

Laissez-Faire

Angus Burgin

The term *laissez-faire* refers to a social system that endeavors to assign responsibility for economic outcomes to markets rather than to politics. Beyond this generalization, its specific meaning has remained vague and inconsistent. Some insist that it applies to a government that provides little other than rudimentary protections against criminal activity, as in Ferdinand Lassalle's "night-watchman state" or in Thomas Carlyle's "anarchy plus the constable." Although this extreme understanding of the concept is frequently invoked by critics and dogmatists, few major theorists have accepted it as a representation of their ideas. Others argue that the term can encompass a far more expansive range of activities: thus the historian of economic thought Jacob Viner has written that it refers to a government policy that attempts to provide not only peace, defense, and commutative justice, but also public works that are considered essential and unlikely to be pursued by private enterprise. Such a definition allows canonical figures like Adam Smith to be considered advocates of *laissez-faire*, but only if one adopts an unintelligibly broad understanding of its meaning.

Due in part to these ambiguities, *laissez-faire* has been most commonly referenced not as a specific and highly elaborated doctrine of political philosophy, but rather as an implicit standard of inaction to which economic and political proposals can be compared. John Stuart Mill provided a classic statement of this view in his *Principles of Political Economy*: "Letting alone, in short, should be the general practice: every departure from it, unless required by some great good, is a certain evil" (Mill 2004 [1848]: 865). When used in this manner, *laissez-faire* can provide a guideline that places a burden of

justification on those who recommend government intervention in the market economy. Many economists have questioned such uses of the term, holding, with John Elliott Cairnes, that they offer a "mere handy rule of practice" that is "totally destitute of all scientific authority" (Cairnes 1873: 244). Even so, *laissez-faire* has proven to be a remarkably resilient concept and has persistently defied predictions of its incipient decline.

The term *laissez-faire* did not commonly appear in the English language until the mid-1800s, but it had entered French discussions of political economy more than a century earlier. Turgot attributed its first such occurrence to an incident in the late seventeenth century, when the French merchant François Legendre was said to have told Louis XIV's meddling finance minister Colbert: "*laissez-nous faire*." Although slight variations of this formula subsequently appeared in the writings of Pierre de Boisguilbert, it did not become more widely adopted until the mid-eighteenth century. Dupont de Nemours famously attributed the popularization of the phrase "*laissez faire, laissez passer*" in that period to Vincent de Gournay; but Gournay left no record of publications to validate the claim. The first recorded use of *laissez faire* to signify an economic doctrine appeared in the writings of Gournay's contemporary the Marquis d'Argenson, who circulated his writings broadly but published only one anonymous letter in his lifetime.

For the remainder of the eighteenth century, references to *laissez-faire* remained infrequent. Most Physiocrats did not align themselves with this concept, which was never used by Quesnay and appeared in the writings of Turgot only twice. Adam Smith never used the word either, and its applicability to his system of ideas has long been a source of scholarly disagreement. Smith was a tireless supporter of free trade and remained consistently suspicious of the government's capacity to improve upon market

outcomes; but he also advocated public education, sought strict regulations against monopoly, countenanced vigorous government action to improve the lot of the poor, and expressed concerns about the repetitive nature of mass production. There is much for advocates of laissez-faire to admire in Smith's writings, but the term cannot be retrospectively applied to his work without qualification.

The term is similarly absent from the works of Bentham, Malthus, and Ricardo, and its relationship with their work has been overstated. Bentham did write in the first chapter of *A Manual of Political Economy* that the proper "watchword of government" was "*be quiet*," but his passion for bureaucratic oversight and his careful distinction between the "Agenda" and the "Non-agenda" of government made it clear that he countenanced extensive interventions. The pessimistic conclusions of Malthus's *Essay on the Principle of Population* have been used to justify market outcomes ever since, but Malthus himself saw benefits in significant restrictions on trade. Ricardo famously advocated for free trade, but the political implications of his work were ambiguous and his theory of value became a primary justification for socialist economics.

Laissez-faire finally entered common usage in the English language with the publication of John Stuart Mill's *Principles of Political Economy* in 1848 (Mill 2004 [1848]). Although Mill adopted laissez-faire as a baseline beyond which all acts of government intervention would need to be justified, in practice he found many instances where such intervention was merited. Mill's ideal government accepted a responsibility for the provision of education, the care of lunatics, idiots, and children, the exercise of control over practical monopolies, the subsistence of the destitute, the oversight of transactions that impacted outsiders, and the maintenance of a learned class. Mill's followers, John Elliott Cairnes and Henry Sidgwick, were sharply critical of those who

sought to elevate Mill's qualified rule to a prescriptive philosophy.

Despite Mill's reservations, the middle years of the nineteenth century came to be seen by many as the high tide of laissez-faire. In England Richard Cobden vigorously advocated free trade, arguing successfully for the 1846 repeal of the Corn Laws with the intransigence characteristic of what became known as "the Manchester School." The work of Herbert Spencer leveraged novel evolutionary theories to argue for an economic system that minimized redistribution to the poor. In France Frédéric Bastiat drew on a theory of natural rights in order to undertake, with remarkable uniformity, the "task of freeing the whole domain of private activity from the encroachments of government" (Bastiat 1996 [1850]). In America Francis Amasa Walker observed that laissez-faire had become a test of "whether a man were an economist at all" (Walker 1889: 17). Even Germany saw a wave of enthusiasm for "English economics."

Beginning in the late 1860s support for laissez-faire economic policies across Europe began to wane. Under the leadership of Gustav Schmoller, a group of historical economists in Germany argued that their country's recent credulousness toward an abstract market ideal had resulted in disastrous inequalities. American students who took their doctorates at German universities returned home with new doubts about an economic model that many now associated with their native land. In 1884, just a year before founding the American Economic Association, Richard T. Ely wrote that the new political economy "does not acknowledge laissez-faire as an excuse for doing nothing while people starve, nor allow the all-sufficiency of competition as a plea for grinding the poor" (Ely 1884: 64). Even in England, support for laissez-faire policies entered into a prolonged decline. The British constitutional lawyer Albert Venn Dicey's *Lectures on the Relation between Law and Public Opinion*, delivered at Harvard Law School

in 1898 and published in 1905, offered a prolonged lament over the rise of socialism and associated “eclipse” of laissez-faire.

Dacey exaggerated the support for laissez-faire among the classical economists, but he was joined by many in his assessment that its influence had reached a low ebb. In 1906 the American economist Irving Fisher asserted in a speech that laissez-faire had been “generally abandoned” due to “the cumulative effect of experience,” the need for “self-defense” against powerful new business enterprises, and the growing “popular confidence” in governing bodies that were fast becoming more capable and efficient (Fisher 1907: 18). Nearly two decades later John Maynard Keynes argued in a piece titled “The End of Laissez-Faire” that the concept had become a mere “copybook maxim” that had little support among academic economists and was fast losing its hold on the popular imagination (Keynes 1927: 20). Both Fisher and Keynes believed that the decline of laissez-faire represented a long-term trend that would end in its permanent displacement.

The events of the Great Depression at first seemed to validate these predictions, as newspapers on both sides of the Atlantic reported that recent economic dislocations had brought the era of laissez-faire to a close. Even the leading advocates of free trade were quick to dissociate themselves from any connection with the doctrine. Friedrich Hayek used his inaugural lecture at the London School of Economics to criticize his colleagues for their dogmatic support for laissez-faire and neglect of their profession’s “positive” duty to identify where and when state action was beneficial. Later, in his 1944 treatise *The Road to Serfdom*, Hayek disparaged laissez-faire as “a highly ambiguous and misleading description of the principles on which a liberal policy is based” (Hayek 2008 [1944]: 118). He then outlined a broad range of activities in which he believed state action was merited, such as limiting working hours, providing transportation

infrastructure, prohibiting harmful business practices, imposing price controls on monopolies, and offering social insurance that guaranteed a basic level of food and shelter to all.

Hayek’s closest allies in the United States expressed their reservations about laissez-faire in stronger terms. The University of Chicago economist Frank Knight argued in the early 1920s that the ethical conclusions of laissez-faire economists relied on assumptions that had no relevance to the actual world. He criticized them for ignoring the frequency with which knowledge was circumscribed, humans were irrational and impulsive, desires were induced by culture, goods were immobile or indivisible, competitors sought to combine, transactions influenced more than just the parties involved, and economic productivity failed to align with moral desert (Knight 1997 [1935]). Knight’s student Henry Simons advocated a “positive program for laissez-faire,” which included a steeply progressive income tax and a call to break up large corporations into much smaller business units. Knight and Simons joined Hayek in calling for the abandonment of laissez-faire in favor of less doctrinaire approaches to market advocacy.

But predictions of the demise or supersession of laissez-faire would prove misplaced in the decades after World War II, as several discrete communities of market advocates developed bold new arguments against government interference. One of these communities emerged under the oversight of Ludwig von Mises, Hayek’s onetime mentor in Vienna who fled to the United States in 1938 and later took up a professorship at New York University. Mises’s postwar treatise *Human Action* argued that the science of economics proceeded through rigorous aprioristic reasoning, which revealed that government intervention was only merited in cases that involved the preservation of economic freedom (Mises 1963 [1949]: 285). Mises developed a passionate community of followers and successors, but their “Austrian” views

remained marginalized within an economics profession that increasingly found their syllogistic reasoning and literary style obscure. More broadly influential was Ayn Rand, the Soviet émigré who authored popular novels including *The Fountainhead* (published in 1943) and *Atlas Shrugged* (published in 1957). Rand's philosophy, which she called "Objectivism," defended market outcomes by identifying a close alignment between economic productivity and moral desert. Both Mises and Rand defended the concept of laissez-faire and criticized colleagues who were more willing to allow for deviations from the ideal.

The most influential academic advocate of laissez-faire during the second half of the twentieth century, however, was the University of Chicago economist Milton Friedman. Relying on the empirical research methodologies and mathematical language of postwar economics, Friedman developed a multipronged assault on the Keynesian consensus shared by many of his colleagues. In a series of major analytical works he asserted that inept monetary policy, rather than market failures, caused the Great Depression, and that fiscal policy failed to stimulate demand as Keynesians expected. Drawing on the work of his colleague George Stigler, Friedman argued that regulators usually ended up serving the corporations they were charged to oversee, and that concerns about monopoly advantages were largely misplaced. With the publication of *Capitalism and Freedom* in 1962, he expanded upon these arguments to express a comprehensive political worldview. In almost all cases, Friedman found the government to cause more harm than it solved, and he argued for the abolition of government functions such as licensing bureaus, disaster aid, the military draft, and national parks. He intended even his positive proposals, including school vouchers and a negative income tax, as pragmatic solutions on the journey to a government with no public education or welfare. Friedman's ideal state did

little more than enforce contracts and provide police functions, and his rise to prominence represented the renewal of political interest in a radical version of laissez-faire.

Advocates of laissez-faire, including Mises, Rand, Friedman, and their followers, long represented it as a highly circumscribed approach to government intervention in the activities of citizens. Their critics, however, replied that laissez-faire did not emerge organically: it, too, was only made possible through extensive government interventions. "There was nothing natural about laissez-faire," Karl Polanyi argued in *The Great Transformation*; "free markets could never have come into being merely by allowing things to take their course" (Polanyi 2001 [1944]: 145). The self-regulating market was always confronted by threats ranging from trade unions to monopolies, and it was sustained only through constant and often aggressive interventions. More recently, economic sociologists have emphasized the restrictions on democracy that "neoliberal" economists and politicians have enacted in order to protect their preferred systems of market exchange. Such systems, they have emphasized, often treat political freedoms as secondary to the economic interests of those in positions of political and financial authority. In these interpretations, "laissez-faire" is a misleading description for a system in which the government carefully constructs the terms of exchange and restricts the democratic capacity to intervene.

Laissez-faire remains a nebulous term. It has been used in reference to theorists who wish to restrict government to little more than police functions, as well as theorists who embrace far more expansive roles in line with those of most modern democratic states. It has served as both a regulative ideal and the foundation for an economic worldview; as an expansive moral doctrine founded on an ethos of productivity and as a narrowly economic doctrine focused on the accumulation of wealth; as a pessimistic

restriction on the exercise of popular democracy and as an optimistic attempt to expand freedom of choice. Advocates have represented it as the absence of intervention, while critics have seen it as reliant upon the constant exercise of state power. Regardless of its meaning, justification, and conceptual viability, laissez-faire continues to carry great weight as a point of reference in debates about political economy. The term's very ambiguity remains essential to its proliferation, allowing its definition to shift in accordance with the needs of those who invoke it.

SEE ALSO: Anarchism; Capitalism; Classical Political Economy; Liberalism; Limited Government

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