

LAISSEZ FAIRE IS NOT AN UNMITIGATED GOOD:

J.-B. SAY ON FREE TRADE

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Abstract: Jean-Baptiste Say is generally portrayed as an unrelenting champion of *laissez faire* who believed commercial activity promoted economic well-being. However, I develop a more nuanced portrait of Say's thinking by showing that he did not believe that free trade was an unmitigated good. He thus identified several exceptions to free international trade that justified government intervention in the form of restrictions on imports, and public subsidies to domestic industries. I argue three aspects of Say's trade theory have been particularly overlooked. Going beyond Adam Smith's arguments for protective tariffs, Say maintained that government could play a role to protect infant industries. Moreover, Say argued that domestic trade was more valuable than foreign trade. Finally, his initial criticisms of Britain's protectionism and colonial policies were later followed by praise for the country's commercial reforms, and for settlement colonization in India in the 1820s. In advocating for this position, Say recanted his initial views, which considered trade a powerful conveyor of peace and political emancipation for all nations.

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I. INTRODUCTION

French classical economist Jean-Baptiste Say (1767–1832) has been one of the most influential authors in the economic discipline. Interest in his scholarship has revived over the past two decades. The renewed interest in Say has resulted in the publication of several works devoted to various aspects of his thought.¹ Some commentators have taken for granted the fact that Say was an unrelenting champion of *laissez faire* (Formaini 2006; Sechrest 1999; Skousen 2009, p. 51). His pro-free trade stance is thus rarely discussed in depth.² Yet, a careful and thorough reading of the various editions of *Traité d'économie politique* (henceforth *Traité*) and *Cours complet*

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¹ See for instance Palmer (1997), Forget (1999), Whatmore (2000), Potier and Tiran (2003), Hollander (2005), Tiran (2010), and Schoorl (2013).

² One exception is Steiner (1998), another is Todd (2015). However, in both instances the analysis of Say's views on free trade is not complete. Moreover, the latter study contains some erroneous statements. Thus, Todd (2015, p. 31) argues that in "the second edition of his *Traité d'économie politique*, published in 1814 ... Say made several substantial concessions to the partisans of restrictions ... Say's case is important because his reservations about free trade would gradually disappear from later editions of the *Traité*". In fact, Say consistently voiced his reservations about free trade from the first to the sixth edition of *Traité* as I demonstrate in this article.

d'économie politique pratique (henceforth *Cours*), his two major publications, shows that Say's views contrast with the libertarian ideals generally associated with his thinking.

In this essay, I argue that although Say maintained that commercial activity promoted economic well-being, he did not believe that free trade was an unmitigated good. He mentioned several cases that justified government intervention in the form of restrictions on imports, and public subsidies to domestic industries. Three aspects of Say's trade theory have been particularly overlooked. Going beyond Adam Smith's arguments for protective tariffs, Say maintained that government could play a role to protect infant industries. Moreover, Say argued that domestic trade was more valuable than foreign trade. Finally, his initial criticisms of Britain's protectionism and colonial policies were later followed by praise for the country's commercial reforms and for settlement colonization in India in the 1820s. In advocating for this position, Say recanted his initial views which considered trade a powerful conveyor of peace and political emancipation for all nations. Drawing upon Say's published writings and archival sources, the present essay enhances our understanding of Say's political economy on two counts. It dispels simplistic narratives about Say's contribution to economic theory. My study shows that Say had some concerns about the application of the free market doctrine regarding international trade. Say adopted a market-failure approach. The general rule of *laissez faire* came with several exceptions that justified restrictive and protective measures. In those cases, government had to step in when the marketplace failed to produce the socially desirable outcome. The text also highlights Say's ambivalent attitude toward Britain and especially toward Smith. Although Say frequently praised Smith, he did not hesitate to depart from Smith's views on free trade.³ On the one hand, Say was more critical toward free trade than Smith, identifying more circumstances

³ Say's annotations to his own copy of the fifth edition of the *Wealth of Nations* show that he disagreed with Smith on numerous topics (Hashimoto 1980, 1982; Forget 1993).

warranting exceptions to a free trade policy. On the other hand, he adopted a tougher stance against protectionism on issues such as the British Navigation laws and, to a lesser extent, on commercial retaliation. The Say that emerges from this study is far from being the mere popularizer of Smith's ideas that he is often portrayed as (Schumpeter 1954, pp. 491–492; Blaug 1986, p. 212; 1991, p. ix). Say developed original views on domestic and international trade, several of which were distinct from those of Smith.

The rest of the essay is structured as follows. The next section examines Say's social and professional background, and the political and economic context of late eighteenth-early nineteenth century France. Section III explores the general features of Say's thinking on exchange and commerce. Section IV and V respectively analyze Say's crusade against protectionism, and the exceptions to free trade. The final section concludes the study.

II. THE SIGNIFICANCE OF BUSINESS AND TRADING IN SAY'S LIFE AND THE NAPOLEONIC WARS

Business and trading played a significant role in Say's life. The political and economic landscape of the post-Revolution era also influenced Say's thinking.

Business and trading

J.-B. Say was born in 1767 in the city of Lyon to a protestant family deeply rooted in business and trading. His father, Jean Étienne Say, was a Swiss-born silk merchant in Lyon, and later a bank and currency trader in Paris. Jean-Baptiste Say was trained in commerce and trading in the family business. His father sent him and his younger brother Jean Honoré (known as Horace) to England to learn English and complete his commercial training in 1785. Upon his

return in 1787, Say worked as a clerk in the life insurance company directed by Étienne Clavière (1735–1793).⁴ His other younger brother, Louis Auguste, became a successful businessman. Louis founded what would become the largest sugar refinery in France, known after 1972 as Béghin-Say, carrying on the family tradition for business and trading activities. Unlike his brother Louis, however, Jean-Baptiste's commercial ventures never enjoyed long-term success.

The first edition of Say's *magnum opus*, *Traité*, appeared in 1803. Irritated by Say's criticisms of his protectionist policy, Napoleon asked him to rewrite some parts of the book. Say refused and, as a result, was demoted from the Tribunat in 1804.⁵ He would not publish the second edition of *Traité* until 1814 in response to government censorship. Stripped from all official appointments, Say instead turned to cotton-spinning and entrepreneurship, owning and directing a cotton-spinning manufacture in Auchy in Northern France from 1805 to 1812.⁶ Bothered by a series of technical problems, and feeling the effects of the restrictions on the import of cotton, Say eventually sold his shares to his associate Isaac-Louis Grivel, and returned to Paris near the end of 1812. It is remarkable that Say's entire entrepreneurial experience in Auchy coincided with the Continental blockade (1806–1813). This unfortunate episode likely reinforced his anti-protectionist views. The Say papers conserved at *Bibliothèque Nationale de France* in Paris also show that he, along with partners Nicolas Clément (1778–1841) and Samuel Widmer (1767–1824), founded an alcohol distillery, Jean-Baptiste Say and C^{ie}, from March 1816 to April 1818. The venture ended in a nasty battle with Clément who remained in Say's books

⁴ A Swiss-born financier who twice held the function of Minister of Finance in the early 1790s, Clavière influenced Say's interest in economic issues by lending him a copy of the *Wealth of Nations*. Say felt so intrigued that he subsequently purchased his own copy of its fifth edition published in 1789 (Say [1827] 1848, pp. 544–545). On Clavière's economic ideas and his influence on Say, see Whatmore (1996, 2000).

⁵ The Tribunat was a French legislative body from 1800 to 1807. Say was a member of the finance committee from 1800 to 1804.

⁶ He was relatively successful. Starting with 80 workers in 1804, he employed up to 400 workers by 1810 (Schmidt 1911, p. 148).

until 1824.⁷ Meanwhile, Say set his mind on another business opportunity. During David Ricardo's visit to Paris in 1817, Say offered to partner with him in the speculation of potato flour. Ricardo eventually turned down Say's proposal (Ricardo [1817] 1952, p. 230). By 1819, Say dropped out of the business world, facing the reality of a financial loss. Despite these two unsuccessful business attempts, Say never lost his profound belief in the importance of commercial activity. Say's natural penchant for commerce led him to develop favorable views on domestic and international trade.

After returning to Paris late 1812, Say focused on writing and teaching. He became famous and widely read. After lecturing at *Athénée*, Say was appointed professor at *Conservatoire des arts et métiers* in 1819. In an attempt to broaden his audience, he published several of his lectures in *Cours*, his second *magnum opus* more voluminous than *Traité* and well-received in industrial circles. He was offered France's first chair in political economy at *Collège de France* in 1831, one year before his passing.

The Napoleonic wars

Say's ideas on trade and commerce are better understood with knowledge of the political and economic reality of his time. From 1792 to 1815, the Napoleonic wars marked the longest period of warfare in Europe since the early eighteenth century (Crouzet 1964). The wars took place while the Industrial Revolution was just taking off in England, and when its first signs were showing in other places on the Continent. Most countries suffered from diversion of resources to military expenditure, heavy taxation, and paper-money inflation—especially in France with the

⁷ The Say papers show that the partners resorted to mediation to settle their dispute (NAF 26251. Documents divers: associations et papiers de famille, folios 11–42).

issuance of *assignats* following the 1789 Revolution.⁸ Most importantly, the wars caused substantial trade disruptions particularly during the Continental blockade, which in fact consisted of two concurring blockades. First, the British imposed a rigorous maritime blockade that cut off continental Europe from overseas markets. The wars thus provoked a shift of capital from trade and industry to agriculture. The second type of trade disruption consisted of a “self-blockade” imposed by Napoleon with the Berlin and Milan Decrees. The purpose was to prevent the imports of British goods into continental countries dependent upon or allied with France. This system of protection was only mildly effective, as British merchants still managed to smuggle their goods into the Continent.

According to Crouzet (1964, p. 585), during the 1790s, French industrial output dramatically fell and, though it recovered starting 1796 onward, by 1800 it barely recovered to 60% of its pre-1789 level. From 1802 to 1810, the uptick in industrialization only made up for earlier losses, and around 1810, the aggregate volume of industrial output was not much higher than in the 1780s. The continental industrial sector was still further behind Britain in 1815 than it had been in 1790. Overall, although the Napoleonic wars slowed Britain’s industrial development, the impact of the wars was more detrimental to continental Europe than to Britain. This gloomy picture reinforced Say’s message on the dangerous nature of Napoleon’s protectionist agenda.

III. SAY’S COMMERCIAL LIBERALISM

In this section, I outline the salient points of Say’s thinking on free trade then I discuss his views about the process of circulation of values between buyer and seller. The section ends with an analysis of the claim that domestic trade was more valuable than foreign trade.

⁸ Originally issued in 1790 as treasury bonds, *assignats* circulated as inconvertible paper money from 1791 to 1796.

General features and core ideas

Say's overall message was that one could not dissociate the economic and political dimensions of trade. Trade not only provided outlets for goods, but also facilitated peaceful relationships between nations. In other words, free trade and peace went hand in hand, an idea that traces back to Montesquieu ([1748] 1973, p. 3). This optimistic view of humankind was rooted in a peculiar conception of industrialism, one that was synonymous with freedom, progress, and harmony, in sharp contrast with the belligerent views of Napoleon and those of the Bourbon dynasty who essentially believed that economic development entailed plundering neighboring countries (Say [1814] 2006, pp. 255, 257 esp. n1).⁹ Indeed, Say's mantra rested on the idea that "industry can reconcile the interests of all individuals and all nations" (Allix 1910, p. 311; Leroux 2016, pp. 12–16). Concretely speaking, the process started with capital accumulation.

Say's profound belief in progress was that of a positivist thinker, revolutionary, and moderate republican. His intellectual and social milieu provides the keys to better understanding his thought. In the late eighteenth century, Say was affiliated with the *Idéologues*—dubbed *Idéologues* by Napoleon, a group of liberal intellectuals who coalesced around the moral philosophy of the Marquis de Condorcet and Antoine Destutt de Tracy, the physiology of Pierre Jean George Cabanis, and the sensualism of Étienne Bonnot de Condillac (Lutfalla 1991; Forget 1999; Schoorl 2013).¹⁰ This was the backdrop for Say's notion of progress associated with trade.

⁹ In an undated manuscript contained in the Say papers, Say scolded Bonaparte in harsh terms. In the left margin of the second page, lashing out at his protectionist views, Say wrote: "Napoléon stopped the course of political economy" (NAF 26237. Sur l'économie politique II. Système Exclusif – Économie politique sous Napoléon, folio 209).

¹⁰ From 1794 to 1800, Say wrote for and edited *La Décade philosophique, littéraire et politique*, the journal published by the group, while also directing its printing house.

More broadly, Say considered free trade a conveyor of peace, economic development, and political emancipation:

Nations could mutually ruin themselves with war, but never with peaceful and voluntary communications. Fears of a ruinous trade, of tributes imposed on our consumers by foreign industry, are baseless fears. A foreign [country] imposes a tribute on you when it is strong enough to demand it for free, or when you are weak enough to pay for it that way. Your government, if it is not so enlightened, can have repeated losses with a foreign [country], because it can make up for them by digging in the pocket of taxpayers every year; but your traders cannot ruin you with voluntary transactions here and there (Say [1828] 2010, p. 588).

Say's message was economic as well as political and moral. Three major ideas formed the core of Say's commercial liberalism. First, Say believed that human beings were perfectible. Free trade allowed enlightened citizens to better themselves. As such, trade was a natural complement of industry. Second, free trade was consistent with virtue and the interests of most citizens (and therefore the national interest). Commercial activity promoted economic well-being. Finally, like Smith, Say's theoretical rationale for free international trade was based on differences in absolute production costs (Say [1803] 2006, p. 166; [1828] 2010, p. 321).¹¹ Differences in the cost of producing traded commodities were explained in terms of differences in natural advantages (such as soil, climate, situation) and in acquired advantages (such as education and skills) though Say seemed to focus more on the latter. Say saw savings in transportation cost as a source of market advantage. However, Say rejected Smith's labor theory of value, grounding his analysis not on the difference in the productivity of labor, but on the difference in the cost of productive services (*services productifs*), a term that included all inputs:

¹¹ In Say's time, French economists systematically overlooked Ricardo's theory of comparative advantage (Bloomfield 1989). This also applied to later generations of French liberals. For instance, there is no trace of Ricardo's contribution in Jules Dupuit's *La liberté commerciale* (Numa 2016, p. 455n6).

The buying nation gains in this purchase because this is how it can obtain the same consumption goods, in giving fewer productive services to acquire them than if they were produced at home (Say [1828] 2010, p. 627).

It should be noted that Say rejected the so-called vent-for-surplus approach espoused by many French authors of the time such as Condillac (1798, p. 413). This approach meant that trading nations exchanged their surpluses of goods above domestic consumption levels. The existence of such surpluses (and corresponding shortages) was therefore regarded as a necessary condition of international trade. Say rejected the argument:

It has often been repeated that foreign trade consists of exchanging the surplus of one nation for the surplus of another. This expression is a poor characterization of foreign trade. This would mean that, no matter how high (low) the demand of other peoples, we always produce the same quantity of brandy, of silk cloth ... and that we only sell what exceeds our needs. It is incorrect: we produce them because there is a demand for it; and if there was no demand for it, we would only produce for us. The only reason why there is a surplus is because we can sell it; and if we could not do so, we would use our land, our capital, and our industry to make other products instead of those for which an oversupply would lead to a loss of value (Say [1828] 2010, pp. 320–321).¹²

Exchange and trade

Say's views on trade derived from his conception of exchange in general. Thus, in the epitome of *Traité*, Say indicated that “in political economy, exchange is not an end, but a means (Say [1814] 2006, p. 1106). Individuals resorted to trade to exchange what they produced for another good or service they needed. The same was true for nations. Say also indicated that exchange (and therefore trade) involved a vast circulation of values, but exchange did not form the source of value, it was only a standard:

¹² See also Say (1848, p. 328).

A mutual exchange indicates the value that men attach to what they own, in the time, in the place, in the type of society in which they live; and this is the only way to determine the amount of wealth, which is the purpose of political economy. This is the reason why many people regarded exchange as the source of value and wealth, which it is not. It only allows you to determine value and wealth, by comparing it to other values, and particularly by reducing the various types of wealth to a common expression, to a certain quantity of a given product, just like any quantity of [money] (Say [1819] 2006, p. 1107).

I now turn to Say's argument that in a voluntary trade, "in all trade that is not a scam, individuals exchange two things that, at the time and place where the exchange takes place, are worth one the other. Commercial production, that is, the value added to the commodities being exchanged, is not created by the act of exchange but is created by the commercial operations that precede it" (Say [1814] 2006, p. 93n1). This passage has been criticized in the Austrian literature.¹³ The difficulty is that Say combined static and dynamic perspectives, and subjective and objective valuations related to the exchange process. Though trade and exchange were interrelated, for him trade was a commercial production, which essentially consisted of "getting a product in the hands of consumers. The act of exchange is only the consequence; it is a secondary operation; in a similar way manufacturing essentially consists of changing the shape of products and, incidentally, of selling them" (Say [1828] 2010, p. 310). Say's point was that the act of exchange itself did not add value. What made commercial production an actual industry was the fact that the value was added while transporting a good from point A to point B, where the exchange took place:

¹³ According to Rothbard (1995, p. 20) and Sechrest (1999, p. 55), Say's reasoning is flawed and inconsistent with his own utility theory. Echoing Condillac (1795, pp. 31–35), they argue that free trade must be mutually beneficial in terms of expected utilities for the buyer and for the seller. Otherwise, a trade involving exchange of goods of equal value, as Say argued, would be pointless. However, it should be noted that Say's conception of utility cannot be assimilated to subjective marginal utility theory. Utility was defined by a social agent and not by an isolated individual. In other words, the utility of goods reflected social needs or the needs of the average citizen in a social context, and not strictly subjective ones related to a single person (Arena 2001, pp. 212–214; Potier 2003, p. 288).

When Spanish wine is bought in Paris, equal value is really given for equal value: the money paid, and the wine received, are worth one the other; but the wine did not have the same value before its export from Alicante; its value has really increased in the hands of the trader, by the circumstance of transport, and not at the time of exchange (Say [1803] 2006, p. 95).¹⁴

Say did not deny that there could be a difference in *perceived* value. However, “the personal opinion of the sellers and the buyers, each taken separately, makes no more changes to the value of goods than it changes their weight or size” (Say [1828] 2010, p. 312). Therefore, the only indisputable and objective measure of value was the market price that Say called current price (*prix courant*):

the current price ... is not double, is not different for the person who sells an item and for the one who buys it. In any given place, at any given time (the moment when the deal is being made), there cannot be two current prices, similarly there is no double standard for the same merchandise” (Say [1828] 2010, p. 312).

Domestic trade over foreign trade

In Book IV, chapter II of the *Wealth of Nations*, Smith ([1776] 1976, pp. 454–455) asserted that, all things being equal, individuals preferred to invest their capital as near home as they could in support of domestic industry provided they could recoup the ordinary level of profit. Indeed, geographical proximity entailed better knowledge of the business environment, easier supervision, and lower transportation costs.¹⁵ Smith noted that, upon equal or nearly equal profits, investing in domestic trade was more stimulating for the home country than investing in foreign trade; and because individuals preferred to invest their capital where it was more secure,

¹⁴ See also Say ([1803, 1814] 2006, p. 92). Say in fact conveyed the views of Pietro Verri ([1771] 1773, p. 22).

¹⁵ Smith applied some sort of gravity theory to trade. Capital (and therefore trade) naturally gravitated around the domestic economy: “Home is in this manner the center, if I may say so, round which the capitals of the inhabitants of every country are continually circulating, and towards which they are always tending, though by particular causes they may sometimes be driven off and repelled from it towards more distant employments” (Smith [1776] 1976, p. 455).

they were naturally inclined to invest in their home country thereby providing the greatest support for the domestic industry, i.e. generating income and employment to the greatest number of fellow citizens. The private interests coincided with the public interests. In a nutshell, individuals preferred domestic trade over foreign trade, and this preference was perfectly rational.

Say reasoned differently, although the spirit of his argument was similar. He envisioned domestic trade as more advantageous than foreign trade: “in any country, even the one with the most developed foreign trade, the sum of transactions corresponding to domestic trade largely exceeds in value that of the foreign trade” (Say [1814] 2006, p. 1098).¹⁶ The argument meant that, for instance, prosperity in Britain was primarily due to its domestic industry rather than its maritime supremacy. In an evident reference to the trade disruptions caused by the Napoleonic wars, Say mentioned: “when the political circumstances cause an interruption of foreign relations, a nation feels the deprivation of a few exotic goods, and of a few profits from foreign trade; but it is not as deeply, as significantly impacted as when regulations and circumstances impact its internal trade” (Say [1826] 2006, p. 1099n1). In considering the internal trade more profitable than foreign trade, Say underscored the importance of production for domestic consumption: “the most profitable sales come from within” (Say [1803] 2006, p. 246; [1814] 2006, p. 328n1).¹⁷ Consequently, exports were only a supplement to domestic consumption. This argument was consistent with another of Say’s argument that conceived of exports as part of national consumption (see section IV).

¹⁶ See also Say ([1814] 2006, p. 1099).

¹⁷ Say excoriated James Steuart and François Véron Duverger de Forbonnais for their mercantilist views. Steuart (1767) intimated that domestic output was bounded by foreign trade insofar as when foreign trade ceased, no more wealth could be created from within. In other words, for Steuart wealth could only come from abroad: i.e., from foreign trade. In the same vein, Forbonnais (1754, pp. 48–50) alleged that exports counted as gains and imports as losses, an erroneous statement according to Say.

Say reiterated his motto in *Cours* (Say [1828] 2010, pp. 328–333), and in *Leçons d'économie politique* (Say [1818-19] 2003, p. 174). Say noticed that most goods that one could find in households and businesses in France or elsewhere were produced locally (Say [1814] 2006, p. 171; Say [1828] 2010, pp. 330–331). The reason being that, in general, transportation costs and tariffs raised prices, and therefore reduced the utility of the average buyer. Furthermore, Say illustrated his point by using data taken from Britain and France. In Britain, known for its export power, the Chancellor of the Exchequer William Pitt reported that foreign trade only represented 1/32 of its national product (3.1%). In France, assuming an equilibrium between national product and national consumption, and assuming a country of thirty million souls and an average individual spending of 250 francs, the national consumption amounted to 7.5 billion francs while exports totaled 400 million francs. In other words, France consumed the equivalent of almost twenty times what it exported (5.3%).¹⁸ Foreign trade was therefore relatively small compared to domestic consumption.¹⁹

What can we make of Say's argument? First, a nation could not develop *just* by relying on international trade. A nation must produce first to subsequently be able to export and import. Engaging in local production was a prerequisite to trade. Second, the fact that domestic trade outweighed foreign trade meant that the importance of the latter should not be overestimated.²⁰ From a modern perspective, one can draw a parallel between Say's warning against "the illusion of the importance of foreign trade" (Say [1828] 2010, p. 331) and the criticism against export

¹⁸ In *Leçons d'économie politique*, Say ([1818–19] 2003, p. 174) estimated the exports/national product ratio at 1/32, the same as Britain.

¹⁹ Say ([1828] 2010, p. 331) concluded that "in any country domestic consumption allowed the prosperity of production", a statement which, if taken literally, did not sound like the supply-side logic usually ascribed to Say's thinking.

²⁰ Though Say ([1828] 2010, p. 333) acknowledged that some products could only be sold to foreign markets, without being specific as to which ones they were.

fetishism (Rodrik 1994, 1999), a concept used to debunk export-led growth strategies.²¹ Moreover, unlike Smith Say did not explicitly mention the stimulating effect generated by domestic trade on income and employment for most inhabitants although his reasoning may have implied such a belief. Finally, Say did not directly refer to the investment of capital. Here, too, one could imply that this was a corollary of Say's argument.

I now turn to Say's systematic attack against protectionism in France and in Britain, and the entrepreneurs who benefited from it.

IV. SAY'S TARGETS: PROTECTIONISM AND SPECIAL INTERESTS

Say denounced the absurdity of restrictions on free trade (sponsored monopolies, tariffs and prohibitions on imports, quotas). In that regard, his favorite targets were writers who promoted the so-called balance of trade. Say also took on Britain's policy during the continental blockade.

Balance of trade and special interests

Like Smith, Say maintained that unrestricted domestic and international trade were more beneficial to the wealth of nations than the mercantilist economic policies that prevailed at the time. One promoter of such policies was François Ferrier (1777–1861), a customs administrator and advocate of the balance of trade, which entailed maximizing exports and minimizing imports by any means to maintain a trade surplus. This policy *de facto* implied maximizing the quantity of money at home. Retaining the maximal amount of specie, Ferrier thought, would stimulate

²¹ Indeed, in terms very similar to Say's, Dani Rodrik (1999, p. 24) declares: "the benefits of openness lie on the import side, rather than the export side. In general, there is little reason to believe that one dollar of exports will contribute to an economy more than a dollar of any other kind of activity, nor to believe that one dollar of [Direct Foreign Investment] will contribute more than a dollar of any other kind of investment ... Furthermore, the belief that exports can increase the overall level of employment in an economy over the longer term is a mercantilist fallacy, which, taken to its logical conclusion, leads to a preference for trade surpluses". Say would not have said otherwise. See also section IV on the balance of trade.

production. Ferrier (1805) followed in the footsteps of Jean-François Melon (1734), Nicolas Dutot (1738), or Forbonnais (1754), who were all criticized by Say for their erroneous and dangerous ideas.²² Say contended that production not money was the source of demand and therefore wealth. In the chapter on outlets for goods (*débouchés*) that features his famous law, Say ([1803] 2006, p. 244) maintained that “it is not the abundance of money but the abundance of other products in general that facilitates sales”.²³

Say repeatedly criticized the static approach associated with the balance-of-trade argument. For him, there was no need to artificially maintain a trade surplus, and a trade deficit was not a bad thing. Since one necessarily paid for imports by exporting domestic goods, the balance of trade did not matter. Exports and imports went hand in hand. In the end, products were bought with products:

With what did I purchase the foreign product? With the product of our soil, or with money that itself can only be earned from the products of our soil. When I purchase from abroad, I in fact merely send a domestic product abroad instead of consuming it, and instead I consume the one that the foreign party sends to me in return ...

Our country can only purchase from abroad with its own products (Say [1819] 2006, p. 309).

In his criticism of the balance-of-trade argument, Say went as far as claiming that “political economy demonstrates that a country can only win in foreign trade as long as the sum of its imports exceed that of its exports ... On the one hand, the commodities imported by the United States exceed the value of its exports; and, at the same time, this country is more prosperous” (Say [1831] 2003, p. 387). Essentially, the reasoning implied that a trade deficit was a sign of

²² In the third edition of his book, Ferrier (1822) directly attacked Say and his followers (Say is mentioned over fifty pages!). Say ([1828] 2010, pp. 577n1, 587–588, 610; 1848, pp. 355–357) fired back at Ferrier in *Cours* and in a posthumous manuscript published in *Œuvres diverses*.

²³ See Béraud and Numa (2017) for a comprehensive analysis of issues at the intersection of Say’s law, trade, and money in Say’s writings, which are beyond the scope of this article.

prosperity. Put differently, Say meant that the gains from international trade would not necessarily imply a trade surplus. In the second edition of *Traité*, Say gave more details:

The more lucrative foreign trade is, the greater must be the excess of imports over exports ... This fact can be easily explained: the value of the export can only be estimated at its value before shipment; but this value is increased by the time it reaches its destination; this augmented value enables to purchase a foreign merchandise whose value also rises on its way home: it is estimated based on this new value at the time of entry. As a result, we have a value equal to that exported, plus the gains outward and homeward. Therefore, in a prosperous country, the value of the total imports must exceed that of the exports (Say [1814] 2006, p. 285n1).

Another passage of *Traité* clarifies his message:

Commerce, just like manufacturing, concurs with production, by augmenting the value of a product by its transport from one place to another. A quintal of Brazil cotton has acquired greater utility, and therefore larger value, by the time it reaches a warehouse in Europe, than it possessed in one at Pernambuco. The transport is a modification that the trader gives to the commodity, whereby he adapts to our use what was not available before; which modification is equally useful, complex and uncertain in the result, as any it derives from the other two branches of industry (Say [1803, 1814] 2006, p. 92).

In a counterintuitive fashion, Say conceived of imports as part of the national product, and exports as part of national consumption:

Thus, it naturally follows, that all the commodities that a nation imports must be reckoned as a part of its annual income, and all its exports as part of its annual consumption. The trade of France consumes the total value of the silk exported to the United States; it produces the total value of cotton received in return; just like the French manufacturers consumed the value of alkali used in the soap-boiler, so to speak, and produced the value of soap derived from it (Say [1814] 2006, p. 859).

Say explained that “importing foreign products fosters the sales of domestic products; because we can only purchase foreign merchandise with products of our industry, of our land and our capital, for which foreign trade was an outlet (Say [1814] 2006, p. 257). Importing was

tantamount to consuming its own production (Say [1828] 2010, p. 624). Furthermore, imports were a strong incentive to “improvement”, an expression used to convey the idea that free trade would compel France to respond to match the competition of cheaper foreign goods or of better quality. Thus, imports stimulated domestic production by increasing competition and responsive innovation. All in all, Say’s message opposed the static view of the balance of trade.

Say linked protectionism to special interests. For him, protectionism was entrenched because special interests powerfully penetrated government and paralyzed its functioning at the expense of national interests. Say’s basic argument is brilliantly summarized in an undated manuscript entitled “Manufactures under Colbert” contained in the Say papers: “any privilege is a conspiracy of the particular interest against the general interest”.²⁴ Protectionism originated with the collusion between the special interests of some entrepreneurs—who wanted to circumvent free trade—and those of government. Say added that entrepreneurs who solicited protective barriers were the direct beneficiaries of the protectionist policy at the expense of consumers. They acted in accordance with their self-interest, which had nothing to do with the general interest (Say [1803] 2006, pp. 306–307).

Britain’s policy and the Continental blockade

In 1814, Say went on an official mission for the French government to observe the industrial state of Britain. This visit allowed him to meet with Jeremy Bentham, James Mill, Thomas R. Malthus, and Ricardo among others, all with whom he regularly corresponded. Upon his return, Say published the pamphlet *De L’Angleterre et des Anglais*. In the book, Say vilified Britain’s economic and colonial policies. Say first highlighted the paradox of the protectionist policy. On

²⁴ NAF 26236. Sur l’économie politique, G. 382 Sottises. Fausses Mesures. Erreurs à Combattre, folio 131. Ironically, Say ([1803] 2006, pp. 330–331) also praised Colbert’s subsidies to some manufactures. See section V on restrictions and public intervention.

the one hand, manufacturing experienced a prodigious boom during the Napoleonic wars, helped by generous subsidies and a depreciated currency. Thus, commercial profits jumped. As the size of cities like London, Glasgow, and Liverpool grew, reflecting better employment opportunities, the demand for food increased. On the other hand, this “forced development of the [British] industry” (Say 1815, p. 9) provided few benefits to the citizens. Higher taxes cut profits, and diverted those resources to military spending, the highest in the world according to Say. For him, this excessive public spending represented nothing but a lost capital for the country. Just like its own citizens, the British government suffered from high prices, caused by its own economic policy. Indeed, high taxes raised producers’ costs and final prices of commodities. Echoing the reasoning developed in *Traité* (Say [1803] 2006, pp. 1043 and after), Say essentially believed that public spending funded through increasing debt crowded out private investment. Moreover, maintaining a large colonial empire imposed a heavy burden on the national budget. Drawing upon data compiled by Patrick Colquhoun (1814), Say stressed that the British government spent more than it received from India (Say 1815, pp. 50–51). The British East India Company only procured small dividends for its shareholders; this would not be possible without borrowing, however. Proponents of the colonial policy maintained that public spending in India mainly covered the salaries of civil and military personnel working there. However, Say replied, those employees earned and spent their salaries *in* India, thus providing no benefits to the British nation in Europe. Say added that British products would somehow be sold to a different country, if not to India. Say asked, what would impede Britain from trading with India *freely*, that is, without colonizing the country? His answer was that “sovereignty does not make a people buy what it is not able to pay, or what does not suit its needs; and when [the people] are offered what they need, [the people] buy it without being forced to” (Say 1815, p. 53). Say concluded that, as

the monopoly of the East India Company was periodically renewed, Indians would improve their condition through education, and realize they could gain more freedom with trade. In the end, the nineteenth century would see the demise of “the old colonial system” and usher in a new era of lucrative free trade with newly emancipated and independent countries. Say’s overall message was that trade was mutually beneficial provided all parties involved experienced genuine economic *and* political freedom.

By the 1820s, protectionist attitudes embodied in the Navigation Acts came under criticism in Britain.²⁵ Manufacturers and merchants argued that British industry no longer required protection. If Britain maintained high tariffs, they feared, foreign countries would retaliate against British goods (UK Parliament Website). In 1820, the merchants of Britain’s largest trading cities—London, Manchester and Glasgow—petitioned the Parliament for the removal of all tariffs. Written by the economist Thomas Tooke (1774–1858), a merchant himself involved in the Russia trade, the petition did not call for the repeal of the Corn Laws. It asked only that Parliament make a formal declaration in favor of free trade, and enact appropriate measures to remove restrictions on imports (Grampp 1982, 1983, 1987). Tooke’s petition gained the approval of then Prime Minister, Robert Banks Jenkinson, 2nd Earl of Liverpool (1770–1828).²⁶ This gradual turn to free trade led to the Reciprocity of Duties Act of 1823, a piece of legislation that allowed Britain to sign mutual trade agreements with foreign countries. Several aspects of the Navigation Acts were also repealed. The underlying rationale for the policy change was that increasing free of trade would lower production costs, and make British goods more competitive in the international market (Say [1828] 2010, pp. 615–616). This, in turn, would increase exports

²⁵ Initially passed in 1651, the purpose of the Acts was to reserve British trade only to British vessels.

²⁶ Notable economists such as Ricardo, John Ramsay McCulloch, and James Maitland Lauderdale supported the petition, but Thomas Robert Malthus opposed it.

and the national income. This new configuration set the stage for Say's about-face on British trade and colonial policies.

Say's initial criticisms of Britain's trade restrictions and colonial policies were thus followed by praise as the country opted for more free trade policies in the 1820s. This shift in Say's views has been somewhat overlooked in the literature.²⁷ His new stance first appeared in an 1824 article published in *Revue Encyclopédique*, and reproduced a few years later in *Cours* (Part 4, chapter XXVI).²⁸ In praising the new trade policies, Say now supported Britain's colonial and imperialist policies in India, thereby recanting his initial views on trade as a powerful means of peace and political emancipation for all nations. He even seemed to favor settlement colonization (Say [1828] 2010, p. 887). Say's justification for the European domination over India and other non-European societies were similar to those developed by James Mill (1817). It looks as if Say supported increasing free trade (by means of reducing protective barriers) at the expense of his initial anti-imperialist and colonial stance. He now believed that "Asia is the central land of unlimited arbitrary power ... one can tell the salutary influence of a civilized metropolis ... despite the blameful pride and arrogance of the English people toward their subordinates, and toward the subjugated nations, one must recognize that they have constitutional habits and a deep respect for equity" (Say [1828] 2010, p. 669). Furthermore, "with its tyrants and its superstitions, Asia has no good institutions to lose, and it has many good ones to receive from Europeans" (Say [1828] 2010, p. 681). For Say, Europeans in general—and Britain in particular—would no longer subject colonized peoples by means of force and aggression; instead, "Europeans will subjugate

²⁷ One exception is Steiner (1996), another is Plassart (2009) and, to a lesser extent, Todd (2015, p. 62).

²⁸ Say's about-face on Britain's policy in India was indicative of a broader shift on colonialism and non-European societies, which apparently took place between 1814 and 1824. Thus, in the second edition of *Traité*, using paternalistic terms, Say ([1814, 1817, 1819] 2006, p. 841n2) talked about a "good system of colonization" and promoted the extension of colonization to Africa and other continents (while still condemning Britain's colonial policy in India a year later in *De l'Angleterre et des Anglais!*). Additionally, the tone of his eighth lecture at *Athénée* (Say [1818–19] 2003, pp. 187–189) was much less egalitarian than in the first edition of *Traité*. See note 29 below.

the world with the inevitable superiority of the enlightenment and the institutions that relentlessly operate, because the more peoples become civilized, the more they realize it is in their own interest to communicate with each other” (Say [1828] 2010, p. 681). These statements were in sharp contrast with his previous egalitarian views.²⁹

Though he believed free trade promoted prosperity, Say nonetheless identified several exceptions to his general belief.

V. EXCEPTIONS TO FREE TRADE

Say did not completely believe in the virtues of an unrestricted circulation of goods and services. His pro-free trade stance was therefore not unequivocal, a point that has rarely been mentioned by the literature. In this section, I first discuss what he considered exceptional situations which required restrictions on free trade by means of government intervention. I then turn to Say’s views on commercial retaliation and trade agreements.

Restrictions and public intervention

While embracing Smith’s criticism of government intervention in private affairs, from the first edition of *Traité* Say ([1803] 2006, p. 330) recognized that “there are circumstances that can modify this generally true proposition that everyone is the best judge of how to use his industry

²⁹ In the first edition of *Traité*, Say ([1803] 2006, p. 164) expressed egalitarian and pacific views: “Industry, of the manufacturing or the commercial kind, which forms its revenue from foreign consumption is, of all kind, the most precarious, the most dependent on men and on circumstances. It forces nations ... to meddle with the business of other peoples, and never at their own advantage. In this case, only profits matter. It only considers them with some sort of disdain, because some get used to regarding other peoples as inferior in terms of intelligence and power, peoples who are not able to make themselves what is provided to them. It is as if the benefits of [the industry] were a tribute paid by them. Sometimes the national pride that these nations boast about is not the just pride of an elevated and free soul, which meshes well with the love of men and the respect we must give to other nations: it is the rudeness of the doctor who feels empowered to despise and splash the people, because he has gotten rich from its sweat”. Similarly, in several articles published in *La Décade* from 1795 to 1799, Say promoted equality and tolerance for non-European peoples (Plassart 2009, pp. 232–233).

and capital”. By distinguishing between general situation and exceptions, he clearly adopted a market-failure approach. Like Smith ([1776] 1976, pp. 463–465), Say approved imposing restrictions on foreign goods to protect domestic production in two areas. First, the government could protect domestic industries to avoid foreign dependency in the areas of national defense and homeland security (Say [1803] 2006, pp. 319, 329). Say understood that sometimes military/political considerations and industrial/commercial considerations were interconnected.³⁰ For instance, it would be advantageous to support producing gunpowder at home even at a greater cost instead of risking potential shortage or commercial retaliation from foreign countries. Second, tariffs would be beneficial in situations where an internal tax was imposed on domestic goods. The purpose was to put domestic production on the same footing with foreign products. Tariffs would restore natural and fair market conditions between foreign and domestic products. However, Say noted that tax and tariffs should be the lowest as possible to preserve the interests of consumers and producers (Say [1803] 2006, p. 322).

Say went further than Smith on several points. Indeed, he advocated protection for infant industries, a stance that Smith never embraced. For Say, government could grant temporary protection for new industries facing international competition: “perhaps a government is right in granting some encouragements to a production that, though facing losses in the early stages, yet should it obviously yield profits in a few years” (Say [1803] 2006, p. 329). Say added:

The protection granted to a truly profitable mode of employing labor and capital can be beneficial for the country ... a new channel of industry may ruin an unsupported entrepreneur, though capable of yielding

³⁰ Although he acknowledged that the Navigation Acts restricted foreign trade, Smith ([1776] 1976, pp. 463–464) declared that the legislation was “perhaps, the wisest of all the commercial regulations of England” because it contributed to national defense. For his part, while conceding that the Navigation Acts allowed Britain to consolidate its military supremacy, Say ([1819] 2006, p. 177; [1826] 2006, p. 177n1) criticized what he saw as a form of monopolization of trade.

enormous profits when the laborers shall have acquired practice, and the first obstacles have once been overcome (Say [1803] 2006, p. 330).

Say also mentioned cases that required government involvement in the form of subsidies to certain industries. His standard rule regarding public subsidies was the following: “if there is some profit to be made in a given industry, it does not need to be supported, if there is no profit to be made, it does not deserve to be supported” (Say [1803] 2006, p. 329). Consequently, some goods could end up not being produced at all, but imported at a lower cost. For him, subsidizing meant not creating but displacing resources. Supporting one industry entailed imposing a burden on another (Say [1828] 2010, p. 906n1). Say believed public subsidies reduced national wealth. Instead, he thought the State could cut taxes by the amount of funds granted in subsidies. This solution would still constitute public support to industry; but at least the government would save the cost of administering subsidies, and would save part of the cost of collecting taxes. However, Say advocated public subsidies to support the exports of transformed commodities as a compensation for previous tariffs on the imports of raw version of the same commodities. For example, subsidizing the exports of refined sugar was basically tantamount to reimbursing the tariffs paid for importing raw or brown sugar (Say [1803] 2006, p. 329). Say even defended Jean-Baptiste Colbert’s subsidies to certain manufactures. The passage is worth quoting in its entirety:

We currently have in France the most beautiful manufactures of silk and of woolen in the world: we are probably indebted to the wise encouragement of Colbert. He advanced to the manufacturers 2000 francs for every loom at work ... this type of encouragement has a very peculiar advantage. In general, whatever the government levies upon the product of private industry is entirely lost to future production. In this instance, a part was used in reproduction; a portion of individual revenues would expand the productive capital of the

nation. This was a degree of wisdom and personal interest one could hardly have expected from individuals (Say [1803] 2006, pp. 330–331).

Say thus supported using public funds to support competitive industries where private investment was nonetheless deficient, an idea that infringed the rules of *laissez faire*. He recognized that the pursuit of self-interest would not necessarily or spontaneously lead to increased general welfare. Following this line of argument, he conceived of government's action as a remedy for market failures. Essentially, Say thought that society needed government to step in on its behalf when the marketplace faltered. This was more an exception than the rule, however (Say [1803] 2006, p. 331n1). In his mind, most manufactures should not be supported, especially those producing luxury goods—a typical instance of unproductive consumption associated with the ruling class—that only a few could afford. The State should not encourage the production of wasteful items incompatible with the general interest. Say identified another case eligible for public support. Thus, he said:

I have no problem with the honors or even the pecuniary rewards publicly given to artists or craftsmen, in recompense of their extraordinary achievement of genius or address. Rewards of this kind excite emulation and enlarge the stock of general knowledge, without diverting industry or capital from their most beneficial use. Besides, they cost nothing in comparison to what generally cost other subsidies (Say [1803] 2006, p. 331).

It should be noted that Say consistently supported these exceptions to free trade throughout the six editions of *Traité*, as clearly shown in the *variorum* edition.³¹ In *Cours*, on the other hand, Say's pro-*laissez faire* stance somewhat stiffened. However, he was never absolute in his push for free trade. He not only mentioned a few exceptions to free trade (Say [1828] 2010, p. 622), but also devoted a short chapter on “the precautions required before lifting the prohibitions” (Say

³¹ Indeed, the exceptions to free trade were already contained in the first edition published by Déterville in 1803, which disproves Todd (2015, p. 31)'s claim. See Book I, chapter XXXI, pp. 256–260.

[1828] 2010, pp. 617–620). Changing “a vicious legislation” would hurt vested interests, Say opined. He acknowledged that lifting protective barriers could ruin some industries, thereby forcing merchants to deal with sunk costs and forcing workers to cope with unemployment and redeployment in other industries. Implementing free trade required time, tact, and persuasion. Free trade would be achieved through small steps rather than radical changes that could threaten society.³² Say continued to blast the proximity between special interests and government officials, though. Indeed, high tariffs paved the way for contraband and chicanery, since some entrepreneurs benefited from exemptions; all of this was a source of injustice and reinforced social resentment from those who could not avoid paying high tariffs (Say [1828] 2010, p. 620). Say went as far as denouncing the regulatory capture of government officials under the Bonaparte regime: “we know that Napoleon or his agents smuggled licenses to [trade] with England... This caused an unfortunate scandal of a government that enforced severe laws against contraband, and shared the profit deriving from infringing them with the smuggler” (Say [1828] 2010, p. 620n1).

Trade agreements and commercial retaliation

Say did not hold trade agreements in high regard. For him, laws restricting trade led to malinvestment. Free trade was the optimal state for the economy to develop, and trade agreements were pointless, if not for protecting special interests:

Trade agreements are good for nothing but to protect industry and capital diverted into improper channels by the blunders of bad legislation. These it would be wiser to remedy than to perpetuate. The normal state of industry and wealth is freedom, in which each interest is left to take care of itself. The only useful protection public authority can afford them is that against fraud or violence. Taxes and restrictive measures can never do

³² See also (Say [1814] 2006, pp. 325, 327).

any good. They can be a necessary evil; but to suppose them useful to the subjects at large, is to mistake the foundations of national prosperity, and to ignore the principles of political economy (Say [1814] 2006, p. 323).³³

Note that in the passage above, Say was not categorical. Trade barriers could be necessary; they would not spur prosperity, however. It should be noted, unsurprisingly, that Say disapproved discriminatory trade policies, thereby implicitly subscribing to the most favored nation clause:

I would observe that the offer of special advantages to a foreign nation, in the way of a trade agreement, if not an act of hostility, is at least one of extreme odium in the eyes of all other nations. For the concession to one can only be rendered effectual by refusal to others. Hence the germ of discord and of war, with all its mischiefs. It is infinitely simpler, and I have shown it would be more profitable, to treat all nations as friends, and impose no higher tariffs on the introduction of foreign products, than what are necessary to place them on the same footing as those of domestic production (Say [1814] 2006, p. 325).³⁴

For Say, “commercial jealousy is nothing more than a prejudice, a wild fruit that will fall when it is ripe” (Say [1814] 2006, pp. 169, 171). Say thus envisioned commercial retaliation as a last resort:

Undoubtedly, a nation that excludes you from all commercial intercourse with her, does you an injury; robs you, as far as in her lies, of the benefits of external commerce; if, therefore, by the dread of retaliation, you can induce her to abandon her exclusive measures, there is no question about the expediency of such retaliation, as a matter of mere policy. But it must not be forgotten that retaliation hurts yourself as well as your rival; that it operates, not defensively against her selfish measures, but offensively against yourself, in the first instance, for the purpose of indirectly attacking her. The only point in question is this, what degree of vengeance you are animated by, and how much will you consent to throw away upon its gratification (Say [1803] 2006, pp. 323, 325).

³³ See also Say ([1828] 2010, p. 629).

³⁴ See also Say ([1828] 2010, p. 631).

Say and Smith shared similar views on trade retaliation. Countries could have legitimate reasons for retaliating against trading partners that imposed restrictive measures to protect their market. In Say's mind, the threat of retaliation or the first steps toward full retaliation would be sufficient to make the nation at fault lift the protections. There are some nuanced differences between the Scotsman and the Frenchman, though. While Smith ([1776] 1976, p. 468) relied on "the skill of that insidious and crafty animal, vulgarly called a statesman or politician" to determine whether commercial retaliation was warranted, Say was more wary of retaliatory policies. Commercial retaliation, he advanced, was not only costly considering the burden a country imposed upon itself, but the practice would also create a disincentive when came the time to lifting the sanctions against the other trading partner. In other words, for Say retaliation was a last resort. He also added that commercial retaliation was a political decision, not necessarily sound economic policy. In fact, drawing upon the cases of America and Cuba, he stressed that the two colonies opted for no retaliation against their metropolis. As a result, America was richer and more prosperous than under the protectionist regime. Similarly, Cuba's trade and profits doubled after allowing ships from all countries (Say [1819] 2006, p. 325n1). All in all, Say came off as a realistic thinker, one that preached practical political economy and policy.

VI. CONCLUSION

Say's free trade views were influenced by a social and professional background dominated by trading and business. The Continental blockade that took place during the Napoleonic wars also reinforced his pro-free trade stance. Say strongly believed that peace and trade worked hand in hand. The economic dimension of free trade could not be dissociated from its political and

geopolitical aspects. However, we saw that Say's reversal about Britain's colonial policy constituted a recantation of his previous egalitarian and pacific views.

Say targeted protectionism, and denounced the special interests. He emphasized that domestic production was the prerequisite to economic development, and warned against overestimating foreign trade. I have shown that Say developed original views on free trade and commerce, several of which were distinct from those of Smith.

Say believed political economy to be a practical science. He was therefore less ideological than many modern analysts believe. Say adopted a market-failure approach to free trade. The general rule of *laissez faire, laissez passer* came with several exceptions that justified restrictive and protective measures. In those cases, government had to step in on the society's behalf when the marketplace faltered. Say was a liberal thinker who believed in political and economic freedom, but also one who made space for the role of government. He was not a libertarian; he cannot be associated with Frédéric Bastiat for instance, who was more extreme in his positions. Say acknowledged that trade did not *necessarily* bring about economic well-being. In other words, *laissez faire* was not an unmitigated good.

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