

ANDERS CHYDENIUS'S NATIONAL PROFIT & LOSS

Charles Evans

A Swedish Smith

Anders Chydenius was born in Sotkamo, in the interior of Finland, at the same latitude as southern Iceland, on 26 February 1729; and he died in Old Carleby, on the Bothnian coast, on 1 February 1803.

He studied at Abo Academy, in Turku, and at Uppsala University. He earned his Masters in Philosophy on 25 July 1753, and held a series of church posts culminating in his becoming a full rector in 1781. During his career, he was a very active politician and theologian, and wrote extensively on political economy.

A decade before Adam Smith published his *The Wealth of Nations*, Chydenius published *Den nationnale winsten* (translated in 1929 as *The National Gain*, and in 1995 as *National Profit & Loss*). In this work he expressed a classical liberalism as radical as any penned by familiar 18th- and 19th-Century Anglo-Celtic liberals. His liberalism can be summed up: Who watches the watchmen?

Although his work predated that of Adam Smith and others of the Scottish Enlightenment, his work has been overlooked by liberals. No doubt this is because Chydenius was a Swedish-speaking Finn; a bumpkin from the outback. Although he was a fan of Benjamin Franklin – whose works were available in translation – to the best of anyone's knowledge, Chydenius did not understand English. His contribution was wholly independent; and it is certain that Smith and the other Scots did not understand Swedish, so we cannot suggest that there was any influence in the other direction.

One of the most remarkable aspects of Chydenius's analysis is how relevant many of his conclusions are to today's political and economic debates. He touched on a broad array of topics, many of which have yet to be fully incorporated into mainstream economic theory, practice, and policy.

Spontaneous Order

From 'who watches the watchmen?' comes the question that Adam Smith answered by invoking the Invisible

Hand. Here, Chydenius came to the same conclusion as Smith and Hayek.

... each individual seeks spontaneously the position and the industry where he or she increases the national profit to the greatest degree, so long as statutes do not bar it.

If ten men in a given industry produced goods worth 100 dollars per day, but in another not more than eighty dollars' worth, it then becomes clear that in the latter case the nation loses twenty dollars each day for these ten men's work. Whether these ten workers are now at liberty to sell the fruits of their labour, or to freely negotiate their daily-coin with others in the same industry, the difference in their daily-coin will always be in the same proportion. It is unmistakable that they will take the former employment. In this way both they and the nation as a whole benefit.

This was perhaps the most provocative of Chydenius's ideas: that peasants left to their own devices could run the economic activity of the nation better than the nation's best and brightest in positions of authority. At the time it was unthinkable that illiterate farmhands could even feed and clothe themselves and their children properly in the absence of government intervention to protect them from their own folly, much less that they would constitute a more effective production, distribution, and accounting machine than all the ministers and professors in Stockholm.

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Activist Policy

Not only could the peasants do a better job of running the economy under a liberal regime, the central authorities did not even constitute a worthy alternative. Centralised authority incurs very large opportunity costs.

[W]hen some are forced, or enticed with public rewards, to work in some industry other than where they would otherwise earn the highest profit – because no one would choose this work any more than a merchant would sell his goods below cost – so is it unmistakable that this coincides with the nation's loss.

[T]here is no politician yet who can positively say which industry can produce for us the greatest national profit, and therefore legislators should stop trying to guide our workers with statutes.

Institutionalised Government Failure

One of the most profound observations that Chydenius makes is that government failure often becomes institutionalised. People grow so accustomed to it – especially when the offending statute remains in place over many generations – that to eliminate it suddenly would cause massive individual, political, and economic dislocations.

In a word: monopolies, exchange rate manipulation, and national loss can never occur if they are not protected by statutes; but they can well be maintained once they have taken root for some time.

He does not fall into the Conservative Fallacy of believing that just because a policy has been in place for a very long time it must necessarily remain. He does recognise, however, that route back to the natural order almost always leads through rough terrain.

Ever the Evangelical Lutheran, Chydenius never shies away from hardship. The road will be difficult, he argues, but that is no excuse for not undoing the damage that legislators have done to the natural order which spontaneously emerges when men and women are left to pursue their own ends.

The Calculation Debate

Long before economists of the Austrian School were duelling with socialists in what came to be known as the Calculation Debate (circa 1920-1945), Chydenius noted:

But even if this dispute were completely settled, and with it such statutes that led the masses into the most rewarding industry were instituted, would legislators really be in any position to say how many thousands of individuals could work in it now

toward the nation's profit, and for how many years these same statutes should be in effect in order to have the desired result? It can then happen that, in a very short time, the people would be taken from other industries only to produce an excess of goods in this industry which end up losing their value abroad, causing a noticeable national loss.

This discussion continues, and the theme comes up many times throughout *National Profit & Loss*. Prices are the only mechanism available to determine the best use of land, tools, and men. Today, we would call regulation a 'negative-sum game'; Chydenius's term for this was 'national loss'.

Self-sufficiency vs Gains from Trade

While discussing policies intended to multiply the number of industries in the Empire, Chydenius concludes:

Here, the answer that more can live when the number of industries increases is not always valid, because it is not their number that always increases the profit of a nation, but in the end the value of the manufactures, if it were not from more than a single industry.

[I]t thus becomes obvious that a nation does not profit by being employed in many different industries, but by engaging its workers in the industries that pay best; that is, where the smallest number of individuals can produce goods of the highest value.

He points out that specialisation occurs at the micro-economic level when individuals and firms each pursue some specific activity and exchange the excess of what they produce for the other things that they want. At the macroeconomic level, nations – when free trade prevails – do the same. Infant-industry policies siphon resources, capital, and labour out of the activities that pay best and into activities to which they are ill-suited.

Free Trade, Domestic and Foreign

[Free trade] grants liberty to all lawful industries, but not at the cost of others. It protects the very smallest trade from assault, and supports productivity and unimpeded activity.

It weighs all on one and the same scale, and profit is the proper standard that proves who should have the preference.

It relieves the highest authority from thousands of thankless concerns, statutes, and responsibilities, when the private and national profit merge together in one interest, and the injurious greed that some

seek invariably to hide behind statutes can then be controlled safely through mutual competition.

It allows a Swede to exercise the dearest and greatest natural right that the Almighty grants him or her as a person, namely to feed him- or herself from his or her own sweat in whatever employment he or she does best.

It rips away from under their arms the pillows of slackers who can now safely sleep away two-thirds of their time on their privileges. All paths to living without work become cut off, and none but productive ones can thrive.

As Roger Douglas has pointed out, only through free trade can we realise the socialist ideal: the stripping away of privilege.

Dynamic Analysis

In one brief passage, Chydenius engages in a bit of dynamic analysis that puts to shame the static analyses of the financial officials of today's major nations. Later he states:

What change in goods, what different value, is not seen each and every day? Entirely unexpectedly Providence opens up a new profit opportunity for a nation, which exists for a time, but often comes abruptly to a standstill, and another or third emerges in short order, on which the national profit primarily depends. Consequently, supposing that it is the absolute best one at a particular point in time, the statute sometimes becomes useful for no more than a single trader out of the thousands of possible traders – namely for him or her to whose benefit it works – but injurious for all the rest.

Throughout *National Profit & Loss*, Chydenius refers to secondary and tertiary effects of human action and points out how the unanticipated consequences of legislation often aggravate rather than alleviate problems.

Export Subsidies

In the 1990s we no longer hear as much talk about 'Japan, Inc.' as we did in the 1980s, when conventional wisdom held that Japan – as a congruous whole – was at an unfair economic advantage due to the Japanese government's export subsidies.

A quarter millennium ago, Chydenius saw similar policies in his country as a major disadvantage:

[With export subsidies] citizens are taxed doubly for the given subsidies and they pass a great part of this into the hands of foreigners, which can do nothing other than sadden those who love their

homeland.

Sellers always seek the highest price for their goods. Owners negotiate in the same way. For example, if one received six Imperial Dollars for each sale, and a subsidy of two Imperial Dollars in addition, one would thus receive eight Imperial Dollars for these goods.

Should a Swede negotiate for the same goods, it is undeniable that he or she must pay sellers the amount that sellers would receive from selling to foreigners, namely eight Imperial Dollars. The sellers would calculate anything else as a loss.

Consequently, foreigners enjoy a price advantage of two Imperial Dollars thanks to the export subsidies, and domestic buyers are thereby doubly taxed, namely: two Imperial Dollars per sale, which go into the fund that eases foreigners' purchases and two Imperial Dollars to sellers; all at the taxpayers' expense.

In this way we hand foreigners the opportunity to engage in the most beneficial trade in manufactured goods with us. I return to my little example from above: the Swedish manufactured goods that are sold to foreigners for six Imperial Dollars can be sold to Swedes for a clear twenty-five percent profit at seven and one-half Imperial Dollars per piece. This yields a price of one-half Imperial Dollar, better than from our own factories' doors, or eight and one-third per cent, for which there will never be a shortage of buyers.

If one then adds the foreigner's thirty-three and one-third per cent better price together with the twenty-five per cent profit on the sale, he or she gets a total profit of fifty-eight and one-third percent, which would not be possible without the export subsidies. This is not a fact that has been worked out only in theory, but also in practice many times over.

Imperfect Foresight

Of all assumptions underlying economic policies, the most heretical is the presumption of perfect foresight. Government policy can address either means or ends; rules of the road or outcomes.

Constitutional analysis teaches us that while we can dictate the rules by which all will play the game, the outcome is unpredictable. Liberal societies accept all outcomes, so long as the rules – which apply to all individuals

equally – are obeyed. If it becomes apparent that some rule is leading to consistently undesirable outcomes, the voters will see that the offending rule is amended, but the rule of law will still prevail.

Illiberal societies establish policies that dictate outcomes, granting privilege to some while denying it to the rest. Chydenius was very aware of this.

He recognised that, whatever the environment, individuals as self-interested agents would strive to manipulate their environments to their own benefit. In a liberal market, this results in free trade and open competition; in an illiberal court, this results in privilege and the abuse of power.

If we finally imagine that we have overcome all these hurdles ... some certain traders could still change all of this well thought-out position, and render the absolutely most useful statutes completely detrimental for the nation ...

In every economically developed nation today, the transfer sector represents a significant portion of economic activity. In some, it is the largest industry. In these countries stories abound of abuses of the social welfare system, agricultural supports, export subsidies, banking insurance, etc.

Such policies exist to ensure outcomes that would never result in a liberal market economy, and some individual always manages to figure out a way to scam the system. No sooner is one abuser apprehended or the rules amended to eliminate 'loopholes', then some new individual comes up with a way of taking advantage of the new system.

Add to the economic inefficiencies caused by outcomes-based systems the costs of monitoring, enforcement, and the concomitant bureaucracies, and the drag on overall economic activity is much greater than any benefits.

Chydenius argued for a liberal market order that would maintain itself through the price mechanism. He pointed out repeatedly that individuals engaged in voluntary exchange would be rewarded for doing only those things that their neighbours wanted them to do. If each individual is doing only what his or her neighbors want, then the commonweal is served. When circumstances change, what individuals are willing to pay for given goods and services will change; prices change; the system reorders itself spontaneously.

The Road Ahead

National Profit & Loss is interesting for historical reasons, naturally enough, but the book is important for more profound reasons. It was written by a Swede (Finland did

not become a nation state until the early part of the twentieth century), and Sweden is synonymous with welfare state corporatism.

Here is a book that draws many of the same conclusions as Adam Smith's *The Wealth of Nations*, written by a man who is counted as a native son by two Nordic nations. It is the liberal economic policy advocate's dream come true.

Socialism is not the Nordic tradition. It is an experiment that has not worked out as planned, and is bankrupting the economies of nations to the same degree as it is implemented (undeniably in Sweden, somewhat in Australia, and hardly in New Zealand).

The people of the Nordic countries tend to respond very positively to Roger Douglas's definition of socialism as the elimination of privilege; Chydenius, the native son, came to the same conclusion regarding markets. *National Profit & Loss* can be embraced by market liberals and Rogernomic socialists, as well.

More importantly outside the Nordic countries, the book is a clear and concise primer to market liberal ideas, presented by a theologian and politician. It does not make its case by invoking efficiency or cost-benefit analysis, as is the case with too many works on economic policy. The arguments are based on ethics and basic human rights.

Also, as Chydenius states in the opening paragraphs, it is 'so small that everyone can carry it in his or her pocket.' It is about thirty pages long, and written in a style that makes it very easy to quote from in speeches: the ideal gift for busy executives and graduating high school students.

Finally, the book should act as an inspiration for anyone who believes that ideas have consequences, but does not live in one of the world's top-ten metropolitan centers. Chydenius was from the provinces – the Tasmania of Sweden as it were – in a day in which communication was very expensive. Today, communication is very inexpensive.

Chydenius is having an effect on the debates in Sweden and Finland today, and his portrait is on the 1000 Finnish mark note. If more individuals in the areas generally overlooked by the London and New York intelligentsia followed Chydenius's example, the results could be dramatic and swift.

Policy

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