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Richard Cantillon—A Man of His Time: A Comment on Tarascio*

by David O'Mahony
Dept. of Economics
University College, Cork

Professor Spengler refers to Richard Cantillon as the first of the moderns. Professor Tarascio presents him from a current perspective. But it was the world as he knew it that Cantillon sought to explain. Inevitably he was a man of his time and it is primarily in that light that I should like to look at him. In so doing I shall concentrate on three of the topics with which Professor Tarascio deals, namely, value, money, and the entrepreneur.

I.

Cantillon portrays the world as he knew it vividly, if briefly, in the early chapters of the *Essai*. Above all it is a world of landed estates. The French Revolution was still over fifty years away and the property rights and privileges of the nobility were not only respected but accepted almost as part of nature itself. Since, as Cantillon sees it, land is "the Source or Matter from whence all Wealth is produced" (3) and since the land is divided up into estates everything derives from the landed estates and everything depends on them.

The Prince and the landowners alone are "independent." Of course they need the farmers, labourers, artisans, and undertakers just as these need the proprietors. They are independent in that they alone have the "disposition and direction of the landed capital" and are able "to give the most advantageous turn and movement to the whole" in accordance with their "fancy, methods and fashions of life." (47) Hence they are neither hired and told directly what to do, nor do they have to "portion themselves to demand" (53) and be told indirectly what to do.

It is also a world of villages, market towns, cities, and capital cities. But they all owe their existence and purpose to the landed estates—the property of the landowners and the "fountain-head" from which everything flows. (45)

*All references, denoted by figures in parentheses, are to page numbers in Richard Cantillon, *Essai Sur La Nature Du Commerce En General*, ed. and trans. by Henry Higgs (London: Macmillan and Co., Ltd., 1931).

The world that Cantillon describes seems very antique indeed. But trade had already become general, so general that even the farmer produced for the market. (49, 61) Already, though it was only the early eighteenth century, the interconnected and interrelated markets through which trade was carried on had become the ordering principle of the whole complex of activities extending from the estates of the landowners to the capital cities and even beyond the frontiers of the State. This is what Cantillon saw.

II.

In view of the decisive importance of the great landed estate in the society and economy of his time it is not surprising that it enters into Cantillon's method of analysis. He uses it to good effect when he wishes to bring out the essential nature or essence of the phenomena he is analyzing. It may be said to constitute for him what we would now call a model with the aid of which he is able to lay bare the basic elements and relationships that go to make up economic activity. Moreover, in using the great estate as his "model" he can be sure that his readers will easily follow his reasoning as he proceeds from the familiar to what is going on beneath the surface.

In what might be called the first version of his model he assumes that there is but one great estate in the world. He further assumes that the owner cultivates it himself in the sense that he hires all those he needs to do what he wants done. He follows "his fancy" in the uses to which he puts the land. These uses dictate the number and kinds of labourers, artisans, and others he must employ and so also the amount of land he must set aside to produce food, clothing, and other commodities "according to the way he wishes to maintain them." (59) For the rest he will turn his land into parks, gardens, and the like for his own pleasure. Obviously, in such a case the owner determines everything that is done on the estate. In particular what is produced is what he wants to be produced. There is no other production. The owner's wishes alone count.

What Cantillon is doing here is putting it beyond question that everything depends on the wishes of the proprietors. On the assumptions he is making, it could not be otherwise. His proposition regarding the central determining position of the landowners becomes incontrovertible. In more general terms what he is doing by means of this first simple model is to establish that the pattern and direction of production depend on demand.

Next he modifies his initial model and makes it considerably more realistic by assuming that the proprietor makes a bargain with his "overseers" as a result of which the "overseers of the labourers" become "farmers or undertakers," the "overseers of the mechanics" become master-craftsmen and undertakers and so on. Otherwise everything goes on as before. The reason everything continues as before is that Cantillon supposes that the demand of the proprietor remains unchanged. He still follows his fancy but because his fancy is unchanged nothing else changes. If anything did change, if, for example, the farmers sowed more corn than usual, a corrective process would come into play which would cause the previous routine to be re-established. But if the owner were to change his mode of living then the pattern of output would also be changed to correspond with the new patterns of demand. Labourers and mechanics live from day to day and change their mode of living "only from necessity." (63) Well-to-do people such as farmers or master-craftsmen may be in a position to change their consumption habits but they do so only in imitation of the lords whom they follow in regard to clothing, food, and "mode of life." (63)

Accordingly, there is no fundamental change in the capacity of the proprietors to determine demands when the assumption that the proprietor cultivates the estate himself is dropped. As Cantillon puts it:

> "If all the Landowners of a State cultivated their own estates they would use them to produce what they want; and as the variations of demand are chiefly caused by their mode of living the prices which they offer in the Market decide the Farmers to all the changes which they make in the employment and use of the land." (65)

But Cantillon uses the modified model to do a lot more than emphasize that the demand of the proprietors remains decisive. It emerges that the centralized management of the estate is abandoned because of the "care and trouble" involved. (59) It also emerges that exchange and trade and competition now arise and that these, in turn, require the use of money both as a measure of value and a medium of exchange. Moreover, it becomes clear too that production does not adjust of its own accord to demand. The centralized decision-making of the proprietor has to be replaced by another form of decision-making so as to ensure that supply is in fact adjusted to demand. This need is met by the undertakers. Thus, by employing the great estate as an analytical device Cantillon is able to reveal the essential features of economic activity in a way which would be easily understood by his contemporaries. The contrast between the first and second version of his model is almost dramatic in its impact and could hardly fail to convince his readers that there was more to the nature of trade than met the eye.

III.

If I understand Professor Tarascio correctly he interprets Cantillon's views as to the relationship between market price and intrinsic value as a cost of production theory of value. Certainly many of Cantillon's statements could be cited in support of this interpretation of Cantillon's position. But it is also possible to see another side to it.

Cantillon always argues that market price is determined by demand given the stock of the commodity on offer for the time being. "It is clear," he says, "that the quantity of Produce or of Merchandise offered for sale, in proportion to the demand or number of Buyers, is the basis on which is fixed or always supposed to be fixed the actual Market Prices . . . " (119) In the famous example of the green peas he is even more explicit. (121) Demand in turn, as he says repeatedly, depends on humour, fancies, mode of living, and the like. And he seems to contend that it is these humours and fancies that ascribe value to things. It is the "consent of mankind" which gives a value to "Lace, Linen, fine Cloths, Copper and other Metals" just as it does to gold and silver. (113) None of these things is essential. People could subsist without any of them. (113) But they choose not to, and by so doing ascribe value to them.

In another example he refers to an American who sells beaver skins to a European and who is "rightly astonished to learn that woolen hats are as serviceable as those made of beaver, and that all the difference, which causes so long a sea journey, is in the fancy of those who think beaver hats lighter and more agreeable to the eye and the touch." (237)

In Chapter X, the title of which is "The Price and Intrinsic Value of a Thing in general is the measure of the Land and Labour which enter into its Production," he says that the price of a pitcher of Seine water is nothing because there is an immense supply of it but that in the streets of Paris people will pay a sol for it and that is "the price or measure of the Labour of the Water-carrier." (29)

What all this seems to amount to is that people value things in accordance with their humour and fancies and that this is what decides the prices they will be willing to offer. Now, if in Cantillon's view, these prices in conjunction with the stock on offer determine actual market prices, could it be said that he holds a cost of production theory of value? It is true that he says that market prices are sometimes above and sometimes below intrinsic value. It is also true that intrinsic value is clearly to be understood as cost of production or the outlay incurred on the labour and natural resources involved in production. But does this mean, as Professor Tarascio seems to imply, that the intrinsic value is a kind of equilibrium price to which the market prices are always tending?

If intrinsic values were to determine prices in the sense that market prices tended to be brought back to intrinsic values when they departed from them, Cantillon's great estate model could not do what it was obviously intended to do, that is, explain what happens in the world in general. It would hardly be possible for the proprietor to vary the pattern of output by the prices he offered if it was the cost of production which ultimately determined the prices. Rather it is the other way around as, in fact, Cantillon on several occasions quite explicitly states.

In the example of the Brussels lace, no more than in that of the Seine water, he could hardly be more clear. The lace example is worth quoting *in extenso*:

> "If the price which the Ladies pay for the Lace does not cover all the costs and profits there will be no encouragement for this Manufacture, and the undertaker will cease to carry it on or become bankrupt; but as we have supposed this Manufacture is continued, it is necessary that all costs be covered by the prices paid by the Ladies of Paris . . . " (227)

Again, in another passage he says that gold and silver "like other merchandise and raw produce can only be produced at costs roughly proportionable to the value set upon them." (113)

It seems then that Cantillon's position is that if prices do not cover costs and thereby enable the labourers and undertakers to enjoy their customary standard of living, it is not that prices must change in the direction of intrinsic values but that the labourers and undertakers will go into other lines of activity. If things do not fetch their intrinsic values they simply will not be produced. For Cantillon, production does not continue automatically. But because all things that continue to be produced do afford a "living" to those producing them and because this "living" is the maintenance of the labourers and undertakers, it can be said that all things tend to be priced in proportion to their intrinsic values as long as production is fully adjusted to demand. The fact that prices may sometimes be above and sometimes below intrinsic values merely indicates that resources have not yet been moved fully into or out of particular lines of production rather than that the intrinsic value is the centre around which prices fluctuate. Given the independent determining role of the proprietors this conclusion seems inescapable. To hold otherwise would destroy Cantillon's whole concept of adjustment through the medium of the undertakers or entrepreneurs who for him perform this essential function.

The entrepreneurs have to adjust production continuously to meet demand at the prices offered. For Cantillon then it is not so much that intrinsic values exist automatically and spontaneously and that market prices are drawn towards them, as that the prices offered in the market determine whether or not it is worth producing things. In other words, it is the prices offered that determine what production costs can be incurred not that production costs determine what the prices must be.

IV.

Can the foregoing interpretation of Cantillon's approach to value and price be applied to his views regarding the value of gold and silver, the commodities used as money in his time?

His discussion of "imaginary value" might appear at first sight to support a cost of production interpretation in the case of commodity money. He says:

> "Money or the common measure of Value must correspond in fact and reality in terms of Land and Labour to the articles exchanged for it. Otherwise it would only have an imaginary Value. If, for example, a Prince or a Republic gave currency in the State to something which had not such a real and intrinsic value, not only would the other States refuse to accept it on that footing but the Inhabitants themselves would reject it when they perceived its lack of real value. When towards the end of the first Punic War the Romans wished to give the copper *as*, weighing two ozs., the same value as the *as* of 1 lb. or 12 oz. had before, it could not long be maintained in exchange." (111, 113)

But what he seems to be saying in this passage is no more than that the face value of a debased currency is imaginary in the sense that it is greater than the market value of the metal of which it is made. This value, in turn, determines how much land and labour it is worth using to produce a certain number of coins; if the copper producers incurred an expenditure on labour and land equal to the nominal value of the coins in producing the quantity of copper in question they would be at a loss because what they would realize from the sale of the copper would be less than what it cost them to produce it—that is to say, less than its intrinsic value. Accordingly, it does not seem that this passage implies a cost of production theory of gold and silver.

Moreover, as we have already seen, Cantillon says that gold and silver can only be produced at costs roughly equivalent to the value set upon them—just like all other commodities and that it is the consent of mankind which has given its value to these two commodities.

He is even more forthright when he discusses the relationship between the value of gold and silver. "It is the market price," he says, "which decides the ratio of the value of gold to that of silver. The Market price is the base of this proportion in the value assigned to coins of gold and silver. If the market price varies considerably, that of the coinage must be reformed to follow the market rate." (279, 281) In the same vein in a later passage he emphasizes that only "the market price can find the ratio of the value of gold and silver as of all other values." (287)

This interpretation is still further reinforced by the fact that fiduciary money, as Professor Tarascio points out, has a market value but no intrinsic value. If the value of gold and silver is not determined by cost of production then the value of fiduciary money poses no new problem and does not make matters more complex, as Professor Tarascio argues it does.

Professor Tarascio points out that the market price or purchasing power of gold and silver and their cost of production converge through changes in velocity of circulation rather than through changes in supply. But this again does not imply that there is any radical difference between money and other goods since a change in velocity is equivalent to a change in supply. There is no need for a change in the physical supply of gold and silver if the same result can be produced in some other way which alters the proportion between active and inactive balances.

Cantillon observes that the abundance "of fictitious or imaginary money has the same effect as an increase in the circulation of real money" but that this abundance vanishes if confidence is jolted and that this in turn percipitates disorder. (311) However, in some cases this kind of money is used only to buy stocks and shares so that it has no effect on prices generally and seems only to change the rate of interest. Hence the effect of this kind of money, as in the case of "real" money would depend on how it is used. Nevertheless, Cantillon regards the ability to expand fictitious money as a temptation and a danger particularly, it would seem, for Ministers of the government. They have rarely, if ever, been able to overcome this temptation. In our day the dangers of succumbing to it are even greater than in Cantillon's because the abundance of "fictitious" money does not vanish now when confidence is jolted. This is why, as Professor Tarascio reminds us, we have been experiencing the greatest sustained inflation in history in our time.

V.

Cantillon's insights regarding the reasons for the existence of the undertaker and his role in economic activity can perhaps best be appreciated by contrasting once again the first and second versions of his model of the great estate.

In the first version the proprietor directs the whole estate himself. He employs overseers to manage the day-to-day work of the labourers and artisans. But he decides what they are to do and how the land is to be used. Everything is done on his direct instructions. There is uncertainty, of course, but it arises only because of natural forces such as the weather as a result of which harvests may be good or bad or from accidental circumstances such as the presence of foreign troops. (65) But as there is no trade and no competition the particular kind of uncertainty associated with the market process does not exist and so there is no entrepreneurship.

But in the second version, while the demand of the proprietors, and now also of those who emulate them, is paramount, their instructions are conveyed indirectly *via* the prices they are willing to offer in the market. These prices cannot be foreseen with certainty so the overseers, now become undertakers, have to use their judgement as to what will pay best. (49) What distinguishes the first and second versions of the model, therefore, is that centralized decision-making regarding the use of resources has been replaced by decentralized decision-making. And the entrepreneurs are the decision-makers in this respect. It is they who now direct human and natural resources into and out of particular lines of production in response to changes in demand and on the basis of what they judge will pay best. Thus, the primary role of the entrepreneurs is to adjust economic activity in response to changes in demand.

But this is not their only role. They are still overseers. They continue to be responsible for the management of the day-to-day affairs of their businesses. It will be recalled that the entrepreneurs come into existence in the first instance when, and because, the proprietor wishes to avoid the "care and trouble" of running the estate himself. (59) When they take over from him they "will have more care and satisfaction in working on their own account." (61) So, presumably, they will run things better than when they were mere overseers hired by the owners. It is tempting to suggest that the proprietor decides to divest himself of "so much care and trouble" (59) because it is too difficult, or even impossible, for him to confine all decision-making to himself once the estate becomes large and complex.

Cantillon very clearly explains in chapter XIII of Book I why it is that the entrepreneurs always do business "at a risk." It is invariably because the prices at which goods and services are sold vary from place to place and from time to time for a variety of reasons and cannot be foreseen precisely. Entrepreneurs, other than entrepreneurs "of their own labour," (53) must buy things before they re-sell them in a different place and/or form. The money they laid out is over and done with and as far as they are concerned "fixed." What they will get eventually is not fixed so their income is not fixed either. It is a residual. Thus, Cantillon perceives that under market conditions some incomes must be in the nature of a residual and that one of the entrepreneurial roles is to accept responsibility for this residual-bearing function.

Cantillon does not explain how or why competition emerges. He simply takes its existence for granted and regards it as an important source of uncertainty for the entrepreneur. (51) He clearly understands, as the example of the silver mines shows, that it keeps prices down by preventing entrepreneurs from being able to charge "arbitrary prices." (99, 100)

For Cantillon, then, uncertainty arises not only because of natural forces and accidental circumstances, but also because of the nature of the market process itself. The market which he sees as emerging in place of centralized decision-making makes the entrepreneurial functions necessary. If the proprietor ceases to make all the decisions himself and confines himself only to indicating his demands through the prices he is prepared to offer, some way has to be found by which the requisite decisions will be made which will ensure that the wishes of the proprietors, and of those who follow them, will be catered for. The entrepreneur plays this role. In doing so he is continuously adjusting to the changes that are taking place in accordance with his judgement. These changes are the source of the uncertainty and risk that surround him and which distinguish him from the proprietor on the one hand and from those who are hired on the other.

Cantillon is obviously very conscious of the uncertainty that pervades the activities of the entrepreneurs. Yet it did not require any great insight on his part to see that uncertainty is all-pervasive. It must have been obvious to him at every hand's turn. To acknowledge his recognition of uncertainty when we look at him as Professor Tarascio does from a current perspective is thus more of a reflection on many modern economists whose capacity to ignore uncertainty is nothing short of bizarre than a tribute to Cantillon's prescience.

One must, of course, agree with Professor Tarascio's doubt regarding the capacity of simplified models of behaviour to capture entrepreneurial behaviour. Indeed, one might well go further and ask if entrepreneurial activity can in the nature of things be made the subject of formal representations or models at all. If they could, would there by any room for uncertainty, in the true sense of the term, and, therefore, any room for entrepreneurship itself?

VI.

Cantillon's *Essai* is an attempt to explain the world as he knew it. From our perspective it seems a distant and quaint world. Yet it already had many of the characteristics of our world so that, as Professor Tarascio shows, we can usefully examine Cantillon's work from our current perspective.

Above all, what Cantillon grasped was that to explain his world and to show how its apparently disparate elements constituted an integrated rational whole, one had to turn to a study of the nature of trade which already by the early eighteenth century held the secret to the understanding of what superficially looked like a chaotic jumble of activities. Can we do better if we wish to understand our world?