



Nicolas de Largillierre, Portrait of a Gentleman, c. 1680

Trickle Down

*As centuries of dictators have known,
an illiterate crowd is the easiest to rule.*

Richard Cantillon

TRICKLE-DOWN ECONOMICS IS A term popularized during the 1960s, which refers to the ‘supply-side’ economic policies of then-U.S. President Ronald Reagan.

The basic idea of ‘trickle-down’ is that tax cuts and other government policies which disproportionately favor corporations and the wealthy will spur economic growth, and thereby ultimately benefit everyone.

The concept of ‘trickle-down’ economic policy is at least 100 years old, and despite being debunked repeatedly over the years in innumerable academic studies, it continues to be periodically revived—a curiosity which has caused some economic policy-makers to call the theory “the most enduring failed policy idea in American politics.”

‘Trickle-down’ theory was previously known as ‘horse-and-sparrow’ theory: the idea being that feeding a horse an overly large amount of oats would inevitably result in some of the feed eventually passing through for the starving sparrows to eat.

And if the image of the poor enjoying the surplus profits of the rich (the proverbial ‘crumbs from the table’) in the form of the excrement they produce wasn’t palpable enough, a politician once offered an even more fitting metaphor: ‘trickle-down’ is simply “the rich pissing on the poor.”

The idea that a small minority of people at the top of the wealth pyramid benefit the most from government efforts to stimulate the economy was explained in detail nearly three centuries ago by a man named Richard Cantillon, in something economists to this day refer to as the ‘Cantillon Effect.’

Born in Ireland around 1687, Richard Cantillon became a French citizen in 1705. After working in the British Paymaster General's office, he returned to Paris in 1714 and took a job working with a relative in the local branch of a family bank. After only two years, having secured financial backing through his network of business contacts, he was able to purchase the bank.

It was around this time that Cantillon's life took a fortuitous turn. In 1716, the French government had granted British mercantilist John Law a bank charter, along with the exclusive right to develop French properties in the North American frontier, in return for financing at low rates of interest the onerous debt burden created by the era's spendthrift king, Louis XIV.

In 1719, Law unleashed a speculative frenzy, selling shares in his Mississippi Company to the public and speculators, many backed by loans from Cantillon.

John Law was a professional gambler and convicted murderer, which provides a clue as to how his venture would turn out. But by the time the bubble collapsed spectacularly in 1720, Cantillon had quietly sold all his shares at much higher prices, along with those of his borrowers he held as collateral.

Along with what he was able to collect from bankrupt borrowers, Cantillon walked away with a fortune, one of few—excluding Law himself—to benefit from the scheme.

Forced to bail out investment banks and businesses, France itself was bankrupted by the Mississippi bubble, and public resentment of the bailouts may have helped to precipitate the French Revolution in 1787.

Cantillon had foreseen that Law's scheme was "unsound and bound to fail," and wisely spent the following decade traveling throughout Europe with his wife and two children.

Sometime around 1730, Cantillon wrote his only surviving work on economics, *Essay on the Nature of Trade in General*, which drew in part on his experience being involved in Law's 'Mississippi Bubble.'

Due to the era's censorship, Cantillon's treatise wasn't published until 1755, but it circulated widely in manuscript form. Considered the first complete treatise on economic theory, it went on to influence Adam Smith's *The Wealth of Nations* (1776) and many other early economists.

The 'Cantillon Effect' highlights a key criticism of today's inflationary monetary policy: Wealthy individuals, banks, and businesses are the first recipients of newly-issued money, allowing them to invest in financial assets that outpace the resulting monetary inflation. Meanwhile, those lower on the economic ladder experience rising costs without a corresponding increase in wages, thus eroding their standard of living.

Unfortunately for Cantillon, profiting from the financial misfortune of others eventually caught up with him. A year after he returned to London in 1733, Cantillon's house was burned to the ground, and it is generally assumed that he died in the fire, the victim of a disgruntled investor. (The headless corpse suggests, however, that the fire may have been a coverup for his murder, possibly by his recently-fired French cook.)

Due to his relative obscurity, Richard Cantillon has been called by some "the most important economist you never heard of."

Having exploited to his personal benefit the economic principle which came to be named after him, no one is better qualified than Cantillon to educate the economically illiterate masses of today about the grossly inequitable monetary system they continue to be the unwitting victims of. ■