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**ECONOMISTS
AND THE PUBLIC**

ECONOMISTS AND THE PUBLIC

A Study of Competition
and Opinion

by

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To
VALENTINE
and
JOHAN VAN ROOJEN

P R E F A C E

THE present book has arisen out of what I originally intended to be an important side-issue in a study of a certain equalitarian and democratic ideal, namely, *the competitive system*. But further reflection caused the problems here dealt with to acquire major importance and demand separate treatment. I set out to define 'competitive institutions', that is, those arrangements which can most successfully enable the free disposal and utilization of the productive resources of any community in accordance with consumers' will. I have ended with a study of economists and public opinion.

I call the 'ideal' regime whose institutions formed my original interest 'competitive', because the free movement and utilization of resources, regardless of private interests which are thereby injured, is what orthodox economists have in fact meant by the process of competition. That this process is essentially equalitarian and democratic may not at first be obvious. In my *Theory of Collective Bargaining* (P. S. King, 1930) I attempted to prove the thesis that labour monopolization (i.e. trade unionism and wage-fixation) can not cause redistribution in favour of the relatively poor. I concluded that essay by emphasizing that 'there are means of achieving greater equality that will still allow the value mechanism to function freely. It can be achieved by the thoughtful modification of economic institutions.' But I pointed out that the consideration of this point lay outside the scope of that essay (p. 107). My subsequent attempts to outline the sort of institutions which would make for greater equality have led me to the conclusion that the basis of any equality which is compatible with liberty, and hence secure, has to be 'consumers' impartiality'. Consumers separated from producers by the market are obviously indifferent to producers' status, and competition is therefore privilege-dissolving. I hope that I can here throw some light on this subject.

But the pages which follow deal only with an aspect of the problem. They do not contain the completion of my studies. They represent, as I have said, the development of a side-issue. I realized early that any exposition of the analysis which I was making would

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be incomplete by itself. I recognized, sadly, that the obvious implications of dispassionate orthodox analysis render it obnoxious to those who are committed to popular policies of to-day. I knew that, no matter how valid my argument might be, there would be virtually no chance of its acceptance by a sufficient number of persons of influence to permit of its bearing in any practical way upon contemporary affairs. I was accordingly moved to deal with the economists' helplessness at the outset, and then to treat of the repercussions of political and financial interests upon the social sciences. These topics define the main scope of my present contribution.

I hope, at a later date, to publish a study of the institutions of a competitive system. The reader will probably be able to gather a few hints about my approach to this subject from the present book, and those who are sufficiently interested will find some anticipations in articles which I have published in recent years.¹ But I do not here refute the many misconceptions concerning the actual working of competition which encumber practically all public discussions of economic relations. I do not put forward concrete proposals for reform and I do not seek to resolve many of the difficulties which my study deliberately raises. Business men who persevere with the reading of these pages will find in them no direct refutation of their convictions (justified in their minds by countless apparently indisputable examples) that competition is wasteful; they will find no convincing demonstration of the indefensibility of the multitude of price and output agreements which cover the modern productive and marketing system like a fine network; they will discover no formal and complete exposure of the confusions which have arisen in their minds in respect of 'over-head costs' and their relevance to contemporary restrictive practices. These things must be dealt with separately. I have simply tried here to bring to light the causes which lead to current fallacies being so uncritically accepted. On one point only have I broken into constructive analysis. In order to make clear the origin of certain mistaken notions concerning the consumers' relation to the ordering of the productive process, I have introduced and endeavoured to justify the fundamental conception of consumers'

¹ *Economic Method and the Concept of Competition*, 'South African Journal of Economics', March, 1934; *Co-ordination and the Size of Firm*, *Ibid.*, December, 1934; *Natural and Contrived Scarcities*, *Ibid.*, September, 1935; *The Nature of Aggressive Selling*, 'Economica', August, 1935; *Discriminating Monopoly and the Consumer*, 'Economic Journal', March, 1936.

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sovereignty; and this had led to a discussion of the nature of the equality of opportunity which the realization of consumers' sovereignty would bring about.

I did not read Professor F. H. Knight's important essay on 'Economic Theory and Nationalism' (in *Ethics of Competition*, Allen and Unwin, 1935) until my manuscript was in process of what was intended to be its final revision. Some of the conclusions of that essay are similar to mine on points on which I was not expecting to receive much ready support from so eminent a quarter. I feel this, in particular, about my chapter on 'Sanctions for the Economists' Authority'. On other points, however, I have seen things in a different light, and I have endeavoured to face these differences specifically in additions to the text. There are three more or less *verbal* points that I have been unable to deal with in detail, but I think my general treatment will show (i), that Professor Knight's assumption that 'freedom to compete means freedom to organize to eliminate competition' (p. 292) is unjustified; (ii), that it is misleading for him to refer to monopolistic capitalism as 'economic individualism'; and (iii), that it is unfair for him to assert that in the 'individualistic-utilitarian view of life, freedom means . . . freedom to use economic power, without political interference or restraint' (p. 292). It is the economist's task to indicate points of disagreement like these, but I regard my position as greatly strengthened by Professor Knight's contribution.

The recent publication in English of Mises's *Socialism: An Economic and Sociological Analysis* (Cape, 1936) is opportune. If sympathetically read, it must have a far-reaching influence among the more intelligent 'Socialists' throughout the English-speaking world. It will help to dispel the illusions which have been leading astray so many of the most earnest workers for a more just society. My own contribution may contain some comfort for the disillusioned. It develops the thesis that 'the present order' is by no means inevitable; and in its demonstration of the part which disinterested thought (endowed with authority) should play in the fashioning of institutions it may point to the path of rational reform.

Mr. J. M. Keynes's *General Theory of Employment, Interest and Money* did not appear until this book was already in the publisher's hands. Its attack on the orthodox teaching which I here defend is referred to in an Appendix which I have added to Chapter xrv.

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I am indebted to many friends for direct and indirect help whilst my ideas have been developing. I have never ceased to be aware of my debt to the teachings of Edwin Cannan. The common-sense approach which I learned from him seems to have enabled me to clear many sophistries from my path. I think next of Professor Arnold Plant, who was my chief at Cape Town from 1928 to 1930. Discussions with him during those years and during my subsequent vacation visits to the London School of Economics have been a main source of inspiration. I owe very much also to the encouragement of other London economists, and to exchange of ideas with them. I must mention in particular Professor Robbins, Professor von Hayek, Dr. J. R. Hicks (now of Cambridge), Mr. G. L. Schwartz, Mr. F. W. Paish and Mr. A. P. Lerner. From my colleagues at Cape Town, Professor Leslie, Professor Batson, Dr. H. M. Robertson, Dr. T. H. Kelly and Mr. G. F. Thirlby, I have been constantly absorbing ideas and accepting criticisms. Professors Robbins, Plant and Leslie have read the complete manuscript of the book and Professor Batson and Dr. H. M. Robertson have read parts of it. I have made the fullest use of their comments. I have also had the benefit of the criticisms of a classicist, a radiologist and an anthropologist, namely, Professor B. Farrington, Professor J. van Roojen, and Professor I. Schapera. They have read the whole or part of what I have written and have encouraged me to believe that I have succeeded in my aim of making my message intelligible to the layman. Finally, I must thank my secretary, Miss M. Kinishev, who has patiently typed through many drafts and revisions.

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I ECONOMISTS AND RATIONALISTS

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(1) Our most prominent 'rationalists' are commonly ignorant and irrational in respect of economic science. (2) 'Orthodox' economics needs their championship whilst in fact it often has their hostility. (3) Practical men in politics and business (who often are equally hostile to economic orthodoxy) can be best approached through the popular writers and philosophers. (4) Our *literati* are, however, also unenlightened on these questions. (5) The causes of popular error have borne to some extent upon economists themselves. (6) The 'orthodox' economist is deeply conscious of his impotence to influence opinion, (7) which may encourage him to devote himself to 'pure theory' where he escapes from the sense of frustrated effort. (8) It is as a critic of actual affairs that he is most aware of his ineffectiveness. (9) Although an expert, no authority attaches to his opinions. (10) This is due to influences which tend to distort popular thinking on social relations. (11) The economists' task is to determine the origin and to attack these influences. (12) From Mr. Briffault we borrow the terms 'rational-thought', 'custom-thought', and 'power-thought'. (13) The irrationality of society is a commonplace of social theory: our interest is in its repercussions upon would-be disinterested inquiry and the formulation of principles of policy. (14) Other inquiries into the origin of error, like Mr. J. A. Hobson's, have reached different conclusions from those of this book. (15) Dr. Lippmann seems to be a victim to the errors he exposes, (16) and Professor H. Levy falls into the traps of which he is aware. (17) Mr. Bertrand Russell's attempt to apply the scientific outlook to social affairs leads him to wholly wrong convictions. (18) To admit to defending economic orthodoxy is to risk driving away readers with different opinions, but we ask them to exercise critical introspection.

II CUSTOM-THOUGHT

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(1) Custom-thought and power-thought constitute a 'monstrous obstacle' to rational progress. (2) Both primitive society and modern society are shackled in the bonds of custom-thought. (3) In modern society the power of tradition may be illustrated by the usual attitude towards equalitarianism; (4) and the tendency for acquired ideas to become fixed in custom-thought may be illustrated by the

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common attitude towards wage-regulation. (5) Custom-thought is sometimes embodied in mere words and may then be vulnerable. (6) Even the student is subject to an intellectual inertia akin to custom-thought. (7) Economic theory is relatively free from this source of error, although in the *applied* social sciences it may be serious. (8) But we shall be led to a qualified defence of Classical economics, (9) and we have grounds for holding that typical opponents of economic orthodoxy are under the custom-thought influence.

III POWER-THOUGHT

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(1) The influence of power-thought must be regarded as inevitable. It is often sincere. (2) It is not a newly recognized phenomenon. (3) It is expressed through the reinforcement of custom-thought and through the attack on rational-thought, an important example of the latter being the misrepresentation of orthodox economic teaching. (4) The Classical economists themselves may have been influenced by power-thought arising from middle-class sympathies, (5) or springing from their active concern with politics; (6) but they were able to secure a rare measure of personal detachment, (7) in spite of their arguments being exploited at times by vested interests. (8) Power-thought exercised in defence of organized capital and organized labour tends to hide real divergencies of social interest. (9) Although the strength of power-thought rests in part upon the use of 'significant' words and symbols, they must not be regarded as its cause. They do, however, impose limitations on effective rational appeals to the public mind. (10) Power-thought hinders the accumulation of undisputed knowledge in the social sciences, (11) but the advancement of humanity is synonymous with rational progress, and there are some grounds for hoping that reason will triumph in the social sciences. (12) There is nothing fanciful in the notion of a community adopting competitive institutions, (13) but it can be realistically envisaged only when we frankly recognize the presence of social irrationality and the burden of interests. (14) Scientific disinterestedness may ultimately attain authority if due recognition is given to the necessity for vested interests to be compensated and privileges dissolved in posterity.

IV ECONOMIC RELATIONS AND POWER-THOUGHT

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(1) Power-thought in the field of economic relations arises principally through unequal property-ownership. It has been emphasized through democratic institutions. (2) Extensions of the franchise increase the importance of

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power-thought. (3) Individuals are, on the whole, vaguely desirous that 'the general good' shall be the aim of policy, (4) but whilst rational-thought on matters of private good is common, on questions of the general good it is rare. (5) Even the minds of those to whose detriment power is exercised are moulded by power-thought. (6) It is the influence of power-thought on a thinking minority which is most important from our point of view. (7) The great barrier to reform is constituted by the illusions of this class arising from individual or group interest.

V THE DEFENCE OF INEQUALITIES

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(1) Unequal incomes imply unequal power over the community. (2) The relatively well-to-do will often sincerely believe that equalitarian forces must destroy what is best in life. (3) They are apt to assume that far-reaching changes in social institutions must necessarily produce an intolerable social order. (4) The increasing scepticism of the poor concerning the necessity for the existing distributive scheme has usually been weakly answered. (5) Of the reasons advanced against popular nostrums for securing greater equality, the more convincing to the economist are seldom those which impress the masses. (6) It has been experience which has discredited collectivist proposals for securing greater equality. Neither power-thought nor rational foresight have been very effective. (7) However important historically inequalities of wealth may have been, in enabling the transmission of cultural tradition and the accumulation of capital, they are of dubious necessity for any future state of social organization. (8) Industrial society inherited traditions of inequality, and the initial capital requirements of the new regime may have emphasized existing disparities. (9) Increasing mobility between social classes did not lead to a rapid growth of scepticism as to the goodness of inequalities. (10) For although current morality no longer frowned on ambition, covetousness was condemned and respect for wealth inculcated. (11) The idea of a natural distributive justice expressed in marked inequalities was not the product of capitalism but a barrier which it encountered. (12) And there were other barriers, such as the view that manual labour was debasing. (13) That there have been hindrances to competitive forces is proved by the fact that equality of opportunity has not been achieved. (14) But the Socialists, confused through the complexity of the economic mechanism and preoccupied in seeking support from organized labour, regarded competition with hostility. (15) Thus the

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Socialists ranged themselves in opposition to the economists, whose teachings they wrongly thought to be special pleading for the existing order. (16) Some advocates of equality have regarded the orthodox economist as a friend, but he has usually been thought of as an enemy, and the Socialists have nearly always turned a deaf ear to his teaching. (17) This may explain the ineffectiveness of Socialists' criticisms. (18) The former acceptance of the *laissez-faire* principle by the politically articulate classes was not disinterested; but it was a condition for the emergence of democracy, and the grounds which led to its acceptance do not detract from its validity.

VI THE DEFENCE OF PRIVATE ADVANTAGE

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(1) Power-thought is most conspicuous in defence of specific privileges, although indirectly the protection of such privileges maintains inequalities. (2) As private or group interests are always opposed to the competitive solution, it is wrongly assumed to be contrary to the social interest, (3) and a social mentality sincerely hostile to it has developed. (4) This should be recognized even by the opponents of competition. (5) The hostile social mentality to competition is largely expressed in abusive epithets and adjectives; (6) or in euphemisms for monopoly, the pleasant tone of the word 'co-operation' having been especially serious. (7) Religious, humanitarian and national feelings have been appealed to by the suggestion that the case for competition rests on the principle of 'the survival of the fittest'. (8) T. H. Huxley failed to see that the individualist philosophy was based on the restraint of 'self-love' and not on a plea for its free expression. (9) And Veblen also assumed a false identity between the predatory expression of instincts of emulation, and the competitive system which restrains them. (10) Careless writing or sheer confusion has led some economists to help to perpetuate this error. (11) In fact competition enables a social principle to replace the 'philosophy of grab'. (12) The philosophy of competition does not decry instincts of emulation, but recognizes that they must be canalized in the service of the social will. (13) The ruinous repercussions of competition when it meets monopoly have obscured the fact that it is the latter which 'infuses into distribution an element of robbery'. (14) Competition has also been misrepresented by evils which happen to be expressed *through* it being described as its effects. We may take the prevalence of fraud as an example. (15) The apologists for competition can be misrepresented because of their reluctant approval of, or opposition to, legislation whose ostensible object is the prevention of

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fraud, but whose ulterior purpose is feared to be restraint for private advantage. (16) The economist knows that whilst State certification of standards is desirable, typical complaints of *fraudulent* reduction of quality are unfounded and are usually evidence of a vested interest. (17) Bribery and corruption are commonly regarded as the product of competition, but they are largely the result of its absence. (18) Such approval of competition as we do find in contemporary society is not entirely disinterested; nor are many arguments in its defence valid, as, for instance, those commonly employed by Free Trade interests. (19) The allegation that all strikes were bound to fail was another false contention used in defence of competition in the labour market. (20) The opposition to government interference is seldom based on a recognition of the goodness of competition, (21) and the *laissez-faire* philosophy of the Classical economists does not justify non-interventionist creeds based on the identification of competition with State passivity. (22) But there is practically no propaganda for competition, and power-thought in its defence is virtually innocuous. (23) Hence, in spite of the ineffectiveness of appeal to reason, the case for competition must in some measure be based upon rational argument. (24) In the sphere of international trade we can see clearly how the feeblest reasoning is accepted when it confirms the belief that group interest does not conflict with social interest. (25) The most dangerous manifestation of power-thought in the present age is seen in the defence of industrial feudalism and the accompanying economic anarchy. (26) But there are few disinterested critics of the existing regime, and they must be prepared to fight against the easily propagated and plausible ideas which interested apologists and critics disseminate in the search for power.

VII THE STRUGGLE FOR POLITICAL ADVANTAGE

(1) Politicians are motivated by the desire for power, the desire to serve the community, and the desire to serve ulterior interests. (2) Representative government is an elementary safeguard of political liberty, and in the ideal secures the embodiment of the will and ideas of the majority, in so far as they are expressed through the ballot box. (3) Candidates are successful in proportion to the plausibility of their promises in the light of the electorate's ideas. (4) Plausibility is created by the power-thought wielded by politicians and parties. (5) The psychological nature of electorates which enables this process is not to be considered. (6) It is not exploitation of power-thought for candidates to

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preach the popular ideal of economic equality, but mere lip-service is commonly given to the ideal. (7) Power-seeking in the economic field, re-inforced by power-seeking in the political field, has led the community to be dissuaded from placing trust in competitive institutions. (8) The politician believing in competition has been completely eliminated in most countries. (9) The economists are consequently without influence in active politics. (10) And their ideas are banned from consideration in the Press. (11) Only in countries in which effective competitive institutions already exist can the idea of the beneficence of competition appear plausible. (12) Appendix on *Economists and Broadcasting*

VIII THE MISREPRESENTATION OF THE CLASSICAL ECONOMISTS 128

(1) The economist has been expected to pass judgment on rival policies, and has required some criterion of 'the general good'. (2) Accordingly, much effort has been devoted to an attempt to give definiteness to this conception, (3) and the economist has been drawn into the field of social philosophy. (4) The economist's unpopularity has arisen from the stress he has placed on the opposition between private interest and the general good. (5) This has aroused the hostility of vested interests and typical 'reformers'. (6) Our defence of the main position of the Classical economists is made with full recognition of certain serious errors in their contributions. (7) Their failure to consider the problem of the province of the State in its fullest setting was an important but explicable weakness. (8) The suggestion that the essence of their teaching has since been refuted is, however, not true. (9) Although they were not appalled by social conditions which would be considered intolerable in the modern world, they were, nevertheless, sceptical of the inevitableness of their contemporary social order. (10) Adam Smith's reference to the 'invisible hand' has made it easy to ridicule the *laissez-faire* principle, but his views were based on observation and did not assume 'natural identity of interests'. (11) The Physiocrats had recourse to myth to explain the observed phenomenon of spontaneous social co-operation, but the naturalism of subsequent writers had a merely formal significance. (12) Propaganda for Socialism has represented the case for economic freedom as the doctrine of those who defended privilege and inequalities and has charged the Classical economists with having defended 'subsistence wages'; (13) but their sympathies were, in fact, with the poorest. (14) Even with the political Liberals of the Manchester

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School *laissez-faire* was in essence a generous conception. (15) Since the 'sixties, the renunciation of *laissez-faire* has been essential for the survival of the Liberal Party, and there has been effective propaganda power for all Parties in representing the principle in a bad light. (16) Adam Smith's defence of *laissez-faire* was certainly not in the nature of an apology for capitalism. (17) Nor do the contributions of Ricardo, James Mill and Senior show them to have been sycophantic to industrial and commercial interests. (18) The allegation that orthodox economics was early based (especially by the Ricardians) upon wholly unreal abstractions is unfounded. The economists were realists and rationalists, and their object was to rescue the study of mankind from empiricism. (19) They may occasionally have given undue weight to considerations suggested by merely convenient premises; but concrete experience was always a corrective in the background. (20) The belief that Ricardo treated phenomena which conflicted with his theories as unimportant can be traced to the erroneous supposition that his 'laws' were true only with 'reservations'. (21) Ricardo's objection to interventionism was based on an expediency which endeavoured to take account of contemporary realities, even in the sphere of distribution (22) in respect of which he recognized that his studies were unsatisfactory. The harmonies which he perceived were not the product of blindness to disharmonies. (23) Discussions of the modern type about distribution would have been highly unreal in Ricardian times in view of the apparent absence of intentional checks on human fecundity. (24) But the restraints on population growth in which neo-Malthusianism was a factor produced a revolution in outlook, (25) due to the economists' unconscious acceptance of new premises which had become realistic. The significance of this change has been overlooked by critics of the Classical writers. (26) The disappearance of the Malthusian bogey weakened the popular view of economics as being concerned with 'immutable laws' resembling the laws of physics, but it did not 'shake the foundations' of Classical economics. (27) Ricardo, and the economists before his time, were not prompted by contemporary problems to discuss value under monopoly. (28) Even McCulloch and Senior, who were confronted with new aspects of monopoly, were not led by practical considerations to develop monopoly theory. (29) But they did not *assume* competition. They were groping towards the modern concept of equilibrium. (30) The charge that the Classical writers assumed the actual existence of untrammelled mobility is false. (31) The crudeness of the

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Wage Fund doctrine did not invalidate the essentials of Classical teaching, (32) neither did the inadequacy of the psychological assumptions in Utilitarian hedonism. (33) The fact that the pioneers of economic orthodoxy could not foresee institutional and technological developments does not discredit their teachings. (34) Thus the Classical economists and their teachings have been badly misrepresented and the misrepresentation widely accepted as authentic. The student must consider why this has been so.

IX THE MISREPRESENTATION OF THE *LAISSEZ-FAIRE* AGE

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(1) The misrepresentation of the Industrial Revolution period in order to discredit *laissez-faire* and Classical economics has had far-reaching effects. (2) The first part of this chapter puts a personal view of aspects of the late eighteenth and early nineteenth centuries. (3) The object is to illustrate the distortion of social science by political interests or bias. (4) A major difficulty in considering the period is the fact that the poor were then merely a problem and not a power in politics. (5) But the age was one of growing humanity, and material advance for the great mass of workers. (6) It brought unparalleled equality of opportunity in the field of industry, (7) and those of lowly origin gained distinction in other fields. (8) The new towns were centres of intellectual progress, (9) and the workers who drifted to them, although probably ill-adjusted to the new environment, obtained a fuller life. (10) It was war, taxation, inflation and the Poor Law, — i.e., the results of governmental activity — which depressed and degraded the poor. Trade unionism also injured certain classes and drunkenness bore heavily upon the masses. (11) But even during the Napoleonic Wars there was no general setback in the welfare of the working classes. (12) Herbert Spencer was realistically sceptical of the achievements of governmental intervention. (13) The traditional hostility to the *laissez-faire* period has been inimical to logical discussion of State intervention supplementary to competition. (14) The relation of the collective determination of contracts to the requirements of efficient co-ordination; and the significance of social inexperience in the use of expanding resources, have not been understood. (15) The benefits derived by the workers from industrial legislation were incidental and not those which were deliberately sought. (16) In particular, we do not know how such legislation and private restrictions affected the total labour supply. (17) Recapitulation of the object of this chapter.

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X THE ECONOMISTS' FIGHT FOR A HEARING

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(1) Following the 'sixties a confused public opinion tended to corrupt the economists' teachings. A 'change of tone' developed from their desire to retain authority and influence. J. S. Mill's works are characteristic. (2) But the economists' unconscious casuistry in fact further weakened their authority (3) which had been declining since the time of Ricardo. (4) Orthodox theory had previously enjoyed much uncritical acceptance, but in the late nineteenth century the economists encountered a less disinterested rather than a more critical audience. (5) Even in J. S. Mill's works there were no valid developments to discredit the philosophy on which the *laissez-faire* principle had rested, and the fundamentals of Benthamism were never relaxed. (6) But Mill's desire to give 'a more genial character to radical speculations' seems to have affected his intellectual purity; (7) and in their fight to get a hearing economists generally have allowed the taint of intellectual compromise to affect their teaching. (8) The repercussions of politics upon the economists can be illustrated by Jevons's *State in Relation to Labour*.

XI THE INFLUENCE OF TRADE UNIONISM UPON J. S. MILL

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(1) Faith in the goodness of freedom to experiment enabled Utilitarians to approve of the repeal of the Combination Laws. Freedom to combine, they thought, would show the futility of combination. (2) Had they foreseen the coercive powers and the means of maintaining monopoly which the unions possessed, they would certainly have approved of State restraint. (3) Mill's plea for the tolerance of unionism turned *laissez-faire* from a principle of expediency into a dogma, (4) and seems to amount to a blind approval of the current trade union desire to be rid of 'mischievous meddling' from the State. (5) Mill's *laissez-faire* justified the tolerance of economic coercion. (6) Incidentally, it removed an important sanction for restraint of free contract in respect of hours of labour, health conditions, etc., (7) to justify which Mill suddenly deserted his dogmatic *laissez-faire* and defended, without apparent justification, the use of State coercion for private advantage. (8) He neglected to discuss the right of association in his *Principles*, on the grounds that it was irrelevant to political economy, but did not face the question in his other writings. (9) Phrases which apparently qualify his *laissez-faire* are difficult to reconcile with his general attitude which may, perhaps, have rested finally upon the Utilitarian assumption of the goodness of social experiment. (10) His apparent inconsistencies are

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possibly traceable in part to his failure to temper this assumption by the parallel principle of expediency. (11) But his sympathy for working-class aspirations, or his desire to retain his influence with their leaders, rendered him uncritical of the ideas which arose out of their strivings. (12) He himself seems to have been unaware of biasing influences, even of the effects of politics upon his judgment. (13) As a Liberal politician, however, he was certainly affected.

XII THE CONTINUED CORRUPTION OF ECONOMIC THOUGHT 200

(1) The interests of organized labour bore with increased force upon politics after Mill's death, (2) and although this need not have influenced the development of economic thought, in fact the formerly unimportant sophism concerning 'labour's disadvantage' developed into such futilities as the 'bargaining power theory' of wages, and the conception of labour as a 'perishable commodity'. (3) These notions were re-inforced by ideas savouring of casuistry, such as that of the 'economy of high wages'. (4) The economists' praise of such poor contributions as Thornton's and Longe's refutations of the Wage-Fund theory is symptomatic. (5) But the fall of the Wage-Fund theory appeared to precipitate the decline of the economists' authority.

XIII THE INTERNAL WEAKNESSES OF ORTHODOX ECONOMICS 206

(1) It is arguable that the development of interest in economic studies during the present century has been fostered by the corruption of the science as expounded by many, a tendency which has weakened the authority of the orthodox. (2) The susceptibility of orthodox theory to corruption has been enhanced, and the decline in its authority has been facilitated because of certain internal defects. (3) Preoccupation with refinements of abstract analysis (especially through the mathematical method) may have injured prestige through the repulsion of practical men, (4) and, having sometimes been accompanied by the loss of that continuous intimacy with reality which should dominate in applied theory, may have left the expositor an easy prey to bias. (5) On occasion such preoccupation seems to have led to a failure to grasp the valid scope of abstract method, and the frankness of the expositors of economic theory has wrongly disparaged the economists' authority. (6) Moreover, refinement of analysis has tended to become an end rather than a means, (7) and has caused the mistaken belief that when results of theories based on unreal hypotheses have to be expressed in imaginary

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terms, economic science has failed. (8) Cannan fought for simplicity of exposition in order that it might be shown how society could be made 'better off', (9) and Nicholson similarly deplored developments which did not lend themselves to popular representation'; (10) and although Professor Robbins has argued that 'it is no service to knowledge to make things simpler than they are', it is obvious that popular expositions have not injured authority in other sciences. (11) The criticisms of orthodox economics from the historical, statistical and psychological schools are not internal controversies: they are virtually attacks on scientific method; but the critics are known as 'economists' and the authority of orthodoxy has been weakened by them also.

XIV SANCTIONS FOR THE ECONOMISTS' AUTHORITY

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(1) What is the role of authority in opinion? (2) Society can only exist 'as a result of countless beliefs being accepted from authority and acted upon'. (3) When men of science possess certain qualities, the 'gradual diminution of points of difference' and the 'gradual increase of points of agreement' credits their opinions with authority. (4) The economist to whose views authority may attach must 'have devoted much study and thought to the subject matter' of economics. We can insist that he shall have an adequate acquaintance with equilibrium analysis, not that he shall accept any creed. (5) This insistence would deny authority to many professed economists of great prominence. (6) For authoritative comment on practical affairs 'adequate experience' is essential. But the practical man's relevant experience can always be communicated to the 'theorist', who can alone grasp the full significance of the facts in complex questions. (7) It is possible that some economists may, through pre-occupation with formal analysis, be properly denied authority on practical questions; but expertness in analysis does not detract from an economist's authority on actual affairs. (8) On some questions the economist must master difficult technicalities before his pronouncements can possess authority; (9) and sometimes the economist's views may be based on assumptions in respect of which no special authority can attach to his judgment. (10) There is nothing to be said about the appropriate mental powers for the study of economics. (11) The economist's authority must rest upon his being 'exempt from personal interest' in the effects of his pronouncements. Politics and business are the chief sources of interest. (12) The economist who is a politician cannot claim authority for his views, (13) nor can the economist who even retains membership of a

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political Party. (14) University teachers of the social sciences should be compelled to renounce the right of standing for Parliament. (15) Economists actively engaged in business cannot expect authority to attach to their pronouncements. (16) University economists with considerable private incomes from property should endeavour so to plan their private investments as to make for their maximum neutrality towards economic policy, and they should, above all, avoid interests in speculative ventures. (17) The danger of economists angling for high appointments in the commercial world is likely to be overcome if academic detachment is made the conscious aim of university authorities. (18) Sycophancy to business interests may arise also through 'tactfulness' in the wish to secure recognition of the usefulness of academic teaching. (19) Authority cannot rightly attach to the opinions of members of 'schools' which are dominated by teachers with political or business interests. (20) There are no reasons for supposing that otherwise disinterested lecturers will be affected by a serious 'class bias'. (21) According to our criteria, what is called 'orthodox' economic opinion is entitled to authority. (22) The re-attainment of the former authority of economic science necessitates the differentiation of economists enjoying a certain intellectual environment from other students and writers. (23) It is only in the universities that the necessary environment can be created. (24) An association of university economists whose members satisfied our criteria for expertness and disinterestedness could publish an authoritative journal, (25) in which mutual criticism would strengthen and not weaken authority. (26) The members of this body could impose appropriate and rigid rules upon themselves, and the unanimity which disinterested criticism would then probably produce would confer great force on their pronouncements. (27) Authority need not rest on an 'emotional, non-rational' basis, as Professor Knight has assumed. On the contrary, its acceptance should be regarded as a rational act on the part of society. (28) Appendix on Mr. J. M. Keynes's attack on orthodox economics.

XV THE CONCEPTION OF LIBERTY

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(1) The 'dilemma' in respect of the apparent opposition of individual liberty, and contractual freedom which permits association, not only confused Mill (2) but has puzzled many subsequent writers, and must be resolved in order to consider rationally the province of the State. (3) To conceive of the conditions of freedom we must recognize

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certain inevitable restraints on the individual. (4) Most individual actions exercise a controlling influence on others through being contributory to their environment. (5) To define liberty we must determine the qualities of restraints which make them good. (6) Restraints are not resented when they are felt to be inevitable, impartial or impersonal. (7) The ideas of impartiality and impersonality may be illustrated by the case of legislative enactments. (8) The same considerations apply in the case of social restraints. (9) The impersonality of market forces arises from the countless personal wills which are focused in them. (10) The impartiality of market forces must be based upon equality of opportunity, unless inequalities can be regarded as inevitable.

XVI CONSUMERS' SOVEREIGNTY

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(1) The social will may be most truly realized when the greatest measure of sovereignty is vested in consumers. (2) As consumer the individual is sovereign; as producer he is subject. (3) The term 'consumers' sovereignty' is justified because 'ultimate power' may be vested in consumers. (4) But this sovereignty, the most important form of social coercion, has been overlooked or misunderstood by political scientists. (5) Consumers' sovereignty is the stimulus to which productive effort is a response. It receives complete or incomplete expression according to the institutions created or tolerated by the State; and when it is completely expressed, private property signifies the discretion delegated by society to the individual in respect of the utilization of resources. (6) As an ideal, consumers' sovereignty has at least the same measure of social validity as a ballot decision. (7) The coercion of the individual through consumers' sovereignty allows him freedom to consume his own services and those of his property. (8) His power to realize his preferences is achieved firstly (and chiefly) from claims on society; and secondly, from his use of his own powers and property. (9) The notion of 'consumer' envisages the individual simply as seeking the fullest realization of his preferences whatever they may be. (10) The conception of consumers' sovereignty is unconcerned with questions of taste. The values which it determines can be claimed as good only if liberty possesses supreme ethical significance. (11) The common belief that values determined under competitive institutions are bad seems sometimes to arise because consumers' sovereignty is unrecognized. For the latter, being an impersonal and impartial force, accords with our ideas of justice. (12) The fact of economic inequality does not make

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consumers' sovereignty an undesirable controlling force. Inequality is a problem which must be separately considered. (13) Hence, attributing superior ethical significance to liberty, we claim with Bastiat that the more effectively competitive forces bear on the community, the greater will be their benefit. (14) The main criterion of the desirable functions of the State must be their power to contribute to liberty. (15) But the community's failure to understand social institutions leads to the sanction of restrictions of liberty. The State itself interferes with competition, and it tolerates monopoly. (16) Nevertheless, the preservation of liberty, the protection of consumers' sovereignty, and the resolution of social conflict require the political supremacy of the State and the rejection of political pluralistic sovereignty.

XVII EDUCATIVE RESTRAINTS OF FREEDOM OF CHOICE

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(1) An individual's preferences may be moulded by the will of others. (2) The defence of freedom of choice presupposes a degree of rationality which the child, and sometimes the adult may not possess. (3) Hence restraint of the individual may sometimes be justified in his own interests. (4) Such restraint cannot be protection against his 'exploitation'. (5) The satisfaction or encouragement of deleterious tastes may be restrained in order to protect the individual from the unforeseeable results of his voluntary acts. (6) But similar restraints may in fact be based on ethical grounds, and hence may conflict with the principle of liberty. (7) Or again, some enactments, apparently protective of the individual, may really be intended to prevent injury to others. (8) And some collective decisions should be regarded as arising from the individual's voluntary acquiescence in the requirements of co-ordinated activities. (9) 'Bitter experience' will usually serve the individual better than restraints. The lessons of experience often come from chance happenings, (10) as, for example, the appreciation of leisure for its own sake (as against income), which resulted from the shortening of the working day as a means of restricting production, (11) or in the growth of demand for money-income (as against leisure) by primitive peoples who have been forced into the industrial system.

XVIII TASTE AND TOLERANCE

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(1) Superior ethical significance may be attributed to the principle of liberty. (2) Our individual tastes and preferences have been largely imposed on us by society, and acquire rigidity from imitation and habit. (3) The 'pecuniary motive' arises through desire being moulded by habit. But habit is

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essential to the economy of private existence. (4) Hence the element of custom in consumers' taste does not detract from the consumers' sovereignty ideal. (5) Neither does the desire for 'mere novelty'. (6) Competitive institutions (quite apart from their equalitarian influence) minimize the strength of the preferences of the wealthy in fields in which decreasing cost conditions exist; and this may emphasize the 'tyranny' of the infectious mediocrity of mass taste. (7) But we can endeavour to encourage the community to desire 'more worthily and wisely'. (8) It is the frustration, not the expression of consumers' sovereignty which is more important in preventing the realization of minority demand. (9) Technical developments must not be blamed for mediocre taste, as the scope for experiencing the highest forms of culture is in fact greater to-day than at any time. (10) Dispassionate judgment on this point is difficult because our aesthetic standards are warped by the 'exaltation of the defective'. (11) Ostentation due to the influence upon fashion of the demand of the rich is likely to decline; but in any case it can hardly justify the frustration of individual preference. (12) Economic freedom gives the masses the chance of sampling 'higher things' and acquiring the taste for them. (13) It is, however, the goodness of tolerance not the goodness of the taste which emerges that constitutes the sanction for consumers' sovereignty. (14) History seems to teach that the demand for liberty is fundamental, and if this is so, the ultimate triumph of consumers' sovereignty is inevitable.

XIX THE IRRELEVANCE OF HEDONISM

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(1) The unnecessary hedonic premise in orthodox theory has enabled misconceived criticism. (2) The crude expression of eighteenth-century thought on psychology was largely due to the part it was intended to play in the theory of morals, from which it was desired to exclude sentimentalism. (3) The charge that Bentham made 'the fundamental selfishness of man . . . the corner stone of his philosophy' is not true. (4) The occasional assumption of the other Benthamites that 'worldly interest' had to be regarded as the basic social force seems to have been due to their recognition that institutions could not be planned on the assumption of altruism. (5) But economists continued to express economics in terms of an assumption of egoism, in spite of their recognition and admission that human beings were not selfishly constituted. (6) Cliffe Leslie's attacks might have hastened the abandonment of the hedonic premise, but his criticisms were defective; and Jevons, Walker, Pantaleoni and Edgeworth

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continued to believe that the assumption of self-interest had to be the basis of abstract analysis. (7) J. N. Keynes, F. C. Montague, Marshall, and Gide and Rist, have attempted to express hedonism in more realistic terms, but have held to it as an essential assumption. (8) Davenport and Wicksteed have pointed out its irrelevance; and L. Robbins's demonstration that ends as such do not form part of the subject matter of economics should have purged the science of the dregs of hedonism. But its final elimination may yet be slow. (9) The concept of consumers' sovereignty requires no assumptions concerning human motives. (10) But when the economists have been thinking about the social *utility* of a commodity, they have in fact been envisaging its *scarcity*, which is an objective quality. And when thinking of economic welfare, they have been conceiving of the degree to which consumers' sovereignty is realized. Hence the acceptance of the consumers' sovereignty notion does not render *most* utility studies irrelevant. (11) But in introducing greater realism into economic theory, it brings out the small practical significance of *certain* utility studies.

XX INEQUALITY

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(1) Equality of rights and opportunities must be regarded as an end in itself. (2) The common assumption that competition is a cause of inequality is *prima facie* untenable. (3) The recognition by Mr. Dobb and Mr. Dickinson of the fundamental equalitarianism of competition is merely a development of the implications of orthodoxy. (4) The Utilitarian and the Classical economists had inherited an ideal of social equality. (5) But as realistic students of their contemporary world, they assumed that certain institutions inconsistent with equality of opportunity were unalterable. Bentham's 'non-disappointment principle' was important in this connection. (6) They believed, however, in the reform of the inheritance laws as a means of promoting equality. (7) Bastiat's hostility to the Socialists was due to their attacks on property, not to their equalitarian ideals. Inequalities arose, he thought, owing to the absence, not the presence, of competition. (8) The fact of inequality of opportunity proves that competition is frustrated. (9) Under present social arrangements, an initial equality would soon come to an end, for the accumulation of income-rights by an individual enables their more rapid accumulation. In the absence of the deliberate contrivance of scarcities, however, accumulation during an individual's lifetime should be tolerated. (10) But inequalities of condition in one genera-

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tion tend to beget further inequalities in the next. (11) The family institution as it exists in contemporary society is inconsistent with equality of opportunity. (12) The impartial development of inborn powers cannot be arranged through the acquisition of property rights in the future earnings of others. (13) Although, *prima facie*, State loans rather than subsidies are required to rectify the position, further consideration suggests that some unconditional subsidization of education is desirable. (14) Equality of opportunity may precipitate greater equality of property ownership, but direct redistribution through taxation must be considered. (15) To challenge the right of free bequest or to defend redistributive taxation is not to depart from the consumers' sovereignty principle. (16) The question of direct redistribution is likely to grow in importance. (17) Progressive taxation employed as a means of redistribution may drive away capital if unwisely applied. But once its redistributive purpose has been achieved, it will no longer deter but may even cause an increased attraction to capital. (18) The fear that heavy taxation may decrease the will to save raises the question of why society should provide for posterity to an extent greater than that determined by individual preferences. But collective opinion holds that posterity should be considered. (19) The causes which lead to saving will not be absent in an equalitarian regime. (20) During a generation striving to redistribute capital ownership, saving is likely to be discouraged. (21) In the long run, however, this would not be so if direct redistribution were accompanied by improved competitive institutions. Society would then require and be able to command more, not less capital. (22) The effects of technological progress and birth-control will enable a classless society to save, even if each generation does its own saving. (23) The Rignano plan provides the ideal type of redistributive taxation. (24) A single country endeavouring to get rid of institutional restrictions and restrictive personal status generally, might have to impose restraints on immigration; and although equality of opportunity would be achievable, only a limited equality of earnings could be hoped for. (25) A regime enabling investment to develop inborn powers impartially might require the imposition of emigration restrictions. (26) The limited equality of earnings attainable by a single country does not make its pursuit visionary, as the release of productive power would probably compel other countries to follow suit. (27) The recognition of the implications of this chapter must wait for a more enlightened age. (28) Appendix on the importance of maintaining the family institution.

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XXI VESTED INTERESTS AND THE DISTRIBUTIVE SCHEME

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(1) The equalitarianism of competitive institutions would be disastrous to the present social order. Hence the attainment of competition may be regarded only as a long-run ideal. (2) Existing restrictions on competition are in fact aimed at the preservation of a particular distributive scheme. (3) When successful, they bring 'prosperity'. (4) But neither capital as a whole nor labour as a whole can benefit from restrictions (5) which engender an increasing instability that is seldom understood. (6) Competition is dangerous because the struggle for private advantage has dammed up one outlet for its expression after another. The Fascist and Communist movements are both incidental products of unenlightened resistance to it. (7) Orderly social reform postulates the absence of catastrophic dispossession of the owners of privileged rights. (8) The vested interests — which are strong and confident of their innocence of anti-social motive — will successfully resist changes which seek to dissolve their income-rights. Hence they must be compensated during the transition. (9) The payment of such compensation can be shown to be inherently practicable, and the ultimate dissolution of the burden demonstrated. (10) Attempts through legal institutions, as under the anti-trust Acts, to preserve competition seem to have failed through the need for compensation not having been recognized. (11) The attainment of a competitive or equalitarian regime will require the education of youth (which will cease to inherit privileges) in its philosophy and ideals. The acquiescence of the old, even if reluctant, may be expected. (12) The regime envisaged is one of a limited but practicable Utopia. (13) Owing to the strength of vested interests, the search for equality through propaganda for Communism will almost certainly result in Fascism. To achieve distributive justice, such liberal institutions as exist must be used and preserved. (14) But the ideal of economic liberty is not likely to become an effective political objective until the clash between productive efficiency and unequalitarian distribution has grown even more serious. (15) The liberal ideal.

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