

Protectionnisme, libre-échange, compétitivité et développement économique : Quelle réalité ?

CNAM, Paris, 6-7 septembre 2018

Protectionism and laissez-faire.
What are we really talking
about?

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- **Why the recurring debates on laissez-faire and protectionism are inconclusive, beyond the general agreement about the fact that the reflections on this issue fall in the field of economic policy?**
- **I will try to show that the irreconcilable positions have to be traced back to hidden epistemological aspects: economists speak of the same issue, having but different analytical context as a reference point**

The contrasts between German Historical School of Economics and mainstream economics offer a valuable opportunity to verify both the reasons for their different judgment on Mercantilism, and on the role of laissez-faire, focusing on the following issues:

1. the relationship between laissez faire and the analytical structure of political economy;
2. the interpretation of Mercantilism and its relationship to the development of "modern capitalism", according to representatives of the GHS;
3. the hidden epistemological components that justify the persisting and irreconcilable contrasts on laissez faire and protectionism

Laissez-faire and analytical structure of political economy

- **Laissez-faire is no part of epistemological structure of political economy**
- Mill: “Political economists generally, and English political economists above others, have been accustomed ... to exaggerate the effect of competition, and to take into little account the other and conflicting principles”, starting from the custom “the most powerful protector of the weak against the strong” (Mill 2006 [1848], p. 240).
- A “general correction” has to be applied to “the conclusions of political economy” in order “to escape error” concerning undue generalization about the role of competition with reference to “the actual affairs of life” (Mill 2006 [1848], p. 244).

E. Cairnes:

- “the maxim of laissez-faire has no scientific basis whatever, but it is at best a mere handy rule of practice, useful, perhaps, as a reminder to statesmen on which side the presumption lies in questions of industrial legislation, but totally destitute of all scientific authority” (Cairnes 1873, p. 244).
- Besides, if we have to admit that “the policy expressed by laissez-faire has been steadily progressive for nearly half a century” (Cairnes 1873, p. 249), at the present, its rigid application produces negative effects on economic and social environment, abating “our confidence in mere laissez-faire as the panacea for industrial ills” (Cairnes 1873, p. 250)

- **Pareto**, after many attempts to scientifically demonstrate the role of laissez-faire, has to admit that this is not possible: laissez-faire falls in the sphere of economic policy (Pareto 1961, par. 68, p. 38).
- In a letter to M. Pantaleoni (December 6, 1891) Pareto points out: "If there is anyone who claims that laissez-faire is always good at all times, in all societies, he must certainly give the proof that is requested. **But it is not our job to prove it, since we defend laissez-faire as the minor evil for civil peoples, as are now the European peoples ...We must simply prove that the systems that oppose the laissez-faire have more defects**" (Pareto 1960, I, p. 98).

GHS: laissez faire and protectionism

- GHS representatives agree with Mill and Cairnes.
- They emphasize the role of free competition and the positive function of the self-regulative mechanisms of the market
- They do not indulge in anti-liberal or protectionist attitudes
- What they do not accept is that radical laissez faire à la F. Ferrara and à la von Threitscke, who tried to transform laissez-faire into a unique principle for the explanation of the genesis and development of "modern capitalism".
- This kind of laissez-faire cannot have a general explanatory function and cannot be an unquestionable leading principle for economic policy.
- As Keynes will subsequently say: laissez faire as a "technical" expedient of economic policy is acceptable under certain conditions, but it cannot be shared if considered as a part of a general political philosophy, since it "remains linked to old-fashioned individualism" and to a metaphysical attitude (id., p. 50, cf. *The end of laissez faire*)

GHS and Mercantilism

- GHS representatives apply this view in a double direction:
 - a. for the interpretation of Mercantilism;
 - b. for the explanation of contemporary economy
- Sombart: "it would be childish to believe that the greed for money and the search for its possession directly influenced economic life, in such a way as to give birth to the capitalist spirit, to the capitalist enterprise" (Sombart, *Il borghese*, p. 24).
- **Weber**: without the reference to the **“important and objective political and economic preconditions”** we cannot explain either **‘modern individualism’** , or the **birth of modern entrepreneurs** as men “who had grown up in a hard school of life, calculators and daring at the same time, but above all sober and constant, intensely and completely dedicated to their task, with rigorously bourgeois views and principles" (Weber 1920-21, I, p. 51)

- Obviously, as Schmoller pointed out to the point of exhaustion: "Individuals always remain the active atoms of the economic-social body. But ... the deployment of their activities takes place predominantly in the form of a grouping around certain political organs" (Lin, I, p. 354, G: 188).
- During Mercantilism, economic activities of individuals, needed not only a different cultural environment, but, more concretely, forms of readjustment of the pre-existing relative positions of several economic groups in order to overcome "the seeds of conflict" emerging "despite the increase in absolute incomes or in the quantity of production" (Kuznets 1990, p 98ff, Ashton 1973, p. 147)
- In some way the new State (the national State) was called upon to perform the functions of the "collective capitalist" (Marx), gradually freeing itself from the weight of archaic practices and interpreting the long-term interests of the classes that was assuming a dominant role.

- Modern State assumed a unifying function:
- a. through the introduction of new systems of direction and control, able to induce "individuals to act in one way and not to act in the other" and significantly influencing "the formation of human destinies", by gradually uniforming lifestyles (Sombart, *The bourgeois*, p. 47, cfr also p. 48)
- b. through the creation of "a great administrative apparatus", which made possible a "profound penetration" of the new "organization of life" (Sombart 1913, p. 47).
- c. through the spread of its "system of domain, which also serves as a model of the highest organization for all smaller enterprises ... (Sombart 1913, p. 47);
- d. through the progressive convergence between the political and administrative activities of the State and the economic behaviors of individuals. In short: the State assumes a political orientation that refers to the "acquisitive enterprise" as if the State "consisted exclusively of capitalist entrepreneurs" (Weber 1923, p. 242).

Two epistemological approaches:GHS ...

- GHS builds an explicative circuit founded on three basic components: State – Economy – Individuals
- Within it economic agents do not act according to stimulus/response mechanisms in an immutable natural environment, but they share changing collective and personal stories, leading them to act in differentiated ways by adopting conservative or innovative behaviors, traditional or original attitudes. Institutional contexts are a significant component of these stories (Hodgson 2001, p. 14).
- From this point of view, the idea that laissez faire and free trade guarantee always the maximum personal benefit with the maximum collective well-being appears naive or purely ideological: the hope of healing through laissez faire “all the evils of economic life is no more founded than that of the radicalism that would turn the state into a perfect government ... We are in the presence of an abstract dogmatism, determined by an outdated level of science" (Schmoller 1898, pp. 14-26)

... and mainstream economics

- There is no doubt that Mill's epistemological approach has been the basic point of reference of the following developments of economics, beyond the numerous variants it assumed over time.
- Epistemological structure of economics is grounded on “assumed premises ... which might be totally without foundation in fact, and which are not pretended to be universally in accordance with it” (Mill 2000 [1844], p. 102).
- Economy is inhabited by a man, “as a being who desires to possess wealth, and who is capable of judging of the comparative efficacy of the means for obtaining that end” (Mill 2000 [1844], p. 97; Mill 2006 [1843], p. 901 ff.).
- The endogenous properties that belong to him “as a mere individual” “do not presuppose, as a necessary condition, the existence of other individuals (except, perhaps, as mere instruments or means)” (Mill 2000 [1844], p. 95)

- Economy has naturalistic features and cannot change in its structural aspects over time (Mill 2006 [1843], p. 902).
- Of course – Mill adds – these features “are really the result of a plurality of motives”, but given our epistemological choice we can represent this situation “as flowing solely from the desire of wealth” of individuals (Mill 2006 [1843], p. 902). In short:
 - 1. the endogenous features of the individual, as economic agent, are given;
 - 2. the properties of the individual cannot change when he acts together with other individuals (who are considered always “as mere instruments or means”);
 - 3. the relationships between man and nature, in order to satisfy his needs, is necessarily individualistic in character: it is only technically mediated by a particular productive system.

- Given this explicative circuit, laissez-faire is the sole possible kind of behavior of *homo oeconomicus* in a universe without institutions and in which the presence of other individuals cannot change the features of the individual behavior.
- M. Weber: it is a “pure no-state, amoral, individualistic theory ... which was conceived by the radical liberalist school as an exhaustive copy of “natural” reality, i.e. of a reality not distorted by human stupidity and on this basis transformed into a “has to be” – into an ideal valid in the normative sphere, which is set as an ideal type to be used for the empirical research about what is” (Weber 1951, p. 367; on this see: Sombart 1930, pp.176-7).
- However, this approach is unacceptable: as “expression of an ideal”, “as a research method about the actual reality” (Weber 1951, p. 367) and, at least, as a representation of the world.
- Political economy is a “science of reality”, and even though we aspire to ascribe to individual causes the economic phenomena – economic and non economic in character – through the causal regression, it has to achieve a ‘historical knowledge’” (Weber 1967, p. 76; on this see: Schmoller 1923, I, pp. 110-3).

Formal structures and representations of the world

- The question is: why the aprioristic epistemological structures of economics have significantly influenced our representation of the world? And, why an empirical discipline, such as economic policy, should necessarily refer to an epistemological view, which explicitly does not have any relationship with empirical reality? What kind of logical relationships can there be between the aprioristic structure of economics and the disciplines dealing with historical reality?
- A. Spiethoff: the impossibility to conciliate a de-historicized approach and a historicized one.
- Hume's approach (in defence of Epicurus) about the relationship between a causal explanation and a representation of the world:
“When we infer any particular cause from an effect, we must proportion the one to the other, and can never be allowed to ascribe to the cause any qualities, but what are exactly sufficient to produce the effect. A body of ten ounces raised in any scale may serve as a proof, that the counterbalancing weight exceeds ten ounces; but can never afford a reason that it exceeds a hundred. If the cause, assigned for any effect, be not sufficient to produce it, we must either reject that cause, or add to it such qualities as give it a just proportion to the effect.” (Hume 1996, p. 212)

- “But if we ascribe to it farther qualities, or affirm it capable of producing other effects, we can only indulge the license of conjecture, and arbitrarily suppose the existence of qualities and energies, without reason and authority” (Hume 1996, p. 212)
- This inevitably occurs if we speak of «the course of the nature» or of “a general representation of the world”, presuming another, and more perfect, state of the world (Hume 1996, p. 216).
- In this case, “without any foundation in reason”, the principle of causation is inserted into a purely ideological or metaphysical context and it is used not for explaining inquired phenomena, but for justifying our belief about them (Hume 1996, p. 216).
- The real *trait-d’union* between an a-historical epistemological structure and a historical or empirical approach is given not by the simple acceptance of some causal explanations, but from the use of the same ideological view about the state of the world that economists share.
- The same occurs if we substitute the reference to laissez faire with State intervention.

- In the epistemological structure we cannot immediately consider specific states of the world, but a historically oriented epistemology can produce significant analytical advantages (if it is used in an appropriate way):
 - it can free us from the surreptitious representation of the world implicit in the formal structure of economics;
 - It can help to explicitly discuss the purposes of individual and collective behavior in a historical universe characterized by the choices of aware (and institutionalized) human beings;
 - It can open up the possibility of critically inquiring into our representations of the world.