

## Sismondi and *Laissez Faire*: An Introduction

Michael Schneider\*

As Castelot made clear in his entry on "Laissez-Faire, Laissez-Passer, History of the Maxim" in *Palgrave's Dictionary of Political Economy*, although at least one half of the maxim dates back to about 1680, "we must come down to the Marquis d'Argenson, in order to find a distinct and clear enunciation of the ... principle ... in the essay to which he gave the title of *Pour gouverner mieux, il faudroit gouverner moins* (In order to govern better, we ought to govern less)" (1896, p.534). Application of this formulation of the maxim to the economic sphere certainly captures the use to which it was put in pre-nineteenth-century days, when government involvement in economic activity was high by subsequent standards. A reduction in this involvement was part of the reforming platform of seventeenth and eighteenth century liberalism, a dominant objective of which was (employing Berlin's useful concept) to win more "negative liberty"; "negative liberty" is defined by the statement that the "extent of my social or political freedom consists in the absence of obstacles not merely to my actual, but to my potential choices" (Berlin, 1969, p.xi). By contrast with later centuries, at that time "the kind of evil against which the concept of negative liberty was directed as a weapon was not *laissez-faire*, but despotism" (Berlin, 1969, p.x1vi).

As Dahrendorf has pointed out, although "anarchism is in some ways an extreme form of liberalism", "Liberalism is not anarchism" (1987, p.173); with the possible exception of near-anarchists such as Hodgskin, exponents of *laissez faire* policies believe that there must be a government and that there are certain duties which it must undertake, though this is an aspect of their views which is often overlooked. As Robbins in *The Theory of Economic Policy* (1952) took pains to point out, such overall supporters of *laissez faire* policies as Adam Smith in particular and the classical political economists in general "regarded the appropriate legal framework and the system of economic freedom as two aspects of one and the same social process" (1961, p.191). Further:

We get the System of Economic Freedom all wrong if we do not realise that it was only on the assumption of such a suitable framework of law and order that it was ever recommended by the group of men whose theories we are examining. Indeed, in any logical

scheme, we must regard the provision of such a framework as *prior* to the recommendation of economic freedom ... it is to betray a total absence of acquaintance with the literature to suppose that the prior necessity of the framework would ever have been called in question (1952, p.190).

Drawing on Robbins' insight, Samuels in *The Classical Theory of Economic Policy* (1966) argued that "The market-plus-framework interpretation of the classical theory of economic policy, particularly as elucidated by Lord Robbins, has the great virtue of specifying more completely what the classical theory of policy was all about than had been indicated by the ambiguous but doctrinally useful *laissez-faire* or *laissez-faire-plus-exceptions* views" (1966, pp.14-15). However, for this interpretation to be meaningful it must be practicable to make two differentiations:

The market-plus-framework interpretation posits not only a differentiation between framework and market (or non-framework), but also a differentiation between two types of government activity. It requires a distinction between actions of government to provide or fill the framework and other non-framework-filling interventions (1966, p.16).

So far as the former of these two types of government intervention, the framework-provision function, is concerned:

in every discussion by a classicist on the role of the state in economic life, it is the regime of competition, or the market economy, that the law must secure, strengthen, and maintain ... *the order*, or *the decision-making process*, whose institutionalization law was to help secure, was that of the market economy (1966, p.104).

With respect to the latter of the two types of government intervention, namely non-framework-filling interventions, the question arises as to the *extent* to which a policy of *laissez faire* involves reduction in government economic involvement from an assumed initially high level. Since the term *laissez faire* is generally associated with the idea of maximising individual liberty, perhaps the best way of answering this question is to define it in a manner similar to that in which "liberty" was defined in 1789 in the *Declaration of the Rights of Man* ("Liberty consists of the power to do whatever is not injurious to others"). We thus define "*laissez faire*" as a policy based on the principle that in the economic sphere "People must be allowed to follow their own interests and desires, constrained only by rules which prevent their encroachment on the liberty of

others" (this quotation is the definition of "classical liberalism" advanced by Dahrendorf, 1987, p.173), such a policy pushing the principle of *laissez faire* to the point where it begins to become self-contradictory.

When Sismondi wrote *De la richesse commerciale*, the aim of which was "to explain and apply to France the doctrine of Adam Smith" (1803, p.xxvi), he was as strong a supporter of a *laissez faire* policy so defined as both the Physiocrats and Adam Smith had been before him. However, as Viner made abundantly clear in his classic article on "Adam Smith and *laissez faire*", Adam Smith "did not believe that *laissez faire* was always good, or always bad" (1927, p.232). Why did Adam Smith take this view?

As Samuels put it, what is involved in the determination of the desirable extent of government intervention is "the process of selection between competing rights' claimants" (Samuels, 1966, p.114). Even for liberals, this process of selection is likely to depend not only on the pursuit of negative liberty but also on other values; to be a liberal does not mean to pursue a policy of liberty to the exclusion of other, sometimes contradictory objectives, such as that of equality for example. It means rather that liberty is amongst the prime objectives pursued. In the economic sphere, for example, we can take the role of these other values into account by defining the liberal position merely as pursuit of a policy directed outwards establishing, and once established maintaining, an economy in which the private sector is clearly dominant, and the public sector clearly subordinate. Now in the case of the classical political economists, including Adam Smith, the "process of selection" referred to by Samuels:

involved the exercise of legal choice in terms of what the classicists understood to be the "current needs of the community". This meant that the adjudication of relative rights' claims would be undertaken in the context of the felt needs of industrialization and the market system. That is to say, the legal process was to be essentially utilitarian and materialist in choosing those interests whose fruition would promote industrial and economic development under the market system (1966, pp.114-15).

Or as Heckscher put it, contrasting the ultimate purpose of economic liberalism with that of medieval (and of mercantilist) thought: "While the medieval conception of the object of human effort was the salvation of human souls ... economic liberalism, or *laissez faire*, aimed at the temporal welfare of individuals" (1930, p.335). It was by the criterion of the temporal welfare of individuals that Adam Smith judged when *laissez faire* was good and when it was bad, or in Viner's words again, it was Adam Smith's view that "government activity is natural and therefore good where it promotes the general welfare

[which, however, it rarely does], and is an interference and therefore bad when it injures the general interests of society" (1927, p.220. Insertion in square brackets of M.S.).

This view would probably have been accepted by Sismondi in 1801, when the general ideas in the area of political economy which Sismondi (1773-1841) saw himself as having endorsed "were those of Smith himself which were shared by Turgot, Rousseau and Lauderdale" (Pappe, 1973, p.25n, drawing on a letter written by Sismondi in 1801). There is some evidence, however, that Sismondi had not always had so liberal an outlook. At the age of ten, he and some young friends decreed;

that in their republic everybody should be virtuous and happy. Sismondi, without any ceremony, was ordained its Solon, and established this doctrine, at the end of a discourse of fourteen pages (Mignet, in Sismondi, 1966, p.3).

This interest in procuring universal happiness (not to mention virtue) by constitution-making and legislation was not confined to Sismondi's childhood; in 1796, for example, he began work on an unfinished three-hundred-page manuscript entitled *Études sur les constitutions des peuples libres* and volume 1 of a later work with the same title was published in 1836. The combination of this interest with a liberal political outlook resulted in a tension between interventionism and *laissez faire* which characterises almost all of Sismondi's writings.

It seems that the first of Sismondi's works to touch on economic questions was *Ressources de la Toscane ou discours sur trois questions importantes d'économie politique* (Desroussilles states, in Sismondi, 1976, p.30, that this was published in 1789). Three years later his *Tableau de l'agriculture toscane* appeared. Though described by Mignet as "purely descriptive" (Sismondi, 1966, p.6), by Francis Palgrave as "essentially practical" (*Quarterly Review*, 1843, quoted in Salis, 1973, p.64), and by Rappard as "more descriptive than analytic or doctrinal" (1966, p.434), this work included a piece of economic analysis which can be seen as of great significance in the light of Sismondi's later writings. In putting the case for cultivation on the small scale as opposed to that on the grand, Sismondi argued that the prosperity of a great enterprise did not necessarily profit the community as a whole; while the net product might be greater in the latter type of cultivation, the gross product will be greater in the former, nourishing a larger population. In commenting on this passage in a letter written in the year of its publication, Sismondi wrote with reference to his readers that he "had expected to find among them a great many people who would not know how to separate the idea of a great gain from that of great public advantage" (quoted in Salis, 1973, p.67; translation by the author, italics in the original). Even at this

early stage in the development of the interventionist element in his ideas, Sismondi clearly did not see private interest (a great gain) as universally coinciding with the common good.

This fundamental objection to a policy of *laissez faire* is not raised in *De la richesse commerciale*, which is the work in which Sismondi came closest to unqualified advocacy of such a policy. But it plays some part in Sismondi's reasoning in *Political Economy* (1815) and a much greater part in his *Nouveaux Principes* (1819).

In brief, it is quite misleading, to say the least, to describe Sismondi as "a firm believer in *laissez faire*" (Kitching, 1982, p.25), or as a "non-interventionist" (see Sowell, 1972, pp.67-8). On the contrary, from 1815 onwards at least, Sismondi was an underconsumptionist who advocated that the government redistribute income from capitalists (and landlords) to workers [which even in the absence of any other contribution to economic thought would justify Grossman's reference to him as a "real pioneer" (1943, p.394)]. It was his underconsumption theory, combined with the depressed economic conditions after 1815, which led Sismondi by 1819 to break with his previous overall antagonism towards government intervention.

The extent of this break can usefully be indicated by drawing on Musgrave's categorisation of the functions of public finance in terms of resource allocation, income distribution, stabilisation, and growth (see Musgrave, 1959). By 1819 Sismondi had come to believe that while the allocation of resources should be determined by market forces working within a private sector not subject to government intervention, the government should have a substantial (not "clearly subordinate") role in the distribution of income, stabilisation of the level of economic activity in general and of employment in particular, and determination of the rate of economic growth with a view to its being sustainable.

Notwithstanding all this, it is true that at any one time Sismondi's attitude towards *laissez faire* was something on which his "inconsistency was perhaps no greater than that of Adam Smith on the same subject, and that is still considerable inconsistency" (Sowell, 1972, p.67). However, it is going much too far in the interventionist direction to describe Sismondi as a "petty-bourgeois" or any other kind of "socialist", as Marx and Engels did in *The Communist Manifesto* (1967, p.109), though they did in fact make it clear there that Sismondi's many criticisms of capitalism were not accompanied by a prescription involving any form of collective ownership of means of production. Far from being a socialist, Sismondi remained essentially liberal in his outlook. Sismondi's eventual opposition to much of the *laissez faire* platform arose in part out of his stance against freedom to coerce, including freedom to coerce in a democracy; Sismondi

"claimed for all citizens all the liberties, save one; the liberty of oppression" (Desrousilles, 1976, p.1331), and said of himself "I am a liberal, better still a republican, but never a democrat" (Salis, 1932, p.461n.). It also arose in part out of his theory of underconsumption. And with the advantage of hindsight we can see that he is "the chief in a line of economists .. who, without being socialists on the one hand or totally blind to the vices of *laissez faire* on the other, sought that happy mean which permits of the corrections of liberty while retaining the principle" (Gide and Rist, 1948, p.187).

## Endnotes

- \* Economics Department, La Trobe University, Bundoora, Victoria 3083, Australia. This article is an extended version of remarks made by way of introduction to the paper entitled "Sismondi and *Laissez Faire*" presented to the fifth HETSA Conference, ANU, 1989.

## References

- Berlin, I. 1969. *Four Essays on Liberty*. London.
- Castelot, E. "Laissez-faire, laissez-passer, history of the maxim" in *Palgrave's Dictionary of Political Economy*, volume II. Edited by R.H.I. Palgrave. London.
- Dahrendorf, R. 1987. "Liberalism", in *The New Palgrave: A Dictionary of Economics*, Volume 3. Edited by J. Eatwell, M. Milgate and P. Newman. London.
- Desrousilles, G:D. 1976. "Sismondi ou le libéralisme héroïque", in *Histoire, socialisme et critique de l'économie politique*. Edited by J. Weiller. Paris.
- Gide, C. and Rist, C. 1948. *History of Economic Doctrines* (1909). Bristol.
- Grossman, H. 1943. "The evolutionist revolt against classical economics. I. In France - Condorcet, Saint-Simon, Simonde de Sismondi", *Journal of Political Economy*, 51:381-96.
- Heckscher, E. 1930. "Mercantilism", in *The Encyclopedia of the Social Sciences*, volume 10. Edited by E.R.A. Seligman. New York.

- Marx, K. and Engels, F. 1967. *The Communist Manifesto* (1848). Hamondsworth.
- Musgrave, R.A. 1959. *The Theory of Public Finance*. New York.
- Pappe, H.O. 1976. "La formation de la pensée socio-économique Sismondi: Sismondi et Adam Smith", in *Sismondi Européen*. Edited by S. Stelling-Michaud. Geneva.
- Rappard, W.E. 1966. "La conversion de Sismondi" (1943), in *Économistes Genevois du XIX<sup>e</sup> siècle*. Geneva
- Robbins, L. 1952. *The Theory of Economic Policy*. London.
- Salis, J-R. de. 1973. *Sismondi, 1773-1842: la vie et l'oeuvre d'un cosmopolite philosophe* (1932). Geneva.
- Samuels, W.J. 1996. *The Classical Theory of Economic Policy*. Cleveland.
- Sismondi, J.C.L. Simonde de. 1803. *De la richesse commerciale, ou principes d'économie politique appliqués à la législation du commerce*, Paris.
- Sismondi, J.C.L. Simonde de. 1830. "Political Economy" (1815), in *Edinburgh Encyclopaedia*, ed. D. Brewster, vol.17.
- Sismondi, J.C.L. Simonde de. 1819. *Nouveaux principes d'économie politique*, 2 vols, Paris.
- Sismondi, J.C.L. Simonde de. 1866. *Political Economy and the Philosophy of Government* (1835). Edited by M. Mignet. New York.
- Sowell, T. 1972. *Say's Law: An Historical Analysis*. Princeton.
- Viner, J. 1927. "Adam Smith and laissez faire", *Journal of Political Economy*, 35:198-232.