questions not amenable to mathematical analysis. At the conclusion of his study, Cournot catches a glimpse of the primary question of political economy when he realizes how government trade policies affect the distribution of wealth in society. Instead of investigating further, Cournot (p. 197) states that "cette question délicate" – "this delicate question" – is beyond the scope of his essay, which he views as limited to "purely abstract discussions."

The relevance of formal mathematical models and their purely abstract discussions rests heavily upon the assumptions which are made. The distortions of economic theory are so deeply embedded that many economists are not even aware that something tremendously important is missing from many standard economic models. In his opening section on "General Principles," Pareto (1906, p. 8) offers a valuable, but largely unknown warning, when he cautions that the implicit assumptions of a model can lead to an "indovinello", or "riddle," instead of a "scientific theorem." Pretending defenders have largely obscured the primary question of political economy – whether government is serving the common interest or particular interests – through the wide acceptance of what are regarded as "standard assumptions" in economic theory.

Whereas Adam Smith (1776) writes about "free competition," formal mathematical models nearly always follow Edgeworth (1881, p. 18) and assume "perfect competition." Edgeworth defines "perfect" in the following terms:

> A *perfect* field of competition professes in addition certain properties peculiarly favourable to mathematical calculation; namely, a certain indefinite *multiplicity* and *dividedness*, analogous to that *infinity* and *infinitesimality* which facilitate so large a portion of Mathematical Physics (consider the theory of Atoms, and all applications of the Differential Calculus). The conditions of a *perfect* field are four; the first pair referrible to the heading of *multiplicity* or continuity, the second to *dividedness* or fluidity.

Edgeworth (p. 16), however, is careful to explicitly state under his definitions for "Economical Calculus" that "The first principle of Economics is that every agent is actuated only by self-interest." Here one encounters a fundamental distortion which has been repeatedly exploited by pretending defenders. Is self-interest assumed to be constrained by market forces? If so, then government must actively work to minimize frictions so that the wealth of the nation is maximized. If self-interest is assumed to be unconstrained, then particular interests will seek to introduce frictions wherever possible in order to maximize their profits.

When formal mathematical models explicitly assume "perfect competition," *there is a corresponding implicit assumption that government is actively minimizing frictions*. The narrative advanced by pretending defenders, however, asserts that "free markets" – without any government regulation – will somehow magically maximize the common interest, even though the rules of the game are deliberately designed to maximize the wealth of particular interests. By returning to the deepest foundations of political economy, this paper carefully exposes the very deep distortions which have accumulated over the centuries with regard to one of the "true elephants" – where do market prices fall on the gray scale between competition and monopoly. Are market prices approximately equal to their corresponding natural price? Or are the private taxes paid to particular interests deeply embedded in the very structure of the economy? The distribution of income and wealth in a society reveals the answer.

The discussion up to this point has focused on the issue of government's role in minimizing the frictions associated with monopoly. But there is a second set of frictions which is even more deeply hidden from view. The financial crisis of 2008 serves as but one reminder of the need for market forces to correctly price risk. Among the minimum functions of government which D'Argenson (1751, p. 109) outlines, "equal protection to all citizens" reveals a second "true elephant" in the shadows: How does government assign liability for the harmful effects caused to other property rights?

4. Liability for Harmful Effects

"Wer den Nutzen hat, muß auch den Schaden tragen." In these few words, Eucken clearly expresses a fundamental concept (1952, p. 279) which brings into focus a second "true elephant" – "Who has the benefit, must also bear the loss." Instead of following d'Argenson´s understanding that government should protect *all* citizens equally, the laws and regulations passed by government, coupled with the selective enforcement thereof, often serve as a device to further concentrate the private wealth of particular interests at the expense of the common wealth. Time and again, one observes that particular interests are either absolved from liability for the harmful effects which they cause to others, or else pursuing legal action against those same particular interests for the harmful effects caused is made both difficult and costly.

How government assigns liability for harmful effects determines the degree to which market forces price risk in an economy. When harm can be caused to others with only limited to no negative consequences, too much risky activity is undertaken. As Coase (1960, p. 8) observes half a century ago; "the harmful effects of the activities of a business can assume a wide variety of forms." For this reason, it is essential to develop an understanding of the underlying mechanisms which are repeatedly used for the benefit of particular interests.

Consider, for example, how firms may *not* be held fully accountable for the harm caused to others. First, government may assign no liability to their actions causing harm, or government may set an artificially low ceiling for the maximum amount of damages for which a firm is liable. Second, the "burden of proof" may be set extremely high in order for damages to be awarded. If damages are awarded to a plaintiff, the firm may subsequently be allowed to pursue a prolonged and costly appeals process before any damages are ultimately paid to those who suffer harm. Furthermore, the appeals process may allow the firm to significantly reduce the monetary amount of damages to be paid.

When government does establish laws and regulations to protect consumers from unsafe products, workers from dangerous and unsafe working conditions, and the general public from air pollution, water pollution and other environmental hazards, particular interests may actively lobby government to minimize the enforcement of such protections. Budgets may be starved of funds to hire inspectors; political decisions may be made to effectively overlook violations; and active lobbying by particular interests at the time that such laws and regulations were passed may have inserted seemingly trivial, but carefully designed exceptions, to effectively prevent any effective enforcement. As in the case of monopoly versus competition, particular interests seek to limit or prevent those government actions which reduce frictions, because reduced frictions between property rights mean reduced profits for particular interests.

Consider, for example, the case of offshore oil drilling in the United States. The Oil Pollution Act of 1990 explicitly limits the liability for an offshore facility other than a deepwater port to "all removal costs plus $75,000,000 [33USC2704(a)(3)]," even though the harm caused to the property rights of others in the event of a major oil spill is likely to be orders of magnitude higher. Oil companies get all of the benefits from offshore oil production, but in the event of an environmental disaster from an oil spill, they are absolved of nearly all legal liability for consequential damages to others. Instead, other property rights have almost no protection from harm, as $75 million must be shared amongst *all* plaintiffs who suffer consequential damages beyond the actual removal costs. The effective frictions faced by fishermen and others harmed by an oil spill to protect their property rights are made astronomically high by design.

If, however, the rules of the game are set according to Eucken's observation that those who have the benefit must also bear the loss, there would be no artificial limit placed on liability for consequential damages. Equal protection to all citizens requires that before drilling permits are issued, the responsible party in the event of an environmental catastrophe must demonstrate to the government that it has the financial capacity to absorb the losses for *all* potential harm which may be caused to others. Whether this takes the form of privately purchased insurance, or self-insurance for the largest firms, markets can price the risks of offshore oil drilling. If insurance premiums are too high for smaller firms to continue offshore drilling, market forces are indicating that the risks to society are greater than the private benefits which will be received by particular interests.

Markets can price the risks associated with harmful effects to other property rights in those situations where government can assign liability to a responsible party. But there are also situations where responsibility is so diffuse that government must adopt a different approach to striking a balance between the pursuit of private profits and the protection of the common interest. Financial crises, for example, result from excessive leverage in an economy, for which no responsible party can be clearly identified. As Reinhardt and Rogoff (2009, p. xxv) observe over an eight hundred year sample period: "If there is one common theme to the vast range of crises we consider in this book, it is that excessive debt accumulation, whether it be by the government, banks, corporations, or consumers, often poses greater systemic risks than it seems during a boom."

Government bears the responsibility for implementing thoughtfully designed regulations to limit systemic risk to an economy. When government fails to act, the result can be a man-made financial "earthquake" as illustrated by the financial crisis in 2008. To bring into focus the proper role of government for dealing with systemic risk such as excessive leverage, it is useful to think of the widely accepted dual role of government for dealing with a natural disaster such as an earthquake. First, in geographic regions where the potential for earthquake activity is high, responsible government establishes and enforces strict "building codes" so that buildings and other structures are engineered to a high standard to withstand significant physical shocks. Second, in the event that an earthquake does occur, government has a responsibility for disaster relief to mitigate the damage caused.

The essential design of financial "building codes" is well understood. Limit the overall level of risk in an economy in order to avoid the damage which follows from a severe financial crisis. But in limiting the level of risk, particular interests see only the constraints placed on their profits, and not the benefit to society as a whole. In the wake of the financial "earthquake" known as the Great Depression, the United States found the political will to place the common interest ahead of particular interests with the passage of the Banking Act of 1933, more commonly known as the Glass-Steagall Act. As Westerfield (1933, p. 725) observes at the time: "bankers may object to the substitution of rigid rules and standardized practice enforced by the public official for individual initiative and responsibility; but since our system often fails to develop bankers of capacity and moral rectitude such constraints are quite necessary."

With the passage of time, however, as memories of living through a financial "earthquake" have dimmed, particular interests have diligently worked to erode the constraints of the financial "building code" in the United States, culminating with the repeal of the separation of commercial and investment banking activities in 1999. The result was not a magical "self-regulation" of markets as promised by pretending defenders of "free markets," but instead ever increasing leverage throughout the economy. In the case of residential mortgages, generations of "prudent" lending standards were abandoned as "no money down" mortgages proliferated with Debt/Equity ratios of infinity, which were then securitized with "investment grade" credit ratings and sold to gullible investors.

During the first years of the new millennium, "free market capitalism" in the United States dismissed any need for a financial "building code," until the inevitable financial meltdown followed. While particular interests in the United States were able to limit government regulation of the American financial sector, China recognized the need for government to place thoughtfully designed limits on its economy. In the specific area of financial regulation, China's financial "building code" allowed a *maximum* Debt/Equity ratio of 4 for residential mortgages when it "reduced the minimum down payment ratio to 20 percent [People's Bank of China (2008, p. 46)]" in response to the global financial crisis in 2008. In response to concerns about a possible real estate bubble, China is currently pushing the maximum allowed Debt/Equity ratio for residential mortgages even lower than 4, especially for second and third properties by the same owner.

When government limits the total leverage in an economy, the probability of a severe financial crisis is greatly reduced. However, if government fails to prevent a financial crisis because particular interests are unrestrained; or if a global financial crisis spills across national borders and disrupts a nation's economy, then Keynes (1936) provides the manual for disaster relief *in the immediate aftermath of a financial "earthquake."* Government should temporarily provide a fiscal stimulus to restart the engine of the economy; preferably with targeted infrastructure spending which is designed to reduce frictions and thereby promote future economic growth. China's stimulus spending on high-speed rail, for example, will provide long-term benefits for decades to come. Moreover, such spending is in keeping with d'Argenson's (1751, p. 109) call for government to provide roads and canals.

Under normal economic conditions, markets do *not* require Keynisan intervention in the economy. The limited role of government is to minimize the frictions between property rights. Reducing the costs of exchanging property rights means that free competition is constantly pushing market prices toward their corresponding natural price. Reducing the costs of protecting property rights means that markets are pricing risk wherever liability can be assigned for harmful effects. When liability is diffuse and cannot be assigned, as in the case of excessive leverage leading to a financial crisis, then government is responsible for the thoughtful design and implementation of a financial "building code" to minimize the likelihood of severe harm to the economy as a whole.

5. Conclusions

Modern economics has lost sight of its original foundations in political economy. Politics and economics are inextricably linked, because government establishes and enforces the rules of the game under which an economy operates. All of political economy rests on a very simple and deep foundation that has been deliberately obscured and carefully hidden from view, which this paper terms the *primary question of political economy*: *for whose benefit does government set the rules of the game?*

"Free markets," "free market capitalism," and "free enterprise" are three terms which are used interchangeably today to denote what is commonly thought of as a market economy. Yet Adam Smith (1776, 1784) – who is widely thought of as the "father" of modern economics – uses a different term in his writings about political economy: "free competition." The difference between "free markets" and "free competition" may appear to be subtle, but it hides vast differences in meaning. Moreover, when formal models in economics assume "perfect competition," rather than Adam Smith's "free competition," a virtually unrecognized and unacknowledged *implicit* assumption is being made about the role of government. What are these differences? What is the implicit assumption contained within the explicit assumption of "perfect competition"? The answers can only be found by studying primary sources in political economy across the centuries.

At the heart of political economy lies a fundamental conflict of interest. Particular interests, century after century, seek to control the decisions of government so that the rules of the game are set in their favor. At the same time, particular interests vigorously deny that any conflict of interest exists between their private interests and the common interest. Does government set the rules of the game to "foster competitive markets" as one of the core functions of limited government described by Milton Friedman (1962 [2002], p. 2)? Or does government step back and allow markets to "self-regulate," where particular interests are free to set the rules of the game to maximize their own profits?

When government makes no rules, unconstrained self-interest leads to unbounded greed, as described by Timofeev (c. 1630 [1907], columns 155-156; translation by Pashkov (1964, p. 201)) during the "Time of Troubles" in the early 1600s in Russia:

> This evil up to now has been plain for all to see -- they want glory and wealth as fast as possible and they enrich themselves with the aid of all forms of injustice. If they attain their goals through tears and blood, they do not repent, they pay no heed. Their only interest on earth is how to obtain what they want. Though they know this to be sinful, they feel no fear or horror about it whatsoever; no one is ashamed any more before his elders, and as one they seem to try to get all their abundant treasure by dishonest means.

When there was no Tsar, and thus no effective government, the darker sides of human nature emerged in a wholly unregulated environment.

Across the centuries, the conflict of interest between particular interests and the common interest has been well understood, only to be repeatedly obscured and hidden by particular interests. Belloni, (1750), for example, provides an unusually explicit "playbook" for how the rules of the game should be set for the benefit of particular interests, while d'Argenson (1751), in response, clearly describes both the minimum functions of government, as well as the need for government to avoid creating regulations which limit competition and thereby increase profits. D'Argenson's insights about the optimal role of government can be simply stated in terms of the frictions between property rights: government should actively minimize the costs of exchanging and protecting property rights, while government should *not* actively increase frictions for the benefit of particular interests.

To make clear that government should not create regulations which increase frictions for the benefit of particular interests, d'Argenson (1751, p. 111) introduces the term *Laissez-nous faire* to the language of political economy. Within a generation, however, particular interests inverted the meaning of the term *laissez faire* to instead *resist* any efforts of government to minimize frictions. The term *laissez faire* came to be widely understood in the 19th century to mean that business should be left free from government interference, and in the 20th century the terms "free markets," "free enterprise," and "free market capitalism" have largely supplanted the earlier term of *laissez faire*.

Nearly a century and a half after d'Argenson, however, Walras (1898, pp. 429-430) restates the original meaning of the term *Laissez-nous faire* in his study of applied political economy:

> It does not seem to us, we must repeat, that economists have yet been able to determine with precision the boundaries between individual initiative and State intervention in either production or capital accumulation. On both points, their conclusions are confined almost to this *laisser faire*, which reduces the theory of political economy to two words, and its practice to almost nothing. This doctrine is far too succinct. *Laisser faire* does not mean *doing nothing (ne rien faire*), but *let the free competition act (laisser agir la libre concurrence*). Here, then, where free competition cannot act, it is necessary for the State to intervene in order to compensate [for the lack of competition], and where free competition may act, it is necessary for the State to intervene in order to organize and ensure the conditions and environment of its operation.

Walras directly addresses the distortions of the arguments advanced by particular interests, and he makes clear that government must actively act to minimize frictions.

In formal economic models, the fundamental conflict of interest between particular interests and the common interest almost always disappears from view in an implicit assumption which lies deeply hidden in the background. The standard assumption of "perfect competition" means that the frictions between property rights are explicitly assumed away. But in order for frictions to be minimized, *there is* *a corresponding implicit assumption that government is actively working to minimize the frictions between property rights*. "Free markets" and "perfect competition" represent contradictory views about the role of government. "Free markets" nearly always maximize the profits of particular interests at the expense of the common interest.

Assertions by pretending defenders that "free markets" lead to an economic optimum for society as a whole are false, but such assertions remain largely unchallenged because the very language of both economics and politics has been deliberately and skilfully distorted. The deepest roots of political economy repeatedly reveal a simplicity which has been carefully hidden from view. Government can either minimize frictions in order to maximize the wealth of a nation, or government can allow particular interests to maximize their profits by increasing frictions. It is impossible to maximize both the wealth of particular interests and the wealth of a nation simultaneously.

Although an autocratic government can easily choose to set the rules of the game to benefit particular interests, in a democracy the public has the potential power to demand that government act in the common interest. Wicksell (1901, p. 121 [1977, pp. 80-81]) observes that "in so far as the government of a country is based on democratic principles, there is a certain, though not always reliable, guarantee" that government will act in the common interest by pursuing policies which "are to the advantage of the vast majority." However, "when commercial and industrial policy are in the hands of a privileged few [i ett privilegierat fåtals hand] there is a strong presumption to the contrary." How can a "privileged few" gain control of government policy? The answer is surprisingly simple: by controlling the narrative in the public square.

Consider, for example, Winston Churchill's (1906, pp. 269-270) fears of the voting franchise being extended in England in the 1880s:

> The government of a world-wide Empire was, for the first time in human experience, to be thrown unreservedly to the millions. And no man could predict the results of that

> experiment... Who could have possibly foreseen... the millions would peacefully hand back their powers to political organisations and so to established authority... that a free press would by its freedom sap the influence of debate and through its prosperity become the instrument of wealth.

As Churchill understands, voting rights in a democracy need not lead to government acting in the common interest. When particular interests use their resources to shape and mould public opinion, the fundamental conflict of interest is easily camouflaged and hidden.

What then, is required for government to be made to act in the common interest? Knies (1883, p. 253) argues that a "change of mindset" (Sinnesänderung) is required: "And would it not be attributable to a change of mind-set, if instead the non-rich, their power truly having become greater, would manifest the use of their power over others so that all domination of the stronger over the weaker would be eliminated?" The goal of this paper is to advance the understanding of the *true* common interest. The wealth of a nation is maximized when the frictions between property rights are minimized. Only when a majority of voters understand *and* demand that their elected representatives act in the common interest, rather than acting on behalf of particular interests, will the potential of a nation to maximize the aggregate wealth of *all* her citizens be realized.

Bibliography

Allais, Maurice. "Quelques réflexions sur la Contrainte et la Liberté." *Revue Française de Science Politique*, Vol. 2, no. 2 (1952): 356-373. <http://www.persee.fr/web/revues/home/prescript/article/rfsp_0035-2950_1952_num_2_2_392142>

d'Argenson, René Louis de Voyer de Paulmy. *Les Considérations sur le Gouvernement Ancien et Présent de la France*. Amsterdam: Mark Michel Ray, 1764

d'Argenson, René Louis de Voyer de Paulmy. "Lettre à l'Auteur du Journal Oeconomique, au sujet de la dissertation sur le commerce de M. le Marquis Belloni." *Journal Oeconomique* (April 1751): 107-117.

Ashley, William James. "Review of *Traité de l'Oeconomie Politique*, by Antoyne de Montchrétien. (1615) Avec Introduction et Notes par Th. Funck-Brentano (Paris: Plon. 1889)." In *The English Historical Review*. London: Longmans, Green, and Co. (1891): 779-781.

Belloni, Girolamo. *Marchionis Hieronymi Belloni De Commercio Ddissertatio / Del Commercio Dissertazione del Marchese Girolamo Belloni*. Rome: Ex Typographia Palladis excudebant Nicolaus, et Marcus Palearini, 1750.

Belloni, Girolamo. *A Dissertation on Commerce*. London: R. Manby, on Ludgate-Hill, 1752.

Bodin, Jean. *Les Six Livres de la République*. Paris: Jacques du Puys, libraire juré à la Samaritaine, 1576.

Bodin, Jean. *The Six Bookes of a Commonweale*. Translated by Richard Knolles, London: Impensis G. Bishop, 1606.

Bodin, Jean. *Six Books of the Commonwealth.* Abridged and translated by M. J. Tooley, Oxford: Alden Press, 1955.

Churchill, Winston Spencer. *Lord Randolph Churchill*. Vol. 1. London: Macmillan & Co., 1906.

Coase, Ronald Harry. "The Problem of Social Cost," *Journal of Law and Economics 3* (1960): 1 - 44.

Coase, Ronald Harry. "The Firm, the Market, and the Law." in *The Firm, the Market, and the Law*, edited by Ronald H. Coase. Chicago: University of Chicago Press, 1988: 1-31.

Cournot, Antoine Augustin. *Recherches sur les principes mathématiques de la théorie des richesses*. Paris: L. Hachette, 1838.

Court, Pieter de la. *Aanwijzing der heilsame politike Gronden en Maxime van de Republike van Holland en West-Vriesland*. Leiden and Rotterdam: Hakkens, 1669.

Court, Pieter de la. *The True Interest and Political Maxims of the Republick of Holland and West Friesland*. London, 1702.

Edgeworth, Francis Ysidro. *Mathematical Psychics: An essay on the application of mathematics to the moral sciences.* London: C. Kegan Paul & Co., 1881.

Eucken, Walter. *Grundsätze der Wirtschaftspolitik*. Tübingen: J.C.B. Mohr, 1952.

Everett, Alexander Hill. *America: or a General Survey of the Western Continent, with Conjectures on their Future Prospects*. Philadelphia: H.C. Carey, 1827.

Hayek, Friedrich August. “"Free" Eneterprise and Competitive Order.” in *Individualism and Economic Order (1948)*. by Friedrich A. Hayek. 3rd ed. Chicago: University of Chicago Press, 1958: 107-118.

Franklin, Benjamin. *Political, Miscellaneous, and Philosophical Pieces*. London: J. Johnson, 1779.

Friedman, Milton. *Capitalism and Freedom* [1962]. Chicago: University Of Chicago Press, 2002.

Jevons, William Stanley. *The Principles of Science: A Treatise on Logic and Scientific Method*. 2nd ed. London: Macmillan & Co., 1879.

Journals des Scavans. "Article II. Faits qui ont Influé sur la cherté des Grains, en France & en Angleterre. Brochure de 48 pages in .80. qui se trouve à Paris, chez Desaint, Rue du Foin Saint Jacques," *Journals des Scavans* Tome 35, no. 13, Amsterdam: Marc-Michel Rey, (November 1768): 236 - 260.

Keynes, John Maynard. "Alfred Marshall, 1842-1924." *The Economic Journal*, Vol. 34, no. 135 (Sep., 1924): 311-372.

Keynes, John Maynard. *The General Theory of Employment, Interest and Money*. London: Macmillan Press, 1936.

Knies, Karl. *Die politische Oekonomie vom Geschichtlichen Standpuncte*. Braunschweig: C. A. Schwetschke und Sohn, 1883.

Macleod, Henry Dunning. *The principles of economical philosophy*. 2nd ed., Vol 1. London: Longmans, Green, Reader, and Dyer, 1872

Marshall, Alfred and Mary Paley Marshall. *Economics of Industry.* London: Macmillan & Co., 1879.

Marshall, Alfred. *Principles of Economics.* 5th ed., London: Macmillan & Co., 1907.

Marshall, Alfred. *Principles of Economics.* 8th ed., London: Macmillan & Co., 1920.

Marshall, Mary Paley. *What I Remember*. Cambridge: Cambridge University Press, 1947.

Mill, John Stuart. *The Principles of Political Economy: with some of their applications to social philosophy.* Vol. 1, Vol. 2, Boston: Chares C. Little & James Brown, 1848.

Misselden, Edward. *The Circle of Commerce, or the Ballance of Trade, in Defence of Free Trade, opposed to Malynes.* London : Iohn Dawson, 1623.

Montchrétien, Antoyne de. *Traicté de l'Oeconomié Politiqve.* Roven: Iean Osmont, 1615.

Mundy, Alice. "Measure to Allow Drug Imports," *The Wall Street Journal* 16 December 2009, p. A7, <http://online.wsj.com/article/SB126093494955393151.html> (2 March 2010).

Oncken, August. *Die Maxime Laissez faire et laissez passer: ihr Ursprung, ihr Werden. Ein Beitrag zur Geschichte der Freihandelslehre*. Bern: K.J. Wyss, 1886.

Palgrave, Inglis Robert Harry. *Dictionary of Political Economy,* Vol. 1, London: Macmillan & Co., 1894.

Pareto, Vilfredo Federico Damaso. *Manuale di Economia Politica con una Introduzione alla Scienza Sociale*, Milano: Società Editrice Libraria, 1906.

Pashkov, A. I., ed. *A History of Russian Economic Thought: ninth through eighteenth centuries,* Berkley: University of California Press, 1964.

People's Bank of China, Monetary Policy Analysis Group. *China Monetary Policy Report Quarter Four, 2008* (February 23, 2009). Beijing: People's Bank of China, 2008.

Petridis, Anastasios (Ray). "The Trade Unions in the Principles: The Ethical Versus the Practical in Marshall's Economics, / Les syndicats dans les "Principes": l'éthique opposée à la pratique dans l'économie de Marshall" *Économie Appliquée,* Vol 43, no.1 (1990): 161-186.

Reinhardt, Carmen M. and Rogoff, Kenneth Saul. *This Time Is Different: Eight Centuries of Financial Folly*, Princeton: Princeton University Press, 2009.

Ricardo, David. *On the Principles of Political Economy and Taxation,* London: John Murray, 1817.

The Scots Magazine. "Thoughts on Commercial Subjects. From Dr. Franklin's Political Fragments," *The Scots Magazine* Vol. 18, Edinburgh: A. Murray and J. Cochran, (April 1781): 206-208.

Smith, Adam. *An Inquiry into the Nature and Causes of the Wealth of Nations,* London: W. Strahan and T. Cadell, 1776.

Smith, Adam. *Additions and Corrections to the First and Second Editions of Dr. Adam Smith's Inquiry into the Nature and Causes of the Wealth of Nations,* London: W. Strahan and T. Cadell, 1784.

Smith, Adam. *The Correspondence of Adam Smith,* 2nd ed., Edited by Ernest Campbell Mossner and Ian Simpson Ross. Oxford: Oxford University Press., 1987.

Smollet, Tobias George. *Select Essays on Commerce, Agriculture, Mines, Fisheries, and Other Useful Subjects.* London: D. Wilson and T. Durham, 1754.

Taussig, Frank William. "Alfred Marshall," *The Quarterly Journal of Economics,* Vol. 39, no. 1 (Nov., 1924): 1-14.

Timofeev, Ivan (Тимофеев, Иван Семенов). *Vremennik djaka Ivana Timofeeva* (*Временник дьяка Ивана Тимоѳеева),* S-Peterburg: Tipografija M. A. Aleksandrova, [c. 1630] 1907.

Turgot, Anne-Robert-Jacques, Baron de Laune. *Oeuvres de M^r^. Turgot, Ministre d'Etat, Précédées et accompagnées de Mémoires et de Notes sur sa Vie, son Administration et ses Ouvrages*, Vol. 3, Paris: De l'Imprimerie de Delance, 1808.

Uztáriz, Gerónimo de. *Teórica y práctica de comercio y de marina en diferentes discursos y calificados exemplares, que con especificas providencias se procuran adaptar a la Monarchia Española para su prompta restauración, beneficio universal, y mayor fortaleza contra los émulos de la Real Corona y enemigo de la Fé Catholica, Mediante la Soberana Protección del Rey nuestro señor Don Phelipe V*, Madrid, 1724.

Uztáriz, Gerónimo de. *The Theory and Practice of Commerce and Maritime Affairs,* Vol. 1, London: John and James Rivington, 1751.

Viner, Jacob. *Studies in the Theory of International Trade*, New York: Harper and Brothers Publishers, 1937.

Walras, Léon Marie Esprit. *Études d'économie politique appliquée (Théorie de la production de la richesse sociale)*, Lausanne: F. Rouge, 1898.

Whatley, George. *Principles of Trade*, 2nd. ed., London: Brotherton and Sewell in Cornhill, 1774.

Whitaker, John K. *The Early Economic Writings of Alfred Marshall 1867-1890*, Vol. 1, London: Macmillan, 1975.

Westerfield, Ray Bert. "The Banking Act of 1933," *The Journal of Political Economy*, Vol. 41, no. 6 (Dec., 1933): 721 - 749.

Wicksell, Knut Johan Gustaf. *Föreläsningar i nationalekonomi, första delen: Teoretisk nationalekonomi*, Lund: Berlingska Boktryckeriet, 1901.

Wicksell, Knut Johan Gustaf. *Lectures on Political Economy, Volume One: General Theory* [1934], New York: Augustus M. Kelley Publishers, 1977.