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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.<sup>1</sup> 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'

<sup>1</sup> *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.

## SUMMARY

### 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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**ECONOMISTS  
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## ECONOMISTS AND RATIONALISTS

- (1) *Our most prominent 'rationalists' are commonly ignorant and irrational in respect of economic science*

THIS book is primarily addressed to those students of and commentators on contemporary society who, whilst actively appreciating the part played by rational-thought in other branches of knowledge, are inclined to belittle or abuse the orthodox economists. Men like Mr. Bertrand Russell, Mr. Leonard Woolf, Mr. Robert Briffault, Dr. Walter Lippmann, Professor Harold Laski, may be regarded as among our most prominent apostles of rationalism; and they have a select band of allies supporting them in their revolt against our heritage of unreason, superstition, nationalism and racialism. But their writings prove that one and all they are either ignorant, or contemptuous, or impatient of the economists' contribution. To them, Classical economics, and the teaching influenced by its traditions, are apparently but inherited superstitions. They are supported frequently by the natural scientists of this age, who rely upon their authority in their expert field to make seemingly weighty but actually naively ignorant comments on the philosophy of social relations. As scientists, they speak with an apparent but spurious authority when they suggest that the economics which they dislike is unscientific. In Soviet Russia, where virtual holiness has been vested in the word 'science', the expression of disinterested reason in respect of society's utilization of 'scarce means' is placed under the ban and scornfully dubbed 'bourgeois economics'.<sup>1</sup> The one country which has almost succeeded in exterminating the shams and hypocrisies which inevitably arise out of *endowed creeds* in respect of the relations between God and man, is yet content with the *established* and practically sacred *creed* of Marxism concerning the relations between man and man. The new era in Russia may have needed a myth and a gospel endowed with sanctity in order to render effective

<sup>1</sup> One feels that the worship of science in Russia, like the tolerance in matters spiritual which is found there, owes its origin and survival more to the tactical advantage which it has given in weakening the Orthodox Church (a mighty pillar in the old regime) than to an enlightened desire to enthrone *Reason* as such.

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its appeal to the masses. But the function of such a gospel is to serve as a social opiate in much the same way as the Christianity which it has displaced. And when Soviet leaders give more than lip service to it, and when sympathizers outside Russia imagine that they see in Marxism the nucleus of a rational solution of social conflict, they are all-unconsciously ignoring the dispassionate and logical approach in which they claim with apparent earnestness that they have put their faith.

- (2) *Orthodox economics needs the championship of the apologists for reason whilst in fact it often has their hostility*

There is something almost tragic in the fact that the leading apologists for reason cease to be rational when they enter the field of economic controversy. For orthodox economics needs their championship. Curiously enough, the writers to whom we have just referred have never been struck with the anomaly that whilst they are also to be numbered among our leading apostles of liberty and tolerance (it is impossible to be quite sure about Mr. Briffault), they have yet ranged themselves in opposition to economic liberalism. That they have not recognized the anomaly is, we believe, due to their not having seen very deeply into the nature of economic institutions and relations.

- (3) *Practical men in politics and business (who are often equally hostile to economic orthodoxy) can be best approached through the popular writers and philosophers*

It is not only to the philosophers that we are preaching, however. Our argument is addressed also to practical men in the field of politics, finance and commerce. They are the holders of power — the controllers and exploiters of opinion. But such people are usually too preoccupied and perhaps too habituated to mental effort of a different type from that of the student to be able to concentrate on a reasoned exposition, especially if it is constantly clashing with their established convictions. They will read the works of Sir Arthur Salter, Sir Basil Blackett, Mr. Paul Einzig and other notable practical men who so ably put into words just what they are already thinking about the world's affairs; but they will usually have little patience with the dissertations of a university teacher. They believe

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that they are rationalists in their attitude towards the very concrete world with which they are concerned. But financiers and politicians are working a machine which claims so much of their attention that they can give very little thought to its purpose or even to the more fundamental forces which actuate it. If they are to be reached, it will probably be gradually — through the popular philosophers and men of letters, and not through the social scientists directly.

### (4) *Our literati are also unenlightened on these questions*

The task is an immense one. Our *literati*, our novelists, dramatists and essayists, have so far seldom done more than echo the casual reflections of those with whom they have associated, on questions of social relations. Their writings have frequently expressed or implied an economic message, but they have never shown a very subtle insight. At no period has the social or political novel been a vehicle for the spread of economic enlightenment. It may have recorded the sentiments and 'stereotypes' of 'intellectuals', but that is another thing. The influential writers owe their success either to the plausibility of what they say to the self-consciously 'advanced' section of the intelligentsia; or to the fame or eminence which attaches to them through rank, popularity, or reputation in some sphere which may be irrelevant to their influential pronouncements. 'Those who catch on', says Dr. Lippmann, '... are those who have succeeded in projecting definitely what great numbers of other people were obscurely trying to say inside their heads.'<sup>1</sup> And Professor Knight has pointed out that 'only persons of some degree of prominence find it easy to get a hearing at all, and one who is prominent enough, for whatever reason, is readily accepted as an authority and guide on almost any subject.'<sup>2</sup> Cournot once compared the influence of the economists to that exerted by grammarians upon language development. But we have arrived at a period in which mankind is beginning to believe sincerely, and in a sense rightly, that institutions have to be deliberately moulded to produce a social system with certain very clearly conceived attributes. Are the economists to be influential in demonstrating how the new era may be attained? Are those with access to the ear of the community willing to make some effort to judge the

<sup>1</sup> *Public Opinion*, p. 167.

<sup>2</sup> *Ethics of Competition*, etc., p. 297.

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validity and relevance of the economists' teachings? A huge responsibility attaches to the power which they happen to have achieved.

- (5) *The causes of popular error have borne to some extent upon economists themselves*

Finally, our remarks are directed to the economists themselves, even to the orthodox economists. For this book is as much a criticism as a vindication of those who have been led to build on the traditions of orthodoxy. The subtle corruption of academic thinking on economics by influences similar to those which have led the layman astray has not been adequately treated. There has, perhaps, been some recognition of the extreme situation in which politicians, or financiers, or industrialists, masquerade in economists' clothing. We economists recognize also the harm done to our authority by the charlatans and amateurs whose contributions are regarded by the public as authentic. It is, however, the less obvious biasing factors to which we wish to draw attention; for it is these influences which have prevented, and are to-day preventing the crystallization in the works of economists of that freely-resulting unanimity which is the product of reason and disinterestedness.

- (6) *The 'orthodox' economist is deeply conscious of his impotence to influence opinion*

Every independent and serious economist who has some concern for the well-being of the community must, if his beliefs lie in the path of 'orthodox' or Classical tradition, be aware of a periodic recurrence of a sense of utter helplessness. On all sides he thinks he sees the survival of ignorance and confusion of thought on matters which affect human welfare; and he feels that nothing that it is within his power to do or say can have the slightest effect in checking the accumulation of wrong ideas and false policies which they bring forth. He recognizes that in spheres in which policy and action can be influenced, he is doomed to virtual dumbness to-day. He does not attempt the impossible. He seldom protests, for experience and history have taught him that protests are without avail and merely damaging to his reputation. He realizes that persistent opposition to the popular illusions of his time will simply bring him the notoriety



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of a crank or visionary. He knows that at times, when he happens to be able to support some policy which favours a strong organized interest, his pronouncements will be welcomed and he will be acclaimed as an authority. But he does not deceive himself. The same interests that may declare the genius of his one contention will be just as ready to ridicule or quietly ignore his other. His only way to permanent influence is to take a line which will be consistently acceptable to some powerful group or else to pander to the established convictions and conventional beliefs of society at large.

(7) *The economist may devote himself to 'pure theory', where he escapes from the sense of frustrated effort*

His response may be to retire from that field of intellectual activity in which he could be of direct service to the community and, whilst maintaining verbal contact with the subject matter of economic relations, concentrate on the development of an intricate technique of analysis. He may then find himself the possessor of a logical system applicable to conditions which *might* conceivably exist, but a system which no legislator or administrator could be expected to understand, let alone find of service in the case of any concrete problem. Such an economist will correspond to the 'pure scientist' in other fields. The results of his efforts may occasionally have repercussions of the greatest moment upon knowledge relevant to the sphere of practical affairs (as the techniques of the pure mathematician and the pure physicist have had an immense influence in the field of technology). But his studies can hardly be said to be consciously directed towards that end. He escapes, in consequence, from the sense of baffled striving, of frustrated effort, that confronts his colleague who announces his concern with contemporary happenings. The 'pure theorist' is apt to become a hermit, and whilst he may hope that the practical men may sometimes visit his cave and humbly ask advice on matters in which his mysteries are believed to give him an insight denied to others, in his heart he knows that they have no faith in his mysteries; that they do not genuinely seek his advice; and that if they do come to his lonely dwelling, it is to get from him some mystic formula that happens to suit their purpose, and which can be used with his authority to refute their opponents on some special topic.

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- (8) *It is as a critic of actual affairs that the economist is most aware of his ineffectiveness*

On the other hand, the economist's response may be to recognize that his function is, in spite of the public's attitude towards him, to give those who control policy a method which can aid them in their tasks: he may seek to direct his studies into channels in which they may be of service to the ruler and the administrator. Bent on the discovery of a device that will indicate the means of attainment of some specific *economy*, he will consciously ignore many a line of interesting speculation which must inevitably occur to him as he probes into the possibilities offered by the nature of things. It is the economist who interprets his function in this latter way who is most vividly sensitive of his ineffectiveness. He may occasionally seize a favourable opportunity to make just one point in the Press or in a public address. But he knows that even if he gets his message home it will soon be forgotten. In practice, then, he also confines his efforts mainly to writing books and articles that are read only by other economists, and to attempting (if he is a teacher) to disseminate understanding to the successive groups of students who come under his influence. And even here he knows that his powers are small. For not many students among those who are likely to be influential are urged to study economics; and it is only exceptional students who can get very much of a grip of the subject in the three or four years of a first degree course.

- (9) *Although an expert, no authority attaches to the economist's opinions*

It has often been pointed out that the economist in the university is in a different position from most of his scientific colleagues in other branches of study. They are generally believed to be experts in their subject. The man in the street will not usually want to question the teachings of the mathematician, the chemist or biologist. Where the layman does not understand, he will usually take as gospel what the scientist tells him. But whilst there are few intelligent members of the public who would dare to argue with a professor of mathematics about *his* subject, there are few who would *not* be prepared to question the validity of an economist's teachings. Our professional economists would be the last to suggest that the principles they ex-

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pound are beyond criticism, or that in their suggestions concerning the application of theory they have attained perfect wisdom. Moreover, they must often shudder at the expressed opinions of other teachers whose authority is *believed* to be equal to their own. But the difference in attitude is worth considering. The economist spends as much time in thought and study as his colleagues in the physical or mathematical sciences; and it can hardly be urged that he is less expert in his subject than they are in theirs. Why is it, therefore, that at the present time the views of orthodox economists in the universities are so lightly dismissed by non-academic controversialists and so seldom sought by legislators? How can the apparent bankruptcy of economic science be explained? In attempting to answer this question we are brought face to face with a social phenomenon of the utmost importance.

- (10) *The economist's helplessness is due to influences which tend to distort popular thinking on social relations*

The typical attempts to answer this question, at any rate when it comes up in conversation, seldom approach the fundamentals of the problem. The ignorance of politicians and business men of the method and content of economic science, their vested interests, their preoccupation with electorates and accounts, and so forth, can be accepted as explaining in part their lack of interest in or comprehension of the teachings of economic theorists. But there is a more deep-seated origin to their attitude: it springs, as will be argued below, from forces which tend to corrupt *all* thought and opinion on questions of social relations — even some aspects of the expositions of orthodox economists themselves. Recognition of this fact may, by leading to a revision of ideas as to the nature of scientific progress, have some effect in the course of a generation in enhancing the influence of economic science. But more important than this, it may also help us directly in exposing the origin of society's attitude towards the phenomenon of competition. The opinions of the community on its organization and institutions are themselves a vital constituent of the social organism which the economist studies and of which he, and to some extent his ideas, are a part.

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- (11) *The economist's task is to determine the origin and attack distorting influences*

The main task of the economist or any other genuine social philosopher in these days is, we suggest, not so much to add to a body of accumulated knowledge, as to determine the origin and then attack the false beliefs which actuate the society in which he finds himself. And it is in this latter respect that economists may be said to have failed or to have been frustrated. The form of attack consists in the vivid demonstration of logical method, whilst the degree of success attained depends largely upon skill in exposition. The history of the development of economic thought shows the attack in operation;<sup>1</sup> but this aspect of the growth of human understanding is not confined to the social sciences. The *aggressive* nature of influential thought has been evident during the whole progress of humanity's comprehension of its environment.

- (12) *From Mr. Briffault we borrow the terms 'rational-thought', 'custom-thought' and 'power-thought'*

For illustration of our contention as to the aggressive aspect of influential thought it is useful to turn to Mr. Robert Briffault's remarkable essay, *The Making of Humanity*. 'The evolution of rational thought', he says, '... has not been a process of gradual growth and unfolding of its power of dealing with the natural problems of its task, but a contest against non-rational-thought, against the accumulated force of custom-thought and power-thought'.<sup>2</sup> These ideas and terminology, 'rational-thought', 'custom-thought', and 'power-thought', will be helpful in this exposition. It is significant that we should have had recourse for fundamental concepts to the work of a writer whose whole attitude in respect of economic matters seems to be bitterly hostile to the liberalism for which we are pleading.

<sup>1</sup> Sir Leslie Stephen wrote: 'Political economy ... has been especially valuable in what I have called its negative aspect. It has been more efficient in dispersing sophistries than in constructing permanent theories. Economic writers have exploded many absurd systems.' Quoted, Edgeworth, *Papers Relating to Political Economy*, Vol. I, p. 171.

<sup>2</sup> Briffault, *The Making of Humanity*, p. 85.

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- (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*

Social conduct is not explicable in terms of reason. We cannot even regard society as a whole as a collection of potentially rational beings. What we call 'public opinion' 'is in intermittent contact with complexes of all sorts; with ambition and economic interest, personal animosity, racial prejudice, class feeling and what not. They distort our reading, our thinking, our talking and our behaviour in a great variety of ways'.<sup>1</sup> The fact that 'the public mind' is affected in this way has become a commonplace of contemporary social theory. What has not been so clearly recognized has been its repercussions upon the would-be disinterested study of society. And our concern will be mainly, not with the irrationality of society as such, but rather with non-rational influences bearing upon the minds of those individuals whose attention is devoted to any extent to social problems. Our interest will be concentrated on certain forces bearing on those ideas which affect organized knowledge and deliberate policy.

- (14) *Other inquiries into the origin of error, like Mr. J. A. Hobson's, have reached different conclusions from those of this book*

To examine the thesis enunciated above we must consider the part played by rational-thought in the evolution of the ideas on which human institutions and conduct are based. This problem has received specific treatment in Mr. J. A. Hobson's *Free Thought in the Social Sciences*. The conclusions of that study are in so many respects opposed to those developed below, that we cannot ignore the question of whether the orthodox economist has himself been unable to escape from the subtle forces which, we are about to argue, hinder attempts to reason. We are all acutely aware of the moulding of our minds by the chances of past intellectual experience and interest; we know the difficulty of the effort of breaking away from and viewing critically the rigidity of our presently accepted ideas; and we all recognize that the most sincere efforts to reach a position of detachment may also fail. We cannot be surprised, therefore, when others succumb to the dangers that we know.

<sup>1</sup> Lippmann, *op. cit.*, p. 74.

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(15) *Dr. Lippmann seems to be a victim to the errors he exposes*

Thus, even Dr. Walter Lippmann in his classic study of public opinion (a work in which he exposes in the most vigorous manner the vulnerability of our minds to the action of interest, propaganda and custom) appears himself to have succumbed to the influences of which he warns us. He says of the 'older economists' that 'they set out to describe the social system under which they lived, and found it too complicated for words. So they constructed what they sincerely hoped was a simplified diagram, not so different in principle and in veracity from the parallelogram with legs and head in a child's drawing of a complicated cow. The scheme consisted of a capitalist who had diligently saved capital from his labour, an entrepreneur who conceived a socially useful demand and organized a factory, a collection of workmen who freely contracted, take it or leave it, for their labour, a landlord, and a group of consumers who bought in the cheapest market those goods which by the ready use of the pleasure-pain calculus they knew would give them the most pleasure. The model worked. The kind of people which the model assumed, living in the sort of world the model assumed, invariably co-operated harmoniously in the books where the model was described. With modification and embroidery, this pure fiction, used by economists to simplify their thinking, was retailed and popularized until for large sections of the population it prevailed as the economic mythology of the day'.<sup>1</sup> We shall show this to be a popularly accepted but certainly false picture of the work and the significance of the work of those social logicians whom we call 'the Classical economists'. The very elements of truth in the picture enhance its falsity by giving the whole an apparent plausibility. Here is Dr. Lippmann, in a work which must have been read and appreciated by thousands of intelligent laymen, innocently helping to confirm the very misleading and rigid 'stereotypes' against which he is warning them.

(16) *Mr. Bertrand Russell's attempt to apply the scientific outlook to social affairs leads him to wholly wrong convictions*

There are other eminent writers, equally interested in the influences which distort opinion and belief, who arrive at conclusions

<sup>1</sup> Lippmann, *op. cit.*, p. 117.

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the very reverse of our own. Indeed, in Bertrand Russell's *The Scientific Outlook* there is a passage which largely summarizes his conclusions on the economic problem that we might well take as a statement of one of the most significant of the popular views we are seeking to refute. He says: 'Modern industrial plant can easily supply, in many directions, much more than the total needs of the world. The result of this, which should be wealth, is in fact poverty, owing to competition. In the absence of competition, the immensely enhanced productivity of labour would enable men to arrive at a just compromise between leisure and goods: they could choose whether they would work six hours a day and be rich, or four hours a day and enjoy only moderate comfort. The advantages of world-wide organization . . . (to prevent) . . . the waste of economic competition . . . are so great as to be becoming an essential condition for the survival of societies possessing scientific technique. This argument is overwhelming in comparison with all counter-arguments, and renders almost unimportant the question whether life in an organized world State will be more or less satisfactory than life at the present day.'<sup>1</sup> We believe that these opinions are wholly wrong, that even Bertrand Russell's sceptical mind has reasoned from unconsciously accepted assumptions whose validity must be denied.

### (17) *Professor Hyman Levy falls into the traps of which he is aware*

And other examples can be cited. A host of minor authors and publicists echo the same ideas. Professor Hyman Levy (who we may take as typical of many self-styled 'rationalists' who are ignorant of economics) has recognized that 'the great majority of scientists are in reality novices in the face of all scientific work except their own restricted field.'<sup>2</sup> But although he has written what is intended to be a popular exposition of the method of science, he also has not been afraid at times to venture boldly into the social sciences and fall into just those traps of which he has shown himself to be aware in the fields of physical science. 'To insist', he says, 'that industry must be run for private profit on the basis of free competition, as some economists do, when, in fact, "free competition" with private profit cannot but pass to the monopoly stage and therefore transform

<sup>1</sup> Russell, *The Scientific Outlook*, p. 219.

<sup>2</sup> Levy, *Universe of Science*, p. 197.

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itself, is to insist on something irrational. To carry through elaborate mathematical investigations of such a society artificially petrified, static, and changeless, is to devote time and energy to the pursuit of an idea that cannot attain actuality; it is to develop science irrationally.<sup>1</sup> In this passage Professor Levy exposes to economists, not only his failure to acquaint himself with what the supposed academic apologists for 'free competition' in fact teach but also an appalling intellectual confusion for a would-be critic in respect of the significance of equilibrium analysis. But in his *Science in an Irrational Society* he chatters merrily along, all oblivious of his deficiencies, in an attempt to enunciate *de novo* 'the scope of human laws'. His own common sense tells him (as it tells many other workers in the formal, physical and biological sciences) that orthodox economic teaching is 'all wrong'; and in this light-hearted way the imposing structure which represents successive refinements of Classical speculation is altogether neglected. As Whately pointed out over a century ago, 'the generality have a strong predilection in favour of common sense, except in those points in which they, respectively, possess the knowledge of a system of rules; but in these points they deride anyone who trusts to unaided common sense'.<sup>2</sup>

(18) *To admit to defending economic orthodoxy is to risk driving away readers with different opinions, but we ask them to exercise critical introspection.*

In the following pages we shall attempt to demonstrate the causes which lead, not only popular opinion, but the most alert and critical of intellects, to misunderstand economic orthodoxy and to condemn competition in society. We admit, thus, the nature of our beliefs at the outset. In so doing we are consciously running the risk of driving away those to whom they are not, at the moment, acceptable. Whately very wisely observed also that when 'the conclusion to be established is one likely to hurt the feelings and offend the prejudices of the hearers, it is essential to keep out of sight, as much as possible, the point to which we are tending, till the principles from which it is to be deduced shall have been clearly established;

<sup>1</sup> Levy, *Science in an Irrational Society*, p. 55.

<sup>2</sup> Quoted by Senior, *Industrial Efficiency and Social Economy* (Ed. by S. Leon Levy), Vol. I, p. 33.



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because men listen with prejudice, if at all, to arguments that are avowedly leading to a conclusion which they are indisposed to admit'.<sup>1</sup> But our frankness is necessary in the present case, for we are incidentally calling upon the reader who is sceptical of certain types of conviction (and hence of the science which leads to them) to exercise critical introspection. We want to disturb his intellectual confidence at those points at which his first impulse is to reject an argument because it clashes with an apparently well-founded faith,

<sup>1</sup> Whately, *Rhetoric*, 5th Edition, 1836, pp. 130-1.

## CHAPTER II

### CUSTOM-THOUGHT

- (1) *Custom-thought and power-thought constitute a 'monstrous obstacle' to rational progress*

THE object of this discussion is to illustrate the *nature* of the most important work that cries out to be done by the economist. It is not primarily the *difficulties* of economic science which lead to its non-acceptance or the persistence of error within it. The causes must be looked for in the distorting influences operating upon the minds of those who reject it or who corrupt it. 'What', says Mr. Briffault, 'from the very beginning, stood in the way of the development of rational thought was no intrinsic impotence, nor confronting complexity of its task, but a monstrous obstacle which its own rudimentary perception had set up'.<sup>1</sup> He is referring in this passage to custom-thought and power-thought in the social evolution of primitive man. Yet that same 'monstrous obstacle' confronts the forces of progress to-day.

- (2) *Both primitive society and modern society are shackled in the bonds of custom-thought*

The term custom-thought almost explains itself. All students of society must be acutely aware of the extent to which the community is intellectually inert. To question the goodness of institutions of which current moral or political opinion generally approves is to render oneself liable not only to ridicule but even to severe disapprobation. One is apt to be regarded as depraved or unfeeling. The works of social anthropologists abound in illustrations of the immense force of custom in primitive life. 'Ask primitive man', says Mr. Briffault, 'as you still may in the hinterlands of Australia, in the jungle of Ceylon, in the Nilgirri Hills of Southern India, why he sets about doing such and such a thing, eat, catch fish, make butter, in just that uncouth fashion, amid all sorts of fritterings of energy, of irrelevant procedures; he will invariably answer, "It is done thus";

<sup>1</sup> Briffault, *op. cit.*, pp. 73-4.

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he will give you to understand that no other procedure can occur to a man save that which is the custom.'<sup>1</sup> Modern society is shackled in not dissimilar bonds. Indeed, apparently irrational customs must be regarded as part of the very fabric of contemporary as well as primitive social organization, and the sudden disintegration of part of this fabric might bring disastrous consequences. 'There is . . . hardly any departure', said Graham Wallas, 'from established custom, however necessary and rational, against which a practised agitator cannot hope to infuriate a large proportion of any body of middle-aged men and women, belonging to the same occupation, who can be made aware of their common instinctive shrinking from change.'<sup>2</sup> This 'instinctive shrinking' cannot be simply condemned, however, for 'mere custom' and 'mere habit' are the embodiment of much that is good (in ways that may not be truly understood) as well as of much that is misconceived. Habit is as essential to the existence of society as it is to the individual. But the more civilized an individual is the more able is he to examine his habits critically; and a civilized community should be able to question its customarily accepted convictions. That scepticism may sometimes be dangerous owing to the unforeseeable repercussions of change we admit. Our present concern is with custom-thought as a barrier to the reform of contemporary institutions.

(3) *In modern society the power of tradition may be illustrated by the usual attitude towards equalitarianism.*

Let us consider an example which will be of importance later on in this discussion. To express one's faith in the possibility of attaining greater equality of wealth, and to confess to holding equalitarianism as an ideal, is necessarily to invite the hostility of those sections of public opinion which have not been inured to such views and ideals. The idea of the naturalness of unequal possessions and privileged status (an idea inherited from the days of feudalism, enforced by a system of Christian ethics whose form had been moulded in feudal times, and strengthened at the Renaissance by the study of the intellectual remains of ancient Classical society), was so deeply rooted until towards the end of the nineteenth century

<sup>1</sup> Briffault, *op. cit.*, pp. 72-3.

<sup>2</sup> Graham Wallas, *Our Social Heritage*, p. 111.

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that to the great mass of people, rich or poor, even to doubt its inevitability seemed to savour of blasphemy. That there was much conscious cant on the point it is impossible to deny; but the sheer force of custom alone led moralists to continue to preach submission and respect of betters, in spite of the evolution of capitalist production having eliminated the necessity for a subservient class. Indeed, even to this day, opposition to Socialist and Communist propaganda is excited and fostered mainly by horror of their equalitarian ideal, and is to a much smaller extent based upon disagreement with the particular methods of redistribution that they advocate.

- (4) *The tendency for acquired ideas to become fixed in custom-thought may be illustrated by the common attitude towards wage-regulation*

Acquired ideas, imposed on society by recent propaganda and misinterpretation of experience rather than by remote tradition, may equally dominate the social attitude towards non-conforming opinions. Thus, one who dares to express in Britain the conviction that trade boards have been a contributory cause of unnecessary poverty must expect to be regarded with horror by social workers who have watched the system in action. He must be prepared to be thought of as a harsh reactionary wanting to depress the workers and to go back to the days of 'sweating' and *laissez-faire*. And if he expresses the same view about wage regulation in South Africa, if he suggests that it must be repressive upon 'non-Europeans', he must expect to be regarded with equal horror, — as actually wanting to allow the Coloured and Native sections of the population to rise in the economic scale; and he may expect to be told that he wants 'a coffee-coloured South Africa'!

- (5) *Custom-thought is sometimes embodied in mere words and may then be vulnerable*

The barrier to conscious reform presented by custom-thought appears sometimes to be invulnerable; but at other times it has the appearance of being, in the light of modern education, a flimsy structure that might be shattered by skilful demonstration or propaganda. The inertia of custom, for example, is largely embodied

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in mere words. To the typical business man private property is still an almost absolute thing, for his teaching has caused him to regard it as such. In Great Britain he has got used to the idea of heavy 'taxation'; but call it 'levy' and he is up in arms against 'confiscation'. In Alberta, where taxation has been relatively light, the controllers of the 'social credit' experiment have deliberately used the term 'levy' to avoid using the word 'taxation' which in Canada has apparently acquired relatively more of the other meaning of the word 'imposition'. Depreciate your currency so as to confiscate from creditors in the course of a few years a huge proportion of their potential claims to income and, provided you assure them that the national good requires it, there will be few protests; for people have *become accustomed* to thinking of a pound as a pound and a mark as a mark. But express inflationary ideals in realistic terms, boldly declare that you intend to reduce the purchasing power of money so as to re-arrange distribution in favour of the debtor classes, and apathetic or willing acquiescence will at any rate be superseded by some critical alertness. Dyslogistic and eulogistic terms are, however, of greater importance in the service of power-thought than they are as unsuspected buttresses to a framework of obsolete and false tradition in conduct and social opinion.

(6) *Even the student is subject to an intellectual inertia akin to custom-thought*

The hindering force of traditional beliefs operates not only upon the understanding of the masses and the intelligent minority who partly lead and partly follow their ideas, but also upon the minds of students themselves. 'One of the greatest pains to human nature', said Bagehot, 'is the pain of a new idea.'<sup>1</sup> And Veblen pointed out that a 'readjustment of men's habits of thought to conform with the exigencies of an altered situation is in any case made only tardily and reluctantly, and only under the coercion exercised by a situation which has made the accredited views untenable.'<sup>2</sup> These warnings must, of course, apply in some measure to the student. Any social scientist must know from introspection that we are all

<sup>1</sup> Bagehot, *Physics and Politics*, p. 163.

<sup>2</sup> Veblen, *Theory of the Leisure Class*, p. 192.

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dominated by ideas which we have inherited uncritically and unquestioningly from some part of current tradition. Once we are past the undergraduate stage it may require a mental shock of a rare kind to cause us even to exercise the mildest scepticism concerning what are the accepted commonplaces of the people with whom we associate or of the orthodox exposition of our science. And it may be that the largest sources of error are to be found in notions that we are never prompted to doubt.<sup>1</sup>

(7) *Economic theory has been relatively uninfluenced by custom-thought, although in the applied social sciences it may be serious*

The great body of economic *theory* may possibly be *relatively* free from this charge. For what have been called 'economic laws' are simply deductions from axioms; and these axioms are 'obvious' in the sense that it is impossible for the student to imagine a world in which they were not operative.<sup>2</sup> Mathematics is built upon arbitrary axioms, and hence is concerned solely with formal relations. Economics deals with reality, but as with mathematics, the hindrance of custom in the development of the purely formal side of economics (which defines the scope of 'pure theory') may have been very small indeed. The history of the development of economic logic has, we admit, not been free from obvious hindrances owing to an unwillingness to give due consideration to novelty. Conservatism has been fostered by the growth of academic 'schools' with loyalties and jealousies. It has been expressed in the relative neglect of contributions with an eccentric or new approach or, less frequently, in criticism from dominating authorities which has recognized only the weaknesses of a new author's work. But the essentials of economic orthodoxy, in so far as they may rightly be regarded as the development of a logical method, are surely proof against customary social

<sup>1</sup> In part the mental inertia of professional students is due to another cause. The student is apt to become, as Professor Knight has emphasized, as uncritically attached to his own ideas as he is to his children. Mr. J. A. Hobson had compared a student's original ideas to property.

<sup>2</sup> Readers without training in economic theory will probably object to the suggestion that this science builds on obvious axioms that apply to the world we live in. We refer them to Knight, *The Limitations of Scientific Method in Economics*; in Tugwell, *Trend of Economics*; or to a fuller treatment of the same point in Robbins, *Essay on the Nature and Significance of Economic Science*.

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ideas.<sup>1</sup> It is because books on economics are *not* confined to 'theory' as a rule that we have to consider this question further. It is in the application of the principles — of the logical structure of the social sciences — to the concrete phenomena of society that the pitfalls of custom-thought are most dangerous. They are particularly prevalent, we are inclined to believe, in that province which has come to be called 'political science', for we have there nothing resembling the body of indisputable and undisputed axioms on which the theory of economics has been erected. This distinction between the fields of logic and application is really one which is common to all sciences although its importance is undoubtedly greatest in the social sciences.

### (8) *We shall be led to a qualified defence of Classical economics*

It is, then, in directly constructive thinking, in 'applied theory' rather than in analytical reasoning, that the distorting influence of custom is strongest; and its influence has been greatest, we shall argue, in determining the questions to which an answer has been sought rather than in the actual handling of defined problems. We are not at the moment concerned with the origin of the erroneous ideas embodied in traditional views. We shall deal with the genesis of customary misconceptions in subsequent chapters. The professed economists have never been unaffected by custom-thought. In particular, the nature of the fiscal, commercial and social problems which led to economic speculation from the time of the Physiocrats to J. S. Mill must be regarded as having led to an early bias in their judgment and opinions. In their special field, however, they were more successful than their many inexpert critics in throwing off the

<sup>1</sup> The economic theorists are in a different position from the economic historians in this respect; for whilst the former have usually been most diligent and realistic students of the facts of social existence, their appeal to the facts in actual argument has usually been either for facility of exposition (concrete illustrations being more easily grasped than abstract demonstration by the majority of students), or else they have regarded their concrete assertions as admitted facts. We believe also that the more complex premises of the economic theorists are equally unsuspect, resting as they do upon those fundamental axioms concerning the nature of society which no serious reader would dispute or which are clearly stated for him to dispute if he will. None could have been more clear than the Classical economists of the danger of generalizing from particular instances. E.g., c.f. Whately, *Elements of Rhetoric*, Fifth Edition, 1836, p. 119. Discussing the use of examples, not for argument but for illustration, he says: 'It would be a plain begging of the question to *argue* from a particular assertion, which could only be admitted by those who asserted to the general principle.'

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shackles of merely conventional beliefs. Thus, we shall be led, through our inquiry, to a rather reserved apology for economic orthodoxy.<sup>1</sup> Our later argument will amount to a qualified defence of the traditions of Classical economists. In considering the clash between expert economic opinion and popular intelligent opinion (particularly the views of experts in other branches of the social sciences), we shall see that the 'traditions' of economic science which are so commonly disliked are usually nothing more than the obvious results of the application of logical method to social affairs. The typical opposition has been to a method of science which has shed a light that has largely transcended the interests and preconceptions of those who devised and used it.

(9) *We have grounds for holding that typical opponents of economic orthodoxy are under the custom-thought influence*

It is, we suggest, the *opponents* of those ideas on economics which may rightly be classed as orthodox who are to-day largely the slaves of customary error. Among would-be reformers, and among even the outstanding writers on political science, there appears to be a complete unawareness of the presence of insufficiently examined yet fundamental ideas in the background of the principles they expound. Work after work has been published ostensibly dealing with the principles of politics, yet involving on almost every page customary assumptions concerning the nature of the economic complex which most specialist economists would either hesitate to accept or else condemn as pure misconceptions. That they are often unconscious assumptions is suggested by the fact that no attempts are made to answer the economist. In the ranks of our political scientists there are many who often quote from the orthodox theorists when the text appears to support their contentions; but

<sup>1</sup> We must admit, however, that in so far as the teachings of the orthodox economists have been influential, they have been expressed principally in the habit of suspicion among 'practical men' of governmental interference with business. 'To suggest social action for the public good to the City of London is,' says Mr. J. M. Keynes, 'like discussing the *Origin of Species* with a bishop sixty years ago. An orthodoxy is in question, and the more persuasive the arguments the graver the offence' (*End of Laissez-Faire*, p. 38). But the admission that custom-thought may be strongly active in this field does not weaken our present argument: neither does it imply that that which is embodied in custom is necessarily wrong. As we emphasize in Chapter VI, paragraph 19, the cry for non-interference from the State is often quite unbacked by any recognition of the non-interference doctrine.



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points which do not strengthen their beliefs seem to escape their notice. It is as though there were some force preventing their awareness of intelligent doubts on the part of others as to the adequacy of certain foundations upon which they build. If that is so, may not the insidious and elusive influence of intellectual inertia which we have called custom-thought be *in part* the cause?<sup>1</sup> Practically the whole of modern politics is concerned with what are primarily economic questions; and it is largely by changes in this sphere, in which economics and politics meet, that progress towards the ethical ideals of our social and political philosophers might be realized. But if the main thesis of this essay be accepted, many of their attempts at constructive thinking will appear to have been barren; and part of the blame will have to be attributed to the influence of custom-thought.

<sup>1</sup> The fact that they may sometimes claim that their rejection of the work of economic specialists is due to their reasoned conviction that it is 'all wrong' does not affect this point. It can only be the widespread prevalence of similar ideas which can account for the light-hearted way in which they ignore the challenges which are implied by economic orthodoxy in respect of crucial issues in their expositions. After all, the orthodox economists have been men of no mean intellectual calibre. And have they not been the most disinterested, the most obviously dispassionate of the students of society?

### CHAPTER III

## POWER-THOUGHT

(1) *The influence of power-thought must be regarded as inevitable. It is often sincere*

It has been convenient to deal first with the expression of custom-thought, but power-thought appears to be much more important. Mr. Briffault regards power-thought as the conscious or unconscious falsification of thought as a means to the attainment or maintenance of power. Discussing the early stages of the evolution of society he says: 'It is not the facts of the environment which are now man's weapons and tools, which have to be discovered and used, but men, men's minds. Not to harmonize and correspond with facts as they are is now the object of thought, but to harmonize and correspond with the order of ideas on which power and authority rest . . . The motive, the criterion of thought is changed in its foundation, its function is diverted and transformed. Its aim and purpose is not how to fulfil its original cognitive function, but to frustrate it. Thought suffers from a functional disease. It is no longer rational-thought, it is power-thought. . . . The disease is absolutely inevitable and incurable. No amount of good intentions can save the holder of any form of power from its fatal ravages. It is not a question of wickedness or unscrupulousness, it is a question of rigid psychological mechanics. The power-holder can no more divest himself of power-thought than the rich man can enter the kingdom of heaven. . . . An enormous amount of falsified power-thought, by far the largest proportion, is sincere, sub-conscious, well-intentioned self-deception, an hypertrophied personal equation. But we are too prone, I think, in our tolerant euphemistic way . . . to minimize in that process the part of deliberate fraud. . . . Daily we may see everywhere about us Ialdabaoth engaged in his Procrustean task; facts, arguments, valuations are adjusted, lopped or stretched, suppressed or suggested on the iron bed of his interests. . . . The falsifying operation of power-thought, beginning perhaps as deliberate action, rapidly becomes spontaneous, automatic. All

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of the nature of deliberate intellectual dishonesty, even if at first dimly present, very soon wholly disappears; and without any consciousness of prejudice, with the fullest conviction and purpose of moral and intellectual rectitude, power-thought operates with vulpine astuteness in a medium of stainless integrity and candour. . . . The holders of power have been the civilizers of mankind, its teachers, its educators; its conceptions, language, ideas, are in an enormous measure their creation. From our mother's lips we have learned power-thought, and our youth has been thrilled with its echoes from the mouths of our heroes.<sup>1</sup>

### (2) *The corruption of opinion by interest has long been recognized*

The problem is not a newly recognized one. That interest may bear on conviction has probably had some recognition among social philosophers of all ages. The sociological consequences of the phenomenon did not escape the notice of the Utilitarians. Nearly a hundred years ago the sincerity of opinion corrupted by interest was commented on in clear and specific terms by Sir George Cornewall Lewis: 'Men utterly incapable of telling a deliberate untruth, or deliberately expressing an insincere opinion', he wrote, 'are nevertheless liable to be warped by personal interest in the deliberate formation of opinions. When a strong bias of this sort exists, their minds, ready to receive every tittle of evidence on one side of a question, are utterly impervious to arguments on the other. . . . In general, the errors of mankind, both in opinion and action, so far as they arise from considerations of personal advantage, are to be attributed rather to sincere, though interested prejudice, than to the direct suggestions of conscious interest.'<sup>2</sup>

### (3) *Power-thought reinforces custom-thought and attacks rational-thought, an important example of the latter being the misrepresentation of orthodox economic teaching*

Power-thought has been expressed in the critical age of the last century, firstly, in the defence of custom-thought; and secondly, in the attack on rational-thought. Custom-thought and power-thought can be seen to be essentially complementary forces. They seem to

<sup>1</sup> Briffault, *op. cit.*, pp. 80-4.

<sup>2</sup> Lewis, *Influence of Authority in Matters of Opinion*, pp. 36-7.

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act together to maintain one another; and it is often difficult to indicate their separate manifestation. Indeed, in the sphere in which we are concerned, it is not easy to discuss them apart; for social institutions are largely the embodiment of social power, and the defence of vested interests (conscious or unconscious) is spontaneously aided by customary ideas. 'Not only the prejudices of the public', said Adam Smith, 'but what is much more unconquerable, the private interests of many individuals, irresistably oppose' relaxation of monopoly or restraint of imports.<sup>1</sup> We see the defence of custom-thought in the civilizations of Western Europe, for example, in the continued dissemination of a gospel which represents private property as a sacred institution sanctified by God's Holy Will, or which urges its acceptance as so obviously just a principle as to make inquiry into its sanctions superfluous; for our traditions, whilst they have rightly (i.e. in the interest of orderly co-operation) stressed the wickedness of theft, have left us with a crude and naive view of the justification for the private control of the means of production. The attack on rational-thought can be seen in the attempts to ridicule orthodox economic teaching and in its general misrepresentation by those who have sought economic or political power in society. We shall give ample illustrations of this contention at a later stage, but the strength of our argument will be greatly weakened in the absence of certain important admissions.

(4) *The Classical economists themselves may have been influenced by power-thought arising from middle-class sympathies*

The economists' efforts in trying to throw light on the nature of social forces have themselves been corrupted and weakened at times through the unconscious acceptance of a middle or upper class outlook and the repercussions upon them of rival systems of power-thought. An important impetus, if not the main stimulus, to the study of economics in Classical times (i.e. during the Adam Smith—J. S. Mill epoch), was given by controversies which certainly appeared to have some bearing on the fortunes of the ruling, property-owning and directing class. The attention of economists was drawn towards specific problems concerned with earnings, machinery, rent, interest and international trade. The

<sup>1</sup> Adam Smith, *The Wealth of Nations*, Cannan Edition, Vol. I, p. 435.

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propertied classes felt that there was a practical need for refutations of popular fallacies: a demand for exposures of the confusions that lay behind labour protection, the Corn Laws, the old Poor Law and so forth; and the economists supplied what was wanted. But we cannot blame them for that, although some corruption of thought may have resulted from it.<sup>1</sup> It was felt that certain new tendencies in social ideas were wrong: and the pioneers in this field have been regarded by many writers as having been predisposed to the acceptance of doctrines which provided a rational justification for opinions favourable to the trading and manufacturing interests. In what measure and in what senses this belief is justified will be discussed in a later chapter.

- (5) *Power-thought springing from their active concern with politics may also have influenced the Classical economists*

Moreover, most of the Classical writers were keenly interested in contemporary politics. Many of their most important contributions are justly regarded, however dignified they may be, as 'political tracts'. And genuinely detached work in the social sciences is difficult, if not impossible, when the student consciously allies himself to a party in its manœuvring for power. But the active concern with politics was inevitable. Adam Smith had regarded *political economy* as an *art*, — as having as its first object 'to provide a plentiful revenue or subsistence for the people' or, more properly, to enable them to provide such a revenue or subsistence for themselves'. The choice of Party by the Classical economists ought not to be regarded as having been determined solely by their vested interests. Those of a certain character, mental calibre and convictions grouped themselves fairly completely into one camp. We shall show, however, that in Great Britain political conditions before 1867 were very different from what they were after that date. One can have much greater faith in the sincerity (if not the disinterestedness) of the typical professional or amateur politician before the passing of the Second Reform Bill than one can in his subsequent sincerity.

<sup>1</sup> To-day the danger still exists that some corruption of economic teaching will result from the desire to make it *seem plausible* to the influential and business classes.

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(6) *The Classical economists were able to secure a rare measure of personal detachment*

The cosmopolitanism of the early orthodox writers is in itself evidence of a certain scientific aloofness; for whilst it may be unjust to regard nationalism as springing from the struggle for political and economic power and prestige, the universal exploitation of national and racial feeling in the cause of vested interests was clearly responsible for the repulsion which the economists felt towards the expression of nationalistic aspirations. Their firm opposition in the Ricardian era to economic restrictions which benefited landowners is not convincingly explained in terms of their interests; and surely it is difficult to blame them if they seemed to adopt an attitude savouring of special pleading in favour of the industrial and commercial classes<sup>1</sup> who appeared to be in opposition to the rent receivers. Neither can we despise the efforts of the economists who, being members of the middle classes, sought to emphasize the meritorious nature of their functions and the legitimacy of their income. They were answering misconceived criticism which reflected on them. And it was the *minor* writers whose arguments might cause them to be regarded as apologists for class interests. Among the leading economists there were writers like Adam Smith and Ricardo who, in spite of certain obvious preconceptions, were capable of achieving a rare measure of judicial detachment in contemplating the affairs of their age.

(7) *The economists' arguments have at times been exploited by vested interests*

Of course, the economists' arguments were eagerly exploited by vested interests in the *status quo*. This was possible firstly, because they emphasized the defects in the hasty nostrums for obtaining economic justice which were being preached by working-class politicians and demagogues; and secondly, because they had not realized the extent to which the property system could be modified without

<sup>1</sup> As a matter of fact, Adam Smith's bias (if it can rightly be so termed) was, for reasons that will be mentioned later, different from that of Ricardo. He referred contemptuously to manufacturers and traders and was rather tender towards landlords.

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the destruction of its functions. Their teachings certainly controverted those who were agitating against the existing order, but they did not defend that order. Naturally harassed capitalists were eager to make full use of the wage-fund doctrine, for instance, but they used it as a text for a gospel that it did not really imply, — that all strikes were bound to fail. Genuine confusion arises on this topic because, for many years, the apparent interests of most individuals and groups in the capitalist and merchant class *did* happen to coincide with the economists' doctrines, and the science obtained prestige as a result. Our admissions concerning the early economists' failings are, however, frankly made.<sup>1</sup> Yet an irrational element in original convictions does not invalidate logical inquiry which confirms them; and there was little scope for bias in the relatively simple analytical meditations of the Classical writers. Their deficiencies (to which we have confessed) have served mainly to help opponents to misrepresent their basic contribution, whilst those same weaknesses detracted to a very small extent from the usefulness of their teaching. They must not be blamed for any indefensible use to which their contribution was put by vested interests. Their endeavours to explain the nature of human co-operation have tended, in *subsequent* developments, to throw disconcerting light upon the social warrant for several private and group rights; and although for a while the economists' reasoning was welcomed by certain classes among the possessors of wealth, although their authority was readily quoted when it *seemed* to enable the beneficence of or necessity for inequality to be preached, their unpopularity inevitably supervened as soon as it became clear that the condemnation of all actions restrictive of the freedom of adjustment which market institutions enabled was implied by their analysis. If the economists' ideal of free competition was once welcomed by the capitalist class, to-day it is anathema to them. Common dislike of the economists asserted itself early enough, and it received increasing emphasis as the levelling tendencies of competitive capitalism seemed more and more likely to destroy 'prosperity' or 'profits', which was the form in which the attack of competition on privilege and unequal income rights received expression.

<sup>1</sup> They are examined in detail in Chapter VIII.

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- (8) *Power-thought exercised in defence of organized capital and organized labour tends to hide real divergencies of social interest*

Mr. Briffault, impressed by the immense hold which power-thought inculcated by apologists for the existing order has on the public mind, mindful of the vast influence exercised on politics and Press and even school and pulpit of organized capitalism, has felt inclined to welcome the temporary complete suppression of freedom of speech in Soviet Russia; for a start from a clean sheet, he believes, will alone enable a rational and critical view of life to be achieved by the proletariat. But what is less clearly realized by critics of existing capitalism is that illegitimate ideas of an identical type are active in the ranks of 'organized labour' in practically all its forms, and among proletarian revolutionaries, and that these ideas tend to hide the real divergencies of interest and the true genesis of the social privileges which must be deplored in any democratic regime. It is seldom understood, for instance, that the opposition to machinery, which at any rate since the days of Luddism has characterized labour economic movements, is in its essence of the same nature as the ideas which are usually found behind the capitalist invention of 'surplus capacity' and the support of the puerilities of 'technocracy' propaganda. And the economists, standing in opposition to all these ideas, have, as we shall see, been subject to general abuse and misrepresentation by the seekers of power in all camps.

- (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*

The facility with which vested interests can thus acquire power is in part explained by the fact that all of us, in our normal reflections on matters in which we are neither practised nor expert, are ruled by symbols. Indeed, without them the great mass of people are incapable of thought: they alone can evoke emotional response without which there is no stimulus to reason at all. 'Man', said Graham Wallas, '... lives in an unending stream of sense impressions, of innumerable sights and sounds and feelings, and is only stirred to deed or thought by those which he recognizes as significant to him. . . . The first requisite in anything which is to stimulate us



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toward impulse or action is that it should be recognizable. . . . But the recognition of likeness is not in itself a sufficient stimulus to action. The thing recognized must also be *significant*, must be felt in some way to matter to us.<sup>1</sup> The power that can attach to an idea such as 'the Church', or 'trade union', or 'the Labour Party', or 'the Fatherland' may be immense. But Graham Wallas did not, we believe, go far enough beyond these symbols which he recognized as so essential to human nature in its reflections on the affairs of the world. He saw clearly that 'Romans have died for a bronze eagle on a wreathed staff, Englishmen for a flag, Scotsmen for the sound of the pipes'. But he did not bring out the forces and motives that mould such symbols into images that suit private and group interests. He did not make us see those forces that constitute the power-thought which, says Mr. Briffault, 'is brilliantly justified by the sincerity, the conviction, the enthusiasm, with which it is accepted and honoured by the servants of power, by the devotion and loyalty with which they are prepared to die in its defence.'<sup>2</sup> Graham Wallas failed, in consequence, sufficiently to consider the thesis that the irrationality of mankind on the subject of human relationships is capable of some rectification. It is hopeless to expect the community to reason on social questions except with the aid of symbols. We may attack their falsity but not their function. The process of falsification seems to have been so spontaneous as to be almost unconscious. In the sphere of economic society it has probably been no more deliberate than in other branches of human relations. In working-class democracies the capitalist or the 'sweater' has been painted by the propagandists as a loathsome type. It would have been psychologically impossible to have caused human indignation to be aroused against wrong *institutions* which are far too impersonal or even abstract to the popular mind to awaken any emotional reaction. The 'bloated capitalist' with his cigar and diamond rings, or the 'sweater' with foreign or Semitic features, were essential creations. The appeal of trade unionism has been in part derived from its skilful representation as a system of defence against the capitalist aggressor. Now the practised student of society has developed mental habits which inhibit the formation of set symbols in his mind. And when he attempts to convey a message to society,

<sup>1</sup> Graham Wallas, *Human Nature in Politics*, pp. 61-2.

<sup>2</sup> Briffault, *op. cit.*, p. 84.

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he seems to be rendered ineffective because what is scrupulousness in the study becomes, in society, a fastidiousness amounting to a refusal to talk in terms which the populace can understand. But the process of communication with the layman is dangerous, for success is too often likely to be in inverse ratio to scrupulousness. Moreover, the phenomena with which the social scientist is concerned are seldom capable of symbolic representation. Thus, unless the 'social mentality' of the present age can be violently shaken, there will never be the slightest chance of a popular campaign against trade unionism succeeding, for the simple reason that it is impossible to personify it. One has not the means of representing it as it may conceivably be represented — in the role of a principal institution which, in modern industrial society, is maintaining preventible inequality. Even if the economists descended to propagandism, they could hardly be successful. A cartoon representing a trade union leader trampling the workers underfoot would not carry the slightest conviction<sup>1</sup> even if the corrupting influence of vested interest did not bear upon opinion. Unionism might be eliminated through the development of 'compulsory conciliation' or State wage-fixation under democratic control, but it is hardly imaginable that demonstration of its essential nature as a bulwark of economic inequality and privilege could be effective. Excluded minorities such as women, or non-Europeans in South Africa, might be aroused. But in general the classes most obviously depressed by labour monopoly cannot be made aware of the source of the detriment which they have to bear. There exists no phenomenon which is '*significant*' (to use the word that Graham Wallas italicized), in the social organization of which unionism forms a part, to supply any impulse for a rebellion against it.

(10) *Power-thought hinders the accumulation of undisputed knowledge in the social sciences*

The accumulation of *undisputed* knowledge would be possible in the social sciences, as in other branches of deliberate study and

<sup>1</sup> Moreover, it would be grossly untrue in most *particular* cases, because individual union leaders are actually seeking the interests of the members of the union, with that degree of sincerity common to most paid advocates; and, indeed, in the light of a society in which trade unionism plays an important part, individual groups of workers in demanding collective bargaining are rationally seeking the good of their group. But this is another point.

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research, not only on questions of method, but to some extent on policy also, were it not for the biasing factors of personal interest which we have not yet learnt to eliminate. It is not the complexity of such studies which has for so long rendered them futile in the world of practice. Neither is their sterility to be explained on the grounds so often stressed by the opponents or critics of economics that they deal with phenomena that are incapable of measurement, that social phenomena show no uniformity, that human material being subject to free will is unreliable and hence its behaviour altogether beyond the bounds of scientific prediction. These things may affect the nature of the useful generalizations that can be made: they will not prevent them. The celestial sciences developed first in the history of rational-thought not, we believe, because of Comte's principle of decreasing generality;<sup>1</sup> nor because of leisure which made possible idle star-gazers (which was Bagehot's explanation); nor because of the uniformity of movement and possibility of measurement of the movements of the stars (which was Graham Wallas's thesis); nor even because of the irregularity of planetary movements in relation to that uniformity; but simply because the stars were the phenomenon most uncontrollable in the light of human life and experience and so farthest from the crushing effects of power-thought and custom-thought (which is the suggestion of Mr. Robert Briffault in *Psyche's Lamp*).<sup>2</sup> Whately remarked that the reasoning of Euclid would have been disputed had it borne on the fortunes of individuals.

(11) *The advancement of humanity is synonymous with rational progress, and there are some grounds for hoping that reason will triumph in the social sciences*

Graham Wallas's view of the possibility of rational progress seems, however, to have been much too pessimistic. When Disraeli wrote: 'We are not indebted to the Reason of man for any of the

<sup>1</sup> Comte's contention was that the earliest sciences deal with the most general attributes of reality and later pass to phenomena of greater complexity, each new science depending upon those preceding it. He placed mathematics first in the series and sociology last.

<sup>2</sup> Senior also wrote: 'If our laws had been of the unchangeable character which has been ascribed to those of the Medes and Persians, we might have investigated the nature and sources of wealth with the impartiality with which we study the motions of the heavenly bodies.' (*Op. cit.*, Vol. I, p. 42.)

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great achievements which are the landmarks of human action and human progress' he was expressing a view which it was easy for one who had been successful in acquiring power to believe: the view that the only way to success is to appeal to the imagination and passions of the masses. But human progress and rational evolution have been identical phenomena; and it is significant that Mr. Briffault (or his publishers) changed the title of the recent American edition of his first essay from *The Making of Humanity* to *Rational Evolution*. Mankind, as we know it, is the creation of reason. Its development towards that state which many of us would feel differentiates most widely 'humanity' from 'primitive man' has so far depended, to the extent to which the kind of knowledge classed as 'scientific' can be said to have played a part, principally upon advance in the application of the physical sciences. In the future, its development may depend more upon the recognition of the implications of the social sciences in the process of interpreting the social will. Is it really beyond conception, for example, that within our own lifetime effective agreements may be come to between nations for the gradual reduction of tariff barriers? Yet such a step would show an almost revolutionary advance in the application of reason in the interests of the world. It may indeed be true that in so far as economic institutions are concerned, human relations have suffered marked retrogression since the beginnings of the industrial age. But if that is so, may not the cause be traced to the failure of any adequate grasp of the results of rational-thought in this field to penetrate the social consciousness?

(12) *There is nothing fanciful in the notion of a community adopting competitive institutions*

Some students may feel, on contemplating this chapter, that in daring to envisage a society which might accept competitive institutions we are exploring the realms of fancy, not reality. Our own argument, they may say, has destroyed our hopes. For how can the beneficence of our ideal be presented? What symbolism can we employ? Can the remarkable developments in the ancient art of the 'creation of consent' which have been created in the present age by the growth of the Press and communications, and the accumulation of experience of propaganda, be controlled in the

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interests of economic liberalism? As this book develops and some of the innumerable sophistries that are used to weaken the economists' authority are dealt with, the reader may get an even more marked impression that the mere extensiveness of error will make its eradication an impossibility. 'A malignant sophist', wrote Whately, 'may gain a temporary advantage by the multiplicity of his attacks, as the rabble of combatants described by Homer sometimes did by their showers of javelins, which encumbered and weighed down the shield of one of his heroes, though, they could not penetrate it.'<sup>1</sup> But Whately did not regard the numerical preponderance of fallacies as likely to have a permanent power. And we also believe to-day that it does not seem reasonable to suppose that the community must *always* accept the plausible rather than the real. We feel that the political tactics necessary to obtain consent for liberal measures must stress consumers' interest, but rational appeal *can* be made, and perhaps *need* be made, only to a thinking minority. And even with them, certain indisputable facts must be made to dominate the exposition. 'It is not easy', says Professor Bury, 'for a new idea of the speculative order to penetrate and inform the general consciousness of a community until it has assumed some external and concrete embodiment, or is recommended by some striking material evidence.'<sup>2</sup> May we not be able to point to, and utilise as a basis, the 'material evidence' of great technological capacity side by side with actual poverty?

(13) *We must frankly recognize the presence of social irrationality and the burden of interests*

But we cannot approach the future with the same optimism as John Stuart Mill when he declared that 'one person with a belief is a social power equal to ninety-nine who have only interests'. We must recognize, on the contrary, that the influence of interest

<sup>1</sup> Whately, *op. cit.*, p. 151.

<sup>2</sup> Quoted in Lippmann, *op. cit.*, p. 107. Professor Bonn also points out that 'ideas seldom exercise a direct influence so long as they are only entertained by their originators; their day generally comes when the masses, who have neither the time nor the power to think for themselves, borrow them for use in a difficult situation'. (*Prosperity*, p. 158). And he says of the Nazi regime, 'The menacing significance of the present crisis lies in the fact that it is largely a crisis of feeling and not a crisis of thought. For thoughts can be vanquished by other thoughts, but sentiments can only be vanquished by altered facts.' (*Ibid.*, p. 153).

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is all-powerful in social mentality and social convictions to-day. Our hopes must rest in the belief that rational-thought can be successfully aggressive against power-thought. The danger is rather one of undue optimism which is likely to be aroused in the student who begins to realize more vividly from this essay the burden of irrationality in the community. Social scientists must be able to view society with sympathy yet objectively. 'Professional thinkers about society', wrote Graham Wallas, 'and the readers of their books, are unusual people — engaged on an unusual task; they have more than an average permanent interest in their subject, and at the moment of writing and reading they are devoting their whole attention on it. Because they are engaged in the effort of systematic thought or in the gathering of knowledge necessary for such thought, and because they are often convinced that the maintenance and future progress of society depends on the stimulation of thought in others, they inevitably tend to "intellectualize" their problem, by assuming that most of the actions of most men are the result of conscious, deliberate and well-informed reasoning.'<sup>1</sup>

- (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*

The argument of the following chapters may suggest to others the means of bringing rational-thought, the supreme agent in the development of humanity, into practical politics. It will be vain to hope, as Senior stressed a century ago, that men will ever 'examine questions which come home to their business and bosoms, with the unbiased spirit which urges the astronomer or the mathematician'.<sup>2</sup> But we may yet hope for the growth of a trust in the teachings of disinterested economists; and the achievement of this trust should be regarded as one of their main tasks. Are they to achieve the confidence of their fellow-men by attempting to give a 'genial character' to the implications of their science? Or are they to seek influence whilst maintaining a dogged attachment to stark realism by consistently reiterating the clash between private striving and social benefits? We conclude that they must be jealous of their

<sup>1</sup> Graham Wallas, *Our Social Heritage*, p. 83.

<sup>2</sup> Senior, *op. cit.*, p. 43, Vol. I.

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authority and pin their faith to scientific disinterestedness. Hopefulness may then be justifiably based on a fearless recognition of reality. For there is this final and paramount consideration: at the back of power-thought expressed in the economic field there lie the vested interests; and the vested interests may be, and on grounds of social justice, indeed, *must* be 'bought out', 'compensated'. And we shall suggest in the last chapter of this book firstly, that this may be done in such a way that the distributive injustices of restrictive privileges will dissolve in posterity; and secondly, that the burden on the productive system may be immediately dissolved and so incidentally furnish the funds requisite for compensation.

#### CHAPTER IV

### ECONOMIC RELATIONS AND POWER-THOUGHT

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

WE are concerned with a sphere of manifestation of power-thought with which Mr. Briffault does not deal, namely, that of economic relations in contemporary communities. Its expression assumes peculiar forms in these days. They are pre-eminently phenomena of modern economic and political society, although power-thought has been the tool of established authority from the most primitive ages. Unequal property ownership, which is a particular aspect of differential social status, is the dominating factor. The rise of democratic institutions seemed to turn power-thought to the defence of a distributive scheme determined by that property system. We do not suggest that its operations appeared as an entirely new spectacle with the emergence of representative government. Advancing democracy merely emphasized the part played by unequal property ownership. This fact was realized in the eighteenth century by the authors of *The Federalist* when they wrote: 'From the protection of different and unequal faculties of acquiring property, the possession of different degrees and kinds of property immediately results; and from the influence of these on the sentiments and views of the respective proprietors, ensues a division of society into different interests and parties. The most common and durable source of factions has been the various and unequal distribution of property.'<sup>1</sup> And where this inequality of condition was present, we can be certain that power-thought in defence of the existing regime mingled with rational-thought in explanation of it.

- (2) *Extensions of the franchise increase the importance of power-thought*

The importance of the institution of representative government in this connection is that it makes it more imperative than in earlier

<sup>1</sup> *The Federalist*, No. 10. Quoted in Beard: *Economic Interpretation of the Constitution of the United States*, p. 15.



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periods of history that the great mass of the people shall be satisfied that current practices are not contrary to their interests. It was possible in Palmerston's time for privilege to be frankly defended in England. 'There is no damned nonsense about merit in the case of the Garter,' he could say. But two years after his death the Reform Act has extended the franchise and a remarkable change of attitude began to show itself in Britain both on the part of the politician and on the part of the privileged or more fortunate members of society. Indeed, the whole outlook of the English 'upper classes' who realized the potential political significance of the working masses seems to have undergone a transformation following the late 1860's. It was then more urgent than ever that the contentment of the poor, or the new electorate, should be fostered. They had to be convinced that the existing order was not opposed to their advantage. Great private wealth side by side with poverty had to be explained away. And it is not surprising that in this task falsification of thought was brought in as a weapon of defence. Power-thought can still be regarded as an active influence in the vindication of unequal wealth and privilege against people in the mass. For the intuitive or instructed judgment of the poor tends to condemn inequalities as 'unfair'.

(3) *Individuals are, on the whole, vaguely desirous that 'the general good' shall be the aim of policy*

The consideration of 'the general good' and the development of institutions with this end in view must be the supposed or nominal aim of most modern political activities. Indeed, the greater part of the governmental interferences in the economic sphere which have been witnessed since the beginning of the nineteenth century have ostensibly had this object. Even the possessors of great wealth have recognized that some State activity is economically desirable in the interests of 'the community as a whole'. We can assume that people are, in a passive and vague sort of way, genuinely concerned about the welfare of their country (even if they are not much concerned with the well-being of humanity). Most people do desire society's welfare, as they understand it; and they have some measure of real altruism to which, on occasions, successful appeal can be made. The existence of human impulses which, given the right social stimulus, will lead to genuine feeling on behalf of society is virtually undeniable. We can,

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therefore, assume that 'the general good' is one of the main collective desires of the community. J. S. Mill recognized, in his defence of the open ballot, that 'the real motive which induces a man to vote honestly is for the most part not an interested motive in any form, but a social one<sup>1</sup> . . .'<sup>2</sup>

(4) *Rational-thought on matters of private good is common; but on questions of the general good it is rare, in spite of frequent sincerity*

For the present, however, we must face the fact that rational-thought on the question of the general good hardly exists in the community as a whole. On matters of *private* good it is usual for reason to be effective within the sphere of voluntary action and free contract. Most individuals or groups can weigh up satisfactorily what lines of individual action are to their best interests, given the circumstances that are beyond the control of their isolated wills. In any existing economic situation most industrialists, most farmers, most speculators, know what is to the advantage of the particular group to which they belong. It is on questions of the relation of the individual or group to society that typical thinking is defective. Individuals fail to see how their interest is related to that of society, and how the pursuit, by each group, of policies designed in its own narrow interest may, through consequent adverse reactions upon the general welfare of the community, recoil adversely upon all of them. The susceptibility of men's minds to this confusion when contemplating the 'social welfare' is enhanced, not merely owing to the fact that we all think in terms of symbols, but because 'our final convictions are the resultant of many hundreds of independent fleeting inferences', in which the valid may or may not be 'more numerous and more likely to survive than the fallacious.'<sup>3</sup> For no opinions are determined more by a succession of ephemeral impressions than those relating to the general good — to the welfare of the society in which people live or of the nation to which they belong. In discussing this fact, we must repeat and emphasize three things. Firstly, the difficulties do not arise mainly from the complexities of social relations and the inevitable abstractness of any conception of a *summum bonum*. Thinking suffers, in Mr. Briffault's terms, from

<sup>1</sup> J. S. Mill, *Utilitarianism*, p. 63.

<sup>2</sup> The fact that the conception of 'the general good' may be exploited consciously or unconsciously by vested interests is a separate point.

<sup>3</sup> Graham Wallas, *Human Nature in Politics*, p. 104.

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a 'functional disease' which is rampant among current ideas on social relations. Secondly, until some means is found of giving greater effectiveness to the antidote for the disease (namely, disinterested reason), the 'progress' of society can be hoped for only through advance in the physical and technical sciences. And thirdly, we may not assume that, because on matters of private or group interest a degree of rationalism is attainable for which one cannot at present hope in relation to welfare as a whole, the majority of people do not feel strongly for the social advantage when they can get a vivid conception of it. In the pages which follow, therefore, when the universal striving after private and group interest is referred to, there is no suggestion that the phenomenon must be ascribed to 'selfish' motives. The individuals or groups concerned are seldom conscious of any wide divergence between what is to their good and what leads to society's benefit. They simply have a quite sincere predisposition to favour those policies which contribute to their own power or resources. 'Frequently,' said Sir George Cornewall Lewis in 1849, 'the great majority of a profession, or trade, or other body, adopt some opinion in which they have, or think they have, a common interest, and urge it with almost unanimous vehemence against the public advantage. . . . They are guilty of no hypocrisy or insincerity; but their judgment is warped by their belief as to their interest in the question'.<sup>1</sup> The warping of judgment may be observed in forms which vary from the deliberate propaganda of bodies like the Federation of British Industries or the Trades Union Congress, to the self-deception of the individual who convinces himself that what suits him must contribute to the general good,— 'the insidious influence of fathering wish' that leads us to make the sincerest and most earnest plea for policies in the real or illusory interests of others when they incidentally contribute to our own good or that of professions with which we have been associated. The example of a great-hearted and philanthropic builder who is an enthusiastic advocate of master builders' federations, building trade unions and subsidized housing schemes immediately occurs to the writer. And the same influences can possibly be seen in the 'disinterested' support of trade-boards and 'anti-sweating' legislation generally by trade unions; or the 'detached' enthusiasm of organized labour (in countries where short hours have been the device for sharing among the workers the monopoly gains of

<sup>1</sup> Lewis, *op. cit.*, p. 36.

## ECONOMISTS AND THE PUBLIC

unionism) for international hours of labour conventions which, they contend, will ensure greater leisure for their competing comrades in foreign countries. We see it also in the enthusiasm of debtor classes for inflationary measures which they are emphatic will stimulate the prosperity of all; in the universal concern of town-dwelling populations for the welfare of the rural dwellers who, they aver, will suffer moral and physical corruption if they are allowed to follow their inclinations and drift townwards; and in the general persuasion of social classes or races with superior status that the best interests of politically inferior classes and races are served by the maintenance of the existing regime.

- (5) *Even the minds of those to whose detriment power is exercised are moulded by power-thought.*

Power-thought corrupts not only the thinking and judgment of holders of power but often of those also upon whom the power is exercised. 'There is one quarter at least,' says Mr. Briffault, 'where power-thought is always and absolutely sincere, with those namely on whom the power is exercised.'<sup>1</sup> 'The force upon which the tyrant or the capitalist ultimately relies,' says Mr. Dickinson, 'is that of the very people whom he oppresses and exploits.'<sup>2</sup> But the most important examples are, we believe, not the most obvious ones. The fact, for instance, that the *working women* of Great Britain may regard trade unionism as a force that has protected and advanced their family incomes is not inconsistent with the contention, say, that its existence has been one of the major causes confining their sex to the semi-serfdom of many working-class homes. They have certainly heard the gospel of combination from their husbands, and most of them have seen, in their own individual cases, concrete evidence of its private benefits. And not unnaturally, in their absorption of convictions which are never disputed in the circles that they know, they believe that the same methods universally practised must contribute to the advantage of all, both men and women, in working-class families. The British unemployed, fobbed off with 'the dole', have good-naturedly accepted a system of ethics defensive of a parasitic labour aristocracy. They have never fought for the right to undercut. They have naively swallowed the fiction which has been

<sup>1</sup> Briffault, *op. cit.*, p. 84.

<sup>2</sup> Dickinson, *Institutional Revenue*, p. 164.

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so eagerly taught to them that the undercutting of wage-rates must lead to the ruin of all workers.

(6) *It is the influence of power-thought on a thinking minority which is most important from our point of view*

Power-thought in the field of economic relations may be regarded as exploiting that same general social irrationality (inevitable in the present age) upon which the politicians play in election times. The candidate makes his appeal to a complex often dominated by 'persons who are mentally children or barbarians, people whose lives are a morass of entanglements, people whose vitality is exhausted, shut-in people, and people whose experience has comprehended no factor in the problem under discussion'.<sup>1</sup> But from our point of view the most important manifestation of the parasitism of power-thought is that which bears on the small *thinking* section of the community. Public opinion is in a process of constant modification; and its content is changed through elements of intellectual initiative among a minority of the people. It is those who form this minority who are the potential enemies of power-thought. To-day they are largely its slaves.

(7) *The great barrier to reform is constituted by the illusions of this class arising from individual or group interest*

Here, then, we have the major obstacle to a satisfactory consideration by society of the essentials of economists' teaching. We hold to this belief in the full recognition that there still exists a large amount of ignorance and disagreement concerning the working of economic society even among the most elect and disinterested of economic students. The difficulty of defining the range within which the economist's understanding is more or less adequate for proposing changes in institutions which will make for a better world must be admitted. But it is not so much ignorance of the functioning of the economic mechanism that has led to society's subjection to the economic chaos of recent years. It is the unrealized bearing of individual or group interest upon the basic criteria of the intellectually active classes that frustrates would-be economic reformers. It is the illusions which are thereby bred that constitute the barrier to reform. This is the problem that really requires to be tackled.

<sup>1</sup> Lippmann, *op. cit.*, p. 75.

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(1) *Unequal incomes imply unequal power over the community*

EVERY individual may be said to have power over his fellow human beings in proportion to the size of his income.<sup>1</sup> Those with large incomes have, in this sense, the greatest power. The exercise of this power by all individuals constitutes a force which will later be termed 'the sovereignty of the consumer'. Income power is not one of obvious coercion: it has a diffused expression through the medium of demand. The response to it is free in the sense that the adjustment of an individual's activities to demand has usually a range of possibilities. To take the most obvious case: a worker will refuse to take on disagreeable tasks unless he has no other chance of earning or unless he is paid more to do so. In the free demand of each individual income receiver, then, there is exercised fundamental power over one aspect of the activities of society. For it is through the controlling power of demand that, within the sphere that is left to economic liberty, the community rules the community — that the consumer is sovereign; and inequality of incomes means *inequality of power* in this control.

(2) *The relatively well-to-do will often sincerely believe that equalitarian forces must destroy what is best in life*

The apology for inequality of wealth becomes, therefore, an apology for an unequal distribution of power in the meaning here given to it.<sup>2</sup> Using in the main reasons connected with traditional ideas on 'property', the more wealthy members of society will seek to justify their existing rights; and custom-thought and power-thought will work hand in hand in pleading for the goodness or inevitableness of existing distribution through a defence of the institutions on

<sup>1</sup> Or, in the short run, in proportion to the total wealth he possesses; for he may decide to 'live on capital'. The realization of capital wealth in order to change its form (i.e. to invest in some other channel) is a *response* to the power of demand and not the exercise of power on the community.

<sup>2</sup> In practice the attempt to justify inequality is confused with the defence of private or group wealth which is not quite the same thing.

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which it appears to be based. That such pleas may be undeniably sincere we have already stressed. The inherent justice of existing arrangements and their necessity in any well-ordered world will usually appear beyond question to those who benefit from them. In any regime of advancing equality we may expect to find the relatively well-to-do resisting earnestly the expropriating forces which are tending to drag down their estate and status. They will see in the new tendencies the gradual disappearance of much of what they have been taught to regard as most beautiful and noble in life. But neither their faith in their standards nor their sincerity affects our present argument.

- (3) *They are apt to assume that far-reaching changes in social institutions must necessarily produce an intolerable social order*

In part their horror of equalitarian forces can be seen to be due to their failure to conceive of a bearable social order which differs in any marked respect from the one they know. 'It is not unusual', wrote Veblen, 'to hear those persons who dispense salutary advice and admonition to the community express themselves forcibly upon the far-reaching pernicious effects which the community would suffer from such relatively slight changes as the disestablishment of the Anglican Church, an increased facility of divorce, adoption of female suffrage, prohibition of the manufacture and sale of intoxicating beverages, abolition or restriction of inheritance, etc. Any one of these innovations would, we are told, "shake the social structure to its base", "reduce society to chaos", "subvert the foundations of morality", "make life intolerable", "confound the order of nature", etc. These various locutions are, no doubt, of the nature of hyperbole; but, at the same time, like all overstatement, they are evidence of a lively sense of the gravity of the consequences which they are intended to describe.'<sup>1</sup> 'The entire history of social improvement', says Mr. Briffault, 'has been a series of transitions, by which one custom or institution after another, from being a supposed primary necessity of social existence, has passed into the rank of universally stigmatized injustice and tyranny. So it has been with the distinctions of slaves and freemen, nobles and serfs, patricians and plebeians; and so it will be, and in part already is, with the aristocracies of colour, race and sex.'

<sup>1</sup> Veblen, *op. cit.*, pp. 202-3.

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- (4) *The increasing scepticism of the poor concerning the necessity for the existing distributive scheme has usually been weakly answered*

Pleading for existing institutions is necessary in these days. Representative government, as we have seen, makes it essential that the great mass of the people shall be convinced that existing conditions are not to their disadvantage. And there can be little doubt that intelligent speculation about the inevitableness of the economic order in which they find themselves must lead poorer people to question the necessity for the simultaneous existence of private wealth and poverty. As the custom-thought of the working class is gradually weakened, so the defence of existing distribution becomes more difficult. As that attitude of mind which leads them to accept calmly the station in life which fate seems to have decreed for them develops into one that believes in the possibility of better things, so does the task of power-thought become harder. But few of the possessors of exceptional wealth are capable of seeing that there can be a better defence of the system than to claim sacredness for private property, or to appeal to the crudest wage-fund ideas, or to make even weaker suggestions, like the plea that their wealth enables the employment of many servants.

- (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*

Now it is possible to put up a very strong (not necessarily sound) case for the view that great inequalities are inevitable, at any rate for several generations; and that important rigid elements in social tradition make them incapable of correction except by means which drag the poor even lower. It is also possible to argue (and obtain much intelligent and disinterested support) for the view that greater equality is obtainable only by means which involve such a fundamental modification of human institutions that, for other reasons, the necessary changes would be repugnant to the great bulk of society, and hence sociologically inconceivable (the abolition of the family or drastic modification of its functions as an economic institution, for example). But none of these arguments could be used *effectively*, even if the wealthy had advocates capable of giving them expression. The most *effective* defences of inequality before the jury of the community



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as it is are not the ones that carry the most conviction to economists, but those which appeal to the traditional ideas of the masses. And the same applies to popular nostrums for rectifying social injustice. However logical a case may be made out for opposing the more crude methods that have been put forward for making the poor better off or for reducing poverty, it will be practically ineffective in its reactions on the thinking labourer whose emotions have been aroused by the apparent injustice of the existing order. But appeal to custom-thought can still be effective in securing the ready acquiescence of the working classes. The mere *novelty* of Socialistic ideas was the strongest weapon with which they could be successfully discredited. It was possible to ridicule them; for to most of us what is new can easily appear ludicrous. Power-thought reinforcing custom-thought was for long fairly effective in this sphere where rational-thought would have failed. We must remember that the soundness or otherwise of a particular contention is not to be judged solely by the legitimacy of the arguments which are usually advanced in its defence. The fact that inequalities of income have been excused and are still to some extent defended by unconscious or deliberate falsification of thought does not prove that the typical arguments of those who attack these inequalities are correct. We find, moreover, a parallel falsification of thought practised by propagandists who seek power by agitating for equality. But we shall consider that when we come to discuss power-thought exercised in the interests of political as distinct from economic power.

(6) *It has been experience which has discredited collectivist proposals for securing greater equality. Neither power-thought nor rational foresight has been very effective* ✓

In spite of the effectiveness of ridicule as a means of discrediting the equalitarian ideals of different collectivist schools, power-thought has not had a complete victory. The very ineffectiveness of 'anti-Socialist' arguments has allowed a large number of mild and groping collectivist experiments to be forced, through representative government, upon the State. But these experiments have shown only too clearly that many attempts to diminish inequality (if some of the fundamental elements of liberalism and the competitive system are retained, and if the national unit still finds it necessary to take part

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in international trade) are doomed to obvious failure. It has been *experience* not power-thought that has served the cause of the apolo- gists for inequality. It has been the lessons of practice which have led to the less easy confidence in the efficacy of remedial collective action which has developed in recent times. The adverse reactions of experiments at redistribution through taxation and authoritarian interference with the value system have been far too definite in modern Britain even for politicians to ignore; they cannot cry 'after us the deluge' because it will come too soon. Thus has society learnt from bitter experience what it was incapable of learning from rational foresight and what power-thought also failed to teach. The simple nostrums for securing effective equality no longer seem to obtain the same amount of confident support; yet it is difficult to say how far what appears to be the present attitude of the community may be due to the persistence of custom-thought and power-thought.<sup>1</sup>

- (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*

It is relevant to notice at this stage the curious feebleness of the attack on the ideas which are used to justify inequalities. The basic element of custom-thought in these ideas has already been stressed. Let us consider them further. There survived from an earlier age a fund of beliefs, sentiments and morals which had evolved when great inequalities of condition seemed to be inevitable, and when passive acquiescence in the *status quo* seemed to serve the commonweal. Marked differentiation of social and economic status might actually have been necessary at a certain stage of human evolution firstly as a condition for the existence of an organic society at all, and later as an essential feature of an advancing social system. In its absence, the achievements which have produced the modern world might have been impossible or the rate of development slower. The only means of transmitting the cultural tradition from one generation to another

<sup>1</sup> Communist literature has given some realistic recognition to what we have called 'power-thought' in respect of economic inequality. We find this in its conception of the 'bourgeois ideology'. But it is a hopelessly crude way of thinking of the phenomenon. Power-thought, as we see it, is dispersed throughout all economic grades, and its strongest manifestations in so far as they have obvious bearing on classes as such, are between near, not distant social levels.

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might have been through the medium of an hereditary leisured class. However important this consideration may have been at one stage of social evolution, it is certainly not true now.<sup>1</sup> And there is another radical difference between our own age and that in which feudalism thrived. Human labour in the feudal regime was the chief technical productive agent — in the sense that human beings had to be worked as we now use machines. But as control over the physical world developed, the utilization of living people in this way became less and less essential to the normal activities of mankind. Invention after invention provided better ways of doing things than through the employment of labour; and each invention in destroying the necessity for drudgery worked to elevate the plane of human existence. The devices of the harness, horseshoe and saddle enabled the displacement of slaves by horses and constituted an epoch-making step forward. And countless similar discoveries have contributed to the process of destroying the value of physical labour and manual skill in human beings. In so doing they have left a society in which some of the former justifications for gross inequalities can no longer carry the same conviction. When mere portage and habit-skill have been transferred to the machine, it becomes less easy to plead that the tolerance of a subservient labouring class is necessary for the survival or progress of civilization. Moreover, the apology for a special capital-owning class seemed to carry a diminishing sincerity when, following the development of the industrial age, it was recognized that the advance of knowledge and the expression of human nature in a changing social environment no longer justified the assumption that population would expand to an extent that would neutralize the growth of productive power. Certainly the old distributive scheme continued to have its defenders on the grounds that it alone could ensure an adequate capital supply, and that increased wealth for the poor would be wasted in population expansion. Even to-day it is one of the most popular beliefs among the propertied classes that inequalities of wealth, and the restrictions that protect them, remain an essential condition for the continued accumulation of capital. This belief may actually have had considerable truth in the days of early industrialism. The advancement of a rapidly expanding population

<sup>1</sup> But, as we emphasize in Chapter XXI, catastrophic dispossession of the cultured classes whether through Socialistic expropriation or through the effects of unresisted competition, might cause the loss of much of what is best in our social heritage.

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appeared to require a rate of accumulation of capital which was even more rapid; and it is conceivable that the concentration of wealth enabled saving to be spontaneous. But this is a consideration which, whatever its former significance, has probably for long been declining in importance. We shall argue in Chapter xx that to-day it seems to constitute no irremovable bar to deliberate attempts at redistribution.

(8) *Industrial society inherited traditions of inequality, and the initial capital requirements of the new regime may have emphasized existing disparities*

The interpretation of the phenomena of emergent capitalism from our knowledge of the history of the period is difficult and dangerous. There must be some dubiousness about suggestions which seek to explain what was happening. It seems fairly plausible, however, to suggest that inequality was imposed on early industrial society by the traditions of earlier history and the special conditions and requirements of an age of rapid change. It was certainly not part of an inevitable natural order. Nor was it due to any *inherent* element in social tradition. The emergence of capitalism (which seemed to acquire those elements that we now regard as its essential characteristics as expensive equipment came to be increasingly employed in industry) — the growing 'round-aboutness'<sup>1</sup> of the productive process — *seems* to have made it necessary for certain classes to accumulate wealth in the form of savings. This specialization of function was apparently required in order for them to pay in advance the wages of those workers whose task it was to make capital equipment or to produce goods ahead of consumption. At the inception of the new era there is an appearance of the ownership of funds thus employed as capital becoming almost unavoidably concentrated in relatively few hands. Indeed, it has been said that the first repercussions of the institutional inheritance from the pre-industrial age upon the new productive methods greatly increased at first the inequalities in ownership of wealth. This is alleged in spite of the fact that most of

<sup>1</sup> Economists use the term 'round-aboutness' to describe the system under which production is organized in many stages, capital goods arising first and consumers' goods emerging at the end of the process. There is some 'round-aboutness' whenever equipment which has involved the consumption of effort or resources is employed, but the term refers more specifically to the very complex scheme of modern times in which equipment is produced to produce other equipment which in turn is to produce other equipment, and so forth.

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the new capitalist class had a relatively lowly origin and little inherited connection with the former leisure class.

- (9) *Increasing mobility between social classes did not lead to a rapid growth of scepticism as to the goodness of inequalities*

The rapid formation of a clearly defined capitalist class was, however, in fact accompanied by the almost immediate realization of an entirely new mobility between social classes.<sup>1</sup> The explanation of these apparently incongruous developments appears to be, therefore, that, whatever its inherent equalitarian tendencies, capitalism happened to be cradled in a regime of marked inequality, and relatively unbridled working-class fecundity. It is by no means certain that concentration of capital ownership was necessary for the *continuance* of the undoubtedly rapid industrial and social progress. And as capitalist developments within the scope of a rather wide *laissez-faire* were accompanied by a trend towards democratic institutions, it is all the more remarkable that equalitarian ideas did not lead to the rapid growth of a more effective scepticism as to the divine or natural origin of the distributive system. However, the evolution of capitalist institutions did not result in the rapid embracing of new morals and conventions.

- (10) *Although current morality no longer frowned on ambition during the industrial age, covetousness was condemned and respect for wealth inculcated.*

The old beliefs and teachings were accepted under the new regime in a form but slightly modified. There was no swift transformation of convictions. Much of what was typical of the former regime survived. The medieval spirit of ordered status, the preaching of contentment and acquiescence, were abandoned very slowly; and as the moralists' disapproval of ambition began to weaken, the evil of covetousness continued to be stressed and respect for wealth and large possessions inculcated. 'Even poverty,' Baxter had said in 1657, 'is not an argument to envy the rich; but a strong obligation to

<sup>1</sup> Socialist propaganda and misinterpretation of history have left a different impression by concentrating attention on the small class of journeymen of former times who, under the protection of exclusive guilds, could look forward to good prospects of advancement to the status of masters.

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study the duties of humility, contentment and resignation.’<sup>1</sup> ‘When God bestows upon one man a larger fortune and possession than on another, he doth thereby prefer and advance him into an higher sphere and condition; and when God hath set him above us, it is just and fit that we should rise and give that place to him which is of God’s appointment.’<sup>2</sup> The coming of the Industrial Revolution did not immediately modify this spirit. Its influence remains with us to-day.

(11) *The idea of a natural distributive justice expressed in marked inequalities was not the product of capitalism but a barrier which it encountered*

Far from being a product of capitalism, however, the idea of ‘a divine and natural distributive justice’, the ‘belief that different men were “called” to their several occupations and estates by a divine providence’,<sup>3</sup> must be regarded as constituting a barrier which competitive capitalism encountered. Because of its tendency to upset this natural distributive justice it was, as Dr. Robertson has pointed out, regarded as ‘flouting providence to exhibit capitalistic enterprise’.<sup>4</sup> Because of its non-discriminatory nature and its opposition to privilege, competitive capitalism is essentially an equalitarian force.

(12) *The view that manual labour was debasing, and other inherited ideas, constituted further barriers to evolving capitalism*

And there were other hindrances to the forces which the new regime was itself tending to release. There were not only formal institutions and ideas associated with traditional religious teaching; the social heritage of early industrialism included many other elements deeply rooted in the past, elements which tended to re-inforce the subservience of the poor. Labour in general, and manual labour in particular, was felt to be debasing, as involving subjection and a definite inferiority. This *menial* aspect of the livelihood of the working masses has never faded from social consciousness and it has had (as Veblen pointed out), through its repercussions upon the mind of

<sup>1</sup> *New Whole Duty of Man*, quoted by H. M. Robertson, *Rise of Economic Individualism*, p. 26, footnote.

<sup>2</sup> *Ibid.*, quoted by Robertson, *op. cit.*, p. 24.

<sup>3</sup> H. M. Robertson, *op. cit.*, p. 6.

<sup>4</sup> *Ibid.*, p. 6.

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the worker himself, the effect of adding to the irksomeness of artisan and labouring tasks. Outside modern Russia, no amount of propaganda or moralizing about the dignity of labour has been able to displace the lack of self-respect, the resentful or acquiescent inferiority complex of the working classes.

(13) *That there have been hindrances to competitive forces is proved by the fact that equality of opportunity has not been achieved*

But far from preaching subservience, the capitalist system seemed to instil the spirit of ambition and discontent. It emerged in a competitive environment of typically small production enterprises. And most important of all, the technological developments which accompanied it, in having made practicable a regime of social co-operation under conditions of equality, had also witnessed the attainment of means for the fuller achievement of these conditions, namely, the competitive mechanism. For in seeking to bring into the community's service scarce and wanted powers, irrespective of whether they belonged to the poorest and humblest of status or the most wealthy and exalted, the disinterestedness of social control through competition tended to create the circumstances of equal opportunity. As we shall demonstrate later, inequality of opportunity is clearly of the nature of a frustration of competition; for under *competitive institutions*,<sup>1</sup> other things being equal, potential powers of serving the community should be equally likely to attain a given level of remuneration irrespective of their origin; and as it is obvious that inborn capacity in this respect is not even roughly proportional to the distribution of incomes from productive effort that has actually been experienced since the beginnings of the industrial age, it follows that a truly competitive solution to the process of distribution must have been prevented.

(14) *But the Socialists, confused through the complexity of the economic mechanism, and preoccupied in seeking support from organized labour, regarded competition with hostility*

We have already suggested that private vested interests early organized themselves in such a way that, unknowingly, the effect was

<sup>1</sup> We prefer this term to referring to conditions under 'perfect competition'. See Hutt, *Economic Method and the Concept of Competition*, in the 'South African Journal of Economics', March, 1934.

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to frustrate any levelling tendencies in the new era. But the Socialists, whilst they took equality as their ideal, did not strive to obtain greater freedom for competitive capitalism. On the contrary, they thought they saw in it the villain of the piece. They half imagined a sort of previous golden age which the new system had disturbed. Under the pressure of competition, they believed, the earnings of the workers were driven towards subsistence level. In part this error was undoubtedly due to their having been misled in their inferences from contemporary affairs by the complexities of social co-operation. They had confused notions as to the nature of the economic mechanism. To the politician or other agitator bidding for the favour of the masses and seeking to arouse them from their apathy, there was little to suggest that group or State control of wage-rates was ineffective as a means or redistribution. They saw that whenever competition was effectively restricted the body of workers protected received tangible benefits; and making a logically false jump from isolated cases which they observed, they assumed that in the avoidance of competition lay the path to the advancement of the poor. With this basic illusion to mislead them, is there any wonder that their schemes for rapid and Utopian reform were absurdly crude? Yet the main reason why they failed to recognize the real defects in the institutions which controlled the earning power of the different classes was, we suggest, that their convictions were fashioned whilst they were pre-occupied in seeking support from working-class bodies. Obviously it was from workers' organizations alone that they could expect any considerable response. They could hardly have hoped for the patronage of the wealthy classes whom they were threatening to dispossess. And the only working-class organizations which actually existed were those whose main purpose was the frustration of competition and whose embryonic philosophies had been naively adapted to their immediate aims.

- (15) *The Socialists ranged themselves in opposition to the economists whose teachings they wrongly thought to be special pleading for the existing order*

The Classical economists, who had been concentrating upon the arduous task of constructing a scientific method that would enable intelligent thought about the complex problems of social relations,



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naturally condemned the Socialists' panaceas. The economists' defence of *laissez-faire* was in the main an apologia for competition, which they regarded as a beneficent force. This very early caused the Socialists to take up a position of hostility against them. They were accused of inventing a doctrine which amounted to special pleading for the existing order. This was a most unjust accusation on the whole; for, in spite of the mythical harmonies and the benevolent natural order to which their expositions occasionally referred, they hardly sought to represent the actual distribution of wealth in their day as an *ethically* justifiable state of affairs. Certainly they were wrong in their conclusions as to the inevitableness of some of the arrangements and phenomena which they assumed would continue; certainly their conception of the property institution lacked the fullest insight. But they recognized clearly enough the invidiousness of existing arrangements from the point of view of the labouring classes. They knew that to those who laboured the wealth of those who neither delved nor spun could easily appear as part of a monstrous state of things, and that therefore the security of property was threatened by sentiments which were likely to prevail among the masses. It was because the early economists saw no possible way of remedying those inequalities of condition, apart from that of restriction of numbers, that they condemned as 'jaundiced' and based on ignorance the view that the existing distributive scheme was unjust. What was inevitable could not be unfair, and ethical considerations were, therefore, irrelevant. To suggest that the rich battered on the poor was, moreover, to blind the latter to the only remedy in their power, — restriction of numbers. Unfortunately, where the economists were most wrong they encountered, on the whole, not criticism but abuse. And their rejection of the schemes of dreamers and demagogues seemed to force them into opposition to the professed reformers of their age.

(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*

Very few of the apostles of equality who have been associated with active politics, and very few of the 'academic Socialists' have been able to recognize the falsity of this antagonism. From time to time

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self-described Socialists like Rignano perceived that 'certain unassailable truths of orthodox economic doctrine'<sup>1</sup> were not irreconcilable with the view that the existing system of ownership of wealth was essentially unjust. Mr. Dobb<sup>2</sup> originally appeared to hold this opinion, and Mr. Dickinson<sup>3</sup> and Mr. Lerner<sup>4</sup> might not object to being described as accepting the validity of orthodox method. Those who have drastically criticized present arrangements have rarely shown such an attitude, however. J. S. Mill sometimes appeared to regard himself as a believer in equality who was helping to develop the only science which could contribute to the achievement of his ideal. But his Socialistic leanings came from the heart not from the head; and they served, as we shall show later, to weaken the strength of the analytical apparatus at his command. On the whole, in so far as the economist has refused to dilute the rigour of his methods, the genuine or the professional philanthropist has regarded him as an enemy. The fight has been most fierce and most unscrupulous from those politicians whose path to power was laid down by the trade union organization. Even where the economist has made a frank appeal to the Socialists (whom he has never felt inclined to fight), the appeal always seems to have fallen on deaf ears. 'We economists,' said Pierson in 1902, 'keep an open mind with regard to socialism. Of those who profess that faith we ask only one thing: persuade us! Yet we cannot be persuaded as to the practicability of any system unless we are first made aware of what it involves and are then given an opportunity of judging whether it would function properly. Do the protagonists of socialism wish to persuade us that the system would work, or do they not? If they do not, then why all this literature and agitation? If they do, why do they not grasp the weapons which lie at hand?'<sup>5</sup> Moreover, to the present-day Communist, orthodox economics is itself regarded as an expression of bourgeois ideology and not, as we have represented it to be, the embodiment of disinterested reason. The absence in Classical and orthodox exposition of the rhetorics and polemics which characterize Communist and Socialist writings is regarded as a spurious aloofness, a

<sup>1</sup> *Social Significance of Death Duties*, p. 36.

<sup>2</sup> *Capitalist Enterprise and Social Progress*, 1925.

<sup>3</sup> *Institutional Revenue*.

<sup>4</sup> *Economic Theory and Socialist Economy*, in 'Review of Economic Studies', October, 1934.

<sup>5</sup> 'The Problem of Value in the Socialist Community,' in Hayek, *Collectivist Economic Planning*, p. 55.

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mere pose of scientific neutrality. The Communists do not perceive the significance of the fact that the supposed 'bourgeois economists' have, unlike themselves, not been primarily power-seekers.

(17) *The ineffectiveness of Socialists' criticisms may be due to their opposition to orthodox economics*

The result of this antagonism between the reformer and the scientist has been far reaching. For, as we have seen, the critics of inequality ranged themselves in opposition to those social influences whose whole force was directed towards the precipitation of equality of opportunity, especially as the tendency towards unbridled breeding was modified. Do we not find here a clue to the ineffectiveness, after a century of representative government, of the Socialists' criticisms? May not the very power-thought which brought working-class leaders to the fore and financed their propaganda have in itself so corrupted their thinking as to render it innocuous? After a hundred years of agitation poverty remains with us. Perchance the political emancipation of the poor with all its indirect benefits could never have been achieved except through the incidental results of erroneous beliefs or through an unashamed unscrupulousness in the struggle for demagogic power. Stupidity may have been an essential attribute of working-class leaders, for without it they may have been unable to propagate with earnestness any gospel which would have seemed plausible to those whom they desired to represent. Without the confusions of their leaders the massed power of the lowly might never have been asserted to enforce the removal of their inferior status under the State. Perhaps the attainment of a competitive system (if the leaders of the proletariat should ever make that their conscious ideal) could be a practicable aim only in so far as the ideal itself could be subordinated to the tactical requirements of electioneering technique or the precipitation of a successful revolution.<sup>1</sup> One can easily sympathize with the view that the proletariat had to achieve political power before its interests could receive consideration. 'Socialism can be fructified only by the breath of politics,' said Louis Blanc. But to-day the votes of the relatively poor dominate elections

<sup>1</sup> This did seem to be the suggestion of Mr. Dobb some years ago. Such a view discloses a faith in the benevolence of the holders of power and the possibility of non-chaotic yet revolutionary recasting of human relations that it is difficult to share.

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in countries of universal adult suffrage. Power-thought may have played a constructive part in securing the fulfilment of democratic striving. Yet we cannot escape from the conviction that the misuse of argument in the course of politics, no matter how idealistic its ulterior purpose may have been, has served mainly to sustain that 'monstrous obstacle' to rational-thought on social relations which to-day frustrates society's groping towards a better world.

- (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*

We do not contend, of course, that the popular acceptance of the economists' teachings during the period of emergent capitalism reflected a disinterested acquiescence based on pure reason. It was probably the recognition by the propertied classes that the *principle of laissez-faire* was a defence against the spoliation of private wealth through the State which contributed to its popularity with them in the eighteenth and nineteenth centuries. To grasp the full significance of this principle we must remember, however, that it evolved side by side with democratic political theory. The earliest extensions of democracy enfranchised the propertied classes only, but there are grounds for believing that the institutions of representative government could never have emerged during a regime of marked State activity in the economic sphere. Certainly the authors of the American Constitution appear to have aimed at preventing the majority from expropriating the minority. Madison was definitely afraid of a landless proletariat obtaining an over-bearing majority;<sup>1</sup> and the *laissez-faire* spirit of the Constitution which finally resulted may be regarded as the embodiment of principles which guaranteed the governing classes<sup>2</sup> against the confiscation of their accumulated capital. But whatever the *motives* which led to the acceptance of *laissez-faire*, they have no bearing on its validity as a social policy. The economists and liberal philosophers saw the chaos which would result from the State being used in a scramble for private wealth.

<sup>1</sup> See Beard, *op. cit.*, p. 157.

<sup>2</sup> The American working classes, i.e. artisans and mechanics, had little political importance at this time.

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And they recognized that competition, best protected in their day, they believed, by *laissez-faire*, was an essential pillar of any social organization that was to be built on the ideas of the great apostles of freedom, Milton, Locke, Hume and Montesquieu. It is the spirit of the teaching of these men which it was intended to perpetuate in the American Constitution; and that Constitution has since stood as a bulwark (even if frequently ineffective and subject to a series of emasculations through amendments and Court decisions) against the vested interests which, in innumerable shapes and guises, have been persistently threatening the regime of social and economic liberty in the United States.

## CHAPTER VI

### THE DEFENCE OF PRIVATE ADVANTAGE

- (1) *Power-thought is most conspicuous in defence of specific privileges, although indirectly the protection of such privileges maintains inequalities*

POWER-THOUGHT exercises its most conspicuous influence when expressed in defence of specific privileges or advantages possessed by an individual or group. It has proved to be even more influential in this manifestation than when used to justify inequality in general. It is brought into the service of any individual, group of persons, corporation or 'interest bloc' that possesses something of value which it is within the power of the State, or the community in one of the other forms of its expression (e.g. through market forces) to confer or to destroy. But here also, if the ultimate conclusions of this essay are to be accepted, there is an important significance in its indirect defence of general inequality, in its effect in restraining the great levelling force in society, namely, competition. We have seen that it appears as a rule to *reinforce* custom-thought; for the latter has formed part of the environment in which existing vested interests have evolved, and which in turn it has tended to support. And the institutions to which these forces give rise find spontaneous protection in customary thought and outlook. At the back of both we find rational-thought always striving to break through, but in the realm of economic speculation succeeding only to a small extent except where there exist the conditions of disinterested study and comment. Custom-thought may occasionally be opposed to the interests of private or group wealth; and power-thought, we usually find, is then brought in aggressively against the force of present conviction.

- (2) *As private or group interests are always opposed to the competitive solution, it is wrongly assumed to be contrary to the social interest*

The economic ideas of the great mass of people are reasoned almost entirely from the basis of the apparent interest of themselves or the group to which they belong. Now the incomes of individuals

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or groups as producers are practically universally adversely affected in certain directions by that solution of the economic problem which is brought about by *increased competition* or, to use what seems to us the most satisfactory terminology, by increasingly effective 'competitive institutions'. As Wicksteed so vividly demonstrated: 'Every one benefits by a good crop in the things he does not grow, but may very well be injured by a good crop of what he does grow, and if his individual crop was for any reason only an average one, then his loss would be certain'.<sup>1</sup> And from this type of consideration, he said, arose 'the paradoxical situation that the advance in well-being which we all desire and are all pursuing becomes an object of dread to each one of us in that particular department in which it is his business to promote it'.<sup>2</sup> 'And,' he argued, 'it is impossible to exaggerate the importance of this consideration, or the penetrating and intimate nature of its bearing on every aspect of the social question.'<sup>3</sup> In the actual society that we know a great part of the efforts of the community is inevitably concentrated on the preservation or enhancement of private income-rights (or in general terms, the protection or moulding of a certain distributive system). And these income-rights, the defence of which is thus sought, in part rest upon deliberately 'contrived scarcities'.<sup>4</sup> We find, in consequence, throughout the whole of economic society, a striving after group or private advantage, either through the medium of legislative enactment or through contrivances and coercions in the field that the State leaves uncontrolled. Thus, whether the attainment of the fullest conceivable measure of competition is, or is not, a desirable ideal for which society should strive, whether or not it is conducive to the social interest, it is clear that private interest will be opposed to it. This will usually be much more obvious in the case of groups, and the defence of group interest will be based on the unjustifiable assumption, or the consciously false assertion, that what serves the good of a particular group serves also the best interests of a larger group of which they are a part, or the community as a whole. As large private gains can be secured where competition can be restricted, power-thought has, with full sincerity, been brought in to *justify*, and hence *secure* the private benefits that accrue from restriction. It can be

<sup>1</sup> Wicksteed, *The Common Sense of Political Economy*, Vol. I., p. 351.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

<sup>4</sup> See Hutt, *Natural and Contrived Scarcities*, 'South African Journal of Economics', September 1935.

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shown, we believe, that Wicksteed's paradox (just quoted) is resolved under those institutions which give full scope to competition.

### (3) *A social mentality hostile to competition has developed*

The result of private and group interests everywhere being opposed to the completely competitive solution is that there has been created a sort of popular condemnation of competition on moral grounds, a 'social mentality' hostile to it. This outlook is the product of tradition which has been accumulating at an increasing pace at least since the beginnings of the industrial age. Its existence is itself evidence of an increasing measure of actual restriction. The suppression of competition, although it has always been present in some degree, has never been permanently successful; and, indeed, the more successful it has been, the stronger and more 'ruinous' has competition seemed to be when it has commenced to break in. To the organized group which has greatly benefited from restrictions, and to the producer possessing an initial advantage in production, competition appears, therefore, as something in the nature of a loathsome ogre which would seek to rob them of the just fruits of their efforts or enterprise. And their condemnation meets with ready understanding and sympathy on the part of others who are similarly faced with other private losses, or who, simply from a failure to appreciate the complexities of the value system, think they see in it an element of undeniable injustice. Those who are likely to be injured by developments which contribute to plenty are, then, not unsupported in their desire to maintain scarcities. 'They have the keen sympathy of the spectator, who is more struck by the concentrated loss, though he does not share it, than by the diffused gain in which he shares.'<sup>1</sup> In this way does the body of opinion approving restrictions increase in strength.

### (4) *Even opponents of competition must recognize that the popular hatred of it is not based on valid criticisms*

Thus the popular conception of the social interest, of the general good, is not a rational one. This must be admitted, we believe, by all students when the facts are represented to them in this manner. They may condemn the competitive system as involving a response to un-

<sup>1</sup> Wicksteed, *op. cit.*, p. 355, Vol. I.



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worthy ends. Or they may admit the goodness of the ends of social striving under competition, but deny the effectiveness of the system as a means for achieving those ends. Or, as practical students of a working world, they may realize, in times of depression, that the desperate fight on the part of individuals to preserve income-rights which have depended, in countless unrecognized ways, upon contrived scarcities is a phenomenon which cannot be entirely deplored; for sudden changes may, as we shall see, have disastrous repercussions in many ways. Or they may be unable to accept our suggestion that competition's threat to the existing distributive system is one which emanates from forces which are tending to raise the poorest and generally to increase the material welfare and leisure at the community's command. They may hold, in brief, that competition is seriously defective as the main controlling agent in social co-operation. But on whatever grounds they approve of or deplore competition, they must know that popular reactions to the idea have little connection with valid criticism of it.

### (5) *The hostile social mentality to competition is largely expressed in abusive epithets and adjectives*

Power-thought in opposition to competition receives its clearest concrete representation in abusive epithets. The word 'monopoly' alone still evokes a more hostile response than the word 'competition' alone: but *adjectives* have had a very real and increasing influence. It is nearly a hundred years ago that Bastiat wrote: "There is not in the whole vocabulary of Political Economy a word which has roused the fury of modern reformers so much as the word *competition*, which, in order to render it the more odious, they never fail to couple with the epithet *anarchical*".<sup>1</sup> And such epithets are truly effective as agents of power-thought. The immediate reaction of most people to the word 'competition', even if they themselves have not suffered from the impersonal rule of the force itself, is apt to be hostile if it immediately brings to their mind also the adjectives 'cut-throat', 'chaotic', 'anarchic', 'ruinous', 'ruthless', 'unfair', and so forth. This hostile reaction has become almost a psychological phenomenon in some parts, especially of trading society: a sort of conditioned response determined by the habit of associating an adjective of evil

<sup>1</sup> F. Bastiat, *Harmonies of Political Economy*, Part I, p. 262.

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savour with the word. 'When the symbol by which our impulse is stimulated is actual language,' said Graham Wallas, 'it is still more difficult not to confuse acquired emotional association with the full process of logical inference. Because one of the effects of those sounds and signs we call language is to stimulate in us a process of deliberate logical thought, we tend to ignore all their other effects.'<sup>1</sup> And Senior pointed out a century ago that 'with every long-standing abuse, so many persons are immediately interested in supporting particular parts of the system, and the theory on which it is founded so long commanded universal assent, that ninety-nine men out of a hundred imbibe it with their earliest education. Terms which imply the truth of the theory, and, consequently, the propriety of the practice, have even become a part of our language.'<sup>2</sup> It is not only in adjectival epithets that the popular loathsomeness of competition receives expression; take 'scab', 'sweating', 'dumping', — all of these are expressions of the power-thought of private monopolized interests; all of them are subconsciously or deliberately used as means of propaganda, as a method of controlling men's minds. They seek to throw opprobrium upon the competitor of the trade unionist; upon the 'sweater' who competes by offering a new employment alternative to the poorest, least skilful, and perhaps otherwise idle members of the community (by being content with a very small margin of profit on the work of each of the many he puts into contact with a market); upon the foreigner who pursues the normal (even if indefensible) policy of traders, both within and between nations, of discriminatory charging to maximize his return in existing competitive conditions. The bearing of these ideas upon the popular attitude towards economic thought can be best illustrated by a consideration of the typical response in these days to the conception of *laissez-faire*. The course of politics has determined its emotional effect upon the thinking man in the street. In the mind of the average educated person to-day the term brings up a 'stereotype' which enables it to be used simply as an abusive epithet. Its associations are harsh and unpleasant.<sup>3</sup> 'In the

<sup>1</sup> *Human Nature in Politics*, p. 66.

<sup>2</sup> Senior, *op. cit.*, Vol. I, p. 34.

<sup>3</sup> We have only to compare the test imposed upon a group of American college students who, in 1920, were asked to define '*alien*' to realize how, according to the environment, the picture projected by quite an ordinary word in the public mind will be determined. The following results were obtained:—'A person hostile to this country'; 'A person against the government'; 'A person who is on the opposite side'; 'A native of an unfriendly country'; 'A foreigner at war', etc. (Quoted in Lippmann, *op. cit.*, p. 68)

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course of a frenzied opposition to it' the term *laissez-faire* '... has become an epithet. As "atheist" covers "agnostic" and other possible terms descriptive of the critical mind in religion, so *laissez-faire* covers any position critical of any pet uplift-programme formulated by ignorance and sentimentality'.<sup>1</sup>

(6) *Monopoly is defended by euphemisms, the pleasant tone of the word 'co-operation' having been especially serious*

The terms 'safeguarding', 'bounties', 'favourable trade balance', 'rationalization', 'co-operation', 'planning', 'co-ordination', are examples of the expression of power-thought in the form of euphemisms, of the attempt to convince the popular mind that protection is not protection and monopoly not monopoly. The pleasant tone of the word 'co-operation' has had a woeful influence.<sup>2</sup> A society with the most effective competitive institutions will represent one huge organism working, not towards one unified end (because all human beings do not possess the same motives, the same desires nor the same tastes), but working collectively and in co-operation towards the maximization of that admittedly vague conception — the satisfaction of their preferences (an idea which is best conceived of as the achievement of their sovereignty as consumers). When Marshall talked of the growing power of the Telegraph, the Press, and other means of communication in widening the scope of collective action for the public good, he left the impression of not having realized that they widened the range over which co-operation under competitive institutions was possible. The associations of the word 'co-operation' apparently awakened a response in his Christian heart which the term 'competition' did not. All he actually saw in the tendency was the spread of the 'co-operative movement' and other kinds of voluntary association — institutions and movements which in practice have tended to substitute the pursuit of private (or group) interest for the pursuit of the social good. There are not many of our modern economists who throw doubt upon this idea at the outset in the minds of students

<sup>1</sup> Sumner and Keller, *Science of Society*, p. 2023.

<sup>2</sup> The word 'planning' has been used with equal subtlety, for it suggests that its critics are actuated by a dogmatism which makes them impatient of foresight! Similarly, the term 'rationalization' implies that those who are not for it are opponents of reason. Of course, there is also much sincere confusion of thought in the idea that modern communities need some fundamental central direction to secure orderliness and harmony.

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turning to economics for the first time. Professor Taylor has probably been the most specific. He said in the second chapter of his *Principles* that 'certain types of men talk and write with much eloquence about the wicked and unchristian character of competition, and roundly affirm that co-operation would be so much better, so much more human and christian, meaning by co-operation this time, co-operation among *like* units, like producers. . . In fact, the truth is precisely contrary. *Only free competition is right; co-operation is, prima facie, wicked. Co-operation, in the sense indicated, is only a pleasant name for combining to take advantage of your customers, or the dealers of whom you are customers*'.<sup>1</sup>

- (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'*

But apart from the use of abusive epithets and euphemisms, a remarkably successful device of power-thought has been the appeal to current religious, humanitarian or national feeling by representing competition as something cruel; something which tends to crush the 'weak'; something which ignores 'national' aspirations and culture; something which is advocated and defended by the principle of the 'survival of the fittest' and which involves, therefore, the 'ethics of the jungle' or the maxim of 'each to himself and the weak to the wall'; something which brings out the worst side — the acquisitive side of human nature. It has not been difficult to create that impression. The fact that Malthus's attempt to refute the optimism of Godwin and Condorcet had inspired Darwin, seems to have brought about at one time an unjustified connection in the public mind of the idea of the goodness of competition with the biological theories of natural selection. The writings of Herbert Spencer may have encouraged this misconception. But in any case the term 'competition' brings to mind the idea of *striving against*, the notion of a fight, a suggestion of emulation. It is so easy to jump from this to the assumption that in the economic field it means a struggle for the wealth of the world; a policy of 'beggar my neighbour'; the embodiment of the 'philosophy of grab'. And it has been industriously represented as such by its opponents. Even Mr. J. M.

<sup>1</sup> F. M. Taylor, *Principles of Economics*, p. 28.

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Keynes has allowed himself to echo the fashionable phrases and speak of competition as implying 'a ruthless struggle for survival. . . . It does not count the cost of the struggle, but looks only to the benefits of the final result which are assumed to be permanent.'<sup>1</sup>

(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*

Among non-economists, the mistake is virtually universal. Thus, the vigorous intellect of a rationalist like T. H. Huxley was led to swallow uncritically confusions of the same nature. 'The state of sentient nature, at any given time', he said, 'is the resultant of the momentarily balanced oppositions of millions upon millions of individuals, each doing its best to get all it can and to keep what it gets; each, in short, zealously obeying the law of nature and fighting tooth and nail for its natural rights. This is the *ne plus ultra* of individualism; and, wherever individualism has unchecked sway, a polity can no more exist than it can among the tigers who inhabit the same jungle. It is, in fact, the sum of all possible anti-social and anarchic tendencies.'<sup>2</sup> So unsympathetic was Huxley, in his ignorance, to the ideas of those who had not scorned the name of 'individualism', that he failed completely to distinguish in his mind between the supposed predatory nature of human instincts of emulation and a particular system of social arrangements conceived of by the 'individualists'. He was quite oblivious of the rationale of 'individualism'; that it rested upon the belief that under its institutions those alleged predatory instincts would be harmoniously canalized into the service of the community. In truth, the Classical theorists recognized that the individualistic system was the only one which could effectively restrain what eighteenth-century philosophers called 'universal self-love', a human quality expressed in business in what Josiah Tucker called 'the monopolizing principle'.<sup>3</sup>

<sup>1</sup> J. M. Keynes, *op. cit.*, pp. 28-29. In part such misconceptions seem to be due to a failure to recognize that the 'ruinous' aspects of competition are present only when it has been restricted. This is discussed in our final chapter. The penalization of mis-directed investment can be shown to be least in the aggregate when competition is the least restricted.

<sup>2</sup> T. H. Huxley, 'Natural Rights and Political Rights,' in *Collected Essays*, Vol. I, pp. 351-2.

<sup>3</sup> Quoted in Mund, *Monopoly*, p. 42.

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- (9) *Veblen also assumed a false identity between the predatory expression of instincts of emulation, and the competitive system which restrains them*

The same confusion between the instincts of emulation and their predatory expression on the one hand, and the phenomenon of competition in society, which in fact restrains those instincts, on the other, has seriously detracted from the work of so frank a realist as Veblen. He talked of 'the competitive process of acquisition'.<sup>1</sup> He said that 'the immediate interest of the individual under the competitive regime is best served by shrewd trading and unscrupulous management'.<sup>2</sup> 'The individual fares better under the regime of competition', he said, 'in proportion as he has less' of the 'gifts of good-nature, equity, and indiscriminate sympathy.'<sup>3</sup> This is not simply a question of terminology. He saw predatory activities, not in the restriction of competition, but in the phenomenon itself. Indeed, he welcomed its restriction. 'As the scale of industrial enterprise grows larger', he said, 'pecuniary management comes to bear less of the character of chicanery and shrewd competition in detail. That is to say, for an ever-increasing proportion of the persons who come in contact with this phase of economic life, business reduces itself to a routine in which there is less immediate suggestion of overreaching or exploiting a competitor.'<sup>4</sup> Unfortunately, such confusions are not confined to those writers who, like Veblen, appear to have a poor understanding of economic analysis.

- (10) *Careless writing or sheer confusion has led some economists to help to perpetuate this error*

Occasionally, well-known economists have helped to foster the illusion through careless writing. An economist of wide reputation like Professor E. R. A. Seligman has added to the confusion by saying: 'Race or national competition in its economic aspects is the final form of the modern struggle. The most marked characteristic of recent progress is the gradual substitution of peaceful rivalry of commerce for the sanguinary clash of arms. The modern weapon is not the javelin or the rifle but the enterprise of the domestic

<sup>1</sup> Veblen, *op. cit.*, p. 229.

<sup>2</sup> *Ibid.*, p. 223.

<sup>3</sup> *Ibid.*, p. 228.

<sup>4</sup> *Ibid.*, p. 232.

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producer aided by the exporter.’<sup>1</sup> The fundamental mistake is the simple one of confounding the motive of emulation, either in its individual or collective (e.g. as through nationalism) aspect, with those circumstances which lead to the expression of that motive in a particular form. There is nothing in the process of the exchange of products itself which remotely resembles warfare. The notion of a contest arises when there is present some restriction which safeguards a valuable privilege for the possession of which different parties may squabble and fight.

(11) *In fact, competition enables a social principle to replace the ‘philosophy of grab’*

The rule of competition must appear to the detached student, on the face of it, to be absolutely the reverse of the ‘principle of grab’. The remarkable thing is that many intelligent students who seem at times to have grasped the nature of competitive relations (irrespective of whether or not they believe them to provide an ideal solution to the matter of value), have allowed themselves to be influenced by current ideas which, we have argued, are the joint product of wrong-thinking and interest. There is not the slightest doubt that many have been so influenced. Competition is a system which, whatever its shortcomings, appears in the actual world to be constantly breaking down privileges that keep back better opportunities from the poorest. And it seems also to provide the individual with a maximum of possible alternative channels of activity. But most important of all, it provides a *socially* determined solution of value and hence of the problem of distribution. It enables a *social* principle to replace the ‘principle of grab’; for the latter appears, *prima facie*, to be the only one that can operate when claimants to the value of the product of industry bargain as monopolists, or seek through their representatives and advocates to obtain a legislative solution.

<sup>1</sup> Quoted in L. C. Marshall, *Industrial Society*, p. 896. There is, of course, no justifiable parallel here whatsoever. In the absence of aggressive dumping (and this is in fact so rare as to be virtually non-existent) the so-called economic warfare is to the advantage of the peoples in the areas ‘attacked’. It does not strengthen Professor Seligman’s position to point out that the attempt to secure markets has been responsible for occasional wars. The racial or national hatreds may have an economic origin but they are seldom derived not from the general interests of particular nations as such, but from the special interests of organized and articulate groups *within* nations.

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- (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*

The case for the competitive system rests upon the belief that, under its institutions, the urge to emulation will be utilized in the service of the social will. This does not imply that the instincts of which that urge is an expression must be regarded as 'good' or 'bad'. Those instincts are universal traits of human nature, the neglect of which in the devising of social institutions would predetermine their failure. But the form taken by the expression of the desire for distinction, which is obviously an important manifestation of normal aspirations, must not be regarded as a fixed thing. A society with equalitarian traditions will not show that respect for wealth which so deeply affects present day aesthetic conceptions and social preferences. It appears that only the diffused influence of thought corrupted by private interest has prevented the examination and rational discussion of the thesis that the origin of anti-social acquisitiveness is the very reverse of Professor Tawney's well-known contentions in his *Acquisitive Society*. Quite inadequate consideration has been given to the view that that side of human nature which is expressed in 'acquisitiveness' will be transmuted, so to speak, into socially acceptable characteristics in a more suitable environment, i.e. the competitive. But in a competitive society distribution will clearly be determined by forces beyond the control of the individual and yet reflect social valuations of all individuals' services. It is Professor Knight's failure to perceive the implications of this fact which apparently leads him to deplore emulation and rather to belittle the importance of institutions. 'The social problem', he says, 'is at bottom a moral problem, and not one of substituting one type of organization machinery for another.'<sup>1</sup> But whilst it is true that many changes in institutions will merely lead to the expression of the same evils in new forms (which appears to be Professor Knight's main point), surely it cannot be denied that changes in human arrangements can be so planned as to produce social harmony. Although deliberate moral teaching may have to play a considerable part in any well-ordered community, the fact remains that new moral standards, usually accepted as higher

<sup>1</sup> *Ethics of Competition*, p. 315. In fact, Professor Knight seems to recognize what we are stressing here. See below, Chapter XIV, para. 27.



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standards, have developed from changing conditions. The material developments of the industrial age, for example, resulted in a remarkable advance in humanitarian standards. Morals are at least as much the creation of environment as its creators.

- (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'*

That the truth of our suggestion is not more widely recognized is due only in small measure to the complexities of social co-operation. The truth is masked because in practice special advantages, privileges and unrecognized monopoly in countless different forms, are widespread. In these conditions, competition is seen to be destructive of private wealth; and the successful competitor seems to ride to success over the corpse of his unsuccessful rival. What is not realized is that what has been destroyed is the right to income irrespective of the relation of services rendered (by property or effort) to the community's demands. Under competitive institutions it is Society, and not the surviving competitor, which 'eliminates' marginal producers; and Society eliminates them in the sense of ordering them to devote their energies, talents, or property, to more wanted ends. If publicists like Ruskin had been able to realize this, the emotions they wasted in their disgust with the economists' teachings might have supplied the energy for some socially useful purpose. But Ruskin appears to have been no more capable of thinking dispassionately about the expression of the relative productive advantages of different types of manufacturing operations through the process of under-selling,<sup>1</sup> than he was able to contemplate without anger the working of the same process in the obtaining of the maximum advantage from a given quantity of labour by releasing it from less wanted fields for utilization in employments for which the community's preference was greater. The attempt to disobey society's orders according to the catch-phrase 'live and let live' is a conspiracy against her commands. Her orders are based upon a distribution of economic power (i.e. income) which

<sup>1</sup> This is made particularly clear by his marginal comments on this topic written by him on his copy of J. S. Mill's *Political Economy* (p. 160), which is housed in the British Museum.

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may be attacked; but her orders are, nevertheless, not those of individuals or groups. It is monopoly, not competition, which, says J. B. Clark, 'infuses into distribution an element of robbery'.<sup>1</sup> The critics of competition, we feel, are seldom aware of, or else insufficiently influenced by, these aspects of it; and the reason can be traced, as has been suggested, to the corrupting infection of interest upon discussion and opinion. Ruskin would have been horrified to have recognized himself as the apologist for private as against social rights. But such he was. He had acquired as ideals the prejudices of a society which was unconsciously engaged in justifying the search for private advantage through the elimination of competition.

(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*

A further means of hindering the community's attempts to reason on this topic has been to represent as the inevitable and concomitant effects of competition admitted 'evils' which merely receive expression through it. Even the more serious writers have not been without blame in this respect. Thus D. Syme, writing in 1876, said (in an attempt to refute Bastiat's description of competition as progressive, equalizing and communistic): 'Every one knows that excessive competition produces enormous waste, and that it leads to the perpetration of fraud, the extent of which is generally in proportion to the intensity or keenness of competition.'<sup>2</sup> The suggestion that free competition stimulates or involves the tolerance of fraud is very common. There are, of course, apart from what could be proved to be fraud in the eyes of the law, hundreds of methods by means of which the parties to transactions may be deceived when entering into contractual obligations. But within the field which is open to contract, such deceptions are likely to occur no matter what system of control of economic activities exists, — the social, (i.e. under competitive institutions), the authoritarian, or the system that devolves controlling and planning power to private groups. It is true that there could be no fraud in a slave State; but that does not constitute a very strong argument for slavery. On the whole,

<sup>1</sup> J. B. Clark, *Essentials of Economic Theory*, p. 375.

<sup>2</sup> D. Syme, *Outlines of an Industrial Science*, p. 56.

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it seems quite just to claim that in fact attempted deceits and sharp practices will be least effective under the publicity which competition enforces. And does not fear of the law of libel tend to rob competition of much of its power in this respect?

- (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 fraud, but whose ulterior purpose is feared to be restraint for private advantage*

It seems that where scope is given to free will it may be expedient, in order to prevent gross misrepresentation, that the State should step in. On this there is complete agreement. The only question at issue is as to how far the principle of *caveat emptor* provides the most efficient safeguard. It is purely a question of expediency. The 'academic' apologists for competition have not (with the sole exception of Herbert Spencer, it is believed, and he certainly recognized and deplored the evil),<sup>1</sup> ever argued against the extension of State activity in this connection when the prevention of misrepresentation is its sole aim or effect; but we must remember that in practice much legislation introduced ostensibly with the object of preventing fraud has, as its real motive, the restriction of competition. It is necessary only to mention the agitations which break out among established tradesmen in many parts of the world for the limitation of trading licences to those who can prove that they have 'sufficient means' in order, as they put it, to prevent fraudulent bankruptcies. One is not defending fraud when one argues that the self-interest of those who grant credit to traders who make use of the insolvency laws, plus the existing punitive provisions of the

<sup>1</sup> Spencer contended, in 1859, that 'it is not true . . . that only the lower classes of the commercial world are guilty of fraudulent dealing. Those above them are to a great extent blameworthy . . . Illicit practices of every form and shade, from venial deception up to all but direct theft, may be brought home to the higher grades of our commercial world. Tricks innumerable, lies acted or uttered, elaborately devised frauds, are prevalent: many of them established as "customs of the trade"; nay, not only established, but defended'. (*Essays*, 1891 Edition, Vol. III, pp. 113-4). He thought that improvement was already being brought about through the changing attitude towards the methods of acquiring wealth. 'When wealth obtained by illegitimate means inevitably brings nothing but disgrace - when wealth rightly acquired is accorded only its due share of homage, while the greatest homage is given to those who concentrate their energies and their means to the noblest ends; then we may be sure that, along with other accompanying benefits, the morals of trade will be greatly purified.' (*Ibid.*, p. 151).

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law, are adequate as safeguards. But one may expect to be so represented.

- (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*

In practice the dangers of fraudulent transactions of a kind which are not punishable are most real when the thing dealt in is one whose quality is incapable of easy measurement or estimation. The scope for such fraud is great, for instance, in professions such as law and medicine; and generally where the consumer of services is entirely ignorant of quality and has little power of learning from experience. There can be no question of the desirability of the State undertaking the certifying function in respect of the quality and standard of goods or services which consumers cannot be expected to judge satisfactorily (through absence of continuous dealings or for other reasons), provided that the certifying authority is completely detached from the influence of professional or other vested interests and free from political control.<sup>1</sup> But we find in practice that in most of those channels about which we commonly hear complaints of unannounced cutting of quality and like methods (which are inappropriately termed 'unfair competition'), the nature of the product is fairly clear to the consumer; and he will soon know of any material changes in quality. Moreover, we usually find in these cases the very effective safeguard of continuity of dealings.<sup>2</sup> But to deal adequately with this question would require a study of the effects of competition upon quality which would not be quite appropriate in this book. It is worth stressing, however, a point which *should* be obvious but is often ill-understood. It may frequently be socially desirable for competition to cause a fall in the typical quality demanded, for that will bring an accompanying fall (or the absence of a rise) in price. But those who are hurt from competition often seem to be placing some *moral* value upon grade

<sup>1</sup> Tucker's comments on the eighteenth century corporations which pretended to keep goods up to standard are directly relevant. 'The persons to whom these exclusions were granted', he said, 'acted upon as base and disingenuous motives as ever disgraced human nature; their designs were to exclude all competitors, to monopolize the trade into a few hands.' He went on to argue that those in a trade were certainly not the proper persons to fix standards. (Quoted, Mund, *Monopoly*, p. 39).

<sup>2</sup> cf. Adam Smith, *Lectures*, pp. 253-4.

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or quality as such. They do not perceive that in resisting the phenomenon sometimes seen under competition for lower grades to replace higher ones, they are once more struggling against the levelling tendencies of competitive forces. For as a rule, the greater the proportion of total expenditure that comes from the relatively poor, the more the distribution of qualities demanded is weighted towards the lower grades. A general decline in the average quality of boots and shoes manufactured, for example, would be the probable consequence, under competition, of an increased power on the part of the poor to spend more on their footwear. The real nature and effects of economic rivalry in this field are difficult enough for most people to grasp, even in the absence of biasing considerations, but the dead hand of power-thought has, in this quarter, added to the difficulties and blighted attempts at rational understanding on the part of many. We believe that, in practice, competitive institutions are the most effective safeguard against the prevalence of fraud.<sup>1</sup>

(17) *Bribery and corruption are commonly regarded as the product of competition, but they are largely the result of its absence*

Competition enables, moreover, the elimination of that still festering sore of modern public and corporative life, corruption (and, what is nearly as bad, fear of corruption). Yet public opinion, with a hatred of competition which might almost be mistaken for an instinctive response rather than the expression of power-thought, hastens to blame it for the secret commissions, petty bribes, gifts, and the occasional serious perversions of honest administration which are alleged to be rampant to-day. There are grounds for believing that under the enforced money-income equality and the proscriptions of private capital accumulations within the ranks of the Communist Party in Soviet Russia, pecuniary bribery has been largely exterminated. Whether other favours are bartered for private rather than communal benefit, we have no evidence. But the elimination of corruption is certainly achievable within a competitive society. Detailed consideration of the institutions which

<sup>1</sup> Adam Smith pointed out that 'if you would have your work tolerably executed, it must be done in the suburbs, where the workmen, having no exclusive privilege, have nothing but their character to depend upon. . . .' (*Op. cit.*, Vol. I, p. 131).

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could effect this is outside the scope of the present work. It is desirable, however, at the present stage to indicate briefly certain aspects of the nature of competitive institutions in order to rid competition of the slur which is so commonly cast upon it. The State must be active if such institutions are to operate. Now the delegation of the controlling function to truly disinterested boards with the status and independence of Courts of Law will prevent bribery in most of its worst forms. Delegated legislation and administrative jurisdiction must otherwise go. Such boards must be ruthlessly constituted to exclude (except as advisers) those who have been associated as candidates or party men with representative government; those with specific commercial, trade or professional interests, loyalties and prejudices relevant to the particular board's scope; and persons likely to be influenced by their popularity with those whom their decisions can affect. But much more important than the constitution of delegated controlling power is the question of what State control can legitimately do. The guaranteeing of quality; the enforcement of standards; the prevention of price discrimination and aggressive selling; the enforcement of publicity concerning profits, prices, stocks, and private incomes; the dissolution of corporations likely to acquire too much power to enable them to be brought effectively within the social control of market forces: all these functions may be undertaken by genuinely impartial bodies without risk of corruption. But when it comes to anything which resembles price, wage-rate, or profit fixation; or the allocation of quotas and the determination of output; then the *dangers* of corruption, especially in respect of the enforcement of determinations, cannot be avoided at all. The evil may not actually exist where the best traditions happen to rule; but the position will always be precarious. *For there are no principles for determining the just quotas, or the right output, or the correct prices.* During the transition to a competitive society the continuance of this sort of control might be essential in order to soften the violence of the repercussions of the fuller utilization of resources upon the distributive scheme. But security against bribery in State and municipal administrations will never be achieved whilst fortunes can be made or individuals ruined by the power of public bodies to help or hinder private activities. And in private administration also it is competition which alone can guarantee integrity. The gangster movement represents

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the quintessence and culmination of the methods of private monopoly. Its weapons are those of the boycott and the strike carried to their logical conclusion. They are devices of private coercion with which competition has no connection. And in a less serious field it can be shown that attempts by salesmen to persuade, by means of private gifts, the subordinates in the firms with which they deal to patronize their firm in preference to another are only likely to be of serious magnitude when formal or tacit monopoly is present.

(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*

It would be wrong to suppose that power-thought has been influential solely in the cause of restriction of competition. At one time there existed large interests to whom the existence of economic freedom appeared to be an obvious advantage.<sup>1</sup> To a decreasing extent such interests still exist. Many merchants remain in this class, for instance. Their apology for liberty in the international commercial sphere has certainly been supported by arguments which, in the better journals, have been rational rather than merely propagandist. But the Free Trade campaign in England could never have maintained its remarkable success had it not adopted slogans and arguments which, although lacking the crudeness of typical Protectionist assertions, were certainly not defensible. Even Free Traders had to pander to the strength of private interest and often falsely to deny that private or local advantage lay in restrictions. An endeavour to convince the capitalists and workers of a town producing lace that a tariff on lace will not benefit them must be, in most conditions of international trade where competition is felt, an attempt to mislead. But the apologists for Free Trade were forced to adopt the methods of their opponents and dupe their supporters with reassuring doctrines whose spuriousness would soon have been evident had Protection ever been tried. Neither can one claim with any confidence that there existed higher standards of honour and disinterestedness among the *leaders* of the Free Trade movement. They certainly obtained disinterested and scientific

<sup>1</sup> We have noticed in Chapter v. the connected fact that the former acceptance of the *laissez-faire* principle was by no means entirely disinterested.

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support, but the mainspring of their activities was also self-interest. We have only to consider the early support of 'Tariff Reform' propaganda in England by the bulk of the English commercial travellers, who transferred their allegiance to the Free Trade party when they began to see how Protection would harm their own profession. The post-War change of attitude on the part of traditionally Free-Trade Lancashire also tells its own story. With world markets largely lost, there are greater profits to be obtained from the exploitation of the home consumer than from concentrating on the satisfaction at lowest costs of world demand. Here we have the interpretation of Lancashire's conversion to Protection. But even here pre-War history does not justify our attributing to Lancashire at that time any special concern for the general welfare as opposed to her local interests. The imposition in 1894 at her bidding of an excise duty on Indian yarn, which competed with her own, may have justly reflected the spirit of those who largely financed the Liberal Party.

(19) *The allegation that all strikes were bound to fail was another false contention used in defence of competition in the labour market*

Or, to take another example, the usual propagandist opposition to the methods of organized labour during the nineteenth century took the line of condemning all trade-union action as futile. Certainly much aggressive labour action met with failure and lamentable loss to the workers concerned; but the contention of universal futility was an indefensible exaggeration. All strikes were bound to fail, the workers were told. But they could not be brought to believe this; their experience disproved it; and the propaganda had little effect in preventing strikes.

(20) *The opposition to government interference is seldom based on a recognition of the goodness of competition*

The cry for non-interference from the State, when it is heard, is often quite unbacked by any recognition of the social implications of the non-interference doctrine, even although the prejudice against intervention may be a healthy one. The typical 'anti-Socialist' attitude of to-day is seldom identified with the belief that *competition* is good; and it is not in defence of *that* that power-thought is used.



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The *laissez-faire* element in *practical politics* (as opposed to its significance in the doctrine of the Classical economists), has also expressed in some measure (like the opposition to competition), the private objection to action by the State which would adversely affect an individual or group interest.<sup>1</sup> The *typical* condemnation of most restrictive legislative enactments rests upon little more than the fact that they detract from private profits. Indeed, we find that the strongest opponents of 'government interference' are often quite willing to argue for a tariff, or to press for restriction of licences to prevent 'overtrading'. And some of the most dogmatic of the opponents of trade unionism are professional men whose own exclusive trades are subject to a protection much more complete and inviolable than that which working-class bodies can acquire. It is possible, therefore, that *opposition* to the legislative or group control of prices or wage-rates should be considered as influenced by causes of the same nature as the *desire* for control. Many of those whom one occasionally finds defending competition in practice are really prepared to argue for certain manifestations of it only, the ones which happen to support their own interest. And on the other hand, most of those who are usually thought of as opposed to competition are so in fact only when it receives expression in particular ways; for we find them anxious to defend it when it is expressed in other (never clearly differentiated) ways;<sup>2</sup> especially when restrictions on it are likely to raise their costs and not those of their competitors.

- (21) *The laissez-faire philosophy of the Classical economists does not justify non-interventionist creeds based on the identification of competition with State passivity*

The frequent situation in which an individual or a group finds its advantage in competition in one field, and in restriction in

<sup>1</sup> We must not forget, at this stage, that in part antagonism to State activity may arise from a completely sincere and defensible objection to the hampering effect upon initiative and enterprise of bureaucracy and the masses of apparently purposeless regulations which bear upon business activity in many fields.

<sup>2</sup> When they do not approve of restrictions on competition, they will call them 'monopoly' because that carries an anti-social tone; although, if the competitive solution to the economic problem is a bad one, there is no reason why there should necessarily be any objection to monopoly. If the State-enforced monopoly created by a trade board, or an industrial council, succeeds in achieving a measure of 'distributive justice' that is beyond the power of competitive institutions, there is no reason why its proponents should not openly defend monopoly.

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another, has led to many confusions. In particular, it has brought about the occasional identification of competition or economic liberty with non-intervention by the State. Now, some of the earlier economists advocated an extreme *laissez-faire* policy based on the belief, justified by contemporary observation, that monopolies, freed from State protection, inevitably disintegrated. They even expected that associations such as trade unions would disappear if left alone. Their opposition to State interference was, however, even more deeply founded on the conviction that in their day it was desirable for there to be as little meddling as possible with the freedom of experiment in human institutions. They never subscribed to the crude anarchism of Herbert Spencer. They never assumed, as A. T. Hadley declares they did, 'that any adjustment which is the result of free play among a mixture of conflicting social elements, strong and weak, is presumably right, and should be interfered with only when the resulting evils are so clear as to furnish the most obvious grounds for state action'.<sup>1</sup> Indeed, it is those persons who declare their belief in 'healthy competition' but call for the restraint of 'cut-throat competition' who can, as a rule, be shown to be making the most unjustifiable assumptions concerning the emergence of the general good from the search for group interest. They usually seem unaware that private combination can receive justification in the abstract only from some *laissez-faire* philosophy which has never received serious exposition or defence. There have been would-be defenders of competition who have appeared to base their whole philosophy (quite apart from the practical policy they have recommended), upon some sort of dogmatic non-interventionist creed. Naturally, their arguments have only served to strengthen their opponents' belief in the essential evil in free competition.

(22) *There is practically no propaganda for competition, and power-thought in its defence is virtually innocuous*

We have seen, then, that the influence of power-thought is most likely to lead to an illiberal attitude of mind on the part of society. Its tendency is to foster the belief that 'unrestricted competition'

<sup>1</sup> A. T. Hadley, *Freedom and Responsibility*, quoted in L. C. Marshall, *op. cit.*, p. 893.

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must necessarily result in the remuneration of all productive agents being 'forced down to a minimum' by its relentless pressure, with the ensuing ruin of everybody. We have seen also that attempts may be made to defend competition by the same kind of appeal to private or group (as opposed to social) interests. But although such interests may on rare<sup>1</sup> occasions favour the continuance of competition, and the  *motive*  to employ power-thought in defence of economic freedom therefore be present, the  *ability*  to use it will be small. In the political sphere, it is true, fears that  *internal*  interferences are merely the first steps towards Socialism and confiscation or higher taxation, or that they will create a precedent for interfering with wage-rates by Labour governments, have made it to the interest of the non-Labour parties to keep alive an anti-State bias.<sup>2</sup> That is certainly the exploitation of power-thought. But the outlook with which it is associated is usually equally hostile to State interference with monopoly; and there is little focused opinion and no propaganda in favour of competition as such. Thus, attempts to press power-thought into the service of those who gain as well as those who lose from competition, can have relatively little success, whether used in defence of economic liberty in general, or in opposition to particular interferences with it. The necessary arguments will not tally with experience. For, as we have already noticed, and as the realistic student is constantly reminded,  *the incidental good results of restriction of competition (its private benefits) are conspicuous; whilst the burdens which it creates are diffused or, for other reasons, not easily seen.* <sup>3</sup> The gospel that prosperity is to be achieved by maintaining scarcity, as Wicksteed pointed out, 'is always privately true and always publicly false'.<sup>4</sup> In practice, whilst the  *motive*  to use power-thought in defence of competition may occasionally occur, there are small hopes of finding arguments that will appear plausible. Its influence has been exerted practically

<sup>1</sup> The more effectively competitive institutions have been maintained, the less rare we believe will those occasions be.

<sup>2</sup> By the word 'bias' is meant simply an  *unreasoned*  conviction, of course, not necessarily a wrong one.

<sup>3</sup> Bagehot quoted a question put to Thiers. 'Why do you give these bounties to the French sugar refiners?' 'I wish the tall chimneys to smoke,' he replied. 'Every nation,' commented Bagehot, 'wishes prosperity for some conspicuous industry. At what cost to the consumer, by what hardship to the less conspicuous industries that prosperity is obtained, it does not care . . . The visible picture of the smoking chimneys absorbs the whole mind.'  *Postulates of English Political Economy* , p. 6.

<sup>4</sup> Wicksteed,  *op. cit.* , Vol. I, p. 356.

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entirely away from the advocacy of the competitive solution. The one possibly important exception is that of the success of Free Trade propaganda in England.

(23) *In spite of the ineffectiveness of appeal to reason, the case for competition must in some measure be based upon rational argument*

The case for competition must, we believe, be based on appeal to reason. It appears to be this which has caused its weakness when it has had to bid against more plausible ideas for acceptance by the community. For instance, how could truly reasoned argument against strikes have been made significant to trade unionists? It would have had to assume a certain altruism to ask them to forego the selfish gains which can be acquired at the expense of less fortunate members of the working classes; — to ask them to contrast the extra increment obtainable in their earnings with the avoidable poverty and degradation that their action is causing to others.<sup>1</sup> But such an appeal, even had it been possible to make it appear plausible, would have had no effect whatever upon typical British trade unionists.<sup>2</sup> Valid argument (given the economists' assumptions), with its stress of the greatest good of the greatest number, must usually be completely ineffective. We shall return to this point when we consider power-thought and the politician. Assuming the desirability of competition, it is the politician whom it pays to make *truthful* election pledges who is proposing the anti-social policy. For if economic freedom is desirable, the *conspicuous* interests of the people of an electorate, or some other group of political importance, will seldom happen to coincide with the requirements for the maximization of 'the general good' as determined by consumers' sovereignty, and the *actual* interests of separate constituencies may in several cases be opposed to it. But although the politician who seeks to serve the community as a whole may win support by false promises to vested interests, he will soon or gradually be discredited by experience. It is for this reason that we have been

<sup>1</sup> In a sense the typical striker believes that he is actuated by altruistic motives. He often regards himself as a martyr to a principle, as unselfishly fighting, not only on his own behalf, but on that of his colleagues.

<sup>2</sup> In a vague way, some trade union leaders have at times given lip service to the authority of the economist. But this has been due to certain unjustifiable concessions to trade union opinion, inconsistent with general teaching, which some economists were led to make. (See Chapters x, xi, xii.)

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brought to the conclusion that the case for competition will have to rest upon an appeal to reason; *and in practice this may entail the acceptance of the economists' authority.*

- (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*

The irrationality wrought by power-thought for economic advantage is possibly clearest of all in the sphere of international trade. The phenomenon of a world cut into a mosaic of semi-isolated markets by means of protective tariffs is the result not of the prevalence of ideas (valid or erroneous) expounded by Lists, Hamiltons, and Cunninghams, but of the existence of voluble vested interests within each country whose advantage has required that competing lines of goods should be excluded. The apologists, academic and otherwise, for the doctrine of Protection have derived their convictions, more or less unconsciously, from the power-thought of those whose privileges or advantages were in danger; and the conspicuousness of Protectionist publicists has in itself been a result of power-thought; they have been selected and quoted by the politicians or producing interests whose contentions they supported. There are countless false but superficially convincing notions and arguments which can be brought into the field to aid the defence of private profit as enhanced by tariffs: the necessity for 'creating employment', the necessity for protecting the home standard of living, the necessity for maintaining the balance of trade, the economic and political advantage of 'national self-sufficiency', and so forth. We are not concerned here to consider the validity of the doctrine of national economic protection. But the economist can make a list of arguments of this kind that are gravely used by intelligent and eminent politicians, arguments which regularly appear in the columns of leading newspapers, journals and reviews; and he will find them all so easily capable of refutation by elementary logic that the nature of power-thought is thrown into clear light. It becomes obvious that these ideas are either insincere, deliberately propagated with the idea of gulling an ignorant electorate, or else (and we believe that this is the more important explanation), that the presence of vested interests makes it possible

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for the feeblest reasoning to be grasped at as effective confirmation for the conviction of most people that what leads to their profit cannot possibly hurt the community. More subtle reasoning seldom has much effect. There exist, for example, some rather ingenious arguments for tariffs which have been put forward from time to time; but they have exercised, as arguments, practically no influence on opinion. The danger in some of these subtle improbabilities that may appear to justify Protection lies, not in their own content, but in the fact that the authority of the propounder (if his status sounds well), will be seized upon, and the community told that So-and-so, 'an eminent economist', believes that a tariff is necessary. It is, however, simple and plausible fallacies which fill the columns of newspapers; they have good propaganda value; and the politicians repeat them to one another in Parliament. Arguments have been selected for the control they can exercise upon the minds of men and hence upon State policy.

(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*

For the most dangerous developments of power-thought at the present time we must turn our attention to what may be called the feudalization of industry, the growth of great cartels and trusts in which ultimate control becomes vested in small groups of powerful financiers. The tendency of recent industrial change has been to create a state of affairs in which the analogies with medieval feudalism are many and striking. 'The authority of leaders of industry', says Professor Macgregor, 'has risen in the last generation to a position much more comparable than it was before with that of political, military, or ecclesiastical leaders. . . . It is the large scale, the large function, and the large influence over national welfare that have created for industry the new status. The authority so created is its own sanction; and it is a social problem for that reason. . . . The point is that industrial authority is self-created and non-elective; that its influence becomes great, and reacts on its claims.'<sup>1</sup> Our attitude towards these changes will be determined,

<sup>1</sup> In Introduction to English Edition of Liefmann's *Cartels, Concerns and Trusts*, pp. xi-xii.

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of course, by our views as to whether they are organic developments inherent in the trend of modern technical and administrative progress or whether they are no more inevitable or desirable than the feudalism of yore. The present writer believes that this concentration of power is not essential for the most efficient service of the community in the productive sphere during the present age. On the contrary the explanation of the development seems to lie in the scope which State passivity, encouragement or positive help, gives, in the presence of restrictive schemes, alliances and expansions, to the acquisition of power which can be made to promote *private* interests. The whole problem appears as an aspect of the scramble for the maintenance or enhancement of income-rights through the State and through private contrivance. And as the feudal barons and ecclesiastics defended the powers they had inherited by the power-thought which Mr. Briffault has so ably exposed, so in the recent age do we find the great industrialists, and their half-conscious allies the trade-union leaders,<sup>1</sup> perhaps with an equal measure of self-deception, successfully justifying the systems of scarcity creation from which their status and power are derived. And as in medieval periods we found a powerful monarchy setting out at times to break up baronial anarchy and establish the rule of law, so may we find in some future period an enlightened democratic State (unwilling that the people should endure any longer the avoidable privations to which they are subjected through the economic anarchy produced by the haggling of labour and capital monopolies), setting out to suppress restrictions and establish the rule of the social will. But power-thought appears to be far too skilfully exploited to make this seem very probable during the present generation.

(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*

Moreover, there are few influential critics of the present regime. Those who seek *power* by criticizing the existing order have, as we have seen, no motive to stress anything but the more plausible

<sup>1</sup> See HURT, *Theory of Collective Bargaining*, pp. 95-105.

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suggestions as to the causes of inequality of opportunity, poverty, unemployment and trade depression. We get the narcotics of Socialist and Communist preaching instead of the enlightenment which would result from the awakening of healthy doubt as to the beneficence of restraints on that free co-operation which we call competition. Indeed, it seems to the present author that the very developments that are to-day crushing the under-dog, not only appear to coincide with Marxian dogma, but are also favourable to the source from which contemporary labour movements are financed. In these conditions, how can we expect there to arise an effective opposition to the power-thought which is proclaimed and reiterated through the Press? What counterblast can we hope for when the organs controlling the public mind are being increasingly brought within the control of those interested in preserving the existing semi-Socialistic, semi-monopolistic order? How easy it has proved to preach 'rationalization'! How easy to leave the impression that the object of amalgamation and price agreements has been to reduce costs and bring about prosperity! How easy to slur over the basic motive, — that these schemes have been expected to add to or protect existing profits! How easy to find apparently convincing sanctions for reducing 'surplus capacity'! And how easy it has been for the advocates of organized labour to plead that monopoly and exclusiveness are but means for the achievement of distributive justice or the protection of the economically weaker classes, or the safeguarding of 'the good employer'! We are once again brought, therefore, to a realization of the weight of the task that confronts the advocate of a competitive system. If his case has to be propagated by appeal to reason, he must brace himself for a fight against the merely plausible; he must prepare to demonstrate in many fields that 'things are not what they seem'.



## CHAPTER 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*

THE influence of power-thought wielded in the interests of political power is no less relevant to the present thesis. Some aspects of it have already been referred to; and others do not require lengthy treatment after the foregoing discussion. That politicians are, in a sense, engaged in a struggle for power is too obvious to stress. Of their psychology and morality in this process there is little to be said. The suggestion *has* been made that for a realistic study of politics it is necessary to conceive of a *typical* politician, the 'political man', as at one time it was thought convenient to conceive of an 'economic man'. The lure of Parliament and the yearning for office and the love of power are factors which clearly colour the whole of political endeavour. The 'political man' might be regarded as motivated entirely by these things. The strength of the attraction of ministerial rank has been vividly described by Dr. Finer, who points out that 'only those who have seen the flushed faces, the anxious shuffling and nervous twitchings, of the aspirants, can know what a mighty power over men is thus exerted. When office is their life-breath, we cannot be surprised that men pant for it. . . . Salisbury was even heard to say (from personal experience in the formation of a Cabinet): "The Carlton Club resembles nothing so much at this moment as the Zoological Gardens at feeding-time."<sup>1</sup> Disraeli remarked (through Lady St. Julians in *Sybil*) of the rank and file of politicians that they 'get into Parliament to get on: . . . they are asked out to dinner more than they would be; they move rigmarole resolutions at nonsensical public meetings; and they get invited with their women to assemblies at their leader's, where they see stars and blue ribbons. . . . Of course, such people are entirely in one's power, if one had only time and inclination to

<sup>1</sup> H. Finer, *The Theory and Practice of Modern Government*, Vol. II, p. 960.

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notice them. You can do anything with them. Ask them to a ball, and they will give you their votes; invite them to dinner and, if necessary, they will rescind them; but cultivate them, remember their wives at assemblies, and call their daughters, if possible, by their right names; and they will not only change their principles or desert their party for you, but subscribe their fortunes, if necessary, and lay down their lives in your service'.<sup>1</sup> The social distinction conferred by a mere seat in the House is no longer what it was last century, although this aspect of parliamentary aspirations is certainly far from dead. But to imagine a statesman dominated solely by the desire for personal prestige or the wish to control and rule is to harbour an idea as false as that which is brought to the minds of most non-economists when they are confronted with the conception of the 'economic man', — one whose whole nature can be explained in terms of his self-centred desire for material (or non-material) gain. It seems true to say that most statesmen regard *themselves* as pursuing noble careers; if asked to account for their choice of a life in active politics, the greatest number would give a reply savouring of altruism, of the sacrifice of their interests in other spheres for the good of the State which they know they can serve best. 'The desire for office', said Gladstone, 'is the desire of ardent minds for a larger space and scope within which to serve the country, and for access to the command of that powerful machinery for information and practice, which the public departments supply.'<sup>2</sup> It is quite impossible to make any estimate of the amount of sincerity that is involved in this attitude if it is really typical; we cannot say much about why politicians enjoy power and so why they seek it; and we cannot even say whether it is the power itself which they are pursuing or whether some ulterior motive is usually the main object of their striving. No one who has ever thought about the psychology of martyrdom, especially as manifested in racial, national, or revolutionary class movements, could countenance the acceptance as a useful abstraction of so naive an idea as that of a 'political man' whose whole object is the achievement of the status and power of a seat or office. The revolutionaries of Czarist Russia, it is claimed by Maurice Hindus, 'studied, suffered, planned and plotted always for the sake of others. They lived for something

<sup>1</sup> Quoted in Christie, *Decline of Aristocracy in England*, pp. 111-112.

<sup>2</sup> Quoted in Finer, *op. cit.*, Vol. II, p. 986.

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outside of themselves. They cared not for their own welfare. Money, glory, career — these were of no consequence.' We may, perhaps, regard love for a cause as a higher sort of inspiration than desire for personal eminence, but it would not simplify our study of the struggle for political advantage even if we could assume that the former predominated. Why should we worry about the sincerity and motives of a Hitler, a Ghandi, a De Valera, a Stalin, or a Mussolini? We can say no more about the psychological roots of the struggle for power, or for one's race, or one's class than we can in respect of the fight for distinction in other fields like the arts, the sciences and business. But it is not important that we should be able to do so. We know that statesmen whose names are widely revered have at times openly declared that their attitude towards measures with which they have had to deal has been determined not by the goodness or badness of these measures, but by the estimated psychological effects upon voters at forthcoming elections of the line that they take in public.

- (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*

Under representative government, however, the struggle for power need not necessarily react adversely upon the general interest; for they may achieve power who obey most effectively the commands of electorates. The inevitability of the institution of representative government can certainly not be assumed in the present age. Neither can its desirability be uncritically accepted. We may accept it as an elementary, if costly, political safeguard of the liberty of the people. It may not be the only conceivable safeguard. The ideas on which the institution rested in its earliest emergence were, it is now clearly realized, false in their assumption as to the political rationality of human beings. But there are, none the less, grounds on which it may be held to be defensible and justified by history, or at least accepted as a political form which has come to stay. Veneration may be displaced by a resigned acceptance of the expedient or the inevitable, yet the institution may remain. In the present traditions of civilization, it seems to be the only method of enabling a change of government without

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shooting. And a regime sanctioned by the control of cannon would be incompatible with everything which we have assumed to be good. The basis of suffrage may well be changed, but for the continuance of freedom to be ensured, it will have to be a response to society's conviction that a more effective representation is thereby secured. Experience warns us that the suppression of democracy as a short cut to the achievement of reformed institutions would almost certainly prove to be utterly illusory. Let us proceed, therefore, on the assumption that democracy must remain with us. In so far as it can fulfil in practice its ideal functions<sup>1</sup> the acts of the democratic State are a rough embodiment of the will and ideas of that part of the community whose votes win elections. The social will, as it emerges in social ideas, receives expression in other ways than via the ballot box. It is proposed to consider here, however, the *correctness* of those ideas of society which receive manifestation in that way; which are expressed through the medium of State activity. We have no concern at the moment for the goodness or badness of the will of the people. We are passing no aesthetic or moral judgment on their tastes or wants. We are concerned with the *ideas* and hence the activities to which they lead.

(3) *Candidates are successful in proportion to the plausibility of their promises in the light of the electorates' ideas*

What is the influence of the politician upon these ideas? We can regard him either as being 'disinterested', in the sense that his motives are *purely* political,<sup>2</sup> and that he has no vested interests of his own to protect; or we can regard him as having, in return for support or finance, pledged his efforts on behalf of vested interests, or having his own business affairs to foster. Whether or not he is bound to the support of some ulterior interest, he is, in all cases, confronted with rivals who are also wooing the electors for votes. He does not go passively to an electorate consisting of reflective voters conscious of their power to mould a purposeful policy: he does not go to them and say: 'This is the policy I intend to support if you

<sup>1</sup> By 'ideal functions' is meant that working of the democratic machine which would be achieved if the best representative institutions that could be designed (given the facts of other human institutions and human nature) were operative.

<sup>2</sup> i.e. that he wants political power 'for its own sake', or for the satisfaction that he derives from the opportunity to do good or to satisfy his personal vanity.

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return me.' Neither does he go to them and ask their commands. If he is merely seeking power he will fashion or discover what he thinks to be the most plausible proposals and place them before the people. As a rule, however, the individual politician is severely restricted by the policy of the Party which gives him the benefit of its organization. It is the Party as such that usually searches for the most plausible arguments which can be made to look consistent with the aims of those who finance it. In every case, however, success will attend the efforts of the politician in proportion to the plausibility of the case he puts forward. From year to year what is most plausible will change; and that change will be in part the consequence of experience. But we cannot assume that the public mind necessarily becomes more enlightened on the whole. It does not appear that the symbols or concepts in terms of which the community is alone enabled to think or reflect acquire greater reality as time passes. Modifications of social ideas may spring from the decay of custom-thought or power-thought; but they may be traced also to the *positive* influence of power-thought (brought into the service of politicians) that intrudes into a changing environment.

### (4) *Plausibility is created by the power-thought wielded by politicians and Parties*

It is the *plausibility* of ideas which leads to their survival. There exist a host of irrational influences which can be made to bear upon the popular judgment and so upon what is plausible. And they are used, consciously or unconsciously, by the seekers of power. The ability to induce non-logical inference in the minds of electors becomes the weapon of the creators of power-thought; and the symbols, concepts and abstractions in which the thought of the masses receives its form — 'rights', 'self-determination', 'justice', 'a white Australia', 'civilized labour', and so forth — are moulded to a pattern as the result of a struggle between the efforts of rival contestants for power. Graham Wallas likened the process of 'Gresham's Law'. 'So in politics', he said, 'must the easier and more immediately effective drive out the more difficult and less effective method of appeal.'<sup>1</sup> *Plausibility* can be taken as the determining factor because that word expresses the net effect upon the voter's conviction of the

<sup>1</sup> Graham Wallas, *Human Nature in Politics*, p. 178.

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alternative policies which are put before him. It might be argued that many election devices make practically no attempt to convince but merely seek to cause electors to vote in a certain way; that the *dominating* factors are almost *completely* irrational. If that is so, then these devices can be employed with the same degree of effectiveness by *all* parties and candidates, assuming an equal distribution of scrupulousness; and the minority who do at any rate attempt to exercise judgment or reason in the atmosphere of electioneering politics will supply the force which turns the balance. Election results are determined by the balance of opinion among the ten per cent of the electorate which, it was once said, constituted the really active section in English politics. And it is through the reactions upon *their* minds that power-thought achieves its results.

- (5) *The psychological nature of electorates which enables this process is not to be considered*

The effects of the repercussions of the politician and the agitator upon the minds of masses of people has been studied at length by several writers, — Tarde, le Bon, Wallas, Lippmann and others. Our own approach must be different in that we are concerned less with the psychological forces that are operative in the process of political activity than with the results to which they lead. It is obvious, for example, that what we call for convenience 'racial prejudice' can be appealed to with great effect by the politician. *Our* interest in that phenomenon is, however, mainly in relation to the vested interests that it can be made to serve. As to how far, if at all, racial feeling emanates from what is innate in human nature and is hence an element in that 'social will' which lies outside the scope of our immediate interest, we cannot here consider. Neither can we examine the alternative possibility, which would explain it as the product of social tradition deliberately or unconsciously moulded by the influence of power-thought in the past which has now become part of the present custom-thought of the race affected. We can take its existence for granted because what concerns us is the simple fact that it is made use of in the cause of private and group advantage; or for the advantage of 'disinterested' politicians who want nothing beyond the power which they can find in Parliament and office, and the satisfaction of their 'desire to excel'. Other emotional factors also

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lie outside our present range of inquiry. The 'class hatred', for example, exploited by the agitator and fostered by propaganda methods that are well reflected in the typical cartoons of the 'bloated capitalist' of the Socialist Press, is more obviously a phenomenon which has been deliberately produced.<sup>1</sup> But our interest is not in the psychological nature of man which makes possible the stimulation of such hatred. We are concerned, in this example, with the apparent fact that it is a product of power-thought used either in the interests of the Labour politician as such, or as a means of obtaining support for a political Party that will give greater defensive strength to private groups of workers, namely, those which constitute 'organized labour'. Neither are we led to examine those emotional influences that have been attributed to 'herd instinct', those curious reactions of individuals upon one another in a crowd that enables the skilled orator to produce mob frenzy. We know that he who seeks power may exploit them. The typical 'publicity' methods of politics are equally beyond the scope of this discussion. One of the most important sides of practical election tactics has to do with the creation of personal affection for the candidate. In so far as this factor has influence, it means the triumph of the irrational in the mechanism for the expression and formulation of society's ideas.

(6) *It is not exploitation of power-thought for candidates to preach the popular ideal of economic equality, but mere lip-service is commonly given to the ideal*

We must assume, in this democratic age, that politicians will all give some lip service to the ideal of greater equality. We can be sure that they will all profess to be in favour of 'higher wages' unless they are cultivating unusually wealthy or exceptionally backward constituencies. Those candidates who make easy pledges to their constituents have been described as trading on a system of 'mass bribery'. We must distinguish, however, between those whose promises are couched in general terms (i.e. whose ideal is equality) and those who bind themselves to seek favours for some limited (although poor)

<sup>1</sup> The choice of this example suggested a 'bourgeois bias' to one friendly reader of the MS. of this essay. But from the capitalist side it is difficult to find a convincing parallel in the stimulation of hatred. The 'class contempt' disseminated by the representation of members of the working and servant classes in journals like *Punch* is not one which the politicians have deliberately produced or made use of.

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class. The former must be regarded as simply offering to respond to the social will, the latter as offering themselves to the members of a certain constituency as agents for the exploitation of the rest of the community. But to promise exploitation of the rich for the benefit of the poor may be presumed to be a desirable election plea, no matter how guilty the pleader may feel of his want of loyalty to the interests of the class to which he may belong. For the poor, if rational, will certainly desire redistribution in their favour. The *prima facie* case against the justice or necessity for great private wealth side by side with great poverty can never be frankly faced at election times. Of course, a politician's faith in the particular means he advocates for achieving equality may be unjustified, or his profession of that faith may be dishonest. A candidate may be wrong or he may be consciously insincere in the nostrums for reducing poverty which he uses in bidding for popular support. But under ideal representative institutions with universal franchise, election pledges promising to seek equal opportunities for all cannot be regarded as, in themselves, manifestations of power-thought.

- (7) *Power-seeking in the economic field, reinforced by power-seeking in the political field, has led the community to be dissuaded from placing trust in competitive institutions*

Let us now consider the nature of the reactions upon *economic* ideas of power-thought operating within the system of representative democracy. The solution can be seen with perfect clearness by any student who, with the foregoing discussion in mind, casts his attention over the sphere of actual political-economic activity. The fact, which one might almost call obvious, is that the tendency we have noticed in previous chapters for power-thought to turn the faith of the community away from trust in competitive institutions receives the strongest reinforcement from power-seeking motives in the political field. The 'pure' politician, who is merely seeking political power, *must* become the servant of those striving for economic privilege if he is to meet with any success; for the economic ideas of most people, as we have seen, are derived practically entirely from the basis of their private interest or that of the group to which they belong. In these circumstances, it is quite impossible to expect the notion of competition to receive just consideration. Whether or not



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it is desirable in its entirety, or whether some measure of it is a good or bad thing, it must again be stressed that the *conspicuous* interests of most groups (and most electorates) will seldom happen to coincide with it.

(8) *The politician believing in competition has been completely eliminated in most countries*

The politician who tried to rebel against this system because he thought that the social good was lost sight of in the search for private advantage, would find himself confronted not only with the power-thought of vested interests and his political rivals, but the inertia in the ideas — the custom-thought — of the electorate he was trying to win. He would have a positively hopeless task; and in fact, his type has long since been eliminated in most countries of the world. The mere *belief* in competition must be a handicap. It may be that a few persons entering the political sphere have been able successfully to suppress their views as to the goodness of competitive institutions when facing electorates and talking in Parliament; a few may have been clever enough to square their consciences with a tacit or bold support of policies that conflict with those they know to be socially beneficial; but the great majority of the people who have been convinced of the benefits of unrestricted competition have left politics alone; they have not been so foolish as to waste their energy in fields in which they were foredoomed to failure through the handicap of intellectual conviction.<sup>1</sup> Their attitude may perhaps be regarded as quixotic. A tolerance for casuistry would have enabled them to do some real service to the general good as they conceived of it, whereas their insistence upon the purest intellectual integrity has condemned them to virtual impotence. Even if they have succeeded in persuading electorates to return them they have been regarded in Parliament and in other influential circles as mere cranks. A century and a half ago, Adam Smith described how monopolistic manufacturers had become 'formidable to the government'. Monopoly in his age was insignificant in comparison with the restrictionism which pervades modern society, but he could still declare that 'the member of Parliament who supports every proposal for strengthening this

<sup>1</sup> Mr. Austin Hopkinson, M.P., may, perhaps, have been one of the rare exceptions in England. But he seems to have had no influence in the House.

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monopoly is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them, on the contrary, and still more if he has authority enough to be able to thwart them, neither the most acknowledged probity, nor the highest rank, nor the greatest public services, can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists.<sup>1</sup> To-day there are practically *no* politicians left in Parliament who are prepared to court such insults and insolence.

### (9) *Economists are without influence in active politics*

It is reserved for a small band of economists outside of politics to face this abuse and detraction. And in the isolation of a few universities, they continue to emphasize the social consequences of current methods of accumulating private wealth. They can demonstrate in the lecture-room how the State, and contrivances restricting competition, are used for the purpose of private advantage. But hardly any persons believing strongly in the goodness of competitive institutions exist elsewhere in these days. These few teachers of economics in universities (and they have little self-assertion) are the only ones to whom we can point. Their teachings have practically no influence on the opinions of the outside world, in spite of the flow of students who pass through their lectures. Those of their pupils who really have understood and acquired the outlook imparted by a grasp of orthodox economic method are probably handicapped henceforth for any active work in the political sphere unless they have a rare capacity for cynicism. They will seldom be able to command that enthusiasm which results from earnest conviction. They will always be uneasy in any political work in which they take part. It is true that some of them will intervene with altruistic intentions: even university teachers do so on occasions. But they are seldom successful. They are mistrusted and misunderstood by those whom they try to guide, and the outcome is often nothing more than the unconscious corruption of their own intellectual integrity. They acquire the habit of putting things not in the clearest way and with

<sup>1</sup> Adam Smith, *op. cit.*, Vol. I, p. 436.

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the pains of a careful logician, but in such language as is most likely to command the consent of those they wish to convince.

### (10) *The ideas of economists are banned from consideration in the Press*

The political atmosphere which these causes create can be seen to have affected profoundly the types of speculation on economic questions that are recorded in the Press. Certain sorts of opinion or argument are virtually excluded from effective representation. The typical newspaper leader, when it does try to get at grips with economic realities, puts forward suggestions for 'counteracting' phenomena which the public regard (spontaneously or through propaganda) with disfavour. Editorial columns will deal, for instance, with the *short-run aspects* of things like trade depression, unemployment, industrial unrest, and so forth, for these aspects have some bearing on political expediency. The attitude of mind disclosed by such apparently constructive proposals as are put forward explains their practical futility. The nostrums evolved are almost universally in the nature of mere palliatives. They will be found on inspection to involve the creation of other evils or other problems which in turn will cry out for solution. Thus, the economist knows that a tariff to cure unemployment is often likely to be effective in the short run, but will have the effect of stimulating the very source from which the disease has spread. Real remedies, he knows, must go deeper. How can he point this out with effect? How can he argue that the rectification of the weaknesses of modern society requires that we should seek consciously to modify our economic institutions in such a way that the basic causes of instability will no longer be there? Such an argument would be too complicated to be good journalism, it would be unpopular with the vested interests, and in any case it would not have the quality of plausibility. The problem of the trade cycle, for example, could be tackled in a rational spirit, if we could only be clear as to just what should be regarded as the essentially evil characteristics of it. All observers recognize that price depression brings about a changed relationship as between debtors and creditors. But how can the economist get the community or its leaders to discuss dispassionately the two relevant questions: Ought we to regard this distributive aspect as the worst effect? Or should we regard the idleness of productive resources which results as a

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problem more urgently needing to be solved? There appear to be answers to these questions and solutions to the problems which they raise, but the trouble is that they will run counter to the interests of strong organized groups. They all involve the recognition of the social will behind the competitive solution. Hence, the possibility of public consideration of rational remedial measures is destroyed through the political system and its alliance with the Press. The suggestion of more power to competition (which is for ever breaking down conspicuous private advantage), is accordingly banned from sympathetic consideration in the literature which influences the opinions of 'social reformers'.<sup>1</sup> Reforms of a kind for which propaganda cannot be usefully employed to awaken some considerable response in electorates tend to receive little contemplation and no discussion in the printed word that is available for the populace. The conclusion to which we are forced is that a 'Gresham's Law' of the greatest strength is working here. The plausible idea can be propagated, heard, repeated and generally circulated throughout society, gaining in prestige and seeming to confirm itself as it travels. The idea which does not conform to the apparent experience of many or which appears to be adverse to the interests of most groups can hardly get a hearing. There are few with any *motive* for propagating such an idea except among the social scientists to whom it may be a reality. It will stimulate practically no emotional reaction among the masses and so will have no chance of becoming an actuating social principle.

(11) *Only in countries in which effective competitive institutions already exist can the idea of the beneficence of competition appear plausible*

Only in one set of circumstances can the idea of the beneficence of competition receive just deliberation in popular discussions of policy. Such circumstances rule in countries where restrictions on economic freedom have not been too far-reaching. Even then it will command support only when it can be opposed to the equally or more obnoxiously sounding term of 'monopoly'. It is in those communities alone in which legislation has succeeded in maintaining

<sup>1</sup> The politician might have a good case against the suggestion that competition should be allowed a more unrestricted sway. If we place great stress on the desirability of maintaining a given distributive system, a proposal to give fuller play to competitive forces might have to be rejected; but it is an idea which in practice would not even get discussed. We refer to this consideration in Chapter XXI.

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fairly effective competitive institutions that there exists the slightest possibility of the competitive ideal remaining an active political influence. For where monopoly has never intervened, where markets for labour and capital have been traditionally largely free, the private losses due to the repercussions of competition upon monopoly price are not there to produce the 'ruinous' aspect of it. And there will be a sufficiently widespread trust in the competitive principle among consumers to make the continuance of the régime and the legislation which maintained it a political possibility. This may be the explanation of the survival until recently of the anti-trust legislation of the United States, whose purpose has been the preservation of competitive relations. The remarkable thing is not its present submergence under the 'National Recovery' campaign, but that, with developing restrictionism, it was able to survive as long as it did. Its ultimate resurrection may depend upon a fight against great odds, against power-thought organized in costly campaigns and with the finest and most subtle publicity skill.

### (12) *Appendix on Economists and Broadcasting*

The problem raised by the development of broadcasting is too important to be treated here. Unless the implications of Chapter xrv on 'Sanctions for the Economists' Authority' receive some early official recognition, there is a most grave danger that disinterested and expert (and hence authoritative) opinion on economic matters will be hidden from the community. The unpopularity of the truth, if broadcast, will certainly lead to numerous protests; and if those with ultimate responsibility for broadcasting policy have not been appointed on terms similar to those of British judges, and if they have not been carefully chosen so as to exclude as far as possible persons with interests or loyalties which freedom of speech might offend, such protests are likely to be effective. The orthodox economist may, in fact, be gagged. The danger involved is very real, for it is generally believed that 'impartiality' in broadcasting can be best secured by a sort of 'balance of power' based on due representation of the various interests which are in a position to make effective complaints!

## CHAPTER VIII

### THE MISREPRESENTATION OF THE CLASSICAL ECONOMISTS

- (1) *The economist has been expected to pass judgment on rival policies, and has required some criterion of 'the general good'*

It has been the economist's especial interest in the conception of the means for the attainment of 'the general good' that has led to his unpopularity. The *pure* science, the logic of economic theory, has aroused no indignation. But the economist has been called upon to use his science in passing judgment on proposed policies, and apart from some agreed conception of the general good he has had no criteria to apply. Economic theory itself is not a normative science. When, however, the economist is appealed to in practice he is expected to show that a given activity in society is 'good' or 'bad'; and the standard of goodness that he must apply is one which, in however vague a manner, has general acceptance. We have already noticed that social altruism is a living force — that the great mass of people genuinely do feel for 'the general good'. And the economist, like the political scientist, has usually to take this as his criterion, giving it the utmost definiteness that he can.

- (2) *Much effort has been expended in giving definiteness to the criterion of social goodness*

Hence, a great deal of thought in economics has been devoted to the task of evolving a more concrete conception of the general interest, of finding a sort of economic or other *summum bonum*. It was in the attempt to do this that there occurred that development in economic tradition that Professor Robbins has shown to have been a hindrance to the logical adequacy of definitions of the scope of the science.<sup>1</sup> From the time of the Classical economists, comments in economic treatises have shown clearly that certain things were regarded as being in the 'public interest', and other things contrary to that interest. It was believed, as a modified inheritance from the

<sup>1</sup> *Essay on the Nature and Significance of Economic Science*,

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Physiocrats, that the material aspects of wealth could alone be taken into account in such studies. Hence taking the content of the writings of economists as a basis for defining the scope of economics, it came about that this ideal (conceived of as 'the wealth of the community', or its 'material welfare' simply) became defined as the central object of its inquiry.

(3) *Because he has been concerned with questions of social goodness the economist has been drawn into the field of social philosophy*

But behind the conception of material welfare there were always certain philosophic assumptions, frequently hardly realized, but sometimes very clearly seen. Where a conflict of interests exists, said Wicksell, 'the question arises which is to be followed; in other words, which of two conflicting interests is to be preferred as contributing most to the general good? To answer this question is the practical and social duty of political economy, and it might be said that the definition of political economy as a practical science is the theory of the manner of satisfying human needs which gives the greatest practical satisfaction to society as a whole. . . . When we say that a thing is beneficial or injurious from the point of view of political economy, this manner of speaking is based on an ethical or philosophical postulate; that is to say, on certain conceptions concerning the natural right of men to live and enjoy the good things of life'.<sup>1</sup> This concern with an important philosophic issue has been regarded as an unfortunate development because it seemed to give to pure economics or economic method a normative basis. The economist has been (usually unconsciously) fulfilling a double function — that of an economic scientist and that of a social philosopher. Now the *logical* separation of these fields has certainly constituted an important step forward. But the economist has from the first been peculiarly well equipped for such philosophic studies. If he did not attempt to bring rational-thought to bear on the problem of giving acceptable definiteness to that vague or hardly conscious ideal of social goodness, if he did not try to clarify the hazy standards that had some circulation in the minds of the community, who was to? The social philosopher cannot dispense with the economist's aid. There can be no doubt as to the necessity for some such ideal under any State resting

<sup>1</sup> *Lectures on Political Economy*, Vol. I, p. 3.

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upon consent; and if we recognize that the economic scientist is not solely interested in perfecting a functionless theoretical mechanism, we must admit the desirability of his applying the useful concepts he has evolved to this question. It is possible, it will be argued later, to define the general good in terms which, whilst avoiding all metaphysical controversy, will cover the non-material needs and aspirations of mankind as well as the material, and will also be of such a nature as to make universal acquiescence in its standards, although not universal acceptance of its intrinsic ethical or aesthetic goodness, a not unreasonable hope. We shall call this ideal 'consumers' sovereignty'.

- (4) *The economist's unpopularity has arisen from the stress he has placed on the opposition between private interest and the general good*

It cannot be denied that if economists had confined themselves to the purely formal or logical side of their science they would have been less unpopular in society. But all along, orthodox writers in this field have, in fact, been concerned with 'the general good' or 'the social welfare'. They have been constantly stressing the opposition between social advantage and the benefits accruing to particular individuals or particular groups. It is possible that at times they may have 'enlisted the ethical sympathies by illegitimately exploiting the associations' of the phrase 'the common good' (or similar words), as Wicksteed insinuated;<sup>1</sup> but in no case known to the present writer among the more prominent Classical economists and their intellectual successors does the insinuation actually appear to have been borne out. Naturally they gave a beneficent-sounding name to their ideal: they wanted it recognized. They must have realized clearly enough their immense task in getting any recognition of so complex a conception as that of a welfare which transcended individual or group advantage. There was nothing subtle about the notion in the economists' minds. It was pure common sense to them. They knew that a tariff on corn would benefit farmers but spread a diffused burden on consumers. There was nothing question-begging about it. The notion of the conflict of interest had been understood by several eighteenth-century pamphleteers and economists. They regarded it in terms of the opposition between organized groups and

<sup>1</sup> Wicksteed, *op. cit.*, Vol. I, p. 185.



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the community as consumers. It was reflected in the attacks of Turgot<sup>1</sup> and his contemporaries on 'the spirit of monopoly', it was stated forcibly by Tucker, it was found in the *Wealth of Nations*,<sup>2</sup> it was implied in subsequent economic writings, and it again crystallized clearly in the mind of Ricardo, who held that the consumers' interests should be paramount.

(5) *The economist's criterion has aroused the hostility of vested interests and typical reformers*

This conception of the community as a whole and the interests of its members has always been inconceivable to the great mass of people. This is not due to its complexity alone. Neither must the blame be largely ascribed to crudeness of exposition. It arises chiefly because of those psychological reactions emanating from personal and group interest which our earlier chapters have discussed. We need to look no further than this for the causes of that attitude of mind which has so eagerly seized on Carlyle's condemnation of economics as 'the dismal science'; which enabled Kingsley's unscrupulous caricature of an economist<sup>3</sup> to be accepted as authentic by the public opinion of his day; which led Napoleon to say that if an empire were built of granite, political economy would grind it to powder; which has led to that general dislike and misrepresentation of the Classical economists lasting right down to the present day. 'No real Englishman,' said Bagehot, 'in his secret soul was ever sorry for the death of an economist.' Because the moral principle of 'sympathy for the greater number at the expense of sympathy for the lesser number' formed the essence of their teaching, the Utilitarian economists have, moreover, been brought into a permanent clash with reformers and philanthropists. For the latter are commonly aware of and moved by the interests of the few only with whom they

<sup>1</sup> The whole object of 'the spirit of monopoly (*l'esprit de monopole*)', said Turgot, 'is to discourage industry, to concentrate commerce in a small number of hands by the multiplication of formalities and expenses, by the requirement of apprenticeships and journeymanships of ten years for trades which can be learnt in ten days, by the exclusion of those who are not sons of masters, of those who are born outside certain limits, by the prohibition of the employment of women in textile manufactures.' (Quoted in Mund, *op. cit.*, p. 29.)

<sup>2</sup> But Veblen believed and taught that according to 'the Liberal Principles of the eighteenth century any legally defensible receipt of income is a sure sign of productive work done' (*Engineers and the Price System*, p. 31).

<sup>3</sup> *Alton Locke*, Chapter x.

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are in direct contact. In this way has arisen a reputation that it is not an exaggeration to say is, in the popular mind, one of harshness or even callousness.

- (6) *Our defence of the main position of the Classical economists is made with full recognition of certain serious errors in their contribution*

The Classical theorists have for so long been libelled and the process has for so long been popular that it seems nowadays almost courageous to venture out in their defence. To do this in no way suggests that one believes their doctrines to be beyond criticism. Scattered through their writings one finds serious errors, varying from basic fallacies like the ideas of Malthus on over-production and the limited extent of human wants, to clumsy attempts to illustrate fundamental truths such as was contained in the Wages Fund formula. The justice of the severe charges which have been levelled against their reasoning by acute critics like Cannan must be admitted.<sup>1</sup> But we can still come forward in defence of their main position. We are not concerned with those of their faults which have been eliminated in modern expositions of orthodoxy. There were, to be sure, many errors and misconceptions which had to be faced. But some of the most scathing of their expert and disinterested critics would, we believe, accept the thesis of this chapter. In the warfare of ideas there can be no quarter, and the ruthless exposure of early confusions has been essential for the advancement of our science. Our protest is, thus, against misrepresentation, not technical criticism of their work. Unfortunately there are usually certain elements of truth in the *unfair* allegations which are levelled at them. We shall notice these in the following paragraph.

- (7) *Their failure to consider the problem of the province of the State in its fullest setting was an important but explicable weakness*

The Classical economists were possibly unduly influenced by their recognition of the corruption and harmful repercussions of government supported or enforced restrictionism during the Mercantilist period. They believed that almost all economic privileges were ultimately State conferred and hence that State passivity alone was sufficient to remove them. They were, perhaps, too vividly

<sup>1</sup> *Theories of Production and Distribution.*

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aware of and too engrossed in their task of answering the erroneous arguments of the critics of their day to be stimulated to consider the problem of the province of the State in its fullest setting. They did not adequately consider how changes in the industrial and commercial technique that they knew, might alter the policies which they regarded as expedient. Their sympathy for the idea of the existence of a harmonious natural order, whilst it was apparently justified by the facts of the age, probably deterred them from analyses of economic institutions which would have thrown much clearer light upon the social forces in which they were interested. The form (rather than the substantial content) of their exposition was marred by their misconceptions concerning the psychological assumptions which they thought were essential for the study of economic problems, and by their recourse for these assumptions to a science of psychology which, in spite of the common sense and realism of its makers, inevitably suffered from the crudeness of pioneer studies. But we feel, in spite of such admissions, that the Classical theorists were fundamentally right. They were taking the first and most difficult steps in the development of a science of society; and on the whole they found their way with admirable skill. The common attempts during the present age (deliberate or through mere fashion) to deride the results of their early gropings in a new sphere of investigation are most unworthy. The purpose of the ridicule which is aimed at early theory seems to be that of refuting the developments which have arisen, through the process of continuous refinements, from the drafts which the precursors of modern knowledge prepared for their successors. As Böhm-Bawerk pointed out, 'the errors of the Classical School are . . . the ordinary diseases of the childhood of every science'.<sup>1</sup>

(8) *The suggestion that the essence of their teaching has since been refuted is, however, not true*

But it cannot be claimed, even when their works have been subjected to the most unrelenting critical examination, that their teachings have since been shown to be little more than 'emphatic dogmas'. Yet the popular mind has accepted that suggestion; and unfortunately a large number of students of economics whose acquaintance with

<sup>1</sup> Quoted in Gide and Rist, *History of Economic Doctrines*, p. 518.

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the Classical writings is superficial or second-hand, have also acquired the same conviction. Almost every serious article or book which touches on the problem of the relation of the State to industry contains in the earlier paragraphs or chapters some disparaging reference to the central tenets of these pioneers in the sphere of economic science. Even a book with the title *A Case for Laissez-Faire* opens with a conventional attack in Chapter 1 upon the Classical economists and their 'dogmas'. Although the author, Mr. J. W. Nisbet, is attempting to defend what he rightly believes to have been fundamental in their beliefs, we find him expressing, in a manner typical of the present day, the same unfounded assertions. We should not expect to find unjust comment in the writings of one who is friendly towards the general theses of those whose teachings he is examining. Yet, naively echoing the usual errors and prejudices of commentators whom he must have mistaken for authorities, he also declares Classical doctrine to be based on 'emphatic dogmas'. We shall discuss certain of his assertions at a later stage; and if it can be shown that his outlook is based on radical misconceptions, how much more unsatisfactory must we hold to be the judgment of those whose reactions are hostile to the very core of the *laissez-faire* principle! Libels from hostile critics have, indeed, so often been repeated that they are now made with the fullest conviction of their truth. Economists like Adam Smith, Ricardo and Malthus are actually described by Mrs. Hamilton as prophets of 'the religion of successful business'.<sup>1</sup>

- (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*

It is probably true, as our chapter on 'inequality' will discuss more fully, that both the economists and social philosophers of the early industrial age had inherited to some extent the custom-thought which caused them to view, without expressed emotion, conditions which had always been tolerated as part of an order approved of and ordained by God. And these were conditions which the modern 'social conscience' would condemn. Moreover, with many of the Utilitarians and their contemporaries, the terrors of the French Revolution may also have affected their judgment almost un-

<sup>1</sup> M. A. Hamilton, *John Stuart Mill*, p. 16.

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consciously. Yet they seem to have been less the victims of blind tradition than most of their critics; and their studies in fact led them, as we shall see, to question the inevitableness of the social arrangements with which they were confronted. Whatever views they may have held as to the attainability of greater equality of condition, they certainly held that inequalities in actual skill and abilities were largely due to controllable social influences. In their day the Utilitarians and the Classical economists were the sociological rationalists. The former, at any rate, believed earnestly in the efficacy of deliberate contrivance to remove the social ills whose existence was, in those days of expanding liberalism and wealth, becoming for the first time apparent. In spite of their dismay at the spectre of rapid population growth, they seem to have had a sturdy faith in the power of reason to bring about a better world. They may, however, have overlooked practical means to social improvement which later on became clear.<sup>1</sup>

- (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'*

The effects of the misrepresentation of the Classical theorists have been particularly deplorable in relation to the *laissez-faire* principle. It has been found most easy to pour ridicule upon Adam Smith's dictum about the 'invisible hand'. He was a deist and, in the optimistic philosophic tradition of his day, influenced by faith in the 'natural order' of eighteenth-century philosophers, he thought he saw evidence of divine benevolence in a scheme of things which, he perceived, worked for 'the general good'. But this 'invisible' power was no more fundamental to his *argument* than the references to the Almighty in Bach's exposition of harmonic principles, or in Newton's account of the elements of physical laws. Adam Smith was an *observer* of his contemporary world. His mind may have been centred, as Veblen has suggested, more on the age which immediately

<sup>1</sup> The alleged change of tone in J. S. Mill's *Utilitarianism* was, in part, simply a development of the fundamental doctrine of which Bentham and James Mill would certainly have approved. There is nothing antagonistic to their *creed* in J. S. Mill's claim that 'poverty, in any sense implying suffering, may be completely extinguished by the wisdom of society . . .' and his contention that 'the present wretched education and wretched social arrangements' were 'the only real hindrance' to happiness in *his* sense being attainable by all.

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preceded the Industrial Revolution than on current developments. Yet in the works of no economist do we find so continuous a series of references to the actual phenomena of economic intercourse.<sup>1</sup> There was common-sense judgment and not mere dogma behind his conviction of the goodness of the natural order. This is surely proved by his assertion, in apparent contradiction to the principle of divine guidance, that the interests of certain classes of producers were 'always in some respects different from, and even opposite to, that of the public', '... to narrow the competition' always being to their interest.<sup>2</sup> And this quotation alone surely disposes of the suggestion that 'political economy, ever since Adam Smith, has rested entirely on the thesis of the natural identity of interests',<sup>3</sup> unless all that is implied in this phrase is that the conception of equilibrium vaguely foreshadowed in Adam Smith and receiving specific recognition in Ricardo, has remained an all-important tool of

<sup>1</sup> Buckle, referring to the fact that the *Wealth of Nations* was written whilst Adam Smith was living in seclusion, wrongly implies that, because he rejected the empirical approach, he disliked making 'the facts of trade the basis of the science of trade'. *History of Civilization in England*, Vol. III, pp. 339-341.

<sup>2</sup> Adam Smith, *op. cit.*, Vol. I, p. 250.

<sup>3</sup> Halevy, *The Growth of Philosophic Radicalism*, p. 16. Many other quotations of a similar nature could be culled from the *Wealth of Nations* to refute Halevy's point. Several of them are mentioned in the course of the present essay. But Halevy does not refer to any of them except to suggest that they mean the opposite of what they say. He refers, for example, to Adam Smith's allusion to public works 'which it can never be for the interest of any individual or small number of individuals, to erect and maintain; because the profit could never repay the expense (to them) ... though it may frequently do more than repay it to a great society'. (Halevy, *ibid.*, p. 89.) But he tries to explain away such passages by saying that 'sometimes, no doubt, Adam Smith has recourse to the artificial identification of interests' (p. 89). This is obviously an insufficient qualification of his original assertion. Moreover, talking of the divergence of economic interests, he says: 'At times, Adam Smith appears to admit this' (p. 100); and he also refers to Adam Smith 'having stated the fact of the natural divergence of interests ...' and then proceeded to conclude in favour of liberalism (p. 102). Yet in spite of these passages, Halevy implies that 'Adam Smith's theory of the division of labour and of exchange value, instead of affording a proof of the principle of natural identity of interests ... (really postulates) ... the truth of the principle in order to make it possible to neglect the exceptions to which, in fact, his theory of exchange is liable' (p. 99). This is not so. With Adam Smith, as with his successors, the principle which Halevy believes to be fundamental is important almost solely through its effect upon the form of the exposition. It did not detract substantially from the validity of the early writers' contributions. The elimination of all references to it would not weaken their work. Notwithstanding their conception of the 'natural order' all the Utilitarian economists and philosophers would surely have admitted that appropriate institutions were essential for the establishment of social harmony. Indeed, their interest in the law is proof enough that the actual framework of society was always one of their major interests. Halevy repeats his contention that political economists in general assumed 'the natural identity of interest'. But after alleging on page 317 that they all adhered to this principle, he has to admit on page 319 that with Ricardo 'the principle on which it rests might better be called the principle of the natural divergence of interests'.

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economic analysis. The Classical writers argued that the trend towards this equilibrium should not be resisted because, in the absence of restricted competition, there existed a fundamental solidarity of interest; and they had rational grounds for this principle. The innumerable critics of economic individualism have, however, made the most of the 'invisible hand' passage. They seldom refer to Utilitarians like Bentham or James Mill who, holding even more unwaveringly the *laissez-faire* doctrine, would have laughed to scorn the suggestion of any divine purpose in the harmony produced by economic freedom; and they do not give frank consideration to those passages in Utilitarian writings which clearly indicate the recognition of social conflict.

- (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*

That there was present a non-rational element in the optimism of the eighteenth century is too obvious to need stress. But faith in the beneficence of Nature's rule was surely founded upon observation. The Physiocrats appear, indeed, to have been startled to perceive the natural harmonies and automatic functioning of the economic system. They thought that they had chanced to discover a remarkable rule of Nature. The *laissez-faire* order which they envisaged was not an *a priori* system bolstered up by appeal to convenient experience. Its principle arose in an attempt to explain the phenomenon of spontaneous social co-operation. They observed a process which subsequent students have been constantly remarking upon. Even Wicksteed admitted that 'when we see the world, in virtue of its millions of mutual adjustments, carrying itself on from day to day, and ask, "Who sees to it all?" and receive no answer, we can well understand the religious awe and enthusiasm with which an earlier generation of economists contemplated those "economic harmonies", in virtue of which each individual, in serving himself, of necessity serves his neighbour, and by simply obeying the pressures about him, and following the path that opens before him, weaves himself into the pattern of "purposes he cannot measure"'.<sup>1</sup> To express the principle, the Physiocrats had recourse to myth, which

<sup>1</sup> Wicksteed, *op. cit.*, Vol. I, p. 184.

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also supplied the hypothesis that their reason and experience confirmed. Their general philosophy seemed to teach them that as God had given a natural and harmonious order to bees and ants, so would His immutable and beneficent laws apply to human society. Yet had not the facts as they observed them appeared to confirm the goodness of competition it is hardly likely that they would have discovered God's order in it. One may question, therefore, whether it is just of Gide and Rist to say: 'It was not the product of the observation of external facts; it was the revelation of a principle within.'<sup>1</sup> The fact that the Physiocratic conception of 'natural law' became a willingly accepted inheritance of atheistic Utilitarians is a sufficient indication of the purely formal significance of the 'naturalism'. Bentham, indeed, pointed out in the *Treatises* the *metaphysical* importance of the term 'natural law'. It is a 'figurative expression', a 'fiction'.<sup>2</sup> Whatever the metaphysical elements in the beliefs of some of the economists, the acceptableness of their ideas by the intelligent opinion of their day was due to recognition of the concrete benefits of the policies which they implied. As Dr. Buer has reminded us: 'It was the actual success of private enterprise and the inefficiency and corruption of Government control that caused *laissez-faire* to be an acceptable policy.'<sup>3 4</sup>

<sup>1</sup> Gide and Rist, *History of Economic Doctrines*, p. 9. Mr. Dobb seems to admit our point when he says: 'Mercier de la Rivière, the Physiocrat, in his surprise that "le monde va de lui-même" was led to postulate "que l'intérêt particulier d'un seul ne puisse jamais être séparé de l'intérêt commun de tous"' (Dobb, *op. cit.*, p. 16). Halevy (*op. cit.*, p. 269) quotes a similar passage from Condorcet but apparently fails to see that the latter's search for the laws which produce harmony in what he called 'this terrifying complication of interests' (in other words, his attempt to show exactly how it was that a reconciliation resulted), was in reality a confession that there was nothing about it which needed reference to the wisdom of Providence in order to be explained. Christians never assumed that because they recognized that it was God's benevolence that provided mankind with harvests, they had no need to till the soil. And the belief that human arrangements could also be pointed to as evidence of the goodness of the Lord need no more have prevented them from seeing that they rested upon alterable institutions than it prevented them from admitting that improved rotations of crops would increase the divine bounty. It is indisputable that the conception of competition as 'natural' (which, originating with the Physiocrats, has influenced the tradition of economic teaching down to the present day) has not proved conducive to clear thinking. It is still common for economists to speak of 'artificial' prices when they are referring to what we are careful to call 'contrived' prices. Of course, they no longer have faith in any 'natural order' but the terminology is a misleading one.

<sup>2</sup> Quoted in Halevy, *op. cit.*, p. 489.

<sup>3</sup> Buer, *Health, Wealth and Population*, p. 36.

<sup>4</sup> It is only with certain 'sociologists' who have a very poor grasp of the nature of economic science, like Herbert Spencer and W. G. Sumner, that the conception of a 'natural social order' has persisted. A *terminology* falsely suggesting this naturalism has lingered on with some of the Continental orthodox economists.



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- (12) *Propaganda for Socialism has represented the case for economic freedom as the doctrine of those who defended privilege, inequalities and subsistence wages*

There has been another factor which has tended to add to the almost universal misunderstanding of the *laissez-faire* philosophy. The *Utilitarian* principle of the utmost freedom of contract has become the antithesis of Socialism, and, as our study of power-thought has taught us to expect, the result of propaganda for Socialist policies has been to represent the development of that orthodoxy as the doctrine of those who defended privilege and inequalities of wealth. Although it is true that the rich sometimes appealed to the authority of *laissez-faire* in defence of their advantages, this view of the principle is false. But because the Utilitarian philosophers and pioneer economists were unconvinced of the goodness of Socialistic remedies, students have for years been taught, by teachers with great apparent authority, that the Classical economists 'defended subsistence wages', or that they advocated 'the creed of unrestricted exploitation'. And it is this belief that exists in the minds of journalists, the clergy, school-teachers, the professional talkers at elections and others who seek to influence opinion. They conceive of a *laissez-faire* society as practically synonymous with a 'capitalist system' whose defence, in turn, they imagine must be based on a blatant defence of inequalities. They have been taught to associate it with bad conditions, low wages and long hours; and organized interests have worked well to keep this belief alive.

- (13) *The Classical economists' sympathies were in fact with the poorest*

In emphasizing the desirability of cheapening prices and lowering costs of production, the economists preached an unpopular gospel; and this made them vulnerable to that type of misrepresentation which could suggest that their ideal was the forcing of wages down to subsistence level. But, as Professor Bonn has pointed out, 'the main object they had in view was a diminution of human labour for the purpose of supplying men with increasing quantities and increasing varieties of goods'.<sup>1</sup> The truth is that their sympathies, as Professor Cannan has emphasized in the case of Adam Smith, 'seem to have been wholly with the industrious wage-earner, and

<sup>1</sup> Bonn, *The World Crisis and the Teaching of the Manchester School*, p. 30.

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especially with the poorest'.<sup>1</sup> It has been hinted, however, that the Classical theorists can only be represented as humanitarians by selected quotations which are really out of harmony with their general outlook. This again is not true, as later quotations should make abundantly clear. As scientists they could not have been expected to parade their emotions, but when their feelings did penetrate the impersonality of their expositions, there can be no doubt that their sympathies lay with the masses. To students who are not obsessed by the belief that those social scientists who do not subscribe to a particular dogma, or who refuse to indulge in rhetorical or provocative condemnations, must necessarily be apologists for existing evils, the truth of our present contentions must be unquestionable.

(14) *Even with the political Liberals of the Manchester School, laissez-faire was in essence a generous conception*

Side by side with the misrepresentation of the economists, we have witnessed unjust abuse of the political group which accepted their teaching. The Socialists have regarded the principles of the Manchester School as an 'insidious justification of interest, rent and starvation wages'.<sup>2</sup> We cannot venture out in defence of a group of active political Liberals as we have defended the philosophers. But we can recognize, with Professor Bonn, that 'competition, as the Manchester School originally understood it was a very generous conception, depending for its realization on such a measure of equal opportunities for everybody concerned as could be scarcely provided in old-fashioned countries';<sup>3</sup> that 'the fundamental demands on which the Manchester School, as represented by Cobden and Bright, based their efforts for improving human society, went far beyond a mere economic doctrine: they wanted to eliminate force and coercion from human affairs and to substitute for them negotiation, contracts and covenants freely entered into';<sup>4</sup> and that 'Cobden and Bright loathed class antagonism and class domination as causes and results of coercion and hoped to do away with them by establishing a system of well-balanced free competition which would prevent individuals

<sup>1</sup> Cannan, *An Economist's Protest*, p. 422.

<sup>2</sup> Gide and Rist, *op. cit.*, p. 539.

<sup>3</sup> Bonn, *op. cit.*, p. 12.

<sup>4</sup> *Ibid.*, p. 5.

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as well as classes from using force against each other'.<sup>1</sup> The Manchester School has been conventionally regarded in our own age as embodying the spirit of slave drivers. In truth, we believe that before the approach of 1867 this section of the old Liberals displayed disinterested idealism to an extent that appears to be unparalleled in the history of British politics.

(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*

But a further factor leading to the misrepresentation of the Classical writers has been the course of politics since 1867. The English Liberal Party after the 'sixties were forced, in order to survive as a party, to differentiate themselves from their predecessors. They had to find justification for the policies that exigencies of elections obliged them to support. This could be done only by the renunciation of *laissez-faire*. Whatever its real merits or demerits, that system was foredoomed to failure as a political principle in representative democracy. The English Conservatives have been only too ready to take credit for the change in politico-economic tradition. Especially has this been so since the emergence of the tariff controversy as a major election issue. Free Trade could be truthfully represented as essentially a part of the hated doctrine of *laissez-faire*; and the tariff interests were not slow to see the propaganda and power value of painting in the blackest colours the evils of complete economic liberty. And to all sections of the Labour Party, especially to that portion of their organization that supplied them with power and funds, the principles on which *laissez-faire* rested were naturally anathema, although trade union interests were willing enough to cry out for State passivity when the limitation of their rights of collusion and coercion were at issue. Thus it comes about that in the minds of the great bulk of intelligent citizens the very mention of the term *laissez-faire* brings up the vision of a depressed and hungry proletariat at the mercy of powerful capitalists who fatten at their expense. And when the 'merger mongers' of to-day wish to win support for their 'rationalization' projects, they have only to refer to *laissez-faire* to raise the hostile response they want to the existing competitive circumstances.

<sup>1</sup> Bonn, *op. cit.*, p. 6.

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(16) *Adam Smith's defence of laissez-faire was certainly not in the nature of an apology for capitalism*

We are, therefore, able to explain this tradition of misrepresentation of the founders of orthodox theory. Let us notice some examples. The current fashion has recently led to Mr. M. Dobb's assertion in *An Outline of Modern Knowledge* that 'economics had its origin and derived its force as a direct apotheosis of capitalist individualism'. Thousands of intelligent laymen have probably accepted and remembered this assertion. We deny it. It can hardly be said of Adam Smith, whose work exercised so fundamental an influence on subsequent thought, that he was particularly biased in favour of 'master manufacturers' and merchants. Indeed, he was much more friendly towards what our modern Socialists would call the 'idle rich', the passive rent-receivers 'whose revenue costs them neither labour nor care, but comes to them, as it were, of its own accord, and independent of any plan or project of their own'.<sup>1</sup> He not only recognized the power of the trading and industrial capitalist class 'to deceive and even to oppress the public', but he definitely asserted that they had made use of their power 'upon many occasions'.<sup>2</sup> The apparent change of attitude on the part of later writers during the nineteenth century, which was certainly more favourable to manufacturers and merchants, seems to have been due to their view of the relative unimportance of these 'many occasions'.

(17) *The contributions of James Mill, Ricardo, and Senior do not show them to have been sycophantic to industrial and commercial interests*

Thus, Ricardo, whilst recognizing the advantage to manufacturers of prices above the 'natural', obviously believed that *in the circumstances of his day, as he observed them*, such advantages were likely to be so temporary as to justify their being ignored in State policy, although he admitted in a letter to Malthus that he was perhaps 'too much disposed to undervalue' temporary effects.<sup>3</sup> It was certainly not vested interest which led him to this view. But in the middle of the century, the social circumstances which had determined his judgment on matters of this kind had changed considerably, and subsequent writers showed an apparently different spirit. Thus, in 1852 we

<sup>1</sup> Adam Smith, *op. cit.*, Vol. I, p. 248.

<sup>2</sup> *Ibid.*, p. 250. (Our italics.)

<sup>3</sup> Ricardo, *Political Economy*, Gonner Edition, p. 69, footnote.

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find Senior condemning (in scathing terms that seem reminiscent of Tucker's protests during the decadence of Mercantilism) the first clear signs of the monopolistic features of *modern* capitalism.<sup>1</sup> For restriction of competition was then just beginning to emerge in *conspicuous form* from the capitalists' side, and Senior was quick to condemn what he saw.<sup>2</sup> Even the dour James Mill, in whose treatment the supposed harshness of the early political economy was most marked, cannot be regarded as having been in any way sycophantic to industrial and commercial interests. It would be difficult to find a more independent or disinterested character among nineteenth-century commentators on social institutions. He was not afraid to declare 'opinions, both in politics and in religion, which were more odious to all persons of influence, and to the common run of prosperous Englishmen in that generation than either before or since.'<sup>3</sup>

(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*

An allegation of a different nature is that the founders of economic science were concerned with a purely imaginary world. It is very common to attribute this alleged concern with an unreal society to the Ricardians. But neither Ricardo's convictions nor those of his chief followers were based upon any illusion derived from interest in abstractions. 'Among all the delusions which prevail as to the history of English political economy', wrote Professor Cannan, 'there is none greater than the belief that the economics of the Ricardian school and period were of an almost wholly abstract and unpractical character.'<sup>4</sup> Certainly, from the time of his contemporary critic Sismondi down to the present day, the charge that Ricardo completely ignored the practical world has been repeated. But surely

<sup>1</sup> Quoted below in footnote to paragraph 28.

<sup>2</sup> But Professor Charles A. Beard has taught his trusting students and probably countless trusting American intellectuals that 'about the middle of the nineteenth century, thinkers (in the field of political economy) were mainly concerned with formulating a mill-owners' philosophy of society'. *Economic Basis of Politics*, p. 14.

<sup>3</sup> J. S. Mill, *Autobiography*, p. 3.

<sup>4</sup> Cannan, *Theories of Production and Distribution*, p. 383. Sir Leslie Stephen also pointed out that most of the Utilitarians 'were exceedingly shrewd, practical people, whose regard for hard facts imposed limits upon their speculations' (*The English Utilitarians*, Vol. I, p. 306).

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those who believe this are basing their opinion on a failure to understand abstractions at all. This seems to be the most probable explanation, for such people are particularly likely to be impatient of complexities when they imply beliefs which do not accord with their present ideas. Ricardo was led into the field of what we now call 'pure theory' because his logical mind made it clear to him that progress in analysis and understanding of social phenomena was possible only when he had forged adequate tools for the task. And the material on which his tools were to be used was his contemporary world. His interests were, above all, practical. J. S. Mill echoed the attitude of the Ricardians when, contending that the object was to rescue the study of mankind from empiricism,<sup>1</sup> he emphasized, nevertheless, that 'principles of evidence and theories of method are not to be constructed *a priori*. The laws of our rational faculty, like those of every other natural agency, are only learnt by seeing the agent at work'.<sup>2</sup> The truth is that among the social observers and students of their day the Classical economists were the outstanding realists. Their abstractions were not of the nature of dogma, but of methodological devices; and they did not regard their comments on policy as the last word on the subject. For as philosophers they were Utilitarians; and in this role they were dominated by the principle of expediency. Their advocacy of *laissez-faire* was based on the criterion of the greatest good; and they knew that the presumption of the maximization of utility resulting from economic liberty might, on occasion, be upset. If deduction from undisputed facts showed the balance of utility to be the other way, then freedom of contract would not be defensible.

- (19) *The Ricardians may occasionally have given undue weight to considerations suggested by merely convenient premises; but concrete experience was always a corrective in the background*

Ricardo's groping towards a theory of distribution *did*, as Senior pointed out, involve 'almost mathematical precision',<sup>3</sup> and he turned for illustration, not to the complexities of real life, but to the simplicities of hypothetical cases. And it may be that, like many another student wrestling with the difficult task of applying rational-thought

<sup>1</sup> Mill, *Logic*, p. 476.

<sup>2</sup> Senior, *op. cit.*, Vol. I, p. 17.

<sup>3</sup> *Ibid.*, p. 475.

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to social problems, he sometimes gave undue weight, in his casual references to practical affairs, to considerations unconsciously derived from merely convenient immediate premises. Moreover, like James Mill, he did not give his readers much help in the way of pointing out the exact relevance of his abstractions in the practical world. But his *fundamental* assumptions were none the less realistic. He emphasized, for instance, the basically empirical nature of his judgment that capitalists (apart from landlords) had no interests contrary to those of the public. He said: 'When we *look* to the markets of a large town and *observe* how regularly they are supplied both with home and foreign commodities, in the quantity in which they are required, under all the circumstances of varying demand, arising from the caprice of taste, or a change in the amount of population, without often producing either the effects of a glut from a too abundant supply, or an enormously high price from the supply being unequal to the demand, we must confess that the principle which apportions capital to each trade in the precise amount that it is required, is more active than is generally supposed.'<sup>1</sup> This passage is by no means untypical. Indeed, even on those points on which he has been most strongly criticized for unreal abstraction, the truth is that he was often displaying a deep insight into the constitution of the social system.

(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'*

Consider in this connection the allegations of Halevy, who attempts laboriously to show that Ricardo's 'whole theory is dominated by the practical pre-occupation of justifying freedom of commercial exchange'.<sup>2</sup> Of course Ricardo wanted to show the truth of his conclusions, and naturally, like economists in all ages, he was stimulated by contemporary controversies. But the implication that he adhered blindly and eagerly to a preconceived and convenient doctrine cannot be supported. Halevy suggests that when Ricardo comes up against phenomena which conflict with his

<sup>1</sup> Ricardo, *op. cit.*, p. 67. (Our italics.)

<sup>2</sup> Halevy, *op. cit.*, p. 319. Halevy's misconceptions are typical of non-economists who venture into this field.

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theory, he treats them merely as unimportant exceptions. We are told that Ricardo 'constantly tends to minimize the influence of disturbing factors'.<sup>1</sup> Now the fact that Halevy finds it possible to adhere to this conventional misjudgment, in spite of conscientious reading, is probably due to his supposition that the 'theory of value, which seems to be the basis of Ricardo's economic optimism, is therefore only true with a great many reservations'.<sup>2</sup> But Ricardo clearly did not regard these 'disturbing factors' as in conflict with his 'laws'. Had he been charged with this, we can imagine him asking: 'Does the theory of gravitation require "reservations" because of the existence of balloons?' The supposed disturbing factors were part of his substantive contribution. It is when dealing with them that the implications of his main thesis often become most clear.

(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*

Halevy's charge is principally supported by reference to Ricardo's treatment of depressions.<sup>3</sup> But to demonstrate the alleged irrational optimism of Ricardo in his inability to recognize considerations which conflict with his theories, Halevy has recourse to interpolations of his own, which attribute to the great economist various mental states that the quotations given certainly do not indicate.<sup>4</sup> Moreover, Halevy has to admit that in respect of Ricardo's treatment of the supposed conflict of interests in distribution between rent, profits and wages his 'abstract formulae are but the faithful expression of the spectacle presented by the history of his own time'.<sup>5</sup> What Halevy is really concerned to refute is Ricardo's demonstration of the beneficence of the trend to equilibrium (called by Halevy the

<sup>1</sup> Halevy, *op. cit.*, p. 324.

<sup>2</sup> *Ibid.*

<sup>3</sup> Actually Ricardo was startlingly 'modern' on this point. His recognition of the psychological and physical causes of immobility of the agents of production and his perception that depression phenomena would tend to become worse with the growing importance of machinery were interesting anticipations of recent developments.

<sup>4</sup> Thus, on pages 324-5 he uses these phrases: 'betrays Ricardo's uncertainty on this point'; 'in defiance of his principles'; 'in short, he felt it difficult to understand the crisis, though he was obliged to state that it existed'; 'finally, he tried to hope that he had deceived himself'. We fail to see any justification for these phrases in the quotations which accompany them.

<sup>5</sup> Halevy, *op. cit.*, p. 336.



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principle of the 'natural identity of interests'). This, Halevy regards as little more than a superstition inherited from the eighteenth century. He fails to see that in itself it could never have been held to contain any final justification of non-interventionism. Consequently he is unable to recognize that it was merely expediency, practical recognition of the nature of governments during the early nineteenth century, and a realistic appreciation of the relative instability of attempts to frustrate the attainment of equilibrium, which inspired Ricardo's hostility to governmental intervention.<sup>1</sup> And it was for this reason only that he could hold deviations from the natural price of commodities to be 'accidental and temporary'.<sup>2</sup> That the Ricardians were far from having developed a true theory of distribution is a truism; and it was largely this which prevented them from realizing the extent to which the institutions on which the actual division of the product of industry depended were modifiable.

- (22) *Ricardo recognized weaknesses in his studies of value and distribution. The social harmonies which he perceived were not the product of blindness to disharmonies*

But those who are hostile to the spirit of the Classical school seem to concentrate their attack on what was strong, not what was weak in the science of the pioneer writers. Their treatment of distribution may have been unsatisfactory, but the truth is that their maligned abstractions simply awaited development. The real function of value in distribution was later demonstrated by methods which were radically indebted to them. Ricardo himself was fully sensible of the existence of flaws in the theoretical scheme which he had devised. He was frankly dissatisfied with his own and his contemporaries' treatment of value, and to the last was hoping that his friends would help him resolve the difficulties with which the subject bristled. There was no dogmatic loyalty by him to theories which, being the product of his own mind, had evoked his affections. 'I never argued

<sup>1</sup> At times Halevy appears to admit this. In dealing with Ricardo's objections to attempts to obtain distributive justice against the parasitism of the landlord, he says that they were 'chiefly because of considerations of a practical nature' (p. 340). A few admissions of this kind, seemingly inconsistent with Halevy's general contentions, give a certain elusiveness to his argument.

<sup>2</sup> Quite obviously, he was conceiving of 'natural price' in relation to a certain regime defined by the protectionism and restrictionism imposed by the State.

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or discussed a question with any person', said Maria Edgeworth of him, 'who argues more fairly, or less for victory and more for truth . . . It seems quite indifferent to him whether you find the truth or whether he finds it, provided it be found.'<sup>1</sup> That value as it was then understood did not explain distribution Ricardo frankly confessed. He saw that there were certain harmonies in the relations between the recipients of rent, wages and profits, in the sense that collusive or State action could not benefit one class as a whole at the expense of another, although in the case of landlords, who could reap where they had not sown a disharmony of interest existed in relation to the community as a whole. But he knew also, and expressed himself clearly on the point, that groups could gain at the expense of the consumer through the medium of the State. The relation of these general disharmonies to the problem of distribution between rich and poor probably failed to receive specific treatment from his pen because experience seemed to show that only State-conferred privileges could for long exist.

- (23) *The apparent absence of intentional checks on human fecundity would have made discussions of the modern type about distribution highly unreal in Ricardian times*

But in any case discussions of distribution such as are of practical importance to-day would have seemed highly academic to him in view of the empirical judgment, accepted in his time as axiomatic, that population tended to multiply so rapidly as to neutralize increases in subsistence. When he considered the poor, and their command of the economic product, his mind was dominated by the view that increase of numbers would swallow up any benefits from improved distribution or expanding productivity. That standards of living, conventions in respect of both necessities and luxuries, were implied in the notion of the subsistence to which population adjusted itself was admitted.<sup>2</sup> He recognized that there had already been much progress in this respect, luxuries had become conveniences, yet he saw no signs of the development of checks on

<sup>1</sup> Quoted by Gonner in Preface to Ricardo's *Political Economy*, p. xx.

<sup>2</sup> Socialist writers usually misrepresent his teaching on this point. 'When he introduces the important modification consequent on alterations in the Standard of Comfort into the law of wages, they omit the modification, and often cite his authority to justify what he denied.' (Gonner in Preface to Ricardo's *Political Economy*, p. lviii.)

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unbridled breeding. A conception of the great natural fecundity of the human race pervaded the whole of his theorizing about distribution, as well as that of his disciples. And as it was thought convenient to trace to labour the ultimate source of all value, a conception of the indefinite expansibility of labour supply determined the form of value theory also.

(24) *The restraint on population growth in which neo-Malthusianism was a factor produced a revolution in outlook on the part of the economists*

Only towards the time of Ricardo's death did neo-Malthusian ideas, cautiously hinted at by other writers, but propagated with confidence as well as courage for the first time by Francis Place, appear really likely to have any effect. Until then, there had been hardly any criticisms of Malthus's assumptions as to the indefinite expansibility of population. The judgment of all observers confirmed those assumptions and, not being prophets, the economists had no reason for theorizing on the basis of other hypotheses. But the advent of neo-Malthusianism, and other influences restraining fecundity whose origin it is not easy to discern, had important reactions upon the spirit of the economic philosophers. As John Stuart Mill has told us, the economists then began to perceive that the great obstacle which Malthus had believed to bar the way to the improvement of the condition of the labouring classes had fallen, or at any rate, had been rendered vulnerable. Formerly there had been something almost pathetic in their preaching of prudence; in their recommending attempts to create a public opinion which would show marked disapproval of large families among the poor; in their pleading for the abolition of the Poor Laws which, they felt, tended to produce beggary and pauperization, in their urging and themselves encouraging the establishment of thrift-promoting institutions. Now, however, there was renewed hope. Whereas James Mill could, for the greater part of his life, see little expectation of envisaging means of realizing his ideals, whilst he could indicate little more optimism than was contained in the words 'in the state of society in which we at present exist', his son, John Stuart Mill, was able to produce works which, whatever their defects, are certainly plentifully supplied with hope. The younger Mill still regarded 'repression of population' as 'the grand source of improvement'.<sup>1</sup> But the recklessness of the poor,

<sup>1</sup> Letter written in 1847, quoted in M. A. Hamilton, *op. cit.*, p. 52.

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which he believed was born of their *low requirements*, had in his day become a phenomenon which there was some hope of bringing under control. He did not minimize the difficulty of the task, but he thought, nevertheless, that improvement of conditions could be permanent. By 1848, even his pessimistic passages reflected some more basic optimism. 'Education', he said, 'is not compatible with extreme poverty. It is impossible effectually to teach an indigent population. And it is difficult to make those feel the value of comfort who have never enjoyed it, or those appreciate the wretchedness of a precarious existence, who have been made reckless by always living from hand to mouth. . . . Improvements in the habits and requirements of the mass of unskilled day-labourers will be difficult and tardy, unless means can be contrived of raising the entire body to a state of tolerable comfort, and maintaining them in it until a new generation grows up.'<sup>1</sup>

(25) *Owing to the population situation, new premises became realistic in economics during the latter part of the century. The significance of this change has been overlooked by critics of the 'Classical writers'*

As the century developed, the old fear that means of abolishing poverty would be for ever elusive, was, then, gradually superseded. And this changing outlook and emphasis must be attributed not only to theoretical developments but also to the envisagement of controlled fecundity which made new premises realistic. As a result of various causes, neo-Malthusian propaganda possibly being important, there were fundamental changes in the social facts with which economists were confronted during the decades following Ricardo's death. But the mere conception of the possibility of the individual's will becoming a practical influence in respect of the birth-rate was an even more important consideration. Thus, a gradual shifting of outlook and emphasis began to show itself in the economists' writings. The revolution in their attitude seems to have arisen through an almost unconscious adoption of these new premises which had become appropriate. The rate of population growth recovered between the 'fifties and the 'seventies. But there are no grounds for supposing that there was not a considerable advance in the exercise of voluntary checks even during that period. Remarkable progress in

<sup>1</sup> Mill, *Principles of Political Economy*, Ashley Edition, p. 381.

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productivity was undoubtedly reducing the burden of child-rearing. The presence of this countervailing factor did not weaken, therefore, the causes of optimism. Now most of the traducers of the Classical economists overlook completely the colossal and unforeseeable importance in respect of subsequent opinion of large numbers of people obtaining, especially from the 'seventies onwards, knowledge of how to prevent conception (or at any rate finding other practical ways of adjusting the size of their families). The critics of economic orthodoxy seldom realize how radical was the reorientation brought about when the production of children could be regarded as in some degree determined by the social conditions ruling at the time, including the state of the labour market.<sup>1</sup> Even Wicksteed failed to realize that it was altered circumstances, and neither growing realism nor refinements of method which caused the new point of view. He said: '... so long as it was believed that the economic forces, if left to themselves, would create out of a chaos of individual impulses a cosmos of social order . . . there seemed to be nothing left but to harden our hearts in the presence of the major evils of social life.'<sup>2</sup>

(26) *The disappearance of the Malthusian bogey weakened the popular view of economics being concerned with 'immutable laws' resembling the laws of physics, but it did not 'shake the foundations' of Classical economics*

It was this same revolutionary change in the apparent basic social facts, this disappearance of the Malthusian bogey, which also weakened the popular view of economics as being concerned with 'immutable laws' of a quasi-physical character. When subsequent writers were so careless as to refer to 'immutable laws' they were apparently thinking simply of the inevitable results of different policies, given certain understood institutions. It was not because he showed that distribution rested upon institutions and hence not upon 'immutable laws' that J. S. Mill 'shook the very foundations of the "Classical" economics of his day', as Mrs. Hamilton has

<sup>1</sup> The immense force of a slowing up of the rate of population growth during an era of industrial progress can be judged from the effects of immigration restriction in the United States. As Professor Bonn has pointed out: 'The cessation of immigration has brought in its wake quite revolutionary changes . . . Whole residential quarters of the seaport towns, in particular of New York, have changed their character as a result of it. Without any costly process of expropriation the slums have disappeared; they are no longer lucrative.' (*Prosperity*, pp. 33-4.)

<sup>2</sup> Wicksteed, *op. cit.*, Vol. I, p. 397.

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suggested.<sup>1</sup> His hopefulness was the product of a new regime which had developed without governmental guidance. His views on the possibility of diffusion of property through modification of the laws of inheritance had been the common conviction of the Benthamites; his views about the possibility of redistribution through labour combination were fallacious. It is probably true that he stated more graphically than any of his predecessors the idea of a povertyless community; and the bold declaration of his Utopia may have acted as a healthy re-agent in the complacent mentality of the society of his day. But he contributed nothing original and valid to forward our understanding of how it might be accomplished. The true cause of his destructive influence we shall deal with later.

(27) *Ricardo, and the economists before his time, were not prompted by contemporary problems to discuss value under monopoly*

If the peculiar facts of his day in respect of population expansion misled Ricardo, he was also prevented from pursuing certain lines of abstract reasoning (which have become important in modern economics) by reason of the fact that the particular economic developments which were wanted to inspire such speculations had not then taken place. He was not prompted to ask certain of those important questions about the significance of values that occurred to the earliest among the pioneers of the mathematical school and which began to throw light upon the true nature of monopoly. Previous economists had constantly denounced monopoly, but had seen no necessity, in the circumstances of their day, to say much about it. In so far as problems of policy were affected by restrictionism, no particular intellectual difficulties appeared to present themselves. Thus, although Adam Smith pointed out that price under monopoly was not determined by cost of production, he saw no reason for inquiring into the laws of price in such circumstances.

<sup>1</sup> Hamilton, *op. cit.*, p. 12. On the contrary, the truth is that J. S. Mill simply handed on the implications of orthodox Classical thinking when he stressed the importance of institutions. It has been the 'orthodox' Socialists who have appeared to be blind to the part played by the legal structure, which the Benthamites regarded as so important. 'Doctrinaire Marxists,' said Rignano, '... never launched any protest against the existing legal embodiment of property rights. They never devoted special attention to the privilege of unconditional bequest and inheritance which was instituted by the bourgeoisie precisely for the purpose of securing their possession of all the means of production and of all capital goods in general under the form of private property, so as to prevent the smallest portion of them from passing into collective possession.' (Rignano, *Special Significance of Death Duties*, pp. 43-4).

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It was not until the first quarter of the nineteenth century had passed that those specific innovations eventuated, particularly railways and public works on a large scale, which helped to induce other writers to think more specifically about monopoly. By 1821, when the third edition of Ricardo's *Political Economy* was published,<sup>1</sup> actual monopolistic arrangements in society seemed undoubtedly to be unimportant. Hence, it is probably true to claim that it was the practical purpose, which limited the range of his studies, that led him to devote relatively little attention to the problem of monopoly. It was just because he was not interested in abstraction's sake that this question was not more prominent in his work. He faced up to the problem in so far as it appeared to be of importance in his contemporary world, when he said: 'Commodities which are monopolized, either by an individual or by a company, vary according to the law which Lord Lauderdale has laid down; they fall in proportion as the sellers augment their quantity, and rise in proportion to the eagerness of the buyers to purchase them; their price has no necessary connection with their natural value.'<sup>2</sup> If Ricardo had lived to perceive the full significance of the technological changes into whose nature he had already shown an unsurpassed insight, if he had known where the increasing scale of efficient productive operations was leading, the theory of monopoly would almost certainly have received detailed treatment from a mind of his type. It was a problem for which his peculiar gifts were admirably suited.

- (28) *Even McCulloch and Senior, who were confronted with new aspects of monopoly, were not led by practical considerations to develop monopoly theory*

The thirty years following 1821 saw far-reaching internal changes in Britain. By the middle of the century the position was very different and the economists' attention was then gradually diverted to new aspects of monopoly. The evils of restriction were still condemned,<sup>3</sup> but there was little advance in obtaining an understanding

<sup>1</sup> Ricardo died in 1823.

<sup>2</sup> Ricardo, *op. cit.*, p. 376.

<sup>3</sup> Thus, Senior was led to remark in 1852: '... the desire for unjust gain, which among savages, produces robbery and theft, assumes, among civilized nations, the less palpable forms of monopoly, combination, and privilege: abuses, which, when of long standing, it requires much knowledge of general principles to detect or expose, and which it is still more difficult to remedy without occasioning much immediate injury to individuals'. (*Op. cit.*, Vol. I, p. 40).

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of the phenomenon. McCulloch and Senior certainly began to show some insight into it; but like earlier writers who had touched hesitatingly on the topic, they were confused between two different aspects of scarcity.<sup>1</sup> They regarded things which are naturally scarce as 'natural monopolies'.<sup>2</sup> Moreover, they did not see any particularly urgent problems arising from 'natural monopoly' and still appeared to regard such 'artificial monopoly' as existed in their day as not very important. Thus, when Senior denied that 'the bulk of commodities is produced under circumstances of equal competition' he was thinking mainly of commodities 'of which the production has in no stage been assisted by peculiar advantages of soil, or situation, or by extraordinary talent of body or mind, or by processes generally unknown, or protected by law from imitation'.<sup>3</sup> He did not seem to regard deliberate monopolization from the side of capital as a particularly serious problem.<sup>4</sup>

(29) *The Classical economists did not assume competition to exist. They were groping towards the modern concept of equilibrium*

It cannot be argued, however, that the *existence* of competition was then *assumed*. 'When we speak', said Senior, 'of a class of commodities as produced under circumstances of equal competition . . . we do not mean to state that any such commodities exist, but that, if they did exist, such would be the laws by which their price would be regulated.'<sup>5</sup> The charge that the Classical economists ignored monopoly except as a special case has arisen firstly (as we have already hinted), because they were groping towards the concepts of modern equilibrium analysis and regarded competition as a force working in the direction of a certain fundamental state; and secondly,

<sup>1</sup> See Hutt, 'Natural and Contrived Scarcities,' *South African Journal of Economics*, September 1935.

<sup>2</sup> This is a different connotation, of course, from that introduced by J. S. Mill in his conception of 'natural monopolies', which has been adopted to describe concerns like 'public utilities'. But Mill himself was confused between 'natural scarcities' and 'natural monopolies'.

<sup>3</sup> Senior, *Political Economy*, p. 103. (Quoted in Mund, *op. cit.*, p. 55).

<sup>4</sup> Cournot, who was responsible in 1838 for an immense step forward in the theory of monopoly, was similarly confronted with a situation in which (as Professor Mund has said) 'competition was the rule in trade and the only phenomena which he found for monopoly analysis were mineral springs, medicines, theatres and bridges' (*op. cit.*, p. 58). Cournot's influence was slow. His ideas and those of later mathematical theorists on the Continent only gradually penetrated the field of theory in England and America.

<sup>5</sup> Senior, *Political Economy*, p. 114.



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because they looked upon it as a sort of ideal means for the achievement of social well-being.

(30) *The charge that the Classical writers assumed the actual existence of untrammelled mobility is false*

A good reflection of typical criticisms of the Classical economists on these grounds is found in Mr. Nisbet's *A Case for Laissez-faire*, to which we have already referred. He objects to what he calls their 'assumptions'. Let us take as an example his comment on Adam Smith's contention that untrammelled mobility of labour brought about general equality of advantages of all employments. He refers to this as a 'naive belief'.<sup>1</sup> But in no sense can it be regarded as naive. Adam Smith was perfectly clear in his mind that such untrammelled mobility did not exist in the world he knew. He was no nearer making unjustifiable assumptions in his thinking on this point than is the modern economist. Neither Classical nor modern economic theory ever assumed complete geographical or economic mobility of labour in the actual world any more than it assumed complete geographical or economic mobility of other productive resources.<sup>2</sup> For many reasons it has usually been convenient to base the first stages of abstract analysis on the case in which there is complete mobility. But this does not imply that a frictionless state is assumed to be the usual thing, or that the fact of immobility renders the economist dumb. It is true of the Classical pioneers that they believed that what we to-day refer to as 'long-run' forces had great strength. Yet in their day, as we have seen, they were probably not far wrong in this view of the actual world. It is definitely untrue, however, to suggest that they were unaware of the frictions of that period. Let us take Mr. Nisbet's charge against J. S. Mill, of whom he says: 'His contention was that the economic tendencies in respect of the demand for and the supply of labour were entirely immune from friction.'<sup>3</sup> This again is typical but strangely wrong. Indeed,

<sup>1</sup> Nisbet, *A Case for Laissez-faire*, p. 36.

<sup>2</sup> How could any person have been more specific than Adam Smith concerning the power of deliberate frustrations of competition in the interests of private advantage when he expressed his belief that 'people of the same trade hardly ever meet together even for merriment or diversion but the conversation ends in a conspiracy against the public or some contrivance to raise prices'?

<sup>3</sup> Nisbet, *op. cit.*, p. 35. The reader must be reminded that Mr. Nisbet regards himself as an apologist for the Classical point of view!

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an alternative title for Mill's chapter entitled 'Of the difference of wages in different employments', could be 'Of the effects of economic friction upon the remuneration of labour'. In the case of professions such as goldsmiths and jewellers, for instance, he points out: 'The superiority of reward is not here the consequence of competition, but of its absence.'<sup>1</sup> In employments requiring even the humblest form of education, Mill recognized that there was 'a much greater disparity than can be accounted for on the principle of competition'.<sup>2</sup> And in employments generally, he said, 'so complete, indeed, has hitherto been the separation, so strongly marked the line of demarcation, between the different grades of labourers, as to be almost equivalent to an hereditary distinction of caste; each employment being chiefly recruited from the children of those already employed in it . . . or from the children of persons who, if originally of a lower rank, have succeeded in raising themselves by their exertions'.<sup>3</sup> He recognized, in particular, that 'law or custom may interfere to limit competition';<sup>4</sup> and it was these interferences that he condemned. To some extent Mill himself can be blamed for the confusion. There can be few social theorists of eminence whose works contain more apparent contradictions. He stated at one place: 'I must give warning, once for all, that the cases I contemplate are those in which values and prices are determined by competition alone. In so far only as they are thus determined can they be reduced to any assignable law.'<sup>5</sup> But a few pages later he wrote: 'Monopoly value . . . does not depend on any peculiar principle, but is a mere variety of the ordinary case of demand and supply.'<sup>6</sup> The former dictum seems to have no relevance to his treatment of any actual problems.' It is doubtful whether it could have been truthfully said of any of the prominent Classical economists that they assumed the necessary actual persistence either of effective competition or of complete mobility. And yet this is the impression which is often left; we say 'impression',

<sup>1</sup> Mill, *Principles of Political Economy*, Ashley Edition, p. 391.

<sup>2</sup> *Ibid.*, p. 392.

<sup>3</sup> *Ibid.*, p. 393.

<sup>4</sup> *Ibid.*, p. 401.

<sup>5</sup> *Ibid.*, p. 440.

<sup>6</sup> *Ibid.*, p. 449.

<sup>7</sup> Similarly, Mill contended that 'in all reasoning about prices, the proviso must be understood, "supposing all parties to take care of their own interest"' (p. 441). But this did not prevent him from saying that 'in so far as the causes are moral or psychological, dependent on institutions and social relations or on the principles of human nature, their investigation belongs . . . to moral and social science, and is the object of what is called Political Economy' (p. 21). The latter passage also appears to contradict his contentions on page 1, where he describes as 'totally distinct inquiries' questions connected with being rich, and being enlightened, brave or humane.

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for specific instances of false assumptions are seldom quoted. As Professor J. B. Clark has pointed out, elements of economic friction are factors 'which all theoretical writers have recognized and which practical writers have put quite in the foreground; and . . . while they are influences to be taken account of in any statement of principles, they in no wise invalidate principles themselves'.<sup>1</sup>

(31) *The crudeness of the Wage-Fund doctrine did not invalidate the essentials of Classical teaching in respect of Labour*

It has been an equally simple task for hostile critics to emphasize the essential crudities of the Classical economists' handling of the Wage-Fund doctrine. Although that doctrine weakened rather than strengthened the conclusions they deduced from it, the abandonment of the theory has been ravenously seized upon as a justification for the rejection of the whole of their contentions concerning the market for labour and the futility of combination as a means of bettering the condition of the working classes as a whole.<sup>2</sup>

(32) *The inadequacy of the psychological assumptions in Utilitarian hedonism did not weaken Classical teaching*

A more subtle criticism which is popular to-day is to assert that the Classical doctrines were based on a false psychological assumption. Sometimes it is simply implied that the advocates of *laissez-faire* overlooked (or still overlook) what we call 'human nature'. At other times the formal system of the Benthamites is criticized. It is, again, easy to attack the apparent crudeness of the hedonism of the Utilitarian school. But there is a simple yet perfect reply to such attacks: their psychological assumptions were in no way essential to their economic teachings. This has been laboriously argued by Dr. Z. C. Dickinson in his *Economic Motives*, and it will be dealt with later on in the present work. The picture of the Utilitarians as philosophers who, in their abstractions and unreal psychological premises had lost contact with the realities of the concrete world, is as false as it could be.

<sup>1</sup> J. B. Clark, *op. cit.*, p. 373.

<sup>2</sup> The history of the Wage Fund doctrine in this respect has been dealt with in Hutt, *Theory of Collective Bargaining*, pp. 2-10.

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- (33) *The fact that the pioneers of economic orthodoxy could not foresee institutional and technological developments does not discredit their teachings*

Finally, it has been an easy method of discrediting economic orthodoxy to assert that experience through the course of history has shown the actual contentions of its pioneers to have been misconceived. It is true that the Classical writers were occasionally bold or foolish enough to be mildly prophetic; but in that mood they were clearly not in their role as analytical economists and logicians. It is mere propagandism to exploit their occasional misjudgments in order to discredit the essence of their contribution. They were probably more correct in their visions of the future than their contemporaries, and even where their judgment may superficially seem to have been wrong, we find that they were thinking of some important aspect of affairs which is easily overlooked. A good example is found in Adam Smith's comments on the 'joint stock' principle.<sup>1</sup> His criticism of the proposal does not seem, in the light of history, to have been very shrewd; but there is, nevertheless, an important measure of truth in it that should be evident to all except those who are blindly uncritical of existing institutions. 'Directors of such companies', he said, 'being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private co-partnery frequently watch over their own . . . Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company.'<sup>2</sup> This, we believe, is absolutely true, in some degree, of most joint stock companies, in spite of the development of administrative devices and 'incentives' to minimize the inherent weaknesses of modern corporations. As a condemnation of an apparently inevitable and probably advantageous development of capital market institutions, his remarks did not happen to be good prophecy: as a clear indication of factors which will always be present, their truth is beyond question to the modern student of administration.

<sup>1</sup> It is significant that Adam Smith is never criticized for the approval he gave to legislation against usury, or for his support of the repeal of the laws against forestalling, engrossing and regrating.

<sup>2</sup> Adam Smith, *op. cit.*, Vol. I, p. 233.

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- (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*

We see, then, how easy it has been for those who have wished to discredit the eighteenth- and nineteenth-century founders of our science to represent their teachings and judgments as having been completely upset by the thought and experience of the last century. That the commonly accepted view of a fundamental part of Utilitarian doctrine and Classical teaching is false must surely be obvious to all who have really tried to learn something of the content and spirit of the Classical school. One cannot avoid the conclusion that the impression of their work which has contributed to the formation of the current attitude has been mainly derived from biased secondary sources. Most outrageous statements concerning the point of view and the assumptions of the early 'individualists' have been made from time to time; but even audiences which one would expect to have some familiarity with their views and outlook have allowed such misrepresentation to go unchallenged. Let the reader now put the following questions to himself: Why have the teachings of the economists been so misrepresented? Why have intelligent students been so disposed to accept uncritically a false view of the content of Classical orthodox economics? Why has there arisen so completely distorted a popular view of the contributions of the sociological rationalists? What is the origin of this distorting power and in what ways is it relevant to the problem of devising social institutions in the light of any given ideal? Is it not still operative in the sphere of thought on social relations?

## CHAPTER IX

### THE MISREPRESENTATION OF THE *L A I S S E Z - F A I R E* AGE

- (1) *The misrepresentation of the Industrial Revolution period in order to discredit laissez-faire and Classical economics has had far-reaching effects*

THE final serious misrepresentation of Classical economics which we must notice is an indirect one. It lies in the suggestion that the implications of the early economists' teachings must be false because of the actual and obvious abuses of the so-called *laissez-faire* period. A chain of writers has sought to point out or suggest the horrible conditions which would have persisted had that policy been tolerated. The insidious strength of power-thought has here wrought its evil work in historical writings. Consciously or unconsciously, there has been serious falsification of economic history in the desire to blacken the early industrial age. The effects of the misrepresentation have been quite far-reaching. The contributions of the supposed authorities who, since the days of Thorold Rogers, have openly associated themselves with political parties, have been avidly seized upon and used for propaganda purposes. Especially has this been so in Great Britain. 'Educational' pamphlets and booklets on industrial history, inspired by Labour Party or Socialist interests, have been the adjunct of working-class 'adult education', and being based on the supposedly disinterested research whose results we are attacking, have given thousands of the more intelligent and active-minded individuals among the working classes a badly distorted view of the period of transition to modern industrialism. In those schools in which economic history is taught to the older children, there seems to be little doubt that the same erroneous notions are being widely propagated through that medium. A text-book by Miss C. M. Waters, *The Economic History of England*, can probably be accepted as a good representation of the typical outlook of school-teachers who are responsible for this subject. Moreover, when popular writers refer

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to working-class conditions during the Industrial Revolution, they also echo the same impressions. Thus, Mr. O. F. Christie's brilliant *Transition from Aristocracy* naively says: 'For the miseries of the poor at this period, both in the towns and in the country it is unnecessary to do more than refer the reader to Mr. and Mrs. Hammond's fully documented treatises founded on research in our public offices . . .'<sup>1</sup> And even in the universities it is by no means certain that the accumulation of sixty years of false convictions has yet been very effectively dispelled. Thus, Professor W. A. Scott's *Development of Economics*, published in 1933 (a book attempting to cover the whole history of economic thought and its background, from Mercantilist times down to the present), says of the period 1776 to 1815: 'Another problem was caused by the wretchedness and misery of the labouring classes and the care of the poor. The substitution of the factory for the domestic system of manufacturing moved thousands of people from country villages to crowded industrial centres. It substituted for work in the open air and in cottages work in badly lighted, badly ventilated, and in other respects unsanitary buildings; it required long hours of monotonous toil in connection with machines instead of the varied tasks of farmers and their families, who spun and wove on rainy days in winter, and at odd hours; it greatly increased the labour of women and children; and it severed old associations and friendship of people who were ill-fitted to form compensating new ones. Under these conditions, too, wages were frequently far from adequate to enable people to maintain their accustomed standards of living.'<sup>2</sup>

(2) *The first part of this chapter puts a personal view of aspects of the late eighteenth and early nineteenth centuries*

The writer remembers vividly his curious astonishment and indignation when, in the early part of 1925, he began to realize how misleading and untrustworthy were practically all the better known writings dealing with the social effects of the Industrial Revolution. An interest in the theory of trade unionism had led him to an independent study of some of the blue books and other literature bearing

<sup>1</sup> O. F. Christie, *Transition from Aristocracy*, p. 39.

<sup>2</sup> W. A. Scott, *The Development of Economics*, p. 91.

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on early industrial conditions. His first impressions were of the surprising partiality of most current teaching in painting the 'horrors' of the early factory system, and he was prompted to publish an article on this subject in *Economica*.<sup>1</sup> There have been, in the last few years, some important contributions by economic historians unconnected with Party politics, and it has become more easy to take a balanced view of the *laissez-faire* age.<sup>2</sup> But why were we for so long misled? To deal adequately with the extent to which the student has been led astray would demand more detailed treatment than would be appropriate here. This chapter puts briefly and dogmatically the impressions which the present writer's bias (or relative lack of bias) has caused him to acquire of the age of emergent industrialism. Dr. Lippmann has pointed out that 'if we believe that a certain thing ought to be true, we can almost always find either an instance where it is true, or someone who believes it ought to be true'.<sup>3</sup> This criticism might easily be levelled against the following discussion. The writer is not a historian, and he has been separated since 1928 from the sources bearing on the period to be considered, but he believes that there is no assertion in the current text-books whose significance he has not tried to consider dispassionately.

### (3) *The object of this discussion is to illustrate the distortion of social science by political interests or bias*

It is probable that some hostile critics will say of this chapter that we indicate the weakness of our case through trying to prove too much.<sup>4</sup> Our general argument, it is true, need not rest upon the assumption that the material condition of the masses advanced over

<sup>1</sup> 'The Factory System of the Early Nineteenth Century,' in *Economica*, March, 1926.

<sup>2</sup> The recent change in authoritative teaching concerning the early industrial age seems to have been largely due to the influence of Professor Clapham. The work of Mrs. M. D. George and Miss M. Buer has also had an important influence. A student of Lilian Knowles writes: 'She put most of us on the right lines, although she was too good a teacher to confuse us with "higher criticism" in a first degree course.'

<sup>3</sup> Lippman, *op. cit.*, p. 153.

<sup>4</sup> Eg. they may think of the anti-vaccinationists who, basing their argument on an objection to compulsion, supplement their case for the liberty of the individual by an attempt to show that the process is harmful; or of the temperance reformers who, in order to demonstrate the social evils associated with drunkenness, condemn all alcoholic liquor as 'poison'; or of the ecclesiastics who, arguing on theological grounds against birth control, lay stress on its harmful physiological results.



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the period of the Industrial Revolution. All rapid change in society, no matter how beneficial the final results to which it is leading, may produce distress in the short period. For individuals may be unable, through their own psychological inertia, or through institutional restrictions, to make the required adjustments in their lives. And our case does not stand or fall, therefore, according to the truth or error of our view of emergent industrialism. We deal with this subject because we wish to demonstrate further the *power of distortion* exerted by political interests upon social science; and when we insist that in fact there was no widespread material retrogression on the part of the working classes over the period considered our refutation of teaching which was formerly (if not still) common, is merely for the purpose of illustrating one field in which that distortion has been serious. A detached view of the changing conditions of poorer sections of the community in the transition period known as the Industrial Revolution may incidentally enable us to understand more satisfactorily the foundations of the society in which we live to-day. But that is not our chief object.

- (4) *In considering the laissez-faire age, a major difficulty is that the poor were merely a problem and not a power in politics*

One of the main difficulties encountered in any study of the century following 1750 arises from the fact that the lower orders were completely outside the representative government regime. The gradual acquirement by the working classes of the increased material wealth on which their subsequent political importance was based, was a fact which was not likely to be noticed by the rulers at a time when the poor were merely a problem and not a power in politics. Governments contemplated the continuance of the social order of their day; and although they were concerned with the prevention of the worst evils of poverty, the general elevation of the material well-being of the masses troubled early nineteenth-century Parliaments no more than the welfare of the unenfranchized Bantu really worries South African rulers to-day. It is true that during the early part of the century controversies over the Poor Law showed that the rulers were worried about the existence of poverty. Expressed fears of revolution (the example of France looming in the background) also indicate that the state of the poor was not felt to be a matter which

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could be ignored. Humanitarianism was also making rapid strides and influencing the upper-class view of the lower orders. But the idea of the labouring classes having an effective voice in policy was hardly contemplated; even the modest *ideals* of the Chartists were regarded with horror, quite apart from the means by which they sought to attain them. Whigs and Tories alike were conservatives in the sense that they contemplated the continuance of an economic society founded on a distribution of wealth and political rights such as obtained in their day. Governmental traditions were wholly aristocratic and seemed likely to remain so. It was only as new classes, rising from below, slowly acquired increased economic strength, and from that the power to demand political rights, that truly democratic trends were witnessed. That the incipient capitalism of the late eighteenth century was accompanied by the formation of societies like the 'Friends of the People' and the 'Society for Constitutional Information' was no coincidence. The very gradual rise to power of the masses was based on the dispersion of wealth precipitated by capitalist developments. In all probability the proletariat were acquiring during the whole of the Industrial Revolution period the economic power on which their political advance at a later stage depended. It was the middle classes, however, who were first able to assert their rights. It was not until 1867 and 1884 that the poorest sections of the community had attained the stage at which governmental policy had to be nominally subject to their approval. The Reform Act of 1832 marked the triumph of the middle classes only. The idea of a working-class democracy became tolerable only when it began to be recognized as being inevitable, and the developments which signified the growing influence of the proletariat were not conspicuous over the period with which we are immediately concerned. There was certainly power to be obtained from the support of the masses, even before they became of consequence in high politics. But the support of the common herd was spurned by the majority of parliamentarians. In those days Members of Parliament felt themselves to be, as indeed they were, very important people. It was working-class agitators, trade union leaders, evangelists, and demagogues of smaller fry who bid for the approval of the vulgar. Such contestants for power began to be able to finance themselves in part from the growing resources of those to whom they made their appeal. For many years before the passing of the first Reform Act,

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labour monopoly had provided funds for the financing of leaders of a new type; and this method of private advancement grew in popularity as the earnings of the populace expanded. The profitableness of appeal to the masses was further enhanced by the cheapening of printing and the improvement of propaganda technique. Thus, the poorest classes were brought into political influence only as individuals realized that through the control of proletarian minds, their own rise of power could be secured. But the economic advance of peoples is not determined by parliaments. And as the South African Bantu can be seen at the present time to be advancing in their command of material things and the power to enjoy the fullness of life, so it seems that the voteless proletariat in Great Britain had been progressing during a period in which the State did little to promote their advantage apart from the unintentional service of leaving them alone.

(5) *The laissez-faire age was one of growing humanity, and material advance for the great mass of workers*

The century following 1750 must be regarded as one in which the social and material welfare of the great mass of workers advanced continuously, except during the disturbances of wars and inflations. And even over these periods there are no grounds for supposing that there was general retrogression. That it has proved so easy to suggest the contrary has been due to the advancing standards that have naturally accompanied increasing material welfare. 'So far from there being a want of humane feeling,' wrote our chief authority on English thought in that age, 'the most marked characteristic in the eighteenth century was precisely the growth of humanity. In the next generation, the eighteenth century came to be denounced as cold, heartless, faithless, and so forth. The established mode of writing history is partly responsible for this perversion . . . Some (of the philanthropic movements of the period) may indicate the growth of new evils; others, that evils which had once been regarded with indifference were now attracting attention and exciting indignation.'<sup>1</sup> It was not a period of complacency. The ruling classes wished the sphere of government to be kept narrow, 'not because they believed in inaction, but because they believed in private enterprise'. Never

<sup>1</sup> Stephen, *op. cit.*, Vol. I, pp. 134-135.

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were philanthropy and benevolence 'more assiduously preached', says Dr. Buer, 'than in the eighteenth and early nineteenth centuries. . . . The objects were widespread in their scope: hospitals and dispensaries, institutions for the blind, orphanages, charity schools, while early in the nineteenth century private effort tackled general elementary education'.<sup>1</sup>

### (6) *The laissez-faire age brought unparalleled equality of opportunity in the field of industry*

The age of emergent industrialism seems to have been, above all, one of equality of opportunity *in the sphere of industry* that one cannot be sure has ever been paralleled since, in spite of modern developments in the way of free education. Different interpretations of the history of the period give us by no means uniform impressions. It was, however, undoubtedly the golden age for the much despised 'self-made' man. Probably as a consequence of the possibilities of the period, there developed during the nineteenth century the philosophy of 'self-help' associated with the name of Samuel Smiles, a gospel that sounds strangely in the ears of those of us who have only known the modern age — in which current ideas seem to have accommodated themselves to a more marked social and economic stratification in industry. As to whether the equality of opportunity of early industrialism was due to economic freedom or other causes, it is impossible for us to consider at this point. In Russia to-day, not only do former proletarians hold most of the positions of power, prestige and comfort, but there is obviously promotion from the ranks on a large scale — and in an authoritarian society. The *fact* of inter-class mobility is, however, usually overlooked when this much abused *laissez-faire* age is considered. A larger proportion of men from the poorer classes were rising in the economic scale than had been witnessed, in all probability, at any earlier epoch. Poor mechanics became famous engineers; earnest members of the lower middle classes studying in their spare time became leading inventors; artisans, or even small farmers, by dint of organizing skill, personality or shrewdness, became factory owners. Indeed, the greater part of the industrial capitalists at the beginning of the nineteenth century probably had a humble origin: they were not the direct successors

<sup>1</sup> Buer, *op. cit.*, p. 43.

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of the middle-class leaders in the incipient capitalism of the eighteenth century domestic system. Where they could acquire the elements of education, the future seemed to hold in prospect ever widening opportunities to those of energy and foresight, no matter how lowly their original economic or social station.<sup>1</sup> 'Never were the barriers so down,' says Dr. Buer of this age.<sup>2</sup>

### (7) *Those of lowly origin gained distinction in many fields during the laissez-faire age*

But even in other walks of life than industry those of the humblest origin were achieving fame and distinction. Literary men like Burns and Gifford; leaders of social movements like Thomas Paine and Robert Owen; scientists like Dalton, Watt and Faraday: these are simply a few of the outstanding men who, in other fields open to merit, commenced with no advantages in the way of wealth or status, had no education provided for them by a benevolent State; and yet acquired, in the absence of legal restrictions on their activities, great distinction in their day. Scholars and eminent professors rose from the ranks of the poorest.<sup>3</sup> If we bear in mind the immense force of aristocratic tradition in that age and the custom of valuing status and birth over that of intellect, this is all the more remarkable.

### (8) *The new towns were centres of intellectual progress*

The small industrialists who clambered from the ranks may have been, on the whole, the boors that it is fashionable to imagine all *nouveaux riches* to be. But the net effect of a regime in which uncontrolled industrialism existed can be seen in the new towns that were springing up. From the physical point of view, and judged by

<sup>1</sup> In part this was due, of course, to the very scarcity of the means of obtaining the elements of education.

<sup>2</sup> *Op. cit.*, p. 39. But compare Dobb: *op. cit.*, p. 326. 'On the other hand, there must be no undue exaggeration of the extent to which the new capitalists were created by a spontaneous raising of the meek and lowly. The average journeyman and wage-earner had scarcely a chance in five thousand of advancement in this way. A few certainly did rise, but they were quite the exception - exceptions usually accountable for by some unusual piece of good fortune.'

<sup>3</sup> But outside the sphere of industry we are on much less sure ground. The views of Sir Leslie Stephen which may be open to dispute are echoed in this passage; but the object is to show how one tenable outlook on the *laissez-faire* age is often ignored and sometimes hidden from the student who relies upon the more obvious text-books.

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modern standards, they must often have been appalling places. They were, however, not only centres of industrial activity but of some intellectual progress. It was in the manufacturing districts that literary and philosophic societies began to flourish in the late eighteenth and early nineteenth centuries. The effect of the town development of these days upon the intellectual revolution of the eighteenth century was probably much greater than we are accustomed to think. Its final effects upon the culture which had formerly been preserved in a social framework of aristocratic institutions may have been of a nature which from some points of view could be regretted. The mediocrity of Victorian tastes and standards may conceivably be the result of economic mobility between classes. But this is an aspect of development which we must disregard at this stage.

(9) *The workers who drifted to the new towns, although probably ill-adjusted to the new environment, obtained a fuller life*

Yet the main achievement of this period lay not in the scope it gave to the lucky and able ones to rise, but in its emancipation of the labouring classes from the squalor, serfdom and dependence of country life under the squire system. Conventional economic history-books tell us that the workers were forced into the urban areas. 'Peasants', says Mr. G. D. H. Cole, '... were torn from the land and driven to live in the noisome factory towns.'<sup>1</sup> They were inevitably attracted to them, and the typical grounds put forward for deploring the movement are of the flimsiest type. We can admit that expanding means, suddenly placed at the disposal of a community, may incidentally cause a disintegration of institutions which have given meaning to social existence; but expanding means bring wider opportunities and ultimately the chances of a fuller life. The new townsmen probably remained peasants at heart for a long time after they had uprooted themselves from the soil; and like the raw natives in South African towns, they may have been miserably unhappy at first whilst adjusting themselves to an industrial system. But in any case it is impossible for us to grasp the significance of the question of whether the immigrants to the towns were more happy; and we can by no means assume that the question of whether they were more

<sup>1</sup> G. D. H. Cole, *Short History of the British Working Class Movement*, Vol. I, p. 37.

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healthy is as important as other questions.<sup>1</sup> The 'drift to the towns' has always created and is still 'creating problems'. But it is a voluntary drift. It may be that the attractions of urban life are an illusion. If that is so, it is rather remarkable that the immigrants have never learnt from experience, and have seldom been anxious to return to the soil.<sup>2</sup> They found higher earnings, greater security, variety, company and almost, one might say, life itself in the towns that they are supposed to have hated. And even if they *were* discontented, 'it is better to be a human being dissatisfied than a pig satisfied'. The workers who drifted to the towns entered factory life as 'rough peasants with primitive notions of hygiene',<sup>3</sup> and could seldom have encountered conditions worse than those to which they had been accustomed. Of their material condition, this much at any rate can be claimed, that, judged by any standards that would be acceptable to-day, their lot was improved. They had better food, dwellings, clothing and medicinal facilities. In general, the workshops brought them an environment whose influence must be regarded as an uplifting one; and 'the best factories were schools . . . in which the mass

<sup>1</sup> One would have expected the health of the community to have suffered, at any rate temporarily, from the new concentration of population. But the surprisingly sharp fall in death rates up to the second decade of the nineteenth century shows that, whatever the *relative* health of the towns, the aggregate result of the forces which were accompanied by the new distribution of population was beneficial. Common sense would suggest that the deficiencies of medical knowledge, and the crude, rudimentary notions on sanitation, must have brought about serious losses from infectious diseases in urban areas. Early efforts at drainage and other remedial attempts probably made matters worse. But in some manner difficult to discern, so much improvement appears to have been accomplished by the 1820's that death rate figures show no further decline during the succeeding half-century, over which period medical knowledge went rapidly ahead and sanitation schemes on a large scale progressed. The fact that the death rates for the third and fourth decades of the century were higher than during the second decade and slightly above the average for the period 1821 to 1881 was possibly due to the disorganization caused (a) by the tightening up of the old Poor Law and the introduction of the new Poor Law in 1834, which withdrew support from large numbers who had been demoralized and pauperized during the former regime; and (b) by the Factory Act of 1833 which actually drove at least forty thousand children from their incomes and the factories into the relatively unhealthy streets and homes, and probably prevented a still greater number of younger children from obtaining later the not inconsiderable additions to family earnings which their parents had expected.

<sup>2</sup> See Fisher, 'The Drift to the Towns' in *Economic Record*, November, 1929; Hutt, 'Economic Position of the Bantu in South Africa', pp. 226-232, in *Western Civilisation and the Natives of South Africa*, Ed. Schapera; E. S. Haines, 'Economic Status of the Cape Province Farm Native', in *South African Journal of Economics*, March, 1935. Mrs. Haines concludes her article by saying: "The question provoked by an examination of conditions on farms seems to me to be not "why do Natives leave the farms?" but "why do they leave the farms as slowly as the available statistics indicate that they do?"

<sup>3</sup> Buer, *op. cit.*, p. 252.

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of the people learned elementary notions of cleanliness and decency, of punctuality, regularity, and relative sobriety'.<sup>1</sup> Educational opportunities were often made available for their children, for whom the possibility of release from long hours of toil at an early age first became a practicable ideal.

- (10) *It was war, taxation, inflation, and the Poor Law, i.e. the results of governmental activity, which depressed and degraded the poor during the laissez-faire age. Trade unionism also injured certain classes, and drunkenness bore heavily on the masses*

But it is probably not untrue to say that until very recent years, at any rate, the majority of undergraduates studying the economic history of England gathered the impression that technical progress under *laissez-faire* had spelt the physical and moral degradation of the masses. And the belief that it was only various forms of intervention by the State which enabled the emergence of tolerable social conditions has to-day so firm a grip that considerable intellectual courage is required to challenge the conventional view. As a matter of fact, the conspicuous social evils of the industrial system of the time were those that could be ascribed to governmental activities and not to its absence. The system of taxation — customs and excise, bore not on the rich, but on the products consumed by the poor. Even Cobbett's diatribes against the existing order were mainly directed to the effects of war, inflation and the Poor Law. The burden of the Napoleonic Wars fell heavily on the labouring classes, not the least part of that burden being the effects of inflation. Moreover, sentiment rather than wisdom ruled during this age in attempts to mitigate the social mal-adjustments due to the combined results of wrong policy and the rapid evolution of industrial technique. Poor relief took on a form which inevitably fostered degradation. The readjustment of the individual life was probably hindered also by small scale trade unionism, which was active in some measure, in spite of the various Acts forbidding combinations. Collective action among the old skilled tradesmen gave concrete illustration in those days of the ubiquitous struggle against technical progress on the part of receivers of income from obsolescent skill or equipment. That also must have caused avoidable poverty. A

<sup>1</sup> Buer, *op. cit.*, p. 252.



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further adverse influence upon the condition of the people over the period was drunkenness. We know that this must have been considerable. Employers had some difficulty in finding sober work-people. Yet most writers of social history have skipped lightly over the effects of drink. The evil seems to have diminished considerably before the 1830's, by which time the temperance movement may be said to have first attained any effectiveness.

(11) *But even during the Napoleonic Wars there was no general set-back in the condition of the poorer classes*

It was during the period of the Napoleonic Wars and the following decade that these influences appear to have been at their worst. But we do not believe that, on the whole, there was any actual set-back in the welfare of the labouring classes. This is the period which G. D. H. Cole describes as 'the blackest chapter in the whole history of the British working class'.<sup>1</sup> 'The workers underwent,' he says, 'a long agony from which they emerged at length, exhausted and docile, into the Victorian era.'<sup>2</sup> How typical this passage is! It reflects what has been the common viewpoint since the time of Toynbee and Thorold Rogers. We hold it to be an indefensible exaggeration in the light of available evidence. The influences discussed in the last paragraph may have acted as a check upon the physical and social advance of the working classes during the period of the War and its aftermath, but the degrading tendencies certainly seem to have been insufficiently powerful to prevent an increase of productivity in goods and services for working-class consumption. We might have expected a decline in the standards of the rural industrial workers; for we know how reluctantly they tend to adapt their working lives to new techniques. But even *they* appear to have advanced, on the whole, over the period of Mr. Cole's 'blackest chapter'. After a careful study of the position of the rural labouring family at that time Professor Clapham says: 'The conclusion of a difficult problem which contains a number of doubtfully known quantities, is that whereas on the average the potential standard of comfort of an English (with Welsh) rural labouring family in 1824 was probably a trifle better than it had been in 1794, assuming equal regularity of work, there were important areas in which it was definitely worse, others in which it

<sup>1</sup> Cole, *op. cit.*, p. 39 (Vol. I.)

<sup>2</sup> *Ibid.*

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was probably worse, and many in which the change either way was imperceptible.’<sup>1</sup> Thus, there are no grounds for assuming that the rural industrial workers (the class most likely to be injured through the obsolescence of skill and village methods) experienced a general set-back. And if we consider the working classes as a whole, it seems most probable that even during the Napoleonic Wars the advance of general economic well-being suffered nothing more than a merely temporary slowing up.

(12) *Herbert Spencer was realistically sceptical of the achievements of governmental intervention*

It is refreshing to notice the startling scepticism of Herbert Spencer concerning the part played by governmental activity in the improvements achieved by the 1850's. There is no suggestion here that he put forward a wholly defensible philosophy. He was a poor economist, but an acute, disinterested and trustworthy witness of social development. He was greatly impressed by the immense amount of progress already made before the interventionist era, even in spheres in which it is customary to assume that State intervention is most essential. *Now the fact that so industrious and acute a student could hold such opinions must be reckoned as the strongest evidence of the achievements of the laissez-faire age.* So shrewd an observer was he, indeed, that his comments on contemporary trends would enable him to be claimed as the prophet supreme in respect of economic development. But economic studies of the nineteenth century have almost universally suppressed or misrepresented his viewpoint. Our contention is best illustrated by the quotation of Spencer's reference to the facts of his time as they appeared to him. Discussing in 1850 'these impatiently-agitated schemes for improving our sanitary condition by Act of Parliament', he said:

'The first criticism to be passed upon them is that they are altogether needless, inasmuch as there are already efficient influences at work gradually accomplishing every desideratum. Seeing, as do the philanthropic of our day, like the congenitally blind to whom sight has just been given — looking at things through the newly opened eyes

<sup>1</sup> Clapham, *Economic History of Modern Britain*, Vol. I, p. 131. This passage is quoted in Redford: *Economic History of England*, pp. 64-5. The word 'rural' is, however, omitted. This is a very serious misprint in a chapter on 'The Industrial Wage Earners'.

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of sympathy — they form very crude and very exaggerated notions of the evils to be dealt with. Some, anxious for the enlightenment of their fellows, collect statistics, exhibiting a lamentable amount of ignorance; publish these; and the lovers of their kind are startled. Others dive into the dens where poverty hides itself, and shock the world with descriptions of what they see. Others, again, gather together information respecting crime, and make the benevolent look grave by their disclosures. Whereupon, in their horror at these revelations, men keep thoughtlessly assuming that the evils have lately become greater, when in reality it is they who have become more observant of them. If few complaints have hitherto been heard about crime, and ignorance, and misery, it is not that in times past these were less widely spread; for the contrary is the fact; but it is, that our forefathers were comparatively indifferent to them — thought little about them and said little about them. Overlooking which circumstance and forgetting that social evils have been undergoing a gradual amelioration — an amelioration likely to progress with increasing rapidity — many entertain a needless alarm lest fearful consequences should ensue, if these evils are not immediately remedied, and a visionary hope that immediate remedy of them is possible.

‘Such are the now prevalent feelings relative to sanitary reform. We have had a multitude of blue-books, Board of Health reports, leading articles, pamphlets, and lectures, descriptive of bad drainage, overflowing cesspools, festering graveyards, impure water, and the filthiness and humidity of low lodging houses. The facts thus published are thought to warrant, or rather to demand, legislative interference. It seems never to be asked, whether any corrective process is going on. Although everyone knows that the rate of mortality has been gradually decreasing, and that the value of life is higher in England than elsewhere — although everyone knows that the cleanliness of our towns is greater now than ever before, and that our spontaneously-grown sanitary arrangements are far better than those existing on the Continent, where the stinks of Cologne, the uncovered drains of Paris, and the water-tube of Berlin, and the miserable footways of the German towns, show what state-management effects — although everyone knows these things, yet it is perversely assumed that by state-management only can the remaining impediments to public health be removed. Surely the causes which have brought

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the sewage, the paving and lighting, and the water-supply of our towns, to their present state, have not suddenly ceased. Surely that amelioration, which has been taking place in the condition of London for these two or three centuries, may be expected to continue. Surely the public spirit, which has carried out so many urban improvements since the Municipal Corporations Act gave greater facilities, can carry out other improvements. Surely, if all that has been done toward making cities healthy, has been done, not only without government aid, but in spite of government obstructions — in spite, that is, of the heavy expense of local acts of Parliament — we may reasonably suppose, that what remains to be done can be done in the same way, especially if the obstructions are removed. One would have thought that less excuse for meddling existed now than ever. Now that so much has been effected; now that spontaneous advance is being made at an unparalleled rate; now that the laws of health are beginning to be generally studied; now that people are reforming their habits of living; now that the use of baths is spreading; now that temperance, and ventilation, and due exercise are getting thought about — to interfere now, of all times, is surely as rash and uncalled for a step as was ever taken.’<sup>1</sup>

(13) *The traditional hostility to the laissez-faire period has been inimical to logical discussion of State intervention ‘supplementary’ to competition*

The custom of ascribing, categorically or by suggestion, all the conditions of the *laissez-faire* regime which it is possible to deplore to the absence of regulation, appears to be so indefensible that only the great strength of a false tradition can account for its persistence. To point to the ‘evils’ or the ‘horrors’ of emergent industrialism and suggest that they were a manifestation of the power of uncontrolled competition or competitive capitalism to exploit or depress the masses is to-day an unpardonable misrepresentation. The blatant one-sidedness of most accounts of the social effects of the Industrial Revolution is evidence of the sort of bias which has cramped and trammelled attempts to interpret the evolution of industrial society. One of the most unfortunate aspects of the traditionally hostile attitude to the *laissez-faire* period has been that we lack, in consequence, the light which a disinterested study of the embryonic industrial

<sup>1</sup> H. Spencer, *Social Statics*, pp. 381-3.

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system might have thrown upon the principles of State intervention. We have, at the moment, many more logically satisfactory ideas concerning interference in the interests of the preservation of competition than we have concerning interference intended to 'supplement' competition. The elementary student of economic history, whilst reading about the agitation for the first Factory Acts, has not had his mind directed to the general problem of how far the existence of free contract and competitive relations in the social system was preventing a desirable solution of the non-monetary terms of contracts — the number of hours worked, for example. Instead of being made aware of the *logical* difficulties involved, even with historical data available, he has usually been left with the impression, either (a) that the competitive determination of *all* contracts is indefensible and unjust — being entirely arbitrary or simply dependent upon the 'bargaining power' of unequal parties; or else (b) that for some reason competition cannot be operative in certain fields, and hence that a just solution is determinable only according to some other principle.

- (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*

The truth is that there is no reason why free contract and competition should not produce a solution in all fields. But when a desired condition of a contract involves a thing which can only be obtained or enjoyed collectively, co-operative action which *appears* to be the negation of competition will alone make possible its attainment. The individual may voluntarily acquiesce in collective decisions when required for the co-ordination of activities. In any case, the true competitive solution may often be one which, although maximizing consumers' sovereignty (whose defence must in part rest upon the presumption that people are right in their judgment as to what is best for them) is, nevertheless, a solution which a detached observer, applying standards which have developed under wider knowledge and experience, might well deplore. Competitive institutions are the servants of human wants. They do not determine them. And the fact that the increased control which man acquired over the physical world did not at first lead to its purposeful use in

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the provision of those things that most modern humane opinion would say were needed above all else, must not be attributed to the competitive system. The cause was the inevitable ignorance of those with power to demand, that is, the great mass of the working class. This problem is discussed in detail in Chapter xvii on 'Educativ Restraints of Freedom of Choice', but it is appropriate to say a little more about it at the present stage.

(15) *The benefits derived by the workers from industrial legislation were incidental and not those which were deliberately sought*

The typical historical treatment of the Industrial Revolution has left the radically false impression that the function of legislation like the Factory Acts was to protect the workers, not from their own preferences, tastes and traditions, but from their exploitation by a system or by a capitalist or employing class. The early factory workers appear to have preferred the greatest possible earnings (which were, on the average, advancing as the years went on), both to greater leisure and to health. Their consequent over-work might be said to have been a result of their ignorance. To them the fullness of life, as they felt it, seemed to be best secured by those things which could be got with money; and perhaps in making a large family income their immediate ideal they were as unwise as they were in their attitude towards spending when they sought the conventional and habit-forming pleasures of alcohol. It is true that they themselves may be said to have given ready support to agitations for those legal enactments which resulted in leisure and which debarred younger children from spending their growing years within factory walls. But it is wrong to represent their principal motive as having been that of *seeking* greater leisure for themselves and preserving the health of their children. The mainspring of the early agitation for industrial legislation was that of the protection of the private or group *income* of the workers, and not the attainment of other benefits. That workers in general reaped certain important advantages from the policy can be argued with some force. But the social gains were incidental and not deliberately sought. The economic and social improvements which were the product of early industrialism were not solely the result of the triumph of the machine; neither did they follow simply from the hopefulness which the opportunities of a

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*laissez-faire* and developing age appeared to bring into the lives of men: they were largely the effect of the new experiences which all sorts of *chance circumstances* brought before a society whose knowledge, aspirations and tastes were inherited from a past that had not known the new sources of power over the physical world. And among those chance circumstances was industrial legislation introduced mainly from motives which were almost completely unconnected with the real benefits that ultimately flowed from it. The desirability of leisure for its own sake was hardly thought of until it was experienced, and the benefits to health and culture to be derived from the postponement of productive work by children were, on the whole, only realized by the factory working class when, for other reasons, their entry into industry had been delayed.

### (16) *We do not know how legislative and private restrictions reacted upon the total labour supply*

The actual effects of early State policy on the welfare of the working classes is not a matter which can be easily understood. That legal enactments had reactions other than those expected is obvious. In particular we have few means of telling exactly how they affected, directly or indirectly, the motives which in some measure controlled the total labour supply. This is an important point which is usually overlooked. It springs from considerations of the kind that moved J. S. Mill to his ultimate defence of trade unionism — the final mutation of the 'subsistence theory' — the belief that the habitual requirements of the working classes determined their habitual earnings, and that successful union action raised their requirements. The indirect and unintended effects of State interference and private restriction of competition in the labour field may have had beneficial results in various ways. But such results, we repeat, were incidental and unconnected with the reasons advanced for those policies.

### (17) *Recapitulation*

The principal object of this chapter, as of the last, has been to illustrate the effects of a distorting influence upon the minds of a large body of students of society. We have drawn attention to the wrong attitude of the majority of those writers who have sought to

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interpret the social history of the *laissez-faire* age. There has clearly been present a biasing factor even more powerful than that engendered by the process of 'writing social history backwards'. A tradition of error has arisen through the insinuation into the presentation of past events of erroneous preconceptions as to the nature of competition in society.



## CHAPTER X

### THE ECONOMISTS' FIGHT FOR A HEARING

- (1) *Following the 'sixties a confused public opinion tended to corrupt the economists' teachings. A 'change of tone' developed from the desire to retain authority and influence. J. S. Mill's works are characteristic*

WE have noticed how public opinion has misunderstood the outlook and the nature of the teachings of the pioneers in economic science. We have seen also how this has influenced the development of the economic ideas of persons interested in questions of social welfare. Even more serious has been the influence which a confused public opinion seems to have had upon economists themselves. This phenomenon has, we believe, been particularly noticeable in Great Britain since the passing of the Reform Act of 1867, although the influences in which we are interested can be seen at work during an earlier period. The result of these influences can be best described as a 'change in attitude' — a change not justified in any way through development in the assumptions or logic of the science. It was, said Dicey, a change 'not so much in the principles as in the tone of political economy'.<sup>1</sup> There are two related aspects of the change which may help to explain its causes. Firstly, the writings of economists began to make more frequent appeal to the emotions rather than the minds of their readers. Secondly, several outstanding economists were obviously affected by popular sentiment, by the desire to retain authority and influence, and by the course of politics. The moral rhetoric which occasionally crept into the later work of J. S. Mill was characteristic. It will pay us to devote particular attention in the ensuing discussion to Mill's convictions for, said Dicey, they were 'at once the sign, and . . . in England, to a great extent the cause, of the transition from the individualism of 1830-1865 to the collectivism of 1900. His teaching specially affected the men who were just entering on public life towards 1870.'<sup>2</sup>

<sup>1</sup> Dicey, *Law and Opinion in England*, p. 444 (Second Edition).

<sup>2</sup> *Ibid.*, p. 432.

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(2) *The economists' unconscious casuistry in fact further weakened their authority*

A decline of respect for the authority of political economy necessarily accompanied the swing to collectivism. As the State as umpire was converted or perverted into the State as despoiler for politically powerful groups, a logical system which tended to expose the clash between private and social interest had, perforce, to be discredited. Economists in general have been the constant enemies of power-thought in the field of economic relations. Those private groups or individuals who have found orthodox teachings to be opposed to their advantage have realized that the source of such influence as the teachers have had has always been respect for their integrity and their science. It is not surprising, then, that vested interests have never been slow to take full advantage of any apparent dissension within the economists' ranks in order to destroy their authority. This has not been found to be a difficult task. Dicta by unimportant writers or virtual charlatans are habitually attributed to 'economists'; and hasty, ill-considered phrases by tired or careless authorities are seized upon and represented as radical weakening. From the 'sixties onwards, we find faltering questionings of some points of orthodox theory, stimulated largely by external and corrupting influences. These questionings, far from rehabilitating the economists' authority, simply served to weaken further that faith in scientific and detached thinking which, despite growing unpopularity, had enabled Free Trade politicians, addressing middle-class electorates during the earlier age, to quote economists with effect.

(3) *The economists' authority had been declining since the days of Ricardo*

Respect for orthodox writers in this field had actually been declining in Ricardo's time. About the middle of the century Senior referred to 'the difference in the degree of clamour which was raised against Adam Smith in England, and the earlier economists in France, and that which has been directed against their successors in both countries'.<sup>1</sup> He explained this on the grounds that although 'the doctrines of Quesnay and Smith were as much opposed to existing abuses as those of Malthus or of Ricardo . . . there did not appear to be the same chance of their application. While restriction and

<sup>1</sup> Senior, *Industrial Efficiency and Social Economy*, Vol. I, p. 42.

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prohibition was the rule, and apparently the unalterable rule, political economists were forgiven for proclaiming the advantages of Free Trade. The theory was even admitted as long as the practice seemed at a distance. But these halcyon days are over'.<sup>1</sup> In the 'seventies Bagehot commented on the progressive loss of authority which political economy was experiencing. 'Not only does it not excite the same interest as formerly,' he said 'but there is not exactly the same confidence in it.'<sup>2</sup>

- (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*

The fact that for the first half of the nineteenth century Classical teachings were accepted more or less uncritically by many an educated layman, from crude popular expositions like those of Harriet Martineau, Mrs. Marcet and Cobden, has been used as a means of ridiculing orthodox theory in its early form. Yet it no more detracts from the essentially valid elements in *laissez-faire* and Free Trade teaching than does the layman's acceptance of the results of modern biology as expounded by H. G. Wells invalidate the advances of this age in biological science. The development of freedom of thought in the second half of the nineteenth century brought not only 'disintegration of beliefs' and 'the breaking up of established creeds, whether religious, moral, political or economical' (which is what Dicey records), but also the acceptance, on trust, of countless new and plausible beliefs. In popular economic opinion, we saw the weakening of custom-thought and power-thought. But their re-assertion in new forms was also witnessed. As the century wore on, conditions became, in certain important respects, progressively less favourable to rational-thought in practical economics. This point is stressed in the full realization of the great technical and substantial refinements of method and basic conceptions which have taken place since the 'seventies. In that part of economics which is concerned with the development of technique, the advance has, in a sense, been proceeding all the time. But in the fight against custom-thought and power-thought for the embodiment in practical policy of the

<sup>1</sup> Senior, *op. cit.*, p. 42.

<sup>2</sup> Bagehot, *op. cit.*, p. 4.

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implications of economic method, we have tended to go back. Social philosophers have paid less and less attention to what is fundamental in orthodox theory, and the economist has been held in decreasing respect by legislators. This has borne heavily on the integrity of economic science. For while students could be (as they were earlier in the century), relatively unconcerned with the plausibility of their conclusions, they were at a great advantage in an applied science so closely connected with human life and feeling. And in the latter era, their teachings were competing for acceptance with a host of superficially more plausible ideas. It is not suggested that an uncritical social milieu is favourable for rational development. But when there is competition between ideas for their acceptance by a body of people who are not mainly rational or disinterested, there is apt to develop a degeneration which may countervail the strengthening achieved through forced simplicity of exposition in response to scepticism. The audience to which economists had to submit their teachings after 1870 was a more interested rather than a more critical one.

- (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*

In the 'seventies we found, then, this *change of tone* among the more prominent economists. But in all the qualifications which contributed to it there were hardly any amendments of fundamental teachings that would justify serious divergence from the policies defended or advocated by the earlier Classical school. And where some real development in the content of the science came about, *appearing* to discredit the philosophy on which the *laissez-faire* principle had rested, the innovation can be shown to have been fallaciously employed. Even J. S. Mill's attempts to 'soften' Utilitarianism in his essay with that title, although it scandalized Grote, hardly justifies, we think, the comment of Dicey that Bentham might not have recognized the doctrine that he himself had preached. Actual doctrinal changes were negligible. The object of his essay was to defend, by expansion, a creed that he obviously thought was orthodox. Surely the whole tone of his *Utilitarianism* shows that he was seeking to remove misapprehensions and what he called the 'shallow mistakes' of the

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'common herd, including the herd of writers, not only in books and periodicals, but in books of weight and pretension'. To the end he regarded himself as the expositor of the philosophy of his father and Bentham, although, impressed by Turgot's condemnation of all sects, he ceased to call himself a 'Utilitarian' and even renounced the pronoun 'we' as a collective designation. It is true that in his *Autobiography* he admitted that his association with the *Westminster Review* had enabled him (to use his words) 'to express in print much of my altered mode of thought, and to separate myself in a marked manner from the narrower Benthamism of my early writings'. But he clearly had some misgivings as to the effect of his waverings and said that he regarded himself as having, in his *Dissertations*, supplied 'vindications of the fundamental principles of Bentham's philosophy'.<sup>1</sup>

(6) *But Mill's desire to give 'a more genial character to Radical speculations' seems to have affected his intellectual purity*

Mill's predecessors had not been good expositors for casual and non-philosophic readers. Their horror of the insidious harm wrought by emotional factors upon attempts to reason, and the stress they laid upon the importance of individual character, led to a mode of expression which, to those who were not acquainted with the whole of their philosophy, suggested a harshness of outlook that was undeserved.<sup>2</sup> It may be, however, that Mill was, on occasion, too conciliatory to the whims of unreasonable critics; that in unguarded moments he wrote things which, whilst not contradicting the principles of Utilitarianism, at least seem out of harmony with it. It certainly does appear that, in attempting to find out 'the mode of putting a thought which gives it easiest admittance into minds not prepared for it by habit',<sup>3</sup> in his readiness to sacrifice 'the non-essential to preserve the essential',<sup>4</sup> and in his desire to give 'a more genial character to Radical speculations',<sup>5</sup> he suffered a subtle and uncon-

<sup>1</sup> Mill, *Autobiography*, p. 185.

<sup>2</sup> The tone of their writings was to some extent common to most schools of thought in their day. To both Evangelicalism and Utilitarianism, says Dr. Buer, 'the notion that it was not very easy to work hard and keep sober on insufficient food or to be chaste under the housing conditions of the poor, would have been rejected as weakly sentimental' (*op. cit.*, p. 45). The rules of the eighteenth-century Methodist Schools laid it down that children were 'neither to play nor cry'.

<sup>3</sup> *Autobiography*, p. 72.

<sup>4</sup> *Ibid.*

<sup>5</sup> *Ibid.*, p. 181.

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scious corruption of his intellectual purity.<sup>1</sup> But we must be careful to distinguish between changes in tone which amount to concessions to collectivist sentiment — (for in England, at any rate, collectivism during the nineteenth century was merely a sentiment with no formulated philosophic or doctrinal basis that the economist could examine) — from changes in tone which are simply the result of the restatement of the same doctrines in a manner intended to refute misconceived criticisms. It must be remembered that, as the century wore on, as the Malthusian bogey faded out, as material standards could be seen to have advanced, the more optimistic were economists inclined to be. Their faith in the practicability of applying human reason to social problems, their trust in what could be accomplished in their time, tended to grow: and this is reflected in their writings in a way that might suggest to the uncritical a change in crucial convictions.

(7) *In their fight to get a hearing, economists generally have allowed the taint of intellectual compromise to affect their teaching*

In part, however, and especially following 1867, there does seem to have been an actual corrupting force bearing in a subtle manner on economic writings; and this fact complicates our study of the shifting outlook discernible in them. The economists appear to have begun to strive, not so much to correct wrong impressions, as to get a hearing. For reasons that are now obvious to the reader, the detached philosopher with his mind on the general good was becoming more and more disliked. No matter how carefully he phrased the grounds for his beliefs, they were still capable of clever misrepresentation by critics like Kingsley, Ruskin and Carlyle. It was largely in the economists' fight against the skilful irony of these and other writers, and in their defence of their own reputation and authority which had previously supplied the only source of their influence, that they

<sup>1</sup> Mill ascribes most of the influence to Mrs. Mill. It was amendments made at her suggestion, he says, which made his *Political Economy* 'so useful in conciliating minds which those previous expositions had repelled'. The influences upon Mill which we allege in this and the following chapter are admitted and welcomed by W. Lyon Blease in *The Emancipation of English Women*, p. 111 on precisely the grounds on which we deplore them: 'During his lifetime Mill enjoyed a great reputation as a thinker. Since his death he has been more universally and more justly placed in the glorious company of those who feel. Pure reason never helped a good cause or hindered a bad . . . In Mill's early years he was little better than a thinking machine. After his friendship with Mrs. Taylor began, he attained, under her inspiration, to a position of public power and influence such as few men have ever enjoyed. . . .'

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allowed the taint of intellectual compromise to affect their teaching. They recognized their antagonists clearly enough. J. S. Mill, for example, referred to the 'numerous sentimental enemies of political economy, and its still more numerous interested enemies in sentimental guise'.<sup>1</sup> 'We found all the opinions to which we attached most importance', he said, 'constantly attacked on the ground of feeling. Utility was denounced as cold calculation; political economy as hard-hearted; anti-population doctrines as repulsive to the natural feelings of mankind.'<sup>2</sup> But he and his fellow economists had to compete with their opponents for the acceptance of their authority. They tended to become *politic* economists: they refrained tactfully from stressing truths that would offend or not be readily believed by those who trusted them. 'When a working man is told', cried Cairnes despairingly in 1873, 'that Political Economy "condemns" strikes, hesitates about co-operation, looks askance at proposals for limiting the hours of labour, but "approves" the accumulation of capital, and "sanctions" the market rate of wages, it seems a not unnatural response that "since Political Economy is against the working man, it behoves the working man to be against Political Economy".'<sup>3</sup> Few would have gone as far as Cliffe Leslie when he argued against Classical teachings: 'We maintain, too, that the theory we controvert discredits political economy with the labouring classes.'<sup>4</sup> But he was, we think, betraying their hardly conscious motive. Of their absolute honesty there is not the slightest doubt. Convinced of their own essential wisdom, firm in the knowledge that their understanding of current social problems surpassed that of any of the effective leaders of the people, they simply sought to retain their influence for good. They may have been friendly with harassed industrialists or trade union leaders or politicians. Is there anything unlikely in the suggestion that to retain the respect of the practical men they carried tactfulness to an extreme that unjustifiably affected some aspects of their teaching?

(8) *The repercussions of politics upon the economists can be illustrated by Jevons's State in Relation to Labour*

Let us consider the influence of politics. Dr. J. R. Hicks recently asked why 'the arguments for Protection have usually been relegated

<sup>1</sup> *Autobiography*, p. 200.    <sup>2</sup> *Ibid.* p., 93.    <sup>3</sup> *Essays in Political Economy*, pp. 260-1.  
<sup>4</sup> *Political Economy and the Rate of Wages*, 'Fraser's Magazine', July, 1868.

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to footnotes labelled "dangerous", but the arguments for Trade Unionism have shown a disconcerting tendency to supplant their rightful masters in the text? He answered: 'Partly, . . . because (to speak frankly) most economists were — in a wide sense — Liberals; Trade Unionists were also Liberals, but Protectionists were not.'<sup>1</sup> This frankness certainly appears to be justified. Indeed, it seems hardly unjust to contend that whether or not our own explanation of the *fact* is correct, leading economists since the 'seventies have, in a manner that is logically indefensible, endeavoured to avoid facing the conclusions to which their own detached reasoning must have been leading them. For example, Jevons's *State in Relation to Labour* (published in 1882) argued that there was no definite maxim or presumption in favour of individual freedom but that each case had to be considered on its merits. 'We can', he said, 'lay down no hard-and-fast rules. Specific experience is our best guide, or even express experiment where possible; but the real difficulty often consists in the interpretation of experience'.<sup>2</sup> It is not easy to be certain of what was implied by this passage (as with similar ones in the book). Obviously it was intended, in some way or another, to differentiate his views from those of previous writers. Yet it either states a platitude of a kind that, to those who accepted the Utilitarian attitude towards expediency, called for no repetition, or else it must be regarded as based on an elementary misunderstanding of the logical method of economics — on a par with the eternal cry for 'facts not theories'. Had Jevons merely been suggesting that the presumption that the maximization of economic welfare followed from contractual liberty could always be upset if deduction from undisputed facts showed the balance of utility to be the other way, he would have been saying nothing more than the earlier Utilitarians. 'As thorough-going empiricists', said our chief authority on them, '(they) were bound to hold, . . . not that Government interference was wrong in general, but simply that there was no general principle upon the subject. Each particular case must be judged by its own merits.'<sup>3</sup> A useful light is thrown on Jevons's mind by his virtual exclusion of the sphere of international trade from the application of this dictum. He continued: 'In order, however, to prevent

<sup>1</sup> J. R. Hicks in *Economica*, May, 1931, pp. 244-5.

<sup>2</sup> Jevons, *State in Relation to Labour*, Preface, pp. v. and vi.

<sup>3</sup> Sir Leslie Stephen, *Life of Sir James Fitzjames Stephen*, p. 311.



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the possible misapprehensions into which a hasty reader of some of the following pages might fall, I may here state that I am a thorough-going advocate of Free Trade. As the subject of the book does not include foreign commerce I have no opportunity of showing the consistency of this doctrine with such regulation of home industry as I advocate.<sup>1</sup> Why should he have said this? Why should he have excluded his principle of 'express experiment' when he came to international trade? Could he have realized that this passage amounts to saying that, after having considered all conceivable circumstances affecting contracts between parties on different sides of national boundaries, he had induced a valid generalization in favour of *laissez-faire* in so far as they were concerned? But surely he could never have defended such a proposition. There is no field in which the experience of particular cases is less helpful in pointing to valid conclusions than in the consideration of national economic protection, no branch of affairs in which the deductive method is more essential to satisfactory reasoning. But having given us his assurance that he would judge all cases on their merits, his specific reference to a sphere in which non-interference is desirable was redundant. Is it unfair to imagine that here we have Jevons the Liberal speaking? Perhaps it is unfair. Yet his book certainly served as an excellent tract for the new Liberal Party, and they, whilst adhering to Free Trade, were forced, as we have seen earlier, quite apart from any change of conviction, to renounce their belief in internal freedom if they were to survive as a Party.<sup>2</sup> Cairnes pointed out in 1857 how politicians and others who had mastered the 'doctrines' of political economy were, in defending Free Trade, 'in their anxiety to propitiate a popular audience, . . . too often led to abandon the true grounds of the science'.<sup>3</sup> But following the 'seventies the economists themselves seem to have been led to abandon the true grounds for their teachings in their desire to help the Party whose doctrines seemed to them to be the most enlightened.

<sup>1</sup> Jevons, *op. cit.*, Preface, p. vi.

<sup>2</sup> Mr. J. M. Keynes has similarly suggested that the rejection of what he calls '*laissez-faire*' in no way justifies Protectionism. He says of Protectionism and Marxian Socialism that 'these doctrines are both characterized, not only or chiefly by their infringing the general presumption in favour of *laissez-faire* but by mere logical fallacy. Both are examples of poor thinking, or inability to analyse a process and follow it out to its conclusion' (*op. cit.*, p. 34). But we cannot conceive of any argument for internal protectionism (i.e. restriction of competition) which cannot apply with equal validity to external protectionism.

<sup>3</sup> *Character and Logical Method of Political Economy*, p. 5.

## CHAPTER XI

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

- (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*

It is the very absence of clear-cut principles as to the correct province of the State in the writings of the Utilitarians which has led to the chief logical difficulties connected with the change of tone we have examined. These philosophers had a deep faith in the goodness of freedom to experiment. Mistakes, they thought, would certainly be made, but would rectify themselves if the conditions of liberty could be maintained. It was largely for this reason, for example, that economists like McCulloch and Utilitarians like Place argued and worked so whole-heartedly for the repeal of the Combination Laws. Both argued at times as though they believed that trade unions existed *because* of the restrictions on them, and that, if left alone, they would dissolve partly through internal divergence of private advantage, and partly owing to a realization of the futility of the small-scale combinations which then appeared to be practical. They seem to have expected that the removal of the legal restraint on combination would lead to a more free labour market. The moving spirits in the repeal of these Laws appear to have assumed that the self-interest of individual workers would be sufficiently powerful to cause trade unions to disintegrate. The Combination Laws were, therefore, redundant, and merely prevented the workers from realizing the complete inefficacy of combination. This assumption was derived from their general belief (which they accepted as a fact of experience) in the inherent disruptive tendencies within all monopolies unprotected by the State. This is the only explanation of their attitude which leaves any consistency at all in their views on labour monopoly.

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- (2) *Had they foreseen the coercive powers and the means of maintaining monopoly which the unions possessed, the Utilitarians would certainly have approved of State restraint*

If our explanation is correct, it is clear that they did not realize the power which labour combinations may possess to restrict the contractual freedom of individuals and to force them into membership of a union or into acquiescence.<sup>1</sup> They must have overlooked also the power of 'joint monopoly' with Capitalist entrepreneurs (the 'good employers') by means of which permanence of monopolistic arrangements can be secured. Had they contemplated the possibility of such effective coercive powers as the early combinations soon showed themselves to possess, few of those members of Parliament who helped Place in his successful intrigue to get the Combination Laws repealed would have given their support. Most of the Utilitarians, indeed, would probably have expressed approval of Senior's drastic recommendations (if not the tone of his report), in 1831, when he suggested that normal trade union activity in the way of picketing and intimidation should be ruthlessly suppressed, even by the confiscation of funds if milder methods failed. Had their interpretation of experience been different, their *laissez-faire* would surely not have been a maxim of State passivity: it would have envisaged a militant State — persistently aggressive against any restraints not defensible in the light of their utility principle. If this suggestion is right, it certainly does help to explain a real weakness in Utilitarian teaching. The dominance of the utility and expediency principles in the works of the Benthamites has caused it to be said of them that they failed to reconcile contractual freedom with unlimited right of association. They were certainly far from satisfactory on this dilemma. But is it not true that they treated the goodness of free contract as a question of fact, justified on grounds of practical policy? This was certainly so, we believe, in the case of the earlier writers.

- (3) *Mill's plea for the tolerance of Unionism turned laissez-faire from a principle of expediency into a dogma*

With J. S. Mill, however, *laissez-faire* had curiously become a dogma, a mere anti-State maxim, a principle which prescribed

<sup>1</sup> We may be rather unfair to the Classical writers here, for if the State had not given special privileges to trade unions and had not failed to provide protection for interlopers (blacklegs), the disintegrating forces might have been much more effective.

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passivity in relation to the activities of trade unionism, although he did not consider the extension of his principle to all forms of monopoly. In his attitude towards the province of the State he had diverged considerably from his intellectual ancestors. But, as we shall show, far from this having been the consequence of a renunciation of belief in *laissez-faire*, it followed, on the contrary, from the elevation of what they had upheld merely as a principle of expediency into an 'ultimate truth'. Sir Leslie Stephen, discussing his brother's (Fitzjames Stephen's) criticism of Mill, said: 'Mill advocates rules to which, if regarded as practical indications of certain obvious limitations to the utility of Government interference, Fitzjames has no objection. But when they are regarded as ultimate truths, which may therefore override even the principle of utility itself, they are to be summarily rejected.'<sup>1</sup> The original Benthamites, there can hardly be the slightest doubt, would never have approved of a free hand being given to the monopolies of the present day, labour or otherwise. The non-interference which they advocated at the beginning of the century, and which they believed would result in the automatic disintegration of anti-social bodies, would not have remained a tenet of their practical creed. They had not been up against the concrete realities of the 'juristic paradox' in the opposition between contractual and individual liberty. This is proved by the whole tone of their writings. There would have developed, as part of their doctrine, a set of principles and rules on which legislation like the United States anti-trust Laws could have been based. They would have supplied a rational justification for such enactments — a justification which is much needed now that the propaganda of partly thwarted vested interests and privately-subsidized teaching has done so much to weaken the faith of the American people in them. The early Utilitarians might quite conceivably have approved of legislation to prevent tenant farmers from parting 'under contract with advantages such as compensation for improvements', which Dicey appeared to believe they must *of necessity* have condemned. Dicey's misconceptions are, however, typical. His *Law and Opinion* is a vivid and convincing survey of the changing ideas of the nineteenth century. He was not, as he explained, an economist, and for this reason his work is an especially impressive achievement. But on the point we are now considering he fell into the usual error in the

<sup>1</sup> Sir Leslie Stephen, *Life of Sir James Fitzjames Stephen*, p. 321.

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Introduction to the Second Edition. 'It is not clear,' he said, 'that Bentham might not, in different circumstances, have recommended or acquiesced in legislation which an ardent preacher of *laissez-faire* would condemn. It may be suggested that John Mill's leaning towards Socialist ideals were justified to himself by the perception that such ideals were not necessarily inconsistent with the Benthamite creed.'<sup>1</sup> But it was *Mill* who had become the more 'ardent preacher of *laissez-faire*', and he was unconsciously led into this role, we suggest, because a dogmatic *laissez-faire* alone was capable of giving any logical justification for the trade union movement.

(4) *Mill's attitude seems to amount to a blind approval of the current trade-union desire to be rid of 'mischievous meddling' from the State*

The current attitude of organized labour was well expressed by an eloquent apologist, Frederic Harrison, in 1869. 'The Trade Union question,' he wrote, 'is another and the latest example of the truth, that the sphere of legislation is strictly and curiously limited. After legislating about labour for centuries, each change producing its own evils, we have slowly come to see the truth, that we must cease to legislate for it at all. The public mind has been of late conscious of serious embarrassment, and eagerly expecting some legislative solution, some heaven-born discoverer to arise, with a new Parliamentary nostrum. As usual in such cases, it now turns out that there is no legislative solution at all: and that the true solution requires, as its condition, the removal of the mischievous meddling of the past.'<sup>2</sup> Here we have the real attitude to which Mill was giving his approval. It is impossible to attempt to reconcile it with the oft-quoted passage at the end of his *Autobiography*, in which he says he looks forward to a time when the division of the produce of labour 'will be made by concert on an acknowledged principle of justice' and his welcome to 'all Socialistic experiments by select individuals'. These words seem to be the record of a dream in all its mistiness; and we have no means of interpreting them.

(5) *Mill's laissez-faire justified the tolerance of economic coercion*

Careful examination of his text does not enable us to give a more charitable explanation of his position. Whilst he would not tolerate

<sup>1</sup> Dacey, *op. cit.*, Second Edition, p. xxx, footnote.

<sup>2</sup> Quoted in Webb, *History of Trade Unionism*, pp. 294-5.

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anything resembling physical coercion, he was apparently prepared to recommend that 'mere moral compulsion' or economic coercion should not be interfered with.<sup>1</sup> For the government to dare to intervene in this field was as 'odious' as for it to interfere by fixing maximum rates of wages (as was resorted to under the Statute of Labourers). Thus, we find him regarding the opposites of State interference to fix prices and wages-rates and State interference to prevent the fixation of prices and wage-rates through coercion or private collusion, as subject to the very same principles. What is all the more remarkable is that he admitted that combination could do nothing to keep up the 'general rate of wages'. Hence, by implication, he was pleading for the blind tolerance of a system which on his admission might work to the detriment of excluded workers. But he could hardly have justified unionism without an apology for the tolerance of coercion. He finally took his stand on a bold approval of agreements between unionists not to work with non-union men. The driving of unprivileged workers out of unionized trades or, on occasions, into union membership, he somehow reconciled with his principle of liberty. By analogy, he would have been forced to defend the devices of the great cartels and price associations of modern times, in spite of his curious inconsistency in the matter of 'natural monopolies'. It is clear from passages in his *Principles* that Mill no longer had very much faith in the disintegrating forces breaking down monopoly, which his predecessors had believed, as a result of observation, to exist. Yet he still clung to his dogma of non-intervention.

- (6) *Mill's laissez-faire incidentally removed an important sanction for restraint of free contract in respect of hours of labour, health conditions, etc.*

To justify the tolerance of coercion, however, he had to develop a doctrine that removed what may be regarded as the principal, if not the *only* logical grounds for intervention. There are circumstances in which, as we have suggested, and as later arguments will demonstrate (Chapter xvii), a criterion resembling the Utilitarians' expediency principle might justify interference by the State — in matters of health, hours of labour, and so forth. But Mill removed the grounds for such action. He expressed his principle of interfer-

<sup>1</sup> Mill, *Principles of Political Economy*, Book V, Chapter x, p. 938.

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ence in his essay *On Liberty* as follows: "The principle is, that the sole end for which mankind are warranted, individually or collectively, in interfering with the liberty of action of any of their number, is self-protection. That the only purpose for which power can be rightfully exercised over any member of a civilized community, against his will, is to prevent harm to others. His own good, either physical or moral, is not a sufficient warrant."<sup>1</sup> Mill limited the application of this principle to human beings 'in the maturity of their faculties'. Our objection to this is simply that Mill made an absolute rule of it. He excluded children from its operations apparently on the grounds that their wisdom as to their long-run or even short-run interests was likely, in most things, to be at fault. In the case of adults, however, he evidently believed, not that there should be a *general presumption* in favour of the belief that the individual knows best what is to his long-run advantage, but that there was no class of circumstances in which the possibility of his being irrational in committing himself by contract should be considered as a ground justifying State interference with free contract. Applied logically, this principle would deprecate, for example, all industrial legislation appertaining to non-infectious diseases. That is a maxim which *might* be capable of very effective defence; but it is obviously inconsistent with his attitude on other things.

(7) *To justify State interference in respect of hours of labour Mill had to defend the use of State coercion for private advantage*

There is a passage in the *Principles* which at first awakens our hopes that certain other conceivable sanctions for State interference in respect of hours of labour and other matters are going to be logically considered. Mill referred to 'matters in which the interference of the law is required, not to overrule the judgment of individuals respecting their own interest, but to give effect to that judgment'.<sup>2</sup> But we are again disappointed. From a dogmatic *laissez-faire* he suddenly switched to an equally dogmatic justification of interference in the interests of private monopoly. He took the case in which, he said, individual interests cannot be given effect to 'except by concert, which concert again cannot be effectual unless

<sup>1</sup> Mill, *On Liberty*, p. 13.

<sup>2</sup> Mill, *Principles of Political Economy*, p. 963.

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it receives validity and sanction from the law'.<sup>1</sup> But he went on to discuss a monopolistic restriction of hours of labour under which, if hours were reduced from twelve to ten by mere agreement, the amount of earnings not falling,<sup>2</sup> some of the workers would tend to break down the arrangement by working longer hours in order to get proportionately greater earnings. Mill seemed to be quite oblivious of the monopolistic nature of State-enforced or collusive reduction of the number of hours of work supplied.

- (8) *Mill neglected to discuss the right of association in his Principles, on the grounds that it was irrelevant to political economy; but he did not face the question in his other writings*

Mill must have recognized at times that his treatment of the sanctions of combination was unsatisfactory. Indeed, he seems, on occasion, to have flinched from facing what his own reasoning implied. For instead of attempting to answer the question which he felt obliged to formulate in the first edition of his *Principles of Political Economy*, namely: 'What are the proper limits to the right of association . . .?'<sup>3</sup> he shirked it with the curious excuse that it belonged 'to a different branch of social philosophy from the present'.<sup>4</sup> And in subsequent editions he apparently thought it best not to refer to the question at all. One can hardly imagine any problem which is more directly relevant to political economy, even if normative considerations are not in question. Never throughout his life did he seek boldly to dissolve this dilemma. He evaded it in the same exasperating way when writing as a political philosopher. In his essay *On Liberty* he expressed the problem in a different manner and advocated 'freedom to unite for any purpose *not involving harm to others*: the persons combining being supposed to be of full age, and not forced or deceived'. But the philosophical question which he had thought inappropriate for discussion in his *Principles* was overlooked even here; and, as he avoided this troublesome dilemma, there seems to be justification for Dicey's interpretation of the above passage

<sup>1</sup> Mill, *op. cit.*, p. 963.

<sup>2</sup> Clearly because the collusive restriction of the amount of work supplied would raise its value per unit.

<sup>3</sup> Mill, *Principles of Political Economy*, Ashley Edition, p. 939. This passage appeared only in the First Edition and is quoted by Ashley in a footnote. It was replaced in the third edition by the passage justifying unions as 'economical experiments voluntarily undertaken' (referred to in the next paragraph).



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when he says: 'Unless these words be understood in a very non-natural sense, the Benthamites of 1859 . . . were apparently ready, with a view to securing the rights of combination, to curtail the free action of individuals.'<sup>1</sup>

- (9) *Phrases which apparently qualify Mill's 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*

The insistence in his essay *On Liberty* that combination should not involve 'harm to others' would suggest that Mill's attitude, although not clearly formulated, certainly did not envisage an *unqualified* tolerance of privately contrived 'economic coercion'. This view seems at first to be confirmed by the 1871 edition of the *Principles of Political Economy* (in spite of the facts that it was revised by Mill after his supposed 'conversion' to faith in unionism, and that he then included some *specific* arguments concerning the goodness of trade unions). He still insisted that 'it is, however, an indispensable condition . . . that (the combinations) should be voluntary. No severity necessary to the purpose, is too great to be employed against attempts to compel workmen to join a union, or take part in a strike, by threats or violence.'<sup>2</sup> One wonders, on reading these words, how the principle enunciated could possibly sanction the 'closed union' or the contracts which led to it, or any form of coercion of the worker who wishes to under-cut in order to get employment. Moreover, one feels that some qualifying principle is understood, because Mill still appeared to cling to the view expressed in the essay *On Liberty* that even voluntary combinations were unjustifiable when they had objects contrary to the public good. But in later sentences he continued to write as though he thought that all economic coercion was best left alone by the State. Mill was in fact demanding *laissez-faire* in response to labour monopoly on the grounds that even harmful institutions should, in some measure, be tolerated. Talking of 'pernicious combinations', he said: 'It does not, however, follow . . . that the law would be warranted in making the formation of such

<sup>1</sup> Dicey, *op. cit.*, p. 158.

<sup>2</sup> Mill, *op. cit.*, p. 938.

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associations illegal and punishable.’<sup>1</sup> It is most charitable to conclude that he was now resting his whole plea upon the Utilitarian faith in freedom of social experiment. ‘Independently of all considerations of constitutional liberty’, he said, ‘the best interests of the human race now imperatively require that all economical experiments, voluntarily undertaken, should have the fullest licence, and that force and fraud should be the only means of attempting to benefit themselves which are interdicted to the less fortunate classes of the community.’<sup>2</sup>

- (10) *Mill's apparent inconsistencies are possibly traceable in part to his failure to temper the principle of the goodness of social experiments by the parallel principle of expediency*

His doctrine was largely influenced, we must suppose, by his *practical* judgment, looking at the world as it was at the time. Had his belief in the goodness of social experiments been tempered by the other Utilitarian principle of *expediency*, it would still have been open for him to argue that the ‘greater good’ might often necessitate the suppression of economic coercion and private monopoly. Unfortunately, the whole of his later writings on this point are marked by lamentable confusion. It is impossible to reconcile different parts of his works. There seems to have been a clash in his mind between what were really separate aspects of Utilitarian doctrine: the principle of free contract, which could be *presumed* to satisfy the criterion of the maximization of utility; and the principle of expediency, which deprecated interference with apparently coercive bodies unless their harm was abundantly clear. What appeared to be indefensible conspiracies might have unexpected yet beneficial incidental results. This is the most charitable explanation of his inconsistencies. Trade unions, for example, he believed to have diminished the birth-rate through causing a higher ‘standard of requirements’ to grow up among the workers; but the reconciliation of this belief with his view that ‘combinations to keep up wages are seldom effectual, and when effectual are . . . seldom desirable’<sup>3</sup> is hardly possible. We may perhaps assume, nevertheless, that it was more in practical judgment than in opinions on theory that Mill differed from the earlier philosophers of his school.

<sup>1</sup> Mill, *op. cit.*, pp. 938-9.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*, p. 936.

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- (11) *But Mill's 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*

We cannot escape the conclusion that, to put it bluntly, and specifically, Mill's judgment was warped by the sympathies he felt for trade union aspirations. It is understandable enough. The unions appeared to be the expression of the strivings of the labouring classes with whose well-being the economists had always been concerned. And he, in particular, perceiving for the first time the possibility of a society that was not swamped by an incontinent population growth, had envisaged more vividly than any of the economists who had gone before him, a regime in which the poverty of his age had been conquered. He pictured the social and material advance of the labouring classes and appeared to regard the trade union movement as a manifestation of it. Unfortunately he was unable to discipline his sympathies for their strivings. He wanted to help them and struggled to get them to listen to his message. Instead of firing in him the power to work patiently in the lonely field of detached thought, his emotions and his desire to serve helped to render nugatory not only his own thinking but also to discourage and to destroy the authority of the economists who followed him. Certainly his judgment seems to have been injured through contact with a shallow social sentiment and popular opinion. And throughout, his treatment of labour combinations suggests a reluctance to face the consequence of rigorous logic, a reluctance which accounts for the many confusions and contradictions typical of this part of his work. He did not advocate, for example, licence for what he termed 'natural monopolies', although they were equally 'economical experiments, voluntarily undertaken'. Is not the explanation simply this, that they were not working-class monopolies? His sentiments were fed by the hazy dreams of contemporary poets. His heart responded readily to the ideals of Saint-Simonism and Owenism, and his head failed to control his heart. And, believing that improvement in human affairs was 'wholly the work of the uncontented characters',<sup>1</sup> he was moved on occasions to become the propagandist, to try to excite the passions of his audience.

<sup>1</sup> Hamilton, *op. cit.*, p. 61.

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(12) *Mill himself seems to have been unaware of biasing influences, even of the effects of politics upon his judgment*

Rather curiously, he himself was probably completely unaware of the strength of these influences on him even when he was displaying what might be interpreted as most obvious evidence of them. He mentioned in his *Autobiography* an incident at an election meeting in which he was asked whether he had affirmed in a pamphlet that the working classes were 'generally liars'. He said: 'I at once answered "I did"'. Scarcely were these two words out of my mouth, when vehement applause resounded through the whole meeting . . . A more striking instance never came under my notice of what, I believe, is the experience of those who best know the working classes, that the most essential of all recommendations to their favour is that of complete straightforwardness . . .'<sup>1</sup> This was an illusion that seemed to satisfy Mill's conscience. His earnestness, fearlessness, and fundamental honesty undoubtedly did impress his working-class audiences. Compared to the typical politicians of the 'sixties and 'seventies, unpractised as they then were in the art of wooing that sort of electorate, he was probably at an advantage. The flattery attempted by the ordinary run of candidates was almost certainly crude, and touched with condescension; and they had not then learnt how to simulate effectively a passionate regard for the interests of those whose votes they sought. But had he contemplated entering Parliament when he wrote the offending words, would he ever have committed to writing his view that the working classes were 'generally liars'? The truth is that unless the would-be politician believes in the goodness of the institutions in which the working classes have placed their faith, 'complete straightforwardness' is not only a handicap but an absolute barrier to him. Odger, the secretary of the 'London Trades Council', speaking after the incident just mentioned, said that 'the' working classes had no desire not to be told of their faults; they wanted friends, not flatterers . . .'<sup>2</sup> Yet if Mill had not been able to express opinions favourable to unionism, could Odger have been there with him on the platform supporting his campaign?

<sup>1</sup> Mill, *Autobiography*, p. 241.

<sup>2</sup> *Ibid.*

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(13) *But as a Liberal politician, Mill was certainly influenced*

In Mill the temporary politician, then, we find a further source of the corruption of his teaching.<sup>1</sup> There was nothing of the conscious demagogue about him. He believed himself to be in a class apart from other politicians, as indeed he was. But he was a friend of the political Liberals of his time; indeed, he has been described as 'the most important intellectual leader' of the Liberal Party;<sup>2</sup> and so easily influenced a nature as his was bound to be biased by the attitude of his associates. Thus it came about that Mr. Asquith could claim, in 1902, with *some* semblance of truth, that he gave to the Liberal Party 'its permanent watchwords', namely, 'freedom of speech, freedom of the Press, freedom of association and combination'.<sup>3</sup>

<sup>1</sup> The forces which were bearing on Mill, especially after his entry into politics, may be illustrated also by the case of an economist who survived him. The change in the point of view of Thorold Rogers when he left academic life for politics was even more startling. There was no English economist who had associated himself more closely with the views of Bastiat, Cobden, and Bright. But his departure from university life and the Church in order to enter politics coincided with his finding grounds for approving of trade unionism. The tone of his subsequent writings constantly suggests the voice of the demagogue. He said that he was once 'of the opinion, though with some misgivings, that the organization of a trade union was directed against the consumer through his employer . . .' but that 'an inquiry into the history of labour' had 'dispelled these opinions'. 'The modern labour partnership,' he continued, 'is freed from the enforced vices of the older organization, and has generally purged itself from the equally adventitious vices which were engendered by the interpretations which the courts put upon the atrocious combination and conspiracy laws'. (*Work and Wages*, p. 197.)

<sup>2</sup> Graham Wallas, *Our Social Heritage*, p. 170.

<sup>3</sup> On the whole this seems to be a gross libel on Mill! The creed of the Liberal Party of the nineteenth century was actually an opportunist corruption of Whiggism. And such it remained, until the virtual elimination of the Party from politics. In so far as the spirit of true liberalism showed itself, it was an inheritance from the days when the implications of the principle of liberty had not been worked out. Concessions to working-class opinion or to feminine aspirations were reluctantly made, and in the interests of Party survival. Consider its attitude towards the rights of women. The Liberal Party gave smaller countenance to the simple claim of sex equality (which pure liberalism must obviously recognise) than did the Conservatives. Certainly the latter were lukewarm on the point, there were several dogmatic opponents of women's rights among them, and the part played by the Primrose League in preparing public opinion for the presence of women in active politics was admittedly merely accidental; but the cause of women's enfranchisement was better served by the Tories in a grudging but frank admission of its reasonableness than by the Party which arrogated the name of Liberal to itself. Campbell-Bannerman himself was a practically solitary exception in the Liberal Party of his day. But it would be almost farcical to regard political Liberal principles as having many common qualities with the expression of liberty in Mill's *Essay on Liberty* and his *Subjection of Women*. It was in the Labour Party that those aspects of liberalism which did not directly affect industry, trade and taxation, were sometimes seen to be still living in active politics. But the Labour Party was financed from the spoils of restrictionism in the labour market.

## CHAPTER XII

### THE CONTINUED CORRUPTION OF ECONOMIC THOUGHT

(1) *The interests of organized labour bore with increased force upon politics after Mill's death*

AFTER Mill's time, the course of politics made it even less easy for any economist wishing to retain influence in the political field to be critical of unionism. The power exerted by organized labour on politicians is well illustrated by a contemporary comment on the passing of the Trade Union Act of 1871, which abolished specific legislation respecting intimidation, molestation and coercion by unionists. The writer was E. S. Beesly, one of the most prominent workers for the trade union cause in the 'sixties and 'seventies. 'It was generally believed in the House', he said, 'that not a dozen members would go into the lobby with the mover and seconder. But when the day came, and the members found that there was no escape for them, sooner than risk offending their unionist constituents, they allowed the second reading to be carried without a division . . . Such an exhibition of slavish cowardice was never seen . . . Of all the manufacturers and other opponents of the Bill, Mr. Edmund Potter was the only man who had the courage to say that he disapproved of it.'<sup>1</sup> The course of politics soon made it quite impossible for the old-fashioned views to get a hearing. To the typical workman, scepticism of the beneficence of unionism would have been taken as indicating an employer's bias. Sir Edmund Beckett, whose doubts on unionism and views on labour had been represented as harsh, wrote to *The Times* in 1887: 'It is time the truth should be told even to the British workman, who has been sprinkled with the rose water of flattery for some years by the politician, and deluded . . .' In 1893 Nicholson charged the leaders of public opinion with damaging 'the constitutions of the British working men' by the 'adulterated sweets of sentiment and flattery'.<sup>2</sup> And in the

<sup>1</sup> E. S. Beesly, 'The Trades Union Bill' in *Letters to the Working Classes* (1870), p. 20.

<sup>2</sup> Quoted in *Economic Journal*, 1894, p. 367.

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same year Clem Edwards could describe the Trades Union Congress as 'to the politician a ready indicator of "paying opinions"'.<sup>1</sup> By the 'nineties some of the large trade unions exerted vast political influence, and phrases like 'a living wage', 'collective bargaining', and so forth, acquired, to use the words of Mr. L. L. Price, a 'great argumentative advantage'.<sup>2</sup> The Press, of course, reinforced the tendencies arising from Party politics playing upon the newly enfranchized democracy. They dared not publish anything which might offend the large labour organizations. Mr. Sidney Webb was certainly able to make disparaging remarks about the futility of the Trades Union Congress of the 'nineties in his *History*. But as Edgeworth pointed out, 'hardly any writer in the capitalist press would venture to imitate so frank a criticism of a trade union body'.<sup>3</sup>

- (2) *Political conditions seem to have influenced the development of economic thought, for 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'*

The influence of trade union growth upon the minds of politicians need not necessarily have affected economists. But the tradition set up by Mill was certainly followed by permanent inconsistencies in the science. The weaknesses were not entirely new. The idea that 'labour's disadvantage in bargaining' led to the earnings of the working classes being unduly low had occasionally appeared as a sort of unexplained and very unimportant attachment of the economic theory of certain writers ever since Adam Smith. Wage-rates were supposed to be forced, in some undefined sense and in some undefined degree, below the level determined by 'supply and demand'. Discussions of the point sometimes mentioned formal or tacit monopoly among employers, but more usually 'labour's disadvantage' was regarded as a quite separate factor. After Mill's time the idea took on a much greater importance, and it became, therefore, an even more astonishing and unexplained inconsistency. Economists then began to talk about 'unequal bargaining power', and the phrase seems to have been regarded as having an obvious meaning.

<sup>1</sup> *Economic Journal*, 1893, p. 694.

<sup>2</sup> *Ibid.*, 1898, p. 468.

<sup>3</sup> *Ibid.*, 1894, p. 499.

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Practically the only attempted expansion or explanation of it was a further empty phrase. 'Labour is a perishable commodity', it was said, as though the services of all other productive resources were not equally perishable! The gradual recognition that the effects of collective bargaining upon distribution could be tackled through the theory of monopoly might have led to a consistent treatment. One would have expected that the very conception of monopoly would have suggested doubts of some of the earlier explanations of 'unequal bargaining power'; for the workers' bargaining weakness was generally supposed to be at its worst when the employers were most obviously subject to competition among themselves, as under the so-called 'sweating system' for example. But having demonstrated the indeterminateness of the distributive arrangements under bilateral monopoly in the case of collective bargaining in separate fields, the later economists jumped to the quite unjustifiable conclusion that distribution in general might be re-arranged in the workers' favour by such means. This theory of how the spoils of monopoly might be divided between capitalists and workers in individual cases was, however, never absorbed into any complete theory of distribution. The economists sometimes seemed rather ashamed of their 'bargaining power' argument and were apt to refer to its unimportance. Yet it remained as an unexplained inconsistency serving no purpose other than that of enabling economists to deny that they were opposed to trade unionism. How serious an influence this inconsistency has had is a question which historians will some day have to consider. It certainly destroyed the specificness of economic teaching at the very point at which its message should have been most unequivocal. A frank admission of the futility of private or State wage-fixation as a remedial agency ought to be the starting-point of all social studies concerned with the problem of relative poverty. An honest recognition of the same fact should form the foundation of all academic discussions of 'industrial relations'. But the economists' weaknesses have resulted in whole social philosophies having been based on an extraordinary blindness to or a dogmatic denial of this truth, and in the efficacy of wage-fixation being calmly assumed by practically all 'sociologists'.



## CORRUPTION OF ECONOMIC THOUGHT

- (3) *Notions savouring of casuistry, such as that of the 'economy of high wages', were eagerly accepted*

In their apparent eagerness not to offend so powerful a movement, or through an uncritical sympathy with all working-class institutions, various empirical arguments were brought in by the economists to lend support to the view that labour combinations might react beneficially upon distribution in favour of the workers. Short-run gains through unionism were supposed to lead to an increase of labour's efficiency, and that either platitudinous or stupid phrase 'the economy of high wages' was coined. Similarly, union demands were supposed to have the effect of forcing improved administration and more efficient plant upon capitalists. In other words, the suggestion was (although this implication was never faced) that the unions compelled labour-saving arrangements and equipment to be adopted. Of course, neither of these reactions would actually lead to *redistribution* in labour's favour, for they would both tend to cheapen the price under competition of a unit of work done. Any absolute advantage to workers as a whole would necessarily have to come through their sharing in a larger aggregate product of industry. But considerations like these have usually been muddled into discussions on distribution. The truth is, of course, that it is very seldom to the immediate advantage of any group of workers, considered as a body, that their efficiency shall be added to. And the various attempts to reinforce the 'bargaining power' theory (if we can rightly flatter it with the name of 'theory') on empirical grounds savour of casuistry.

- (4) *The economists' praise of such poor contributions as Thornton's and Longe's refutations of the Wage-Fund theory is symptomatic*

The fame achieved by Longe and Thornton<sup>1</sup>, through their criticisms of the Wage-Fund doctrine (which is wrongly supposed to have been especially unfavourable to unionism) is symptomatic. The fulsome praise which Mill and other economists of eminence accorded to those writers can only be treated as evidence of the economists' own anxiety to renounce a doctrine whose conclusions they no longer wished to hold; for these two refutations of the Wage-Fund theory, in spite of their historical interest, were extremely poor

<sup>1</sup> Longe, *Refutation of the Wage Fund Theory*, 1866; Thornton, *On Labour*, 1869.

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pieces of work. Had they not espoused a cause for which most people were trying to find a justification, the authors would have been completely forgotten as cranks. An attack on the Wage-Fund conception in a form that had not incidentally justified unionism (and there is no reason why it should necessarily have done so) would have had no popular influence. As Professor Robbins has pointed out, 'for political reasons the Classical theories of capital were unpopular, and men jumped at any pretext for rejecting them'.<sup>1</sup>

(5) *The fall of the Wage-Fund theory appeared to precipitate the decline of the economists' authority*

We see, thus, how the writings of the economists, and in particular those of J. S. Mill (whose influence pervaded the economic thought of the following generation) were affected by an apparent desire to find grounds for tolerating trade unionism. The fundamentals of Classical economic theory were corrupted through the stimulation of non-rational changes in teaching or outlook. But the contributions of Longe and Thornton, and Mill's subsequent 'retraction' of the Wage-Fund theory, seem also to have given a powerful impetus to that general disintegration of economic authority which we have seen has led to the diminishing prestige of economists. Since their time, said Goschen in 1893, 'what a change have we seen, what havoc amongst doctrines of the orthodox school. But when I say "havoc" I do not necessarily mean an exposure of fallacies . . . But authority has been lost and we now find ourselves in the midst of economic anarchy'.<sup>2</sup> We have already noticed how respect for orthodox teaching had been declining even before the 'sixties (p. 180). But since that decade the decline seems to have been accelerated. Nicholson well summarized the position which existed in 1894 in his Presidential Address to the British Economic Association. 'The growth of public interest in practical economic questions', he said, 'of which the journalistic attention is the most certain sign, has not been accompanied by a corresponding extension of the systematic study of political economy . . . Their indifference to political economy in its broader aspects is of comparatively recent growth. Thirty years ago it was commonly studied by

<sup>1</sup> In Introduction to Wicksell's *Lectures on Political Economy*, p. xiv.

<sup>2</sup> *Economic Journal*, 1893, p. 379.

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thoughtful men, and especially by those who were called upon, by speech or writing, to instruct or advise the public . . . It is, then, surely remarkable that this interest in the theory should have declined precisely during the period when economic problems have come more and more to the front.' On the Continent, Pierson referred in 1902 to the 'striking and somewhat disquieting characteristic' of his time that so little attention was being paid, 'particularly by the younger generation, to problems of theoretical economics,' at a time when, owing to the existing 'enthusiasm for social legislation just the contrary might have been expected'.<sup>1</sup> He found the explanation principally 'in their growing sympathy with Socialism which is displayed by the younger generation'.<sup>2</sup>

<sup>1</sup> Pierson, *The Problem of Value in the Socialist Community*; in Hayek, *Collectivist Economic Planning*, p. 41.

<sup>2</sup> *Ibid.*, p. 42.

## CHAPTER XIII

### THE INTERNAL WEAKNESSES OF ORTHODOX ECONOMICS

- (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*

Is it true, however, that economic science has been tending to lose prestige? Does not the growth in the amount of attention given to the subject show the very reverse? To a large extent the growing importance of economic studies has been due to the demand for the teaching of *allied* subjects in universities. But in so far as theory itself is concerned, it is arguable that the development of interest has been fostered rather than hindered by its corruption. There are grounds for holding that in its amended form the substance of much teaching has not too strongly offended vested interests, and sentimentalists and students have not been turned away by too severe shocks to their preconceptions. We are too close to the period which has elapsed since Nicholson and Pierson spoke to be able to judge whether the increased interest in economic subjects in universities since that time really justified any hopefulness. Certain things will be readily admitted however. So far as economic theory is concerned, its influence on practical policy has declined. Moreover, as developed by some, it has tended to give an increasingly indefinite answer to the basic and simple questions put to it by those concerned with public or private affairs. Some economists have found hazy and hesitant approval for all that their predecessors had condemned. Monopolies, labour combinations, discriminatory prices, State fixation of wage-rates and prices, schemes of public works (to remedy unemployment) have all received a guarded and vague blessing.<sup>1</sup>

<sup>1</sup> Protective tariffs, curiously enough, have not been accorded any support which could be represented as approval until very recently, in spite of some ingenious illustrations of hypothetical special cases in which they might result in benefit to a national area. The suggested explanation that we have noticed — namely, that 'economists were Liberals', seems to be borne out.

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In the meantime the change of attitude and divergence of views on practical questions has further weakened the prestige of economists whose convictions conformed to orthodox tradition, although those individuals who taught a popular gospel appeared to be influential.

- (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*

Whether or not the basic cause is to be traced to these corrupting influences, there have been present, however, certain failings among the orthodox economists themselves which have both enhanced their susceptibility to corruption and contributed to their ineffectiveness. Earlier in this book, it was suggested that insufficient thought has been given by economists to the problem of their lack of authority. There has been inadequate self-criticism on this question. Discussion has been concentrated on less important things. It is possible that inherent defects in the approach to and exposition of economics — internal controversies over method — the failure to recognize the need for different techniques and aims within the science — have confounded discussion, leaving economists prone to unconscious bias. One feels also that these defects have destroyed respect for the teachings of all, especially of those whose pronouncements have not been popular or sounded plausible. Let us consider certain of the weaknesses which appear to have been present, ignoring for the present purpose the influence of politics and other sources of corruption which have prevented the free expression of economists' opinions from resulting in any singleness of voice.

- (3) *Pre-occupation with refinements of abstract analysis (especially through the mathematical method) may have injured prestige through the repulsion of practical men*

The importance of bringing economic thought to bear upon practical affairs has certainly occupied the attention of several economists. Indeed, certain of the leading teachers have been so interested in the question of the *effectiveness* of the science that they appear to have been mainly concerned with the necessity for making known the essentials of economic teaching and with clarifying the central concepts. They have been somewhat impatient of the form

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taken by some of the attempted refinements of theory, especially of mathematical developments; for they have believed that the result has been to obscure its main lessons and to repel practical-minded 'men of action' from the task of appreciating its meaning. The disinterested student of society must surely recognize an important element of wisdom in this attitude. 'Even the mention of the word "mathematical" makes the average legislator close the book of wisdom altogether,' said Nicholson in 1913.

- (4) *Abstract studies have sometimes been accompanied by the loss of that continuous intimacy with reality which should dominate in applied theory, and so have left the student an easy prey to bias*

Moreover, the swamping of economic treatises with mathematics has not only tended to drive away the layman, but has diverted attention from fundamentals to points of analytical interest, and incidentally thereby led to some actual corruption or unjustifiable weakening of basic tenets. It cannot be argued, of course, that the mathematical method, building on valid and complete hypotheses, can lead to anything but correct results. Neither can it be contended that this method has not proved, indirectly, of immense value in the development and refinement of the logical framework of the science. But its intricacies appear to have caused some of those practising it to lose their continuous intimacy with certain broad unquestionable elements of reality which ought always to dominate in applied theory. Whilst not actually inducing generalizations from special cases, some economists seem to have given undue stress to *curiosa* in a manner that has tended to distort their *judgment* and weaken the authority of economists generally. And they appear frequently to have shown a lack of judgment or an unregarded hastiness in framing generalizations from unrealistic premises. Can we wonder at the orthodox *Journal des Economistes*, eager in its desire to secure the embodiment in policy of economic rationalism, showing indifference or even hostility to the new mathematical school which seemed likely to rise on the work of Cournot? For its founder had sought to prove among other things that in some circumstances tariff protection can be an advantage to a national area. And is it surprising that Nicholson should have exclaimed of some of the ingenious arguments to justify protective duties: 'These exceptions are simply part of the

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casuistry of economics; they are like the discussions of moral philosophers of occasional mendacity'?<sup>1</sup> Many strange results are obtainable in the necessarily incomplete studies of abstract theory when particular cases are considered, for so many factors must be presumed to be static that one may be tempted to infer from the apparent chaos that valid generalizations applicable to real society are impossible; and there may be so much indefiniteness in the economist's mind that when attempting to apply his science to practical problems he will be an easy prey to the bias of his sympathies.<sup>2</sup> Some of the dangers have been well demonstrated by Dr. J. R. Hicks, who, whilst himself a mathematical economist and a convinced believer in the past and present usefulness of that method, has realized the pitfalls. The *incompleteness* of the speculations of Edgeworth (followed particularly by Marshall) on the indeterminateness of price under isolated bilateral monopoly led to a weakening of the economists' teaching on the subject of labour combinations which *may* have contributed most seriously to gross errors in public policy. The effect has been, says Dr. Hicks, to wrap 'the determination of wages under competition in a web of obscurity, by distracting attention from the significant factors in the problem, and concentrating on ultra-theoretical points of which the importance in actual practice is very questionable. What is worse, the mathematical theorists, after raising these special difficulties, have not completely cleared them up'.<sup>3 4</sup>

- (5) *The valid scope of abstract method has often been misunderstood, and the frankness of the expositors of economic theory has wrongly disparaged the economists' authority*<sup>5</sup>

An extremely clear example of the dangers involved in the pre-occupation of some economists with the logic or mathematics

<sup>1</sup> Quoted in Palgrave's *Dictionary*, article on 'Protection'.

<sup>2</sup> Our references to Jevons in Chapter X are relevant here, for he was a leading pioneer in the development of the mathematical method. The coldness of abstract conceptions and symbols is no certain safeguard against bias.

<sup>3</sup> Errors of the same kind have arisen in connection with the mathematical economists' discussion of discrimination. See Hutt, 'Discriminating Monopoly and the Consumer', *Economic Journal*, March, 1936. The complexities of contemporary discussions of decreasing costs give rise to similar dangers.

<sup>4</sup> *Economic Journal*, 1930, p. 215.

<sup>5</sup> Much of this and the following three paragraphs appeared in Hutt, 'Economic Method and the Concept of Competition', *S.A. Journal of Economics*, March, 1934.

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of the science is seen in an important contribution to abstract theory by one of the younger economists which seems unconsciously to reflect misconceptions which are common in certain schools of thought. In this case the author, Mrs. Joan Robinson, was bold enough in the first and existing edition of her book<sup>1</sup> not only to apologize for the uselessness (to the practical man) of her own contribution, but to belittle in the plainest terms the value of orthodox method in its present stage of development as an aid to the guidance of practical policy. She said that the analytical economist is 'conscious in the presence of the practical man, of an agonizing sense of shame. And when he tries to work on some fresh problem, and sets about writing out the assumptions which are necessary to make it soluble, he cannot help imagining what the mocking comments of the practical man would be if his eyes happened to fall on that list of assumptions.'<sup>2</sup> Now these sweeping and possibly light-hearted assertions amount to a libel on those theorists, past or present, who do not happen to subscribe to her views as to the omniscience of the methods she chooses to adopt, or her opinions as to how abstract analysis is serviceable in practical problems. They are assertions against which it might be difficult for those slighted to protest; for they must be only too conscious of the desirability of further exploration along many paths; and self-defence might be interpreted as complacent self-satisfaction. The truth is that what may be regarded as modern orthodox theory throws the clearest light upon countless aspects of the affairs of the actual world. The utilization of that theoretical system does not necessarily involve any disputed or disputable assumptions whatsoever. What is called 'economic theory' can be logically and usefully applied to the great majority of concrete problems which involve the contemplation of *scarce means*. But Mrs. Robinson said in effect: 'Be patient. It is true that all the economists from the Classical writers onwards have been hopelessly wrong, but that was because their theories were based on the assumption of competition. Now, however, there is hope. We have invented marginal revenue curves and can start from the assumption of monopoly. By means of skilful *a priori* reasoning based on mathematics and geometry, we shall one day understand things. So

<sup>1</sup> *Economics of Imperfect Competition*. We refer to her views in the past tense as we do not believe she will adhere to them.

<sup>2</sup> *Op. cit.*, p. 2.



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in the meantime it behoves us to be careful not to say anything which might reflect upon any existing policy. When we have developed our geometrical theorems to the necessary degree of complexity, we may find ultimately that universal monopoly is better than any other conceivable state of affairs. So far, some of our studies, based on necessarily absurd assumptions, show that monopoly might sometimes be beneficial. So go ahead with your dynamiting of shipyards and other forms of "rationalization", with your closing down of paying coal mines, with your burning of coffee, with your ploughing under of wheat and cotton lands, with your pools, and marketing boards, and transport boards, with your compulsory co-operation, tariffs, and import quotas, or wage and price fixation. We have nothing to say for them or against them. But above all, beware of economists who suggest to you that there is a strong presumption that these things are harmful. They are charlatans. They are only guessing. In their hearts they are ashamed of themselves. They are making unjustifiable assumptions which would shock you if you only knew what they were.' This is hardly a misrepresentation of the impression that her Introduction must leave with a casual reader. The tragedy is, however, that the actual charlatans of the economic world are just those writers, usually with considerable popular reputations as economists, who possess the most meagre grasp of economic theory. Such persons will have neither the necessary training nor the inclination to read and understand her book, but the introductory chapter will enable them the more easily to cloak their incompetence in claiming sole efficacy for the 'empirical method'.

### (6) *Refinement of analysis has tended to become an end rather than a means*

What Mrs. Robinson failed to realize in 1933 was that the limitations of mathematical and other abstract methods in economics will never be removed by mere refinement. The expansion of analysis for its own sake may, of course, prove profitable. The world is deeply indebted to abstract speculation in the social as well as in the physical sciences. To realize the magnitude of that debt in the field of economic theory we have only to consider the all-unconscious yet utter confusion in the mind of so eminent a logician as J. S. Mill

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when he tackled a fundamental problem in value. The notions of the mathematicians easily resolved the difficulties that so perplexed him; and this was accomplished through the medium of the simplest conceptions.<sup>1</sup> But the social organism cannot be fruitfully studied by classifying facts into categories which will fit into a given scheme of analysis. The student's attention must be devoted to observation, to recognizing the nature of the community and its activities, to appreciating to the full its real complexities and the imponderable elements in it. The nomenclature, conceptions and logical methods ingrained in his mind by habits acquired as a student of theory should guide his efforts, unobtrusively as a rule. When they are relevant, he should have easy recourse to them; they should keep him continuously aware of the extent of his assumptions; but they should never be allowed to dominate his investigations. Brevity and convenience in exposition may often justify his borrowing terms and concepts from abstract science, even when dealing with practical issues; yet, in much of the best work in applied economics, one is not reminded of any specific analytical apparatus having been employed at all. The apparatus of economics, as Cairnes pointed out, is mere 'scaffolding'. 'It must ever be borne in mind', he said, 'that in Political Economy, as in all the positive sciences, classification, definition, nomenclature, *is* scaffolding and *not* foundation — consequently a part of the work which we must always be prepared to modify or cast aside as soon as it is found to interfere with the progress of the building.'<sup>2</sup>

- (7) *The mistaken notion has been preached that when results of theories based on unreal hypotheses have to be expressed in imaginary terms, economic science has failed*

The strictures in Mrs. Robinson's book actually apply, not generally, as she believed, but to those analytical theorists alone

<sup>1</sup> Mill summarized his difficulties as follows: 'The demand, therefore, partly depends on the value. But it was before laid down that the value depends on the demand. From this contradiction how shall we extricate ourselves? How solve the paradox, of two things, each depending upon the other?' (*Principles*, Ashley Edition, p. 446). The English economists were slow to perceive the relevance of mathematical method. Cairnes doubted in 1875 whether 'economic truths' were 'discoverable through the instrumentality of Mathematics' and said that he was unaware of any case of this. (*Character and Logical Method of Political Economy*, Second Edition, Preface, p. iv.

<sup>2</sup> Cairnes, *op. cit.*, p. 146.

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who have failed to understand both the usefulness and the limitations of their work. They appear to have been misled either by a false conviction that logical method can be usefully applied only to phenomena which can be classified with reference to the convenience of their own favourite analytical machine, or by an illusion that the machine is more important than the task. To force certain practical problems into their system, it has sometimes been necessary to make assumptions which, judged by actual conditions, are certainly absurd. No exception can be taken to this procedure for work in the purely abstract sphere. Simplicity of assumptions makes it possible to erect, by the mathematical method, an intricate logical structure; and, as we have admitted, such a method can be fruitful in many ways. Yet the results reached have often to be expressed in imaginary terms which have virtually no parallel in the world of reality. This does not prove, however, that economic science has failed.<sup>1</sup> It shows that the results of much abstract speculation in the economic as in other fields of inquiry are apparently or actually barren. Because the theorists of the mathematical and diagrammatical schools are in some cases unable to find realistic categories with which their method can satisfactorily deal, that does not prove that other means of so doing do not exist.

(8) *Cannan fought for simplicity of exposition in order that it might be shown how society could be made 'better off'*

The stalwarts who, during the past generation, fought most strongly in England against the tendency for intricate abstractions to dominate academic economics were Edwin Cannan and J. Shield Nicholson. Cannan's outlook, which was maintained in his subsequent work, was clearly set forth in his Presidential Address to Section F of the British Association in 1902. His case was expressed with admirable simplicity; it is doubtful whether on common-sense

<sup>1</sup> There is, nevertheless, a real danger in such methods in that illustrations may be uncritically sought from actual affairs. For instance, Mrs. Robinson, after having demonstrated that under certain hypothetical cost and price schedules, a fall in demand would result in a rational monopolist raising his prices, and that under other schedules a rise in demand would be met by a decrease of output, appeared to assume that she had provided an explanation of these very common phenomena of the industrial world (pp. 72 and 66). But a close study of actual cases would show that the true causes are as far removed from the circumstances she postulated as they are from the typical explanations of the industrialists themselves.

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grounds it would be questioned at any point by a responsible economist; and it is certain that if the point of view for which he pleaded could have become an effective influence in practical affairs or in the public mind, many of the colossal mistakes of British internal and external policy since that time would have been avoided. Fundamental to his attitude was the necessity for opening the eyes of inquirers and the community generally 'to the wonderful way in which the people of the whole civilized world now co-operate in the production of wealth'.<sup>1</sup> Such an attitude is easily capable of misrepresentation. It is not difficult to suggest that it reflects special pleading for an existing regime. But it does stress a basic aspect of social co-operation which has struck all disinterested and scientific students of society in the modern age, yet which has still no popular recognition. Cannan seems to have been afraid that the public mind would be led away from basic essentials of this nature owing to the diffusion of effort in devoting attention to ingenious futilities in the pedantries of an academic atmosphere. His fears of the new tendencies were vividly expressed in 1904. He pictured the discomfiture of a young man, staggered by the contrast between riches and poverty, when he approaches a professor of economics to learn the causes of such apparent injustice. The professor treats him to a simple diagrammatic exposition of distribution and carefully explains each step. But the would-be student still finds the real problems that were worrying him unanswered. 'He wanted bread, and the professor has given him a stone.'<sup>2</sup> Nearly thirty years later Cannan had clung resolutely to his original view. Criticizing the plea of Professor Robbins for the desirability of regarding economics as a study of 'human behaviour as a relationship between ends and scarce means which have alternative uses', and for the elimination of the concept of social utility and the notion of material welfare as the economic criteria, Cannan said: 'Mankind has modified (the economic system) from time to time through the ages with the intention of making it — this gigantic machine — do its work better, and there has been very little doubt about the meaning of doing it better. When people ask the professor whether such and such a change will be good or bad, they will only find him tiresome if he pretends that he knows nothing of good and bad ends in economic matters and can only talk about the cheapness or dearness of different

<sup>1</sup> Cannan, *The Economic Outlook*, p. 174.

<sup>2</sup> *Ibid.*, p. 221.

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ways of attaining a given end. They will say: "You know perfectly well that what we want from you is to be told whether this proposed change will make us and our children better off . . ." Benefactors endow Chairs of Economics, audiences listen to economic lectures, purchasers buy economic books, because they think that understanding economics will make people better off. Is it really necessary for professors of economics to destroy this demand for economic teaching by alleging that they do not know what "better off" means?<sup>1</sup> The importance of this passage lies, not in its criticism of Professor Robbins's view of the scope of economic science, but in its insistence that there are certain radical truths connected with the process of 'making people better off', the consideration of which should be central to all serious economic study; and recent tendencies, it is feared, have been diverting attention from the essential realities with which economic theory should be ultimately concerned. Cannan's concern was with the *prestige* of economic science, for it is on this that its practical influence must be built. Our own suggestion is that whilst the impressive developments in the logical structure of Political Economy which the last forty years have witnessed are valuable contributions to the physiology of economic method, they have tended, in their treatment by some of the most fertile methodological inventors, seriously to obscure the persistent relevance of the backbone of the science, and to confuse the realism of its approach.

(9) *Nicholson similarly deplored developments which 'did not lend themselves to popular representation'*

Nicholson took a more extreme but very similar line to Cannan. He was inclined to go back as far as J. S. Mill in tracing the evil influence of undue abstraction! He blamed him for having built on Ricardo's theories instead of trying, in his *Principles*, to bring the common sense of Adam Smith down to date. Nicholson seemed to find in this fact the origin of the unjustified revolt which Mill himself led against his own doctrine. In recent times, he thought, attempted refinements of doctrine had led to the 'domination of certain economic ideas and methods which do not lend themselves to popular representation, . . . when they are applied to "political economy considered as a branch of the science of a statesman or

<sup>1</sup> *Economic Journal*, 1932, pp. 425-6.

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legislator" (Adam Smith), or to the "art of political economy" (Sidgwick), they fall for the most part into the wide realm of inappropriate conceptions'.<sup>1</sup> And he quoted with approval Sir Llewellyn Smith's contention that 'on all grounds it would be deplorable if through the obscurity of its language economic science should relapse into the position of an esoteric doctrine confined to a small circle of initiates, only the bare results of which are capable of dogmatic statement to the whole outside world'.<sup>2</sup>

- (10) *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*

It is a remarkable but significant thing that Professor Robbins, who has studied in the Cannan tradition, should have come to what at first appears to be an almost opposite outlook. He has expressed the belief that 'the hope that Economics will ever become something which the layman can comprehend without training is doomed for ever to frustration . . . The world of economic reality is a complicated thing, and it is not to be expected that as we come to understand it better our generalizations should be less complicated. It is no service to knowledge to make things simpler than they are. And indeed I am inclined to think that if we as economists devote ourselves too much to attempts at popularization, we shall be doing our science a disservice, and limiting its chances of beneficial influence. The sort of Economics which the Press and the public would like is an Economics which is bound either to be wrong or to be misapprehended. Surely it is better to push ahead with our analysis, embrace technicality with open arms if technicality will help us, and come to be so frequently right that we acquire the respect now given without question to the practitioners of the natural sciences'.<sup>3</sup> This controversy, if that is the right word, seems to be largely beside the point. The physical sciences have not been injured by popular science writings. It is true that however simply the arguments of modern economics are expressed, they will remain abstractions, and so peculiarly liable both to misapprehension and misinterpretation no

<sup>1</sup> *Quarterly Review*, 1913, p. 409.

<sup>2</sup> Quoted *Ibid.*, p. 412.

<sup>3</sup> *Economica*, 1930, pp. 23-24. Professor Robbins's practice has hardly conformed to these precepts! His *Great Depression* is a brilliant piece of popularization.

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matter how clear or concrete the illustrations. Even Adam Smith was told by Burke: 'You, Dr. Smith, from your professor's chair, may send forth theories upon freedom of commerce as if you were lecturing on pure mathematics; but legislators must proceed by slow degrees.' Misunderstanding and misrepresentation are inevitable. Yet it is of the greatest importance in any democratic State that some persons at any rate shall persevere and experiment in the task of popularizing economic truths. For whilst the desire to make economic teaching appear *plausible* has admittedly had a most deplorable effect, the conclusion can still be reached that some means of conveying *elementary* economic knowledge to the community is needed. This, we shall see, is absolutely necessary if institutions are to be reformed in the light of accepted ideals through rational initiative. But when we attempt to get to the basic cause of the weakness of the economists' authority, we are led to the conclusion that neither undue simplicity on the one hand, nor undue complexity and abstractness has really been a major factor. We have noticed the causes in our study of custom-thought and power-thought. It is these *external forces* which have attacked our science and they have found an unnecessarily weakened victim because of the avoidable controversies and undisciplined dialectics which have burdened it.

- (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*

Other influences tending to weaken economists' authority that have developed in the last sixty years, although appearing to be expressed as internal controversies, cannot properly be regarded as arising within the science; for they have really been based upon an attack on scientific method itself. These criticisms have tended to deny the validity of all abstract method and to insist that the only sound method of approach was through historical or statistical empiricism. The attack was headed by Cliffe Leslie in England, where its influence has been much less strong than on the Continent. More recently, and especially during the present century, the attack has been developed by statisticians. Like the members of the

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'historical' schools, they have accused the theorists of ignoring the inductive method. A rather similar attack, couched in terms of persuasive reasonableness, has come from 'sociologists' or social psychologists. Their case has rested upon the suggestion that the logical method of orthodox economics is unsuited to the material with which it deals. It is not intended to deal with these criticisms at the present stage. Both the historical and the statistical methods have been most admirably discussed by Professor Robbins in his *Essay on the Nature and Significance of Economic Science*.<sup>1</sup> Criticisms of the psychological assumptions of economic theory are dealt with later in this book. It is not true that the 'theorists' have ever been hostile or indifferent to economic history, statistical method and studies in 'social psychology': but they have been subject to the severest abuse from some of those who have pretended to be specialists in those schools. It has been possible for historians, statisticians and 'sociologists' to support the most appalling errors by attempting to deduce conclusions from crude summaries of facts, such as are contained in Index Numbers, without the aid of the apparatus of abstract analysis. Frankly, we believe that if these critics of orthodox theory *have* attained any success and power it has been mainly due to the scope that their method has given to students to hold, within a range limited only by the most obvious absurdities, whatever views or opinions they have wished. It is not alleged that in most cases the critics concerned have been conscious of an unscientific attitude. In all probability they have seldom been aware of the emotional, political or business influences that have been distorting their judgment. But they usually become known as 'economists' to the world; the mistakes they propound weaken the authority of logical economists; and the latter fail, in consequence, to get a hearing.

<sup>1</sup> Chapter v.



## CHAPTER XIV

### SANCTIONS FOR THE ECONOMISTS' AUTHORITY

#### (1) *What is the role of authority in opinion?*

IN previous chapters we have endeavoured to trace the causes of the decline in the economists' authority. In the present chapter we are to discuss the grounds on which authority may be claimed for supposedly scientific teaching. We shall discover, in the course of defining the part which authority *ought* to play in the formation of opinion, that we have defined also the field of legitimate authority and hence have determined a means for the restoration of the economists' prestige. An excellent discussion of the function of authority in social ideas was contributed by Sir George Cornewall Lewis in his *Influence of Authority in Matters of Opinion*, published in 1849.<sup>1</sup> This work is an especially useful one to consider in the present connection because, whilst it hardly treats at all of the special position of the political economist, practically the whole of the argument has important relevance to the question of the economist's prestige.<sup>2</sup>

#### (2) *Society can only exist 'as a result of countless beliefs being accepted from authority and acted upon'*

An opinion is accepted on authority, said Lewis, when a person has confidence in it 'simply because some other persons, whom he believes to be competent judges on the matter, entertain that opinion'.<sup>3</sup> Then, starting from the recognition that 'the derivation of opinions upon trust'<sup>4</sup> prevailed to a very wide extent, and that a

<sup>1</sup> Lewis was generally indebted to Auguste Comte and specially indebted on this subject to John Austin's *Province of Jurisprudence Determined*, published in 1832. Whately's remarks on 'Conviction' in his *Rhetoric* must also have influenced him.

<sup>2</sup> Austin had come fairly close to dealing with the political economist. For although his discussion of authority had reference to the field of ethics, he said that the same considerations applied to 'the various sciences which are nearly related to ethics' (*Op. cit.*, p. 65). And Austin's theory of ethics amounted, as he himself showed, to the theory of utility.

<sup>3</sup> Lewis, *Influence of Authority in Matters of Opinion*, p. 6.

<sup>4</sup> *Ibid.*, p. 5.

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complex society can, indeed, only exist as a result of countless beliefs being accepted from authority and acted upon,<sup>1</sup> he pointed out 'the desirableness that the choice of guides should be regulated by a sound discretion'.<sup>2</sup> He saw that the society which resulted, in spite of its inevitableness, 'doubtless contains a considerable alloy of evil, inasmuch as it perpetuates error in combination with truth, and affords no test for their discrimination'.<sup>3</sup> And he recognized also that the principle of accepting authority could, in itself, produce no 'increase or improvement of knowledge', but merely enable 'the diffusion and extension of sound opinions, *when they are in existence*'.<sup>4</sup>

(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*

After an introduction along these lines, Lewis was led to ask what qualities in fact rendered 'a person a competent authority in matters of opinion'.<sup>5</sup> His answer was: 'The first qualification is, that a person should have devoted much study and thought to the subject-matter if it be merely speculative: and that if it be practical, he should also have had adequate experience respecting it. Secondly, his mental powers must be equal to the task of comprehending the subject, and they must be of the sort fitted to it. Thirdly, he ought to be exempt, as far as possible, from personal interest in the matter.'<sup>6</sup> Having specified the qualities which justify trust in the authority of an expert, Lewis went on to discuss the condition in which, in intelligent circles, 'men of science . . . acquire the authority which accredits their opinions, and propagates scientific truths.'<sup>7</sup> He found this condition in 'the gradual diminution of points of difference' and 'the gradual increase of points of agreement'.<sup>8</sup> Let us consider these principles in relation to the economic scientists. Can we say that there exists a group of economists who satisfy Lewis's criteria sufficiently to

<sup>1</sup> Lewis pointed out (*ibid.*, p. 399) that 'one of the main elements of civilization is *well-placed confidence*. One leading condition for the improvement of mankind . . . is to find the means of promoting confidence in other persons, and of teaching how these persons can be properly selected.'

<sup>2</sup> *Ibid.*, p. 5.

<sup>3</sup> *Ibid.*, p. 11.

<sup>4</sup> *Ibid.*, p. 8.

<sup>5</sup> *Ibid.*, p. 26.

<sup>6</sup> *Ibid.*, p. 27.

<sup>7</sup> *Ibid.*, p. 50.

<sup>8</sup> *Ibid.*, p. 50. John Austin had also pointed out in 1832 the importance of 'that concurrence or agreement of numerous and impartial inquirers, to which the most cautious and erect understanding readily and wisely defers' (*op. cit.*, p. 66).

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justify their opinions being accepted on authority? Before discussing this question, we must make use of the list of qualities which he said rendered a person a competent authority, in order to define *the class* 'economic scientists'. This is an extraordinary difficult task. It involves the emphasis and labouing of points which many of the economic scientists will themselves regard as platitudes. One feels, moreover, that it will seem sententious or even Pecksniffian. A friendly critic says that this chapter reminds him of Gisborne's *Enquiry into the Duties of the Female Sex*. But we are not concerned with precepts. Our aim is to define a class.

- (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*

The first condition concerns the individual's having devoted much study and thought to the subject matter. Thus, on questions of social (as opposed to private) economy, we should expect to find certain men of leisure, and university teachers, with the essential qualities; for they have the time and opportunity to devote to the specialized study of society as a whole. But specialization in the task of social inquiry will not in itself create a social scientist. It goes without saying that any amount of earnestness in a student will not confer scientific quality on his work if he is unfamiliar with the contributions of predecessors in his field. Hence, the would-be authority who has neglected to make himself familiar with the intellectual heritage of disinterested thought is not entitled to be classed as an economist. We insist that the economic scientist whom we are defining shall be competent in the history and substance of what we have come to call 'equilibrium analysis'. We cannot ask that he shall accept any creed or doctrine. We must demand that he shall have an adequate acquaintance with the recorded reasoning of previous students and, above all, with their method. It may be said that this demand must amount to virtually nothing in practice, for there will be no means of telling how well acquainted with economic orthodoxy the student who claims to reject its methods and content may be. But those who are prepared to decry so imposing a science can be legitimately expected to give full grounds for their beliefs.

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If they wish the world to assume that their failure to utilize the apparatus of economic theory is due to their rational conviction that it cannot help them, then their supreme task is to show by detailed criticism why they have come to this conclusion. But to-day the only real critics of economic science are those who accept its validity and are *clearly* expert in it. From others we get, not criticism, but ostracism, and occasional phrases of subtle misrepresentation and ridicule.

- (5) *Many professed economists of great prominence would have to be denied authority according to the criterion of expertness in equilibrium analysis*

Now, if we insist upon this quality of adequate acquaintance with equilibrium analysis, it will at once eliminate many persons who are popularly classed as economists. Indeed, some of the most eminent names among the supposed economic experts would have to be omitted. Even in the universities, even in chairs of importance, there are professed economists who could not qualify under this criterion. They have often started late in the serious study of social problems. They may have done brilliantly in their own special subjects. In mathematics, or the physical sciences, or classics, or law, or history, or psychology, they may have had eminent early records. We then sometimes find them, in the course of their search for careers, attracted to the study of some worrying social phenomenon. They will be quite likely to do excellent 'descriptive' or historical work, and on the strength of this come to be regarded as serious social scientists. But their understanding of economic theory will probably be small. Certainly they will have come up against it; and we may expect them to have acquired, cursorily, some knowledge of its history and present content. Its application to concrete problems will, however, almost certainly seem to clash with the cherished convictions which their unguided excursions into a complex world have led them to acquire. They will probably express, therefore, their disbelief (with varying degrees of dogmatism) in the usefulness and validity of the implications of orthodox methods. Moreover, the prestige which they are particularly likely to obtain through saying *plausible* things,<sup>1</sup> will confirm their faith in their own

<sup>1</sup> For the more plausible their contentions, the more popular will they be, not only with laymen, but even more important, with politicians and those to whom the control of the public mind has been delegated.

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wisdom. Hence they will soon reach a condition in which they seem to be intellectually incapable of grasping theoretical economics with the requisite thoroughness. That such students sometimes acquire, as economists, positions of prominence in universities has in part been due to the inexpertness, if not incompetence, of governing bodies. We do not suggest, of course, that those who turn late to the earnest study of the economic world must necessarily fail to become social scientists in the true sense of the term. It is when, in being drawn in to investigate some field of social study, they are unaware of the nature of the tools which other students believe to be indispensable, that they must be excluded from that group to whose opinions some authority may legitimately attach.

- (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*

Under his first heading Lewis brought in also the necessity, in practical subjects, for 'adequate experience'. It is often alleged of the 'theoretical economists' that they necessarily lack experience of the practical world. In so far as most of their generalizations are concerned, this need not be true. For if, in respect of matters on which they venture to entertain opinions, they deliberately seek, by means of co-operative research, to bring together all available information, they cannot be accused of lack of contact with reality. They certainly need not ignore the experience of persons in fields where relevant knowledge is obtainable. There is nothing about the practical man's experience which cannot be communicated to the student if it bears on a problem under discussion. The so-called 'theoretical' economists appear in practice to be habitually trying to obtain a fuller understanding of the concrete situations which confront those whose duty it is to exercise initiative in society. It may be said, moreover, that the whole field of applied economics consists of efforts to secure the necessary data for decisions on matters of social concern or controversy. The economist whose opinions are entitled to the respect due to authority does not 'ignore facts'. Indeed, the tools that economic theory has placed at his disposal enable him to exercise economy in the formulation of hypotheses

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and the marshalling of data by the neglect of the irrelevant. His theories permit him to *see more* than any active worker in his field who happens to be unaided by his method. It is difficult to conceive of any important social problem whose factual basis can have anything like its full significance when the economists' logical system is spurned. One has only to consider the history of the groping towards an answerable apparatus on the part of orthodox economists themselves to realize the truth of this. 'The looker-on', said Whately in 1831, 'often sees more of the game than the players. Now the looker-on is precisely . . . the *Theorist*. When you find any one contrasting in this and other subjects, what he calls experience, with theory, you will usually perceive on alternative examination that he is in reality comparing the results of a *confined*, with that of a *wider*, experience; a more imperfect and crude theory, with one more cautiously framed and based on a more copious induction.'<sup>1</sup> When an economist is accused, not of illogic, but simply of being an impractical theorist, he is entitled to ask his detractors to specify the considerations which he has ignored. For he will have formed his opinions in the belief that he is aware of all the information *relevant* to the advice which he has ventured to give. And it must be remembered that his advice will usually be very limited even if important. Nearly always his inferences will be found to be based on certain fundamental and undisputed facts. The validity of his conclusions will be seen to be unaffected in any way by details which less skilled students may believe to bear on the question.

- (7) *It is possible that some economists may, through preoccupation 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*

There is some danger, however, from students whose main interest is in the logical subtleties for which the form of economic theory gives scope. It is easy for economists to seek unconsciously to escape from the world of reality (which is so ready to pour contempt upon their practical pronouncements) by becoming specialists in the purely abstract. And, as we have seen in the previous chapter, it is consequently easy for such theorists to go seriously astray in their

<sup>1</sup> Whately, *Political Economy* (1831), Lecture III, pp. 74-5.

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practical judgments. Deliberately adopting, for the purpose of exploring a complicated logical universe, a number of simplified assumptions which are not completely appropriate for the complex real society in which they are supposed to be ultimately interested, they are apt to expound *a priori* theories in a manner which may cause the layman to believe that they are intended to apply to the actual world. Furthermore, economists are themselves prone to assume that their theories are applicable, in a simple way, to practical policy. For it is likely that, fascinated with the ingenuities of abstract speculation, and relatively impatient, consequently, of the concrete institutions which the economist should be constantly visualizing, they will imagine sincerely that they see a world which conforms to their assumptions. This is a suggestion which is often unfairly made. The professed 'tool-maker' for the economist may often be the most competent person to use the tools that he has forged. But if he is to employ them successfully he must be fully aware of the nature of the material with which he is to work; and he must be prepared reluctantly to lay aside too elaborate or otherwise unsuitable devices. On the whole, however, the abstract theorists seem to have been successful, not only in devising appropriate machinery for tackling the urgent social problems which await solution, but in actually making good use of it. We believe that if economists did not feel their helplessness in seeking to obtain the ear of the community, there would be relatively few of the contributors to 'pure theory' who would have to be classed among those whose opinions on economic problems could not claim to be vested with any measure of authority. As things are, there exist economists who, through their frank admission of main interest in the mathematics and logic of the science, and frank or tacit confession of boredom with practical affairs, or obvious preoccupation with exercises in formal analysis, must be excluded from the select company of those whose authority can legitimately claim recognition.

- (8) *On some questions the economist must master difficult technicalities before his pronouncements can possess authority*

With particular problems, as opposed to general problems, whether or not the economist's opinion can be accredited as 'scientific' will depend upon his access to the specific facts. For example, if he

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were asked to give his views as to the presence or absence of a monopoly in a particular commodity when the various dealers in a market always appeared to act together in price changes, he could not do so with any authority unless he had further trustworthy evidence on several points. For competition, tacit monopoly and formal monopoly may all result in price uniformity. The interpretation of many economic phenomena may require, therefore, the weighing up of highly complex material information; and the economic expert's judgment becomes especially trustworthy only when he has been able to grasp the significance of the technicalities. *His* expertness lies in perceiving the social implications of things.

- (9) *Sometimes the economist's views may be based on assumptions in respect of which no special authority can attach to his judgment*

His recommendations may sometimes be of little apparent consequence to controllers of policy, even when they have given full weight to his views. For there may be aspects of the problem at issue on which his judgment will have little *authority*, although it may well be right; and on such points his declared or obvious assumptions may be rejected. For example, the typical politician may conceivably be a better judge than the typical university economist as to whether an attempt to clear up a trade depression by stimulating drastic liquidation and a general readjustment of values in a downward direction will lead to widespread panic and possible danger to the political stability of the State. And Party Whips are likely to be the more efficient judges of the effect upon prospective elections, which in practice is the most important consideration of all when government policy is in question.

- (10) *There is nothing to be said about the appropriate mental powers for the study of economics*

The second qualification which Lewis regarded as essential for the would-be *accredited* scientist was that 'his mental powers must be equal to the task of comprehending the subject, and they must be of the sort fitted for it'. We need not dwell on this point. It is possible that special aptitudes for economics exist; but in any case we have no means of determining them by the obvious tests that are



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available in other branches of intellectual skill like musical composition, painting, mathematics, or in most branches of mental-physical skill like musical performance and sports. There are, moreover, so many different branches of economics for which the most appropriate mental qualities are dissimilar that it would probably be quite wrong to conceive of a type of 'economics mind'.

- (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*

The most important of the qualifications which Lewis insisted upon is, from our point of view, his third. The competent authority in matters of opinion, he said, 'ought to be exempt, as far as possible, from personal interest in the matter'. Is it a reasonable aspiration to hope that true disinterestedness may be obtained for the social scientist? Some have denied this. It has been suggested that an attitude of 'truth for truth's sake' is psychologically impossible, and hence that attempts like that of Senior to bring forth a pure science of economics are bound to be abortive. It would not be denied, however, that a judge and jury are, in ordinary circumstances, genuinely seeking to discover what is true. And we believe that professional economists may be placed in an environment which partakes of the nature of that which it is endeavoured to create for a judge and jury. There is nothing psychologically futile about such an object. Now personal interest, in so far as it bears upon the professional economist, can take several forms. It appears, however, that two types of interest are of overwhelming importance in comparison with others: they are those derived (a) from participation or ambitions in the field of politics; and (b) from interests or ambitions in the world of business and finance.

- (12) *The economist who is a politician cannot claim authority for his views*

We have suggested that very considerable influences bore upon the opinions of John Stuart Mill and Thorold Rogers, through their connection with active politics. To-day, such influences are incomparably more powerful; for in their day it was relatively easy for those in interested contact with the political machine to retain some

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measure of mental detachment. The election candidate could then, perhaps, subjugate the emotions connected with his ambition for a parliamentary seat or for office when reasoning on matters concerned with social welfare. How things have changed! The gradual transformation of the nature of democracy, as the swing from *laissez-faire* has caused Parliament and the State to be used in a great scramble for private and group advantage, has made it more and more impossible for any active politician to maintain that judicious attitude of mind which alone can accredit his social opinions with authority. Moreover, the nature of the appeal to the electorate has also developed in a manner which has made it increasingly inconceivable that scientific neutrality of emotion could exist in any student who intends some day to seek the support of a constituency. It seems, therefore, that no contributor to economic thought who is, or has been, or intends to be, associated with the process of representing the community in Parliament can claim *authority* for his views. His arguments may certainly be examined: indeed, he may be the means of making some of the most important contributions to the science. He may, on occasion, study and write with the most complete detachment from the political milieu in which he is immersed. But his pronouncements cannot have automatic authority as scientific dicta. They may acquire this quality if they are observed to be subsequently accepted by any general body of economists who have avoided his biasing and embarrassing environment.<sup>1</sup>

(13) *The economist who retains membership of a political Party cannot claim authority*

We must, however, go further than this. Not only must *candidates* be excluded from the body to whose views authority may attach, but all those who retain membership of Party organizations. This may appear to be a drastic limitation. It is justified because our aim is to define a particular region of opinion in which the expression of truth is most likely. There is no suggestion that outside this

<sup>1</sup> Boswell records that Sir James Johnstone once remarked to Dr. Johnson that he gave no weight to the arguments of paid counsel at the Bar of the House. Johnson replied: 'Nay, Sir, argument is argument. You cannot help paying regard to their arguments, if they are good. If it were testimony, you might disregard it . . .' (Quoted in Lewis, *op. cit.*, p. 22).

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region the purest truth may not often exist. But if we rob some sources of truth of their *authority*, we do not destroy their contribution, and, at the same time, we provide a guarantee that certain defined sources are uncorrupted. Politics have been contaminating our science. We noticed in an earlier chapter how a well-known economist has explained the changing attitude on the part of economists towards trade unionism as in part due to the fact that 'economists were . . . Liberals'. Is not this really one of the most damning criticisms that could be made of them as scientists and teachers? What must be the influence on the mind of a young student who knows that his teacher is affiliated in some way to one of the Parties whose attitude he learns from the columns of the Press? What chance has the teacher himself, bound by the loyalties which that affiliation demands, to maintain what we rather naively call 'impartiality'?

(14) *University teachers of the social sciences should be compelled to renounce the right of standing for Parliament*

If the argument of this chapter is admitted, then one of the most tragic mistakes which has been embodied in the traditions of the London School of Economics has been the permission extended in the past to members of its lecturing staff to be active politicians and even Members of Parliament. And in universities other than London the same weakness has existed. Universities should be jealous of the authority of their lecturers and should be responsible for preserving it. It does not seem unduly severe to insist that the teacher of any of the social sciences should be compelled to renounce the right of standing for Parliament. He cannot claim the right to two intellectual lives, one for his academic sphere and one demanded by the Party in which he has chosen to accept membership. Or if it is thought that this would foolishly exclude valuable experience which is at present available to university students, then lecturers engaged in politics or affiliated to political parties should be accorded a clearly distinguishable and inferior nominal status, no matter what their eminence in their own line might be. It is surely obvious that the two minds of the politician-teacher can only with the greatest difficulty be kept from encroaching on one another. Is it possible, indeed, for him to address his constituents on one evening and his

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students the following morning and successfully eliminate the propagandism with which he tackled the former from the cold rationalism with which he should face the latter? Is there not bound to be *some* tendency for him to 'hedge' in his academic environment? Will not this arise through his desire for consistency, or as a result of that self-deception with which we are all of us so prone to explain away interested motives? It is probable that experience of university lecturing will make a politician a better statesman, but it seems absolutely certain to make a scientific approach to the study of social phenomena out of the question. It is in the interests of all the social sciences that the specialization of the scientist and the politician into rigidly separated fields shall be brought about. We must remember that university lectureships always seem to present a profitable and alluring entrance to political careers. And although in practice the effect of that measure of scrupulousness in academic exposition which their conscience forces on the lecturer-politicians may prove a severe handicap to their political advancement, there remains the probability that young men intending to use the universities as stepping stones to the Parties (or in some countries to lucrative civil service posts under Party patronage) will be careful in their published writings not to express views which they might find difficult to explain away at some future time, and to embrace opinions which are likely to be useful to Party Whips. Moreover, if at the outset they have had Party connections, then, in the course of their early teaching, they will have been committing themselves to certain doctrines. And if they ultimately decide to remain in academic life, they will find it difficult to retract their former opinions. Moreover, they will certainly have been acquiring prejudices which will not be lightly thrown off. It is in part because young lecturers in the economic and moral sciences may be angling for the favour of Party organizations that connection with political associations should be discouraged or forbidden in their terms of appointment. It may be objected that the exclusion of political scientists, in particular, from active participation in politics would rob them of their most valuable contacts with reality. This would not necessarily be so. If they were completely separated from the Party world, it seems likely that by reason of the very authority which would then attach to their opinions, they would exercise as scientists a much stronger influence than is exerted directly by any truly academic influences

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to-day. Their contacts with practical affairs might be less personal, but probably wider and more realistic. Moreover, very little work in political or economic science which could be entitled to the mark of *authority* has yet come from the pen of politicians and those actively concerned with propaganda. 'What naturally happens', says Professor Knight, 'when social scientists lose interest in a cloistered role and go out into the arena in the endeavour to influence the course of contemporary events is that the specialists abandon the endeavour to discuss issues among themselves and engage in a competitive solicitation of the "ignorant masses" for support against each other.'<sup>1</sup> The world's knowledge would not suffer through the elimination from the universities of teachers who fall into this class.

(15) *Economists actively engaged in business cannot expect authority to attach to their opinions*

There is another class of writers and students of economics whose opinions are equally disentitled to rank among those which may be regarded as endowed with *authority*, namely, persons who are actively concerned in business and finance. The greater their importance in this sphere, the less can their contributions be regarded as authoritative; for although the relatively lowly placed officials of the commercial world will find it difficult or impossible to speak with frankness when their views are likely to run counter to the interests of those who can control their advancement, they will not be preoccupied with the moral obligation which commands chairmen of companies, for instance, to pursue policies which serve the interests of shareholders, irrespective of their reactions upon the community at large. Time was, when the business and political world could produce a Ricardo and there is no reason to suppose that the fields of commerce and industry may not again stimulate contributions of the same relative scientific merit as those which he presented to the fund of social understanding. But most argument proceeding from this source is likely to be suspected of being the reflection of interest. Ricardo himself has been *alleged* (unfairly, we believe) to have been biased, both by reason of his parliamentary career and because, as a capitalist, his hostility to landlords was based on a class interest. Hence the views of economists in the business world can become

<sup>1</sup> *Ethics of Competition, etc.*, p. 357.

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*authoritative* only through their endorsement by students who enjoy the protection of academic freedom.

- (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 interest in speculative ventures*

The fact that a particular writer on economics happens to be a member of a university staff does not necessarily mean that he is free from the inevitable partiality due to private financial interests. But in most cases this must be too petty a danger to be seriously feared. The economist's judgment is likely to be unduly influenced only when he has a very large income from property or when he has responsibilities as the investor of other people's money. It is, of course, difficult to define, from the point of view of disinterestedness, the sort of private distribution of investment which he should adopt. What type of investment will ensure the maximum of neutrality towards economic policy on the part of an investor? It seems that a fairly wide dispersion of share holdings should be the aim. This will make some detachment certain. But it is impossible to eliminate entirely these sources of partiality from the influences bearing on social scientists. Universities can hardly interfere in the private finances of their staffs. Individual teachers can, however, recognize that they will be suspect on account of their financial interests and adjust their dealings accordingly. Above all, the economist who wishes his authority to be respected must renounce the pleasures of financial speculation in the ordinary sense. Should he wish to purchase the joys of uncertainty, let him seek the card table and the racecourse; for there he will not be suspected of assuming, for instance, that there is some absolute good about a change of weather that is calculated to favour a horse that he has backed. Should he wish to serve the community in the role of speculator, he must expect his views to be suspect.

- (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 universities*

An even more serious danger of which the university teacher of economics is aware is that he may be consciously or unconsciously

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led to pander to business opinion in the course of angling for a high appointment in the commercial world. The channel of economics lecturing may be as excellent a means of entry into the higher branches of administration as it is to politics, provided the individual has the right sort of personality and is prepared to say what will go down among the captains of finance, or at any rate quietly to temper his arguments in such a manner as not to destroy his apparent authority and reputation among his academic colleagues whilst enabling his pronouncements to be sufficiently acceptable to the practical men.<sup>1</sup> There appears to be no direct way of placing this beyond the bounds of possibility; but provided academic detachment is made a conscious aim of universities, the distinction between integrity of judgment and speciousness is likely to become blatant. That certain professed economists are sometimes suspected of currying favour, deliberately or innocently, with outside political or business powers is mainly due, we believe, to the babel of voices with which economists with *apparent* authority are accustomed to speak. But even if it should prove impossible to prevent occasional scientific apostasy, the rule could be recognized that any authority which was formerly felt to attach to the writings of an economist would *ipso facto* dissolve when he left academic for business or political life. The purity of recent tradition defined in this way would then, we think, gradually manifest itself in an unmistakable manner.

(18) *Sycophancy to business interests may also arise through 'tactfulness' in the wish to secure recognition of the usefulness of academic teaching*

A danger of a similar kind which Socialists have often pointed out is the possibility of the teacher of economics being lured into sycophancy to the business interests which can contribute to the success of his department or even help his 'good work' with endowments. The risk lies, it seems, not so much in the obvious 'goose step' dictated or encouraged by the governing bodies of universities hoping for financial support (although that danger is certainly not absent), as in the

<sup>1</sup> A risk of a similar kind, although it is not directly relevant in the present context, is that a critical economist will be silenced by some powerful interest to whom he may be dangerous, by means of a highly paid post in their service. It has been suggested that even James Mill was gagged by this means through the East India Company offering him congenial and well-paid employment after the appearance of his *History of British India*, which had been highly critical of their administration. (See Halevy, *Growth of Philosophic Radicalism*, p. 302).

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lecturer's desire for recognition of the usefulness of academic teaching. The economist must be acquainted with business men and discuss their affairs with them, as far as they are willing. He cannot fail to be aware of the judgment which they are silently passing on the worth of his subject and the opinions to which it leads him. How does this bear on him? In private conversations, it pays to be tactful except to those of one's business friends with whom a truly close friendship and mutual respect enables complete frankness. It would be foolish to stimulate hostility or contempt in circumstances in which it is impossible to communicate one's argument, let alone ensure that it will be examined. But in public addresses, and even more in the written word, what is called 'tact', if it means reticence, savours of suppression and dissimulation. Economists as a body will achieve authority, not by tolerating or paying court to the preconceptions and prejudices of leaders in the world of practical affairs (although the debasing of authority in that way may sometimes be the facile path to individual reputation and influence), but through the force of that unanimity of opinion which will be presented when they have formed for themselves an environment permitting disinterested thought.

(19) *Authority cannot rightly attach to the opinions of members of 'schools' which are dominated by teachers with political or business interests*

Our remarks upon students and writers in the social sciences who, in spite of their status as university lecturers, have interests in politics and business, apply also, in a lesser degree, to teachers working under prominent members of this class. The extent to which this is so will depend upon how far the junior members of a school are *dominated* by the influence of their leader. The leader need not necessarily have high university status, but may dominate mainly through his personality and energy, through a certain loyalty on the part of his associates, or because of his influence on recruitment and promotion in the department to which he belongs. Contributions of the highest importance may emanate from such departments; they may be the product of the most sincere and rigorous detachment; but no measure of *authority* can immediately attach to them if they happen to follow a line propagated by their leader. Their suggestions must be listened to, but until they are approved by economists who are



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protected from the possible repercussions of interest the layman must regard them as unestablished.

(20) *There are no reasons for supposing that otherwise disinterested lecturers will be affected by a serious 'class bias'*

Some readers will probably be thinking that this search for conditions favourable to neutrality of interest must necessarily be unsuccessful because the university lecturer is bound to have a class bias. If one considers the *origin* of the individuals concerned to be an adequate indication of the probable existence of the preconceptions and emotions derived from a certain social stratum, there appears to be little in the contention. This is a personal impression of the author based on knowledge of the circumstances of a fairly wide circle of economists in England. If there is any correlation between opinions and origin at all, it seems to be that those with Socialistic leanings were born into the privileges of the upper or upper middle classes, passing to the universities via the major public schools, whereas those whose attitude would be described as individualistic have, on the whole, come from relatively humble families and progressed from elementary or secondary schools. A possible explanation of this curious apparent fact is that the former, being raised in the governing class tradition, have tended to think in terms of political careers; whereas the latter have regarded their university careers as ends in themselves. However that may be, the important consideration is that at the present time there appears to be no reason to assume that a serious class bias will distort scientific reasoning in academic circles. Lecturers have necessarily attained to *bourgeois* status, of course, no matter how lowly their original station; but they may be expected to be sufficiently aware of the feelings and aspirations of those in other ranks to enable them to see the social conflict realistically. It appears that the sympathies of orthodox economists, at any rate, have almost always been entirely with the poor,<sup>1</sup> and that the repercussions of policy upon the conditions of the poorest classes is always the first consideration on which they base their judgments.

<sup>1</sup> Pareto is a curious exception. Consider in this respect Wicksell's assertion in one of the best treatises representative of modern orthodoxy. He says: 'It may be regarded in some degree as one of the merits of economic science that . . . it has produced a revolution in public opinion. As soon as we begin to regard economic phenomena as a whole and to seek for the conditions of the welfare of the whole, consideration for the interests of the proletariat must emerge; and from thence to the proclamation of equal rights for all is only a short step.' *Lectures on Political Economy*, p. 4.

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- (21) *According to our criteria, what is called 'orthodox' economic opinion is entitled to authority*

We have now reached the point at which we can return to the criterion suggested by Lewis for determining whether a science can carry that authority which justifies the acceptance of its teachings with conviction by the layman. We must appeal to the reader's own experience. The reader is asked to apply the principles which have evolved in the course of this chapter. Let him consider the question of which of the professed economists must be eliminated by these principles from the ranks of those to whose opinions authority may rightly attach. If this is carefully done, we believe that among those who will be left a remarkable measure of unanimity of opinion will be exhibited. There will be found, in fact, 'the gradual diminution of points of difference' and 'the gradual increase of points of agreement' which were the standards that Lewis proposed; and the economists who will be found to fall into this class will be those to whom the term 'orthodox' would usually be regarded as the appropriate description. Here, then, we have the body of expert opinion which the community might be expected to accept as authoritative.

- (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*

During the early part of the nineteenth century, the Classical economists actually believed that the day was not far distant when their teachings would be universally accepted by society.<sup>1</sup> Their optimism was possibly based on temporary circumstances. The fields of politics, commerce and industry may have happened to be favourable. Privileged vested interests in conspicuous forms were then absent.<sup>2</sup> The significance of social classes was hardly considered. The economists condemned the agitators who created industrial trouble, and their science gave no support to subversive movements. The result was

<sup>1</sup> The most optimistic of all seems to have been Torrens, who wrote in 1821 that the period of controversy in Political Economy was 'passing away, and that of unanimity rapidly approaching. Twenty years hence there will scarcely exist a doubt respecting any of its fundamental principles.' (*Essay on the Production of Wealth*, Introduction, p. xiii.)

<sup>2</sup> Apart from those concerned with agriculture. The agricultural interests were gaining from tariff protection, but, owing to the growing influence of the industrial classes, public opinion was already in process of turning against them.

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that popularizations of orthodox theory, even when as poor as that of Mrs. Marcet, were uncritically welcomed by practically the whole of the community. Economics was, indeed, regarded in those days almost as though it was endowed with the authority of the physical sciences, in spite of some of its leading exponents having conspicuous business and political interests. To re-establish the authority of the social sciences, some means must be found of differentiating competent and disinterested scientists (as defined in the above discussion) from other writers and students in the same field. They are to be distinguished not as the possessors of special moral or intellectual qualities, but as the possessors of a certain environment. The essential differentiation being achieved, the prestige of the fund of knowledge accumulated must, in the present age, rest upon the concurrence and corroboration of independent minds striving to resolve every point of disagreement by relentless dispassionate criticism and eager investigation. There is no controversy which is incapable of solution by further investigation into the legitimacy of the premises (and in economics there are few which really depend upon this), or by careful examination by all parties of the validity of their inferences. We suggest that all major points of disagreement in the field of economics, in so far as theory bears on policy, arise (*a*), from certain parties lacking the tools of analysis; or (*b*), from certain parties having an inadequate knowledge of the materials to which they apply the tools; or (*c*), from psychological causes which inhibit rational discussion and encourage equivocation and evasion. The last is probably the most important factor of all. It arises in part from prejudices acquired from one's early up-bringing and subsequent environment and interests, but it is preserved in the active student mainly, although not entirely, by the continued presence of interest. And we have seen that under the heading of 'interest' politics and business are undoubtedly the most insidious influences.

(23) *It is only in the universities that the necessary environment can be created*

It follows that in the present age the achievement of authority by a social scientist is only possible when his studies are conducted under the protection of an endowed or unconditionally State-subsidized university. The student with an independent income can also claim to possess authority (provided that his investments are properly

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distributed), but he will be suspect on questions which involve the justification of the receipt of income from ownership of property. A highly placed public servant might rely upon the security of his post to produce frank and fearless studies on economic topics. Several works of high merit and obvious disinterestedness have, indeed, come from the pen of British civil servants. But although such writers have probably been much more free than the typical servants of business, it is hardly possible to have sufficient confidence in the tolerance of the politicians to whom they are subject for authority to attach to their views. It may be that a future age will see the appointment of State economists with security of tenure, freedom from obligations of loyalty to politicians, and completely independent of politics in respect of promotion or dismissal. Such posts do not exist to-day, however, and the universities have, therefore, to serve as the home of economic scientists. The economic and sociological departments of universities have important functions to perform which can only be carried out successfully when the environment of thought is moulded to a form which enables disinterestedness. This can be done, as we suggested earlier, through the conditions of appointment. The influence of politics can be excluded, and salaried work for business firms can be forbidden. Whether it will be possible to bring the governing bodies of universities to an early recognition of their function in this respect is, however, doubtful. Powers from outside are still likely to influence appointments in some cases. Applicants with the 'right' views may occasionally secure a big preference. But we do not think that obvious pressure from outside constitutes the principal problem. One of the most eminent of America's economists has expressed the tendencies which we fear in the following terms: 'Economics finds itself in a vicious circle. To get recognition and have influence, it descends to the public's level of thinking; then competition for recognition and influence takes the place of the effort to get things straight; finally, success in this competition becomes the condition of membership in the profession itself'.<sup>1</sup> In Great Britain and the Dominions the grounds for pessimism on this point are much less serious than in the United States. But the danger cries out for recognition by those universities which regard freedom of thought as their sacred trust.

<sup>1</sup> Knight, Preface to Reissue of *Risk, Uncertainty, and Profit*, p. xxvi.

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- (24) *An association of university economists whose members satisfied our criteria for expertness and disinterestedness could publish an authoritative journal*

Suppose, then, that the universities themselves can be expected to take no early steps in the direction of imposing special conditions on lecturers in the social sciences, is it within the power of economists to accomplish anything in the way of defining those of their number who can claim 'authority'? A journal of the social sciences dealing with questions of policy and concerned only incidentally with 'tool-making' might be authoritative if it rigidly excluded contributions from those who fell outside the class we have just defined, unless editors from within the class were prepared to give their *authority* to them. A journal of this kind could well be the organ of a select association which could be started by a nucleus of economists conforming to the standards which this discussion has implied. It has been the tradition of the British *Economic Journal*, as of almost all scientific periodicals in the moral sciences, to include articles representing 'all shades of economic opinion' and containing the views of 'all schools of thought'. Our suggestion is that a journal with a different policy might be established. There should be no question of its being devoted to a particular school of thought. It should be conducted by scientists who recognize that 'schools of thought' are the product of dogma and vested interests. Through such a medium of discussion, the source of divergent beliefs could in all cases be traced.

- (25) *In an authoritative journal mutual criticisms would strengthen and not weaken authority*

In the pages of this journal, the contradiction of a fellow student could be frankly answered. Retreat into the sympathetic company of a loyal school would be much less likely. On the contrary, would not criticisms then be welcomed as the indication of a flaw in exposition, logic or premises? The genuine student does not shirk but seeks specific criticisms, and does not resent it when he finds that it is misconceived; for he can hardly expect his critics to be more infallible than himself. He will even realize that it is an advantage for him to have hypercritical comments passed on his works if they are sincere and addressed to an expert and not to a popular public.

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Over-alert critics are more likely to strengthen one's work than kindly patronizers. The spirit of the true scientist is reflected in Whately's challenge: 'If . . . I have advocated any erroneous tenet, the obvious remedy is, to refute it. I am utterly unconscious of having in any instance resorted to the employment of fallacy, or substituted declamation for argument; but if any such faults exist, it is easy to expose them.'<sup>1</sup> It is only abuse (in the guise of argument) intended to destroy an economist's authority and influence among the uneducated which may be rightly resented. But criticism, to be useful, must be articulate and specific. A recent reviewer of Professor Pigou's *Theory of Unemployment* treats as a virtue the fact that the author of the book 'resists the temptation to use his great powers to lay other economists low. When particular views have to be refuted for the sake of argument, his victims are almost always anonymous in these pages.'<sup>2</sup> But such anonymity may leave the impression that the author is tilting at windmills; or it may be most unfair to the main body of economic writers in suggesting that there is a large measure of error scattered through the works of others; and in these circumstances, far from the criticisms strengthening the science, they may merely serve to detract from the general authority of serious contributors. Moreover, the criticisms fail in their functions when the sources of error are not directly indicated. Has not Professor Pigou, in failing to mention what he regards as unsatisfactory passages in the works of others, prevented those economists and practical men, who have not his familiarity with the particular locality in the realms of economic method in which he has chosen to wander, from realizing in what respects their own work may be defective? A definite assertion that a particular student's reasoning is at fault will certainly lead him to re-examine his thesis with the utmost care; and if his critic gives him convincing grounds for believing that the alleged error arises from considerations which can only be dealt with through the medium of a technique which he does not possess, he will either make it his business to acquire that technique, or else be prepared to accept on authority the particular logical steps which experts in it can contribute. But no economist is likely to have his contentment with his existing ideas seriously disturbed unless he and his followers are made aware of a criticism being levelled specially

<sup>1</sup> Whately, *Rhetoric*, p. xii.

<sup>2</sup> R. F. Harrod, *Economic Journal*, 1934, p. 19.

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against his work. Consider, for instance, Mrs. Robinson's remarks (a few years ago) about economists 'whose mistaken modesty' caused them to succumb to temptation and deliberately hide their assumptions or confine them 'in a dusty corner of the footnotes' where they hope 'no one will notice them'.<sup>1</sup> She did not say who, among reputable *orthodox* economists, were charged by her with this or similar offences. She implied that she thought that the advice of theorists on practical affairs was commonly deficient on the grounds of unjustifiable assumptions. But if she believed this, then the right course for her was to illustrate such intolerable weaknesses by a well-documented article or pamphlet. In fact, neither the offending individuals nor the specific nature of their offences were indicated by Mrs. Robinson; and those who may have felt themselves to have been attacked would naturally have been hesitant to admit the fact, especially as they had been left no clear case to answer.<sup>2</sup> Within a disinterested and expert circle such as we have envisaged, however, it seems probable that the danger of merely weakening criticism would be small. But its members might also give formal recognition to the duty which falls upon economists to be specific both in formulating charges of error and in referring to their occurrence. There are grounds for believing also that a spirit would develop through which matters of private ambition or prestige, or private predilections for particular methods, would not be allowed to mar the spirit of tolerance in criticism.

- (26) *The unanimity which disinterested criticism would probably produce within a body whose members imposed appropriate rules upon themselves would confer great force on their pronouncements*

The association which we are envisaging would be a defined but not an exclusive body. It would have no creed. Membership would be open to all possessing similar qualifications, no enquiry whatsoever being made as to whether or not they happened to hold any doctrine. These qualifications would limit membership to lecturers in univer-

<sup>1</sup> J. Robinson, *op. cit.*, p. 2.

<sup>2</sup> Of course, the lack of specificity in the criticisms passed by some mathematical theorists on the conclusions of those who have worked with a less intricate method, may be due simply to the fact that the assumptions and concepts of the former are sometimes inapplicable to the writings of the latter, the relative simplicity of whose formal analysis has been due to their having been interested in handling realistically, and in its full setting, some actual problem of the practical world.

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sities judged by the original executive to allow adequate freedom to their teachers. Lecturers from all countries (apart from Fascist or Communist countries) should be eligible. Members would have to subscribe to certain stringent rules. The rules should, we suggest, forbid them to take any active part in Party politics, either as candidates or as supporters of candidates, or even to write in the Press or speak as advocates for any Party. Indeed, the conditions of membership might go so far as to call upon members to renounce formally any intention to enter politics at any time.<sup>1</sup> An obvious necessity would be that members should deny themselves the right of undertaking any kinds of paid work for business firms or other vested interests. This would not, of course, prevent them from giving advice, if they felt inclined, but such help to private enterprise would have to be gratuitous. Such a rule might seem rather unfair upon lecturers who might wish to utilize part of their leisure in adding to their not very large incomes. But it does seem to be the only way of ensuring complete trust in their disinterestedness, and it is not too big a price to pay for the attainment of that result. *Paid* contributions to the general Press would, we feel, also have to be prohibited to members of such a society. This would not greatly injure most independent economists, for a considerable income from journalism on social questions is not easily obtainable in these days without submission or pandering to the ideas of the owners of journals. There would, however, be compensations. Even if they formed a rather small minority among university economics lecturers, they would probably soon acquire a special prestige in view of their self-imposed restrictions. And as knowledge of their detachment spread, there would gradually emerge a respect which no economist enjoys to-day. There would attach to their opinions, which we believe would coalesce into virtual unanimity on most topics of popular controversy, an immense force. Their judgments on private and public policies would begin, for the first time for half a century, to influence human destinies. The politicians would certainly try to ridicule them; organized labour and organized capital would try to get them suppressed; but as time went on they would find it increasingly difficult to belittle them or

<sup>1</sup> A critic has pointed out a dilemma. 'No honest man,' he writes, 'can say that in no circumstances will he enter politics. The situation might become so bad that in order to defend all that he thought most important he might *have to* fight.' But there are other ways of fighting than affiliating with political parties and standing for Parliament.



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silence them. For the intelligent and active minority of the community, of whose power the election agent is well aware, would grow to resent what they would sooner or later perceive to be the attack of interest on science.

(27) *Authority to-day must rest on reason, not on an 'emotional, non-rational' basis*

Professor Knight has made a very similar suggestion for enabling the economists' authority to be re-established. He says: 'It seems reasonable to believe that if it were possible to maintain professional groups in the fields of special knowledge and research covered by the social sciences . . . and if the workers took a "consecrated" attitude towards their common work, "devoting" themselves to a truly co-operative quest of the right or "best" solutions for problems, absolutely renouncing interest in individual prominence and power, and going to the public only with dispassionate statements of fairly established results, the politicians might find it good politics both to allow them to live and to take their work seriously. Members of such groups would, of course, have on the one hand to be protected in the use of appropriate designations and on the other (equally important) allowed to use them only on the condition of abstaining from irresponsible utterances outside their spheres of special competence'.<sup>1</sup> Unfortunately, Professor Knight's exposition of his opinions on this question has been obscured by a semi-mystical attitude with which he has been led to approach it. His stress of the economists' 'consecration', of their 'devotion' to their task is certainly in line with his contention that the 'authority of a leader must rest on a moral-religious basis, which must be emotional, non-rational . . .'.<sup>2</sup> But we think that this outlook has been forced upon him because, recognizing as he does the desirability of leadership being vested in those who understand, he has nevertheless, not recognized the enormous importance of the arguments in respect of the relations of authority and opinion which are contained in Lewis's forgotten study. Professor Knight sees the social problem as 'at bottom a moral problem, and not one of substituting one type of organization machinery for another'.<sup>3</sup> Yet his own suggestion really emphasizes the environment which has to be

<sup>1</sup> *Ethics of Competition*, p. 358.

<sup>2</sup> *Ibid.*, p. 350.

<sup>3</sup> *Ibid.*, p. 315.

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created for the economists whose authority he would wish to establish. He himself envisages a new institution — a new organization. The only ‘consecration’ and devotion which need be expected from the economists under his solution is that of choosing a career under the conditions imposed. Moral teaching has certainly played an important part in the functioning of social institutions in the past; and its corruption during the present age owing to the persistence of rationally untenable, decreasingly trusted, but endowed creeds may be a more powerful causal factor in contemporary social abuses than is commonly realized. A progressive social order must, however, ultimately depend upon reason and moral codes must begin to give recognition to rational thought. Each myth must sooner or later be replaced by a more tenable ‘protestantism’. Professor Knight’s contention is acceptable only if he means by ‘moral teaching’ the inculcation of respect for reason, and, *in matters which must be taken on trust, of faith in those who are in a position to be trusted*. Casual readers of his essay might at first imagine that this is far removed from what he actually understands by ‘moral teaching’. ‘There is little evidence’, he says, ‘that any large mass of people ever wanted to discuss or attend to discussion, of serious issues, involving real intellectual effort. Real discussion is rare even among professional intellectuals, and their “argumentation” commonly illustrates the tendency of a contest to deteriorate.’<sup>1</sup> But he is simply asserting here that those who are ignorant or personally interested constantly debate (as they have been encouraged to do through the flattery of politicians) economic subjects on which they are quite incompetent to form opinions at all. The problem that confronts us is that of enabling the community to recognize trustworthy authority in these matters. And to encourage reliance upon authority is not to reject reason for religion. The positive social function of priesthoods and religions which Professor Knight recognizes (‘as a simple fact . . . of “observation” in the only sense in which really human data ever are observed’<sup>2</sup>) is that of authority-creation in which rules of conduct are justified through myth. And although authority-creation is a function which is as essential to-day as it has been in former civilizations, its acceptance must now rest on reason: it cannot stand on myth. Whatever stability may have been achieved through authority derived from

<sup>1</sup> *Ethics of Competition*, p. 323.

<sup>2</sup> *Ibid.*, p. 321.

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revealed religion in former times, any system akin to it, even if the 'priests' are economists, can bring but a spurious and dangerous stability in these days of the printing press, efficient communiations, and an almost universal power to read.

### (28) *Appendix on Mr. J. M. Keynes's Attack on Orthodox Economics*

Mr. Keynes's attitude towards the Classical tradition, in his recent *General Theory of Employment, Interest and Money*, may easily prove to be the source of the most serious single blow that the authority of orthodox economics has yet suffered. Our argument which culminates in this chapter is, we regretfully suggest, directly relevant. Mr. Keynes boldly belittles orthodoxy. Once, he suggests, he accepted it: but continued independent thinking has convinced him of its serious inadequacy. Others before Mr. Keynes have taken a similar line, as we have seen. But no previous writer who has claimed to have once subscribed to orthodox teaching has ever announced so revolutionary a change of beliefs.<sup>1</sup> He now seems to denounce the very fundamentals of his former convictions. He would have us believe that the Mercantilists were right and their Classical critics wrong. David Hume, Adam Smith, Ricardo, Senior, Cairnes, Jevons, Sidgwick, Marshall, Böhm-Bawerk, Menger, Cannan, Wicksell, and Wicksteed were, if we are to agree with Mr. Keynes, altogether at sea on points of radical importance. He finds enlightenment instead in that 'brave army of heretics' represented by Mandeville, Malthus, Silvio Gesell and Mr. J. A. Hobson into whose ranks he would admit Major Douglas as 'a private'! Now if Mr. Keynes had not already been in a position to catch the ear of an influential section of the public, there would have been no danger in his contribution. Either economists would have recognized that the author of such a work had made a masterly, if revolutionary, contribution to thought, and so have brought his work into deserved prominence; or else his book would have dropped quietly into obscurity, in company with many other unappreciated books. But Mr. Keynes's reputation commands, at the moment, *immediate* prominence for all his writings. He has for years believed and preached with persuasive eloquence what many persons of influence in finance and politics have

<sup>1</sup> The cases of Sismondi and Tooke are, perhaps, somewhat similar.

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found it very easy to believe. And whether his opinions have been right or wrong this has certainly procured for him a measure of personal authority to which the highest sense of responsibility should attach. He is at present known to the world at large as an eminent economist. He writes from the University of Cambridge. He is Editor of the *Economic Journal*. The full weight of his authority must necessarily count with the general public whose eavesdropping at the debate he expressly welcomes. Hence his contribution, whatever its merits, must serve either to destroy, or (what is an entirely different thing) to obscure, such 'freely resulting unanimity' as does exist. His *aim* is the defensible one of attacking what he conceives to be a false authority. The *effect* may be to discredit, not mere dogma, but that agreement and stability of countless tested ideas which is the product of expertness in an environment permitting disinterested thought. If any authority at all can validly attach to Mr. Keynes's opinions to-day, then until he himself, or the orthodox economists, have recanted, or until sanctions for the economists' authority have been established, the philosophers, institution-makers and controllers of policy can turn with no confidence to any body of social scientists for advice in respect of the complexities of social co-operation. If Mr. Keynes has to be taken seriously, the way is absolutely clear in the meantime for policy to be determined in accordance with what appears to be most plausible to the politicians. They may even follow, for want of authoritative advice, Mr. Keynes's own alluring and politically easy suggestions. That will be a splendid thing if he happens to be right. It may be disastrous if he is wrong. The position to-day is that a supposed expert has warned us that the foundations of a building (which society has in any case used with increasing reluctance and decreasing frequency during the last century) are dangerously unsound. The subsequent discussion in this book may indicate whether that imposing but little-used edifice which constitutes modern orthodoxy must be demolished or whether the supposed expert is suffering from hallucinations. The reader who is acquainted with Mr. Keynes's interests and work must decide for himself whether the same causes which we have shown have led so many other writers to reject orthodoxy without good grounds have been operative also in his case. Must we regard him as eagerly and uncritically seizing every argument, idea or suggestion, wherever he may find it, which seems to disparage policies towards which

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he is emotionally opposed? Or must we regard him, as he sees himself, in the role of a disinterested and courageous student who has broken the bonds of academic custom-thought and successfully escaped 'from habitual modes of thought and expression'? He may be an inspired missionary who is to rescue us from idolatry. But he may be a false prophet who can lead us to damnation.

## CHAPTER XV

### THE CONCEPTION OF LIBERTY

- (1) *The 'dilemma' in respect of the apparent opposition of individual liberty and contractual freedom which permits association, confused Mill*

IN previous chapters we have considered the changing tone of economic teaching which gradually developed in Britain during the democratic age following 1867. We have seen that competition was less readily thought of as *prima facie* a desirable social force. We have noticed in particular the waverings on this point of J. S. Mill, whose outlook forecast and probably materially influenced the course of subsequent opinion. He made a mere dogma of *laissez-faire* at the very time at which he appeared to be giving some countenance to Socialistic ideas. Now among the influences which affected him was a certain fundamental difficulty which we must now examine. Confusion seems to have arisen in Mill's mind on the so-called 'dilemma' arising from the opposition of individual liberty on the one hand, and contractual freedom which allowed association on the other. It may have been this confusion which allowed that disclosure of his dual personality, of Mill the thinker, and Mill the emotionalist. He appears curiously to have shirked the problem of following out to their logical conclusion contentions which seem to contradict one another. Thus, while approving of the Socialists' principle of action in concert, he could say: 'I utterly dissent from the most conspicuous and vehement part of their teaching, their declamations against competition.'

- (2) *Other writers have been puzzled by this 'dilemma', which must be resolved in order to consider rationally the province of the State*

The same dilemma has puzzled a host of writers since his time. For example, defending 'the right of free association', Professor Seligman says that 'when the nominal liberty of an association results in a "restraint of trade" or virtual monopoly inimical to the general interests, the community is justified in curbing its excesses whenever the contest involves a class inequality or is conducted

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without any sense of social responsibility. The greatest care, however, must be observed in the analysis before the infringement of the right of association can be conceded. To abandon liberty because of a mere apprehended but imaginary inequality would be to sacrifice both liberty and equality. A clear case must be made out before the law should be invoked against the combinations of either labour or capital'.<sup>1</sup> It would be difficult to beat the vagueness of this passage, although to-day it accurately represents a point of view that is extraordinarily widely held in supposedly instructed quarters. How can any association exercise any *power* in the absence of 'virtual monopoly'? Or what degree of monopoly constitutes an 'excess', and how much monopoly is consistent with a 'sense of social responsibility'? Had he argued that, on grounds of *expediency*, given the imperfections of the administrative machinery at the service of the community, it was desirable to make no attempts to suppress monopoly except in the most marked cases of abuse, his case would have been understandable. As it is, the appeal to 'liberty' and 'equality', which is typical of the outlook of so many writers to-day, conveys no meaning. Now this problem of the limits of freedom is one of the crucial difficulties in both political theory and applied economics. Without some understanding of this topic it seems to be impossible to pass a rational judgment upon the province of the State in industry and commerce. We are led, therefore, into what is usually regarded as belonging to the sphere of political philosophy. We have to consider 'liberty'. This discussion will try to deal very simply with it. Most of the controversies, metaphysical and otherwise, that have clustered round the conception will be deliberately ignored. We shall not ask whether men *should* want liberty, or whether they in fact *do* want it, or why they are likely to want it. Our aim will be to make clear by careful statement those sides of the question that are relevant to the present purpose.

- (3) *To conceive of the conditions of freedom we must recognize certain inevitable restraints on the individual*

Professor Laski regards liberty as that social condition which enables men 'to contribute their peculiar and intimate experience to the common stock'.<sup>2</sup> He defines it as 'the eager maintenance of

<sup>1</sup> Seligman, *Principles of Economics*, p. 168.

<sup>2</sup> Laski, *Grammar of Politics*, p. 142.

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that atmosphere in which men have the opportunity to be their best selves'.<sup>1</sup> But he has here defined those aspects of human aspirations which constitute the desire for liberty, and cause it to be regarded by social philosophers (we think rightly) as a paramount force in humanity's striving. He has not defined the conditions of liberty. Like most political scientists, he has failed to give us an adequate conception of the essentials of freedom because he appears to have been unaware of the true significance and vast importance of a certain complex of desirable restraints which must inevitably bear upon the individual in society. The basic dilemma involved in the popular and unformulated idea of liberty is that A's freedom to do as he wishes interferes with the freedom of his neighbour B. There is no solution to such a dilemma. The naive Physiocratic view of a law of Nature allowing each individual to pursue his own advantage under the sole condition of not annoying others, does not help to unravel the fundamental complexity. There can be no idea of a general freedom in society that does not involve the notion of some restraint on individuals; otherwise, individuals might restrain their neighbours. But what constitutes restraint on a person varies from physical coercion at the one extreme, to mere change of conditions that results in less desirable alternatives (to the individual) having to be chosen at the other extreme. The latter may be the more important, and as we shall argue, under conditions of true liberty it is.

(4) *Most individual actions exercise a controlling influence on others through being contributory to their environment*

Most individual actions change the environment and thus affect the alternatives and preferences of others. In so far as the activities of a person determine (in any measure) conduct on the part of others, he may be said to be exercising a controlling influence over them. The fact that they have freedom of choice between various ends does not alter the fact of control. The example of the passenger confronted with the robber who gives the alternative of 'your money or your life' is simply the extreme case. There is coercion, although it is not obvious, in countless other actions in which the alternatives offered to the coerced party are by no means of a kind that we should describe as 'punitive'. When a body of individuals, through

<sup>1</sup> Laski, *op. cit.*, p. 142.



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being similar in nature, and similarly placed, act in a like manner, other members of society are *obviously* constrained to adapt their behaviour to the group's activities. The compulsion is observable in such circumstances although not necessarily regarded as restrictive of liberty. John Austin's limitation of the notion of restraint to cases of obvious coercion is an example of the hindrances caused by narrowness of definition. 'Rewards are indisputably *motives*', he said, 'to comply with the wishes of others. But to talk of commands and duties as *sanctioned* or *enforced* by rewards, or to talk of rewards as *obliging* or *constraining* to obedience, is surely a wide departure from the established meaning of the terms.'<sup>1</sup> In arguing thus, Austin had failed to recognize the full significance of the individual's connection with a society which bears on him from every angle. He had ventured into a field in which the established meaning of terms was inadequate for the consideration of the subtleties of social relations. Even when the compulsion is not obvious in the slightest, it is clear that most free individual actions exercise, either directly or through being contributory to a set of controlling conditions, a real influence upon the lives of others. Now it is according to whether those persons affected by changes in their environment caused by the actions of others feel that desired alternatives of conduct open to them are narrowed or widened as a result, that those actions of others must be regarded as restraining in their nature or the reverse. Thus, apart from enactments enforced by the State or other authority with coercive power, and apart from the requirements of custom, the available alternatives to an individual in society are restrained or expanded by a situation which is the product of the activities of all the other individuals in society, each one similarly acting within the limits which that environment permits. It is the presence of this sort of control over persons which is frequently overlooked; or else so taken for granted that its importance is not understood. Laws, customs and private regulations *also* limit a person's power of choice between ends. But the individual commonly regards these obvious limitations as alone being 'restrictive'. The idea of being controlled by so impersonal a thing as the social will expressed (principally) through the price, wage and interest mechanism, would seldom occur to him. He is no more led to think about it, as a rule, than is primitive man to wonder about the force of gravity.

<sup>1</sup> J. Austin, *op. cit.*, p. 10.

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- (5) *To define liberty we must determine the qualities of restraints which make them good*

Now as any consistent conception of liberty must, as we have seen, be built upon the understanding that certain tendencies in the conduct of individuals must be restrained, we have to ask: What are these restraints to be? The meaning of the word 'liberty' in popular usage might be said to have a 'neutral' tone: it means 'leave alone'. But it has also acquired the moral significance reflected in the passage we quoted from Professor Laski, and suggests to us something good or desirable. If it means that certain understood restraints are bad, then from what we have seen, it must imply also that other restraints are good. This leads to the conclusion that as liberty depends upon restraints, there must be certain qualities that make them good or bad. To discover the nature of social liberty we must find out what these qualities are. What attributes of restraints can we accept as making for liberty?

- (6) *Restraints are not resented when they are felt to be inevitable, impartial or impersonal*

Let us begin with an empirical approach. What kinds of restraints are in fact resented? Whether the absence of a *feeling* of being restrained or frustrated on the part of an individual can be regarded as evidence of his freedom, is a question which it is very difficult to answer. The slave, under a kind master, will accept without question the regime in which he finds himself. The restrictions around him will be regarded with the same indifference as if they were facts of nature. Most of us take for granted much in the social system that is by no means inevitable; and what we accept in this way does not appear to us to be a restraint of our free will. We are aware of frustrations when we *recognize* that there is a preferred and realizable alternative to the existing state of affairs; or when we know that our state is a matter of the *personal volition* of others. Our *feelings* of liberty, then, will be different according to how convinced or sceptical we are of the inevitability of habitual restraints upon us. If we are critically-minded, our views as to what is inevitable will be different from what they will be if we take social institutions for granted. But the same conditions apply. Experience tells us that individuals (even the critically-minded) do not *resent* restraints, or

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even recognize them as such, when they are felt to be *inevitable*, *impartial* or, what is almost the same thing, when they are felt to be *impersonal*. Hence the concepts of 'liberty' and justice are closely bound up with one another. Restrictions which we regard as just are not thought of as limiting our liberty.

(7) *The ideas of impartiality and impersonality of restraints may be illustrated by the case of legislative enactments*

The idea of the *impartiality* of a restraint needs some examination. Let us consider, for the moment, not social restraints but State control in the form of legislative enactments, and think of the case of compulsory military service. This may be quite impartially administered as between the different members of society. And yet the critical citizen might well doubt its impartiality. Are there not, we can imagine him asking, certain parties who are the gainers from its existence? Conscription might appear to many individuals as an institution which is against the good of the great bulk of the people and kept alive by a few vested interests in militarism and nationalist feeling. Even if the institution is known to be an expression of the feelings of the mass of people, the critical observer may suspect that those feelings are the deliberate creation of sinister groups with control of the Press and other instruments for forging the public mind to suit their ends. He may, therefore, doubt the *impartiality* of such enactments. But he will recognize (on the grounds of the desirability of orderliness) the *impartiality* of the command 'thou shalt not steal', even if he holds that there is nothing sacred about the institution of property, and even if he deplores the existing distribution of wealth. Neither will he feel that his liberty is infringed because he is coerced into travelling on the left side of the road and having rear lights on his car. On these things he will have no reason to believe that 'the Lobby', those who can get control of Parliament, will have interests widely divergent from those of most other people. The restraints they impose will be presumed, therefore, to be impartial. We find also that when a citizen can regard regulations as impartial they will also seem to him to be *impersonal*. He will not resent the closing of a public park at certain hours, because the rules apply to all, and because he does not associate the by-laws which prescribe the opening times with the private interests of any specific group of

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persons. There is nothing to remind him of any act of individual volition. But let some prominent landowner seek to curtail a right of way and his anger will immediately be aroused.

(8) *Social restraints also must be impartial and impersonal in order to be acceptable*

Our present interest is, however, mainly in socially, not legally imposed restraints. We have seen that individuals may be said to have economic power in proportion to their power to demand. As consumers exercising preferences in spending incomes, they obviously exercise control over their own working lives as producers. The shoemaker is forced to stick to his last, which he might not do if he could get the necessaries of life in a less arduous or more interesting way. But he will probably regard himself as a perfectly free agent in taking up and continuing his trade, although in fact his choice of occupation has been exercised in a constraining environment produced by a mass of individuals lost in the social complex. Restraining forces whose origin is hidden in this way are seldom regarded in the light of restrictions on freedom, even by the rational and critical citizen; for they are *impersonal*. They might, when monopoly or differential advantage is being broken down, be popularly regarded as evidence of pernicious competition; but that is another thing. Change of taste may arouse the despair of producers but seldom resentment.<sup>1</sup> Restraints definitely associated with specific persons or definite groups of persons are, on the other hand, felt to be violations of freedom. The idea of 'wage-slavery' may, it is true, bring to mind a *system* which militates against the liberty of the working classes; but when workers accept this idea, they envisage

<sup>1</sup> Hostility is shown, as a rule, only towards an interloper who tries to batten on a monopoly contrived by others. As an American writer has pointed out, 'there is no inevitable association between competition and hostility. In great measure the selective process operates without generating personal feeling . . . About half the graduates of our law schools are eliminated in this way, and the same sort of thing takes place in other trades and professions. But the process is gradual and the eliminating forces, as a whole, impersonal; that is to say, they are too many, too intangible, to make an impression of wilful personal opposition. Disappointment may ensue, but not hatred . . . So with commercial competition; a man's trade gradually increases or declines; but there is seldom any one person who can be fixed upon as the cause. In fact, while admitting the existence of a great deal of competitive bitterness, I believe that most men look upon the social conditions under which they work very much as the farmer looks upon the weather and other natural agents'. (C. H. Cooley, quoted in L. C. Marshall, *Industrial Society*, p. 938.)

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a group of capitalists, who can be dispossessed, as the slave masters. The impersonality of the system no longer exists for them. Similarly, distributive arrangements which result in obvious inequalities of opportunity are not likely to be regarded as just if their inevitableness is doubted. Such arrangements will not then be thought of as impartial but as favouring certain classes.

(9) *The impersonality of market forces arises from the countless personal wills which are focused in them*

Herbert Spencer believed that as mankind had outgrown its belief in personal agencies working the physical universe, so it was outgrowing its belief that the economic system was controlled for personal ends. 'But with the complex phenomena of commerce', wrote Spencer, 'as with the simpler phenomena of the inorganic world, constancy of sequence has gradually undermined the theory that power dwells in entities. Irresistible evidence is at length establishing a belief in the law of supply and demand, as some thousands of years ago it established a belief in the law of gravitation. And the development of politico-economical science, being thus a further conquest of the faith in impersonal agencies over the faith in personal agencies, must be regarded as one of that series of changes which commenced with the first victory of natural philosophy over superstition.'<sup>1</sup> The weakness of Spencer's view lay in his conception of 'supply and demand' as a 'natural indestructible force'. But the impersonality of supply and demand in themselves is real enough. It arises from the countless personal wills which are focused in them. Supply and demand must not be thought of as 'natural indestructible forces' but as social forces capable of control for individual or group interest. The forces which lie behind them are only indestructible in any sense when appropriate institutions exist for their protection. The Classical economists, in regarding the market apparatus as actuated by 'natural' laws, are said to have conceived of such laws as 'extra-sociological'.<sup>2</sup> But in fact the most perfect expression of sociological forces appears to receive manifestation through the market place.

<sup>1</sup> Spencer: *Social Statics*, p. 303.

<sup>2</sup> E. Heimann, 'Social Preconceptions of Economic Theory' in *Social Research*, Vol. I, No. 1, February 1934, p. 29.

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- (10) *The impartiality of market forces must be based upon equality of opportunity, unless inequalities of opportunity can be regarded as inevitable*

We can now get a view of the individual as subject to restraints and controls in innumerable forms, imposed as a result of the free action of others: that is, by society. We can see that his conduct is moulded by restrictions beyond the static ones in conspicuous institutional form — such as laws and customs. He is commanded by forces that work in unseen ways and may be expressed unobtrusively, as in the working of the price mechanism. The individual is, in a sense, the slave of society; and yet, paradoxical as these words may sound, we shall see that it is in his enslavement to a society in which the expression of individual wills is impartial that 'the liberty of the individual' in any rational sense can alone be realized. The 'idealist' philosophers from Rousseau to Bosanquet regarded the real self of the individual as embodied in the State, his permanent subjection to which they regarded as the necessary condition for the realization of liberty. But we bring in an infinitely wider range of restraints than those enacted either through the medium of the State or other associations. For restraints there must be; and *impartiality* will alone make them acceptable. So far no actual definition of impartiality has been suggested. There seems to be no criterion of it in the economic sphere (as indeed in other spheres) other than that each member of society shall have *equal* rights in respect of the acquiring of power *to contribute* to the conditions from which the social control of all individuals emanates. We shall examine the significance of this when we come to discuss 'equality'. Social coercions will be shown to be impartial when there is effective equality of opportunity. But in the study of any given society, it may often be desirable to regard as inevitable certain causes of inequalities which are rectifiable only in a gradual manner or in a more rational community. For the necessity for gradualness in social change, and the present folly of mankind, must be considered as inescapable facts as real as the physical facts on which our existence is based. Hence, as inequalities may be thought of as inevitable in this sense, their existence does not prevent us from considering market forces as impartial and impersonal expressions of social restraints.

## CHAPTER XVI

### CONSUMERS' SOVEREIGNTY

- (1) *The social will may be most truly realized when the greatest measure of sovereignty is vested in consumers*

SUBJECTION to society does not mean subjection to the State; for those functions that come to mind when we think of 'State activities' are only particular manifestations of the social will. In thus contrasting the State and society, we are differentiating between a special and the general aspect of society. We may regard the democratic State as the institution that is supposed to interpret and make effective the will of the aggregate of citizens as electors. If the whole of the adult community are citizens, we may say that the State is the *political* manifestation of society. Defining 'the sovereign' as 'the body of persons in whom the actual power ultimately resides', we can see that the sovereignty of society and the sovereignty of the State are different ideas. The most effective sovereignty of society, the social control which maximizes liberty and justice is not necessarily that in which the State plays the most prominent part. The social will may be most truly sovereign under that system which vests the greatest measure of sovereignty (or ultimate power) in the *consumer*, using the term 'consumer' in a special and unusual sense. The consumer is sovereign when, in his role of citizen, he has not delegated to political institutions for authoritarian use the power which he can exercise socially through his power to demand (or to refrain from demanding).

- (2) *As consumer the individual is sovereign; as producer he is subject*

In regarding the individual as a consumer, we do not see him in his full relationship to society. He is usually also a producer. But as a producer he is the servant of the community. He must apply himself and the property and equipment he possesses to producing what the community wants or he will obtain nothing in the form of claims on others in return. As a consumer, he commands other

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producers. The individual's twofold relationship to society, that of sovereign and subject is best exemplified in his roles of consumer and producer respectively. These terms refer simply to different aspects of each member of society. As a 'consumer', each directs. As a 'producer', each obeys. An individual is equally important in both roles. Some writers, opposed to the central ideas which the conception of consumers' sovereignty makes so clear, have endeavoured to represent consumers' interests as subsidiary. 'Modern economics', it has been said, '... teaches us that we are first of all producers, and only secondarily consumers: that progress in consumption depends upon advance in production; and that it is fallacious to subordinate the welfare of the producer to the alleged interest of the consumer'.<sup>1</sup> We deny that this is the teaching of 'modern economics'. On the contrary, we believe that the achievements of the productive system can be measured only in terms of the extent to which they represent a response to consumers' will.

(3) *The term 'consumers' sovereignty' is justified because 'ultimate power' may be vested in consumers*

The use of the phrase 'sovereignty of the consumer' may require some justification. The word 'sovereignty' has always involved great difficulties. Professor Laski has argued that it would be of lasting benefit to political science if the whole concept were given up. But his criticism is really directed against the idea of State sovereignty which, he shows, does not accord with John Austin's criteria in possessing an illimitable, indivisible and inalienable will. 'That, in fact, with which we are dealing', he says, 'is power; and what is important in the nature of power is the end it seeks to serve and the way in which it serves that end . . . For there is, historically, no limit to the variety of ways in which the use of power may be organized. The sovereign State, historically, is merely one of those ways, an incident in its evolution the utility of which has now reached its apogee. The problem before us has become, because of the unified interests of mankind, that of bending the modern State to the interests of humanity.'<sup>2</sup> This point of view is unreservedly accepted. It is the

<sup>1</sup> Seligman and Love, *Price-Cutting and Price Maintenance*, p. 258.

<sup>2</sup> Laski, *op. cit.*, p. 45.



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idea of 'sovereignty' in the sense of 'ultimate power', as opposed to 'source of authority', that is useful for our purpose. Professor John Dewey has conceived of sovereignty as being derived from 'the complex of social forces that actually get themselves obeyed at a given time', and the State is clearly not the only channel from which the ordering of the individual proceeds.

(4) *Consumers' sovereignty, the most important form of social coercion, has been overlooked or misunderstood by political scientists*

The constraining power of society manifested as consumers' control has been overlooked, or the significance here seen in it not recognized, even by writers who have been critical of the cruder conceptions of sovereignty. Professor Laski, for example, whilst recognizing that there are associations which are, 'in their sphere, not less sovereign than the State itself',<sup>1</sup> regards these bodies and the State as performing the exact functions that we have observed are exercised by consumers, even when completely *unorganized* into 'bodies' or groups. 'The will of the State is', he says, 'for practical purposes, the will which determines the boundaries within which other wills must live. The will of the State, in fact, is the will of the government as that will is accepted by the citizens over whom it rules.'<sup>2</sup> And Dr. Finer, whilst contending that 'coercion or constraint is not only physical as exemplified in banishment, imprisonment, and execution; there is moral suasion, propaganda, education',<sup>3</sup> fails, like other political scientists, to recognize the most important form of social coercion as being such. He still regards the State as 'the sovereign association'. Yet the idea of the sovereignty of the consumer in no way conflicts with his general conception of sovereignty. 'At any moment', he says, 'I may be sovereign, at any moment subject; and, at every moment, I am alternately, and at the same time, one and the other in many different connections. From me radiate numerous sovereignties, and upon me converge as many demands for subjection.'<sup>4</sup> For 'sovereign' and 'subject' we could here substitute 'consumer' and 'producer' in our own special sense and it would still have meaning. 'Sovereignty', he says, 'is a quality. Any quality is

<sup>1</sup> Laski, *op. cit.*, p. 60.

<sup>2</sup> Finer, *op. cit.*, Vol. I., p. 19.

<sup>3</sup> *Ibid.*, p. 56.

<sup>4</sup> *Ibid.*, p. 21.

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obviously one and indivisible, as a quality. But it is clear that a quality can inhere in many things, have many embodiments; and that Sovereignty or Supremacy may exist in a thousand different forms and combination of forms.<sup>1</sup>

- (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*

It is to emphasize the fundamental importance of consumers' power among the different forms of sovereignty that is our present purpose. It receives objective expression, in the main, in the existing price situation and the rate of flow of the productivity of different things priced at any moment. Obviously that form of association which we call 'the State' is best regarded as only one particular means open to the members of the community for co-operating for given ends.<sup>2</sup> Thus, the price of a thing may be fixed either (*a*), by causes completely outside the control of any individual or private group will, or (*b*), by causes controlled by associations such as the State, or a group of producers, or a group of consumers, or by an individual possessing rights which enable him to prevent the free movement of resources. The actual price-fixing mechanism adopted will, of course, depend ultimately upon the will of the State. The institutions<sup>3</sup> the State tolerates or creates may result in condition (*a*), in which case, given consumers' preference, the sole factor determining the price of consumers' commodities will be the relative amounts of different kinds of productive resources and services available. Such institutions would constitute what we have called 'competitive institutions', and values would depend upon what may be called 'natural scarcities'.<sup>4</sup> Or the institutions tolerated or created by the State may, on the

<sup>1</sup> Finer, *op. cit.*, p. 16.

<sup>2</sup> Not that the State, as we have inherited it, can be described in this way. It possesses, in fact, elements of coercive power based on no mutual benefit.

<sup>3</sup> We can accept Mr. H. D. Dickinson's definition of an 'institution' as 'a set pattern of social behaviour with respect to some function or functions . . . some Institutions are and some are not embodied in definite organizations or associations' (*Institutional Revenue*, p. 24).

<sup>4</sup> See Hutt, 'Natural and Contrived Scarcities', *South African Journal of Economics*, September, 1935.

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other hand, bring about condition (b) and enable either the interests controlling the State, or groups of private individuals to restrain the utilization of available resources and services. In those circumstances, values will depend upon what may be called 'contrived scarcities', and consumers' sovereignty will be expressed in an environment of contrived scarcities. This is, in fact, what we usually find in practice. There are many deliberately created barriers to the most complete utilization of productive power and hence there is some frustration of consumers' preference. But consumers' will is, nevertheless, still the stimulus to which the quantities of productive services of different kinds are supplied and consequently the stimulus to which the resultant consumers' commodities and services are a response. In other words, the degree of consumers' sovereignty actually achieved receives expression as 'effective demand'. According to the nature of the economic institutions tolerated or created by the State, so we may regard consumers' sovereignty as receiving complete or incomplete expression; and it is under competitive institutions that we find its full and untrammelled realization. 'The real and effectual discipline which is exercised over a workman', said Adam Smith, 'is not that of his corporation, but that of his customers . . . An exclusive corporation necessarily weakens the force of this discipline.'<sup>1</sup> Under the rule of consumers' sovereignty private property becomes, when viewed from one realistic angle, custodianship of productive resources plus the right of interpreting and obeying the community's very complex wishes. The individual who possesses a large share of the physical agents of production will reap a large personal return therefrom, and that return may be indefensible on grounds of distributive justice. But if he is truly subject to consumers' will, his income will be greater the more successfully he grasps and executes their commands. In one important aspect, his property signifies the ultimate discretion which society has delegated to him. The Marxist diatribes against private property have arisen out of a failure to recognize that the unequal distribution of income rights *which happens to be expressed* through that system, however unjust or avoidable it may be, is not in itself a condemnation of the system. The property system may be not inappropriately described as a set of institutions which, in relation to the necessity for incentive, enables the allocation of initiative and responsibility (with automatic

<sup>1</sup> Adam Smith, *op. cit.*, Vol. I, p. 131.

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rewards and penalties) in the utilization of productive power.<sup>1</sup> But to recognize this is not to assume, of course, that the complex of rights which at any time happens to define property is such as to maximize consumers' sovereignty.

(6) *As an ideal, consumers' sovereignty has at least the same measure of social validity as a ballot decision*

Regarded as an ideal, consumers' sovereignty rests on the same assumptions as does the ideal of representative government. As the absolutism of the State has been defended on the grounds that each citizen has some, if a very small share, in government; as the liberty of the individual has been regarded as resting ultimately on the supremacy of the general will, at whose behest he is forced into obedience and hence into an enforced conformance to the conditions of freedom; so the supremacy of the consumer over the producer may be justified on the grounds that every individual is, after all, not only a producer but a consumer — that every individual is not only subject but sovereign. At least the same measure of social validity could be claimed for consumers' sovereignty, then, as could be claimed for a decision by ballot on the assumption of similar rationality on the part of voters in an election and consumers in the market place. But we know, of course, that consumers in the market place are incomparably more rational and less seriously misled by propaganda than voters under representative government; although consumers' deficiencies in this respect are important.

(7) *The coercion of the individual through consumers' sovereignty allows him freedom to consume his own services and those of his property*

The sovereignty of consumers over producers does not extend beyond creating a situation in which the latter can choose between various alternatives. There is no absolute coercion on any individual to act (i.e. to apply his property and powers) in a certain way in reply to society's indication of its preferences. He has the liberty of following his own inclinations and sacrificing advantages which would be available to him from a higher income (or claim on society as pro-

<sup>1</sup> Professor Knight describes the property system as 'one method of selecting, motivating, and remunerating the functionaries who actually direct a social-economic organization'. *Ethics of Competition*, p. 311.

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ducers). Thus under competitive institutions he can maximize his earnings when he seeks to serve the community rationally in the light of consumers' demand; but he may prefer not to seek the end of highest earnings, although, if rational, he would probably consider consumers' demand in some degree. The artist, for example, who could earn £2000 a year by producing 'commercial art' which pleases the public, may decide to follow his own inclinations and produce instead what gives him the greatest satisfaction, but has little commercial value. And for his decision he may be left with a pittance for an income, so far as things obtainable with money are concerned. But he would have the countervailing advantage of a larger benefit in respect of the realization of the ends for which he is striving. In this attitude he is not selfishly ignoring society's demands. He may be regarded as employing himself; or in an equally valid manner, as purchasing the right to withhold valuable services which the community wants by sacrificing the greater part of a possible income. In seeking directly his own ends, he renounces rights which give him claims on others. For this reason we cannot refer to producer's freedom as 'producers' sovereignty'. When he ignores society's demands, the producer and consumer aspects of the individual are merged in him. He exercises his sovereignty over the disposal of his own powers and property.

- (8) *The individual's 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*

It is convenient, then, using the term 'realization of preferences' as covering the objects of the strivings of an individual in their most complete aspect, to distinguish between these two ways of achieving the power of realizing them. There is firstly that process by which he obtains a claim on society. In exercising this claim we see him in his consumer's role. He obtains the claim in return for services rendered by him in response to society's demand. In rendering these services we see him in his producer's role. Consumers' sovereignty is exercised through the search on the part of individuals for the fulfilment of some of their preferences in this manner. Secondly, there is that process by which the individual realizes his preferences directly from his own property and powers, contributing nothing for

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which society has asked and asking nothing from society in return; although the sum-total of such decisions has very important social consequences, seen most clearly in the demand for leisure. In these cases, as we have seen, the two roles of consumer and producer are merged in the individual. This distinction has nothing whatever to do with material and non-material welfare. The individual may sacrifice claims on others (which are usually obtained in the form of money income) for the benefit of his health, which must certainly be regarded as material. In practice, however, the second type of welfare which we have noticed, seems generally to be concerned with non-material things, particularly leisure.

- (9) *The notion of 'consumer' envisages the individual simply as seeking the fullest realization of his preferences, whatever they may be*

The power of choice between these two broad categories of possible response to consumers' sovereignty constitutes a fundamental part of any competitive system. It follows that in thinking of consumption, we cannot assume that only those things that have usually been understood by the phrase 'economic welfare' are important. Man is not merely concerned with material well-being. Hence our concern must be with man regarded in both his roles of producer and consumer, as striving for *all* those things he in fact wants, *material or otherwise*, in so far as his conduct has social significance. Even Professor Knight has assumed that the material or concrete in demand must be separated from the other ends of striving, and that economic theory has ignored these 'other ends'. 'Ultimately', he says, 'the real ends of action are not mainly of the concrete quantitative sort represented by utility functions, but consist rather in such abstract motives as interesting activity, satisfying achievement, self-approval, fellowship and social position and power. There is no end completely "given" in terms of sense data'.<sup>1</sup> Utility functions, we agree, are not very appropriate conceptions for dealing with the true ends of action; but the search for these ends has definitely what we regard as an economic significance in so far as it bears on social relations, and there is no reason why economic discussion should not take into account their full relevance. Again, he says: 'The ultimate motives or interests must be referred to by such terms

<sup>1</sup> Knight, *op. cit.*, p. 281.

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as exploration, problem-solving, fellowship, power, beauty, rightness, etc., which are not descriptive in an objective sense.<sup>1</sup> But in the pursuit of these things, market demand in its widest sense is affected *if there is anything resembling a conflict of wills*, as there must be if the means for their realization are limited; and if there is no conflict of wills, then there is no social problem at all. The notion of consumers' sovereignty covers all the individual's strivings to the extent to which those strivings influence the environment and hence the choices of other individuals. All the 'ultimate motives and interests' which Professor Knight recognizes as being so important are understood in the word 'preferences'. It is impossible, therefore, for critics to say of our specific interests in this study that we are overlooking 'higher values'; that we are materialists interested in physical well-being alone. When we talk of a 'consumer' we must envisage a man in possession of a certain rate of inflow of those claims on society that we call 'income', adjusting his conduct in the way he thinks will bring him the maximum of satisfaction of all kinds that he can take from society, not in the sense of seeking to maximize his 'pleasure', but of endeavouring to achieve the fullest realization of his preferences, whatever they may be.<sup>2</sup> It is, we must repeat, the individual's desire for the totality of welfare and not for that alone which is obtained through claims of the community that constitutes his actuating motive in a productive system. Thus, Dr. Robson's suggestion that 'the motive of profit-making' is a defective one because it can be based *only on the desire for a larger income*, has not the force that might at first appear.<sup>3</sup> Neither can we admit his assertion that 'the desire for monetary gain . . . is the incentive upon which the existing economic order is based',<sup>4</sup> either as a realistic account of

<sup>1</sup> Knight, *op. cit.*, p. 329.

<sup>2</sup> We may say that this maximizes his 'welfare' if we regard the term as having a purely subjective meaning and do not attempt to extend it to cover any summation of individual welfares into a broader objective unity as 'social welfare'.

<sup>3</sup> In the phrase 'the motive of profit-making' Dr. Robson is virtually referring to the competitive control of production. His actual words are: 'For unless the income of a man is regarded as an index to his material welfare, it becomes clear that the desire for a larger income cannot be relied upon as an adequate motive for the production of wealth, since what men and women really seek through their economic activities is not income but welfare. At that point the bottom would fall out of the argument that the motive of profit-making is not only sufficient but indispensable for maintaining production, because no man is fool enough to strive for an increase of income unless he believes that it will bring him a proportionate, or nearly proportionate, increase of well-being.' *Relation of Wealth to Welfare*, p. 18.

<sup>4</sup> *Ibid.*, p. 74.

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the mechanics of contemporary society or as an assumption of those who advocate the economic individualism which he is attacking.<sup>1</sup> Mr. J. M. Keynes has also suggested that the case for competition has rested on 'an incomplete hypothesis introduced for the sake of simplicity . . .', namely, that 'one of the most powerful of human motives . . . the love of money, is harnessed to the task of distributing economic resources in the way best calculated to increase wealth'.<sup>2</sup> But by adopting the consumers' sovereignty concept we can make it quite clear that this is not so, and that we do not disregard 'all motives except the prospect of monetary gain'. And the range of our consideration need not, it is obvious, be 'restricted to that part of social welfare that can be brought directly or indirectly into relation with the measuring rod of money', which Professor Pigou, even in an extensive treatment of 'welfare', assumes is a necessary postulate. We need not make any unreal abstractions whatsoever.

- (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 some supreme ethical significance*

On the other hand, we must specifically renounce any concern with matters of taste as such. We must be careful not to make the assumptions (which Dr. W. A. Robson says 'has permeated the whole science of economics') that 'the value of an object of human desire can be adequately expressed in terms of money'; for the word 'adequately' suggests that a value can be a good value; and we shall be unable to assume this, even in the abstract case in which the value has been determined under the completest freedom. But it can be shown that money prices of things indicate scarcities; and that individuals' efforts offered in exchange for a claim on the efforts of others *ought* (if consumers' sovereignty is our criterion) to be directed into the production of things in accordance with their scarcities. It will be admitted also, however, that values under natural scarcity, i.e. those resulting under competitive institutions, can be defended

<sup>1</sup> It is one of the commonest misconceptions that the case for a competitive system rests upon an unqualified justification of large fortunes. But huge residences, expensive clubs and pastimes, and all the other manifestations of conspicuous waste are certainly not, in themselves, incentives for any economic order.

<sup>2</sup> J. M. Keynes, *End of Laissez-faire*, p. 31.



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by no ethical or aesthetic criteria, unless the mere fact of freedom has some supreme and unique ethical significance. The defence of consumers' sovereignty rests, as we shall see, upon an assumption that liberty does possess this supreme importance. For, subject to the criterion of impartiality being satisfied, the complete sovereignty of the consumer is compatible with the fullest scope to the initiative of the individual that critically-minded public judgment would accept as just. In other words, it is in harmony with the idea of liberty.

- (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*

We do not claim, then, that because an event is a response to consumers' sovereignty it represents a solution of the social problem which maximizes some good derived from ethical, aesthetic or other metaphysical considerations. Our purpose is simply to distinguish two methods of restraint imposed by society on individuals, or different forms of 'social pressure'. But other writers have claimed that values (and hence presumably the social response to them) under competitive institutions are bad. We see this particularly clearly in Hobhouse's distinction between what he called 'social' and 'competitive' values. He regarded as a 'social' value, for example, a price of labour fixed by a trade board. We should prefer to call this an 'authoritarian' or 'contrived scarcity' value. Terminological questions may often be unimportant. In the present instance they are, however, far from that. To Hobhouse a 'competitive' value (presumably what we should call 'natural scarcity value' or 'value under competitive institutions') appeared to be a perfectly arbitrary thing. He seemed to assume that its causal basis had little connection with society's needs or aspirations. He was oblivious of consumers' sovereignty. He thought that competition simply expressed the results of 'bargaining power' which was the possession of the economically 'strong'. This is still the view of most 'sociologists' and political scientists when they venture (as, of course, they almost always do) into the sphere of economic relations. Dr. Finer, for

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instance, can apparently see no other aspects to the competitive determination of prices than 'the unsystematized process of price-fixing by millions of otherwise unrelated individuals'.<sup>1</sup> We are not concerned, at the moment, to look for causes of such misconceptions, but we may consider the suggestion that they result largely from the failure to recognize the ultimate power of control or restraint which lies in the community's will in its consumer's role. Two facts are indisputable. Firstly, current opinion hardly recognizes the existence and significance of consumers' sovereignty at all; and secondly, current opinion usually assumes that what are here described as 'competitive institutions' result either in undesirable influences, or else in purely arbitrary influences exercising controlling power. This being so, how can the desirable scope for electors' sovereignty, as opposed to consumers' sovereignty, be rationally considered? It will be impossible to come to any decision concerning the desirable province of the State unless we have some conception of the ends of social striving, as well as a thorough understanding of the mechanism of social co-operation. And it is just this conception and this knowledge that most of the critics of competition in society have shown themselves to lack. The peculiar virtues of consumers' control are those that we noticed in paragraphs 7-10 of Chapter xv in our discussion of the attributes of those restraints which create the conditions of social liberty. How many of those writers who are hostile to economic freedom have honestly tried to give due weight to these considerations? How many, indeed, have even been aware that a thesis like that put forward here could be seriously maintained? The solution of the problem of value through the expression of consumers' sovereignty is one which, rationally considered, accords with our ideas of justice. It is *impersonal* and, within the limits allowed by inequalities of income, an *impartial* force.<sup>2</sup> Given those inequalities, the controlling power of value is the most effective means of securing the satisfaction of those strivings (for material or non-material ends, good or bad) that are in fact manifested by society.

<sup>1</sup> *Finer, op. cit.*, Vol. I, p. 45.

<sup>2</sup> It will be extremely difficult ever to get popular acceptance of this thesis. 'This feeling for what one *should* want, in contrast with actual desire, is stronger in the unthinking than in those sophisticated by education. It is the latter who argues himself into the 'tolerant' (economic) attitude of *de gustibus non disputandum*; that man in the street is more likely to view the individual whose tastes are 'wrong' as a scurvy fellow who ought to be despised if not beaten up or shot.' (Knight, 'Ethics and the Economic Interpretation, in *Quarterly Journal of Economics*, 1922, p. 458).

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(12) *The fact of economic inequality does not make consumers' sovereignty an undesirable controlling force. It is a problem which must be separately considered*

It has been urged by Mr. Dobb, in opposition to this view, that to attempt to identify the 'just price' with the competitive price 'is only correct if it is the competitive price in a classless community, not in a society with inequalities of rich and poor',<sup>1</sup> and Mr. Dickinson has similarly argued that 'the movements of price in an open market are only a guide to social utility in a society substantially equalitarian'.<sup>2</sup> Now, in the light of our assumptions and arguments in Chapter xx, we must agree that the values resulting under other than equalitarian conditions are the reflection of a state of affairs which it is desirable to change. That is a very different thing, however, from suggesting, as these passages do, that the values themselves are indefensible. A parallel example will clarify the point. The imposition of a protective tariff will affect the whole system of prices within the sheltered area, and we can say that in one sense the resulting values are not such as maximize consumers' sovereignty, for values determined under Free Trade would be preferable in the light of that criterion. But *given* the tariff, then the competitive adjustment of internal prices within the sheltered market will be to the consumers' benefit; and the free disposition of productive resources in the light of those conditions will also be to their advantage. The adjustment of values to conditions of marked inequality (i.e. in which consumers' power is mal-distributed) is similarly desirable in itself; and as it can be shown that State price-fixing cannot usefully mitigate the wasteful diversion of productive resources and effort produced by tariff protection, so it can be demonstrated that authoritarian price fixation (or wage fixation) fails to rectify economic inequalities, and cannot be justified except in catastrophic situations to which the activities of the community have been unable to adjust themselves.<sup>3</sup> It follows, then, that the problem of inequalities must be tackled separately.<sup>4</sup>

<sup>1</sup> Dobb, *op. cit.*, pp. 111-112.

<sup>2</sup> Dickinson, *op. cit.*, p. 87.

<sup>3</sup> This point is discussed in Hutt, 'Natural and Contrived Scarcities', *South African Journal of Economics*, September, 1935.

<sup>4</sup> Marshall, arguing against the view that inequalities invalidated the utility conception, pointed out that, 'on the whole . . . it happens that the greater number of the events with which economics deals affect in about equal proportions all the different classes of society'. *Principles*, 8th Edition, p. 131. A different aspect of this question is discussed in Chapter xviii, paragraph 6.

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- (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 the social benefit*

We are thus left free to claim, on the basis of the assumption that there is some superior ethical significance in liberty and freedom of choice, that the more effectively competitive forces bear on prices, the greater will be the community's benefit. This view approximates to that expressed by Bastiat, referred to by Marshall as 'a lucid writer but not a profound thinker' who 'maintained the extravagant doctrine that the natural organization of society under the influence of competition is the best not only that can be practically effected, but even that can be theoretically conceived'.<sup>1</sup> In spite of Marshall's use of the term 'extravagant', and in spite of his frequent ridicule by unsympathetic commentators, there appear to have been no *specific* attacks upon Bastiat's general supposition. His critics are right in not regarding him as a profound thinker. There was a serious weakness in his stress of the 'natural' elements in social forces. He must be thought of simply as a skilful propagandist and teacher. But his principal thesis has in the main merely been the subject of dogmatic denial, or even of deliberate ridicule. And his rhetoric and undue simplification have made him an easy prey to the gibes of those who have disliked his philosophy. There was a core of solid truth in his gospel which is still crying out for recognition.

- (14) *The main criterion of the desirable functions of the State must be their power to contribute to liberty*

As to what things can be better done through the mechanism of the State than through the exercise of consumers' sovereignty, there can be no simple answer, for, as we have suggested, it depends, in part, upon what we may regard as the *ends* of all social striving. If we take this to be the fulfilment of 'the will of the people' we are no further forward, for we can conceive of no useful statement about *that* other than that it involves the desire for the maximum of liberty. It seems that it is only in the idea of liberty as developed in the previous chapter that we can find any harmonizing principle to give generality or meaning to the conception of the 'greatest good of the greatest number' or 'the social will'. Hence we must take as the

<sup>1</sup> Marshall, *Principles*, Third Edition, p. 64, footnote.

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main criterion of the *functions* of the State their power to contribute to liberty; and in constructive studies of the actual fabric of economic organization, we must assume that this end is being sought.

- (15) *The community's failure to understand social institutions leads to the sanction of restrictions of liberty*

It does not follow that because an institution is accepted in the belief that the achievement of a particular end is its purpose, that that end is necessarily attained. The sphere of politics is not one in which the aspirations of mankind receive entirely rational expression. Through failure to understand the nature of the institutions which make up the State, 'the greatest number' may give their sanction to governmental activities restrictive of liberty; and they may withhold their sanction for those which are required in the interests of liberty. This, it is believed, is so in the whole trend of increased governmental *interference with competition and tolerance of monopoly* which is typical of modern communities. The actual work of governments has been determined not by the rational-thought of a liberty-seeking community, but by power-thought — the power-thought of private interests and politicians.

- (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*

It is this clash between vested interests and the common weal which makes it imperative that we should work for the recognition that the State, among all other human associations, is one which should be accorded unique attributes. Authority, or political sovereignty, must be focused in one body which is subject to the electorate. Only under such institutions is the preservation of liberty and the protection of consumers' sovereignty conceivable. Only under the supreme authority of the State can we imagine the resolution of social conflict. It is consequently fundamental to our present thesis that the pluralistic political sovereignty which Professor Laski has defended be rejected. For associations such as the Federation of British Industries, the Trades Union Congress, the Lancashire Cotton Corporation, or the Railwaymen's Union have no complete identity of interests with the community as a whole,

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and they must be subject to that political sovereignty which alone can protect on behalf of the great society, such elements of other sovereignty as are not contrary to the general interest. As Mr. Elliott has recently pointed out: 'When all men take the view of the State which characterizes the political pluralism of Mr. Laski, for example, that every command of the sovereign is called upon to justify itself before the moral conscience of the individual as right in itself, then the majesty of law is rendered a thing of shreds and patches. Constitutionalism is the necessary context of single laws. "Pluralism" puts an impossible demand upon such laws. The essence of the morality of "law-abiding" people lies in the recognition of the necessity for a delimitation of "rights" by an accepted rule of law. And when the individuals who call the right of the State to command into question are "corporate persons" — whether Church, business, or labour unions — the matter is even more impossible of the solution Mr. Laski proposes. Then the rights of personality become the corporate interests which know no limits (in the case of economic groups) except those imposed upon them by necessity. To speak of the "moral personality" of the United States Steel Corporation or the A.F. of L. smacks of a *mauvaise plaisanterie*.'<sup>1</sup> The truth does seem to be that Professor Laski has used 'the Church and other institutions and associations in the State as stalking-horses for the unions of the world of labour'.<sup>2</sup>

<sup>1</sup> W. Y. Elliott, *The Pragmatic Revolt in Politics*, pp. 108-9.

<sup>2</sup> Elliott, *op. cit.*, p. 150.

## CHAPTER XVII

### EDUCATIVE RESTRAINTS OF FREEDOM OF CHOICE

(1) *An individual's preferences may be moulded by the will of others*

WE have seen that the case for consumers' sovereignty rests mainly on the attribution of supreme ethical significance to the idea of liberty. Now in our discussion of the nature of liberty we assumed the right of the individual to exercise freedom of choice within the limits fixed by impartial and impersonal social forces to be a fundamental right. But the preferences of an individual may be, and in practice are, determined by the will of others. As a person's freedom of action may be restricted by the arbitrary action of other individuals or groups, so may his tastes and desires be deliberately (or incidentally) moulded by other individuals or groups. This being so, how can we assume that freedom of choice is of superior importance in relation to human well-being?

(2) *The defence of freedom of choice pre-supposes a degree of rationality which the child, and sometimes the adult may not possess*

The apparent arbitrariness of individual preferences is brought out in any consideration, not only of education, but of the whole process of passing on the social heritage from one generation to another. The defence of freedom of choice must obviously pre-suppose some degree of rationality, some power of discrimination. In particular, it must assume that an individual has the power to weigh up the satisfaction of his immediate impulses and his long-run adjustment to his environment. He is not born with this power. Nor do the complex social arrangements of to-day enable the child or youth to learn sufficient from trial and error or the apparent experience and example of others. In countless ways, the child and even the adult have to be taught: they must be restrained from following the whim of the moment. Without such restraints, society as we know it could not exist. The result, we admit, is the enslavement of mankind to a tradition of tastes and conduct which, whether

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good or bad, critical opinion can change but slowly. But they are inevitable requirements of civilized life.

- (3) *Hence restraint of the individual may sometimes be justified in his own interests*

It is in this context that we must now consider the conditions of free choice. In view of the fact that civilization requires the imposition of culture on the individual, we may conclude that at certain stages in the development of humanity, and in respect of certain things, the exercise of an adult's free will, *although in no sense involving a frustration of the will of others*, may be legitimately restrained. The restraint is in his own interest. Complete freedom of choice has, of course, never been advocated for children. They must rely for their security and well-being upon the benevolence and goodwill of their parents and guardians, as slaves must rely upon the kindness of their masters. Clear rules have never been formulated to determine at what ages, or at what degrees of economic or intellectual achievement the granting of the rights of private judgment and private initiative can be regarded as to an individual's good. We have similarly no definite criteria to tell us when backward races should be left subject to the coercions of the market, public opinion and custom. The omnipresent desire for liberty forces the student of social institutions to accept the principle that in general all adults should be left free to adjust their lives in the light of their own interpretation of experience. But we can say practically nothing about when the conferring of the right of private judgment is expedient in respect of the individual's realization, as our political philosophers would say, of his 'best self'. On the whole, because of the supreme significance of liberty to humanity, it seems desirable to risk erring in the direction of giving too much rather than too little scope to private preference.

- (4) *Educative restraints of the individual cannot be protection against his 'exploitation'*

It is, however, imperative in recognizing the possibly valid grounds for the withholding of the right of private initiative that the object is protection of the individual from the results of his own voluntary acts. It is emphatically not justified on the grounds that



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it gives the individual protection from any exploitation within the framework of competitive or capitalistic society.<sup>1</sup> Thus it is because of the individual's ignorance of the importance to him of a favourable environment that factory legislation and health legislation are defensible.<sup>2</sup> The protected workman must be regarded as not knowing and hence not insisting upon those things that are really necessary for his well-being.

- (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*

The same principle can be seen to apply in the problem of the sanctions for interference with the indulgence of dangerous or deleterious tastes. This problem may complicate the question of the desirability of allowing private initiative in stimulating change of taste, and when it arises in this form, it may seem to imply a fundamental criticism of consumers' sovereignty. A strong case can be made in defence of private advocacy in the advertising field. But there are circumstances in which the tolerance of individual preference or private endeavours to encourage the community to try new experiences hardly seems justifiable to most reasonable people in countries with puritan traditions and education.<sup>3</sup> Thus, Professor T. N. Carver, a fearless apostle of economic liberty, has recently published an impressive condemnation of 'education for intemperance' in an American periodical. He has recommended the imposition of legal restrictions on drink advertisements. What is the philosophy behind such an outlook? His recommendation is, of course, simply for a very mild application of the spirit of prohibition. In the light of the principle of liberty, the proposal of such restraints must be based on the assumption that certain individuals (say, young men and women acquiring habits and attitudes towards life) need protection against the results of their own voluntary acts, results which, given existing facilities for education, they cannot be expected to foresee when they make certain decisions or follow certain

<sup>1</sup> The prevention of the exploitation of children (who have not the right of free choice between alternatives) by their parents and guardians is an entirely different case.

<sup>2</sup> Health legislation for the prevention of *infectious* diseases falls under a different category.

<sup>3</sup> Such ideas are hardly present at all in most Latin countries.

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impulses; or else the assumption must be that an individual's drunkenness may annoy his neighbours. The restraints will then rest either upon the principles which justify, for instance, the health regulations of factory acts,<sup>1</sup> or else they must fall into the same category as laws which enforce the muzzling of dangerous dogs.

(6) *Similar restraints may in fact be based on ethical grounds, and hence may conflict with the principle of liberty*

But restraints on the individual's exercise of his voluntary preferences may *also* be based on ethical principles additional to or conflicting with those derived from the simple conception of liberty. This is especially likely to be so if the object of the protection is the welfare of adults. The State will forbid the satisfaction of 'immoral' desires. The restraints will then fall into the same category as do those which prevent drug-addicts from satisfying their tastes, or those which most people (although by no means all of us) would feel inclined to impose in order to frustrate would-be suicides in the realization of their preference between consciousness and oblivion. The ultimate rational sanction for such rules may perhaps be thought to be that the individuals forming society are almost unanimously agreed that it is desirable to enforce them. But the ethical significance of mere numbers is dubious. This sort of sanction can only come from some form of what is claimed to be revealed religion; and such authority for denying the right of private judgment would have equal validity against the majority if the minority happened to possess power. If laws discouraging drunkenness and drug-taking persist in future generations, it is probable that they will be justified simply on the ground that drunkards and drug-addicts are a public nuisance, or on the ground that they do not make good soldiers or shock-troop workers, or on the ground discussed in the next paragraph.

(7) *Some enactments, apparently protective of the individual, may really be intended to prevent injury to others*

We often find also that legislation which *appears* to be protective of the interests of the parties restrained is in fact intended to prevent

<sup>1</sup> These principles have not determined the motives which have *in fact* led to such health regulations.

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them from injuring others. Thus, during the first half of the nineteenth century the English steel grinders refused to take advantage of the devices which existed for their protection against steel dust. Their objection to the magnetic mask may have been due to its irksomeness, together with mistaken scepticism as to its real efficacy. We know also, however, that they were grossly intemperate and lived for the moment. They were seldom in good health after the age of twenty-five, and few lived more than thirty-five years; hence we must assume that they were quite well aware of the effects of their lives and habits. They themselves argued that if their trade were made a healthy occupation they would lose the advantage of the very high wages which they received; and they seemed to prefer the short and hectic existence that they knew. The defence of compulsory health regulations in this type of case can rest either upon those metaphysical principles which deny the power of suicide to the individual; or upon the grounds that their early deaths caused suffering to others; or upon the grounds that the interests of future generations in their grade needed to be saved from the horrors of a degrading tradition. If the two last grounds are appealed to, then clearly the 'protective' legislative enactments were intended to protect, not the actual grinders restrained, but others.

(8) *Some collective decisions should be regarded as arising from the individual's voluntary acquiescence in the requirements of co-ordinated activities*

A further motive for an apparent over-riding of individual preference which is found in practice is one which is unconcerned with the protection of the individuals, with the suppression of immoral desires, or the protection of others. It arises from the necessity for individuals to adjust their lives to the technical requirements of co-ordinated activities. In reality, therefore, there is no suppression of private taste. The question arises in a very clear form in reference to the rationale of State intervention or collective decision in matters of health, safety and hours of labour. We are here concerned with the obvious technical fact that these things cannot be determined by the whim of each separate individual. But the reason why that is so, is seldom understood. The cost would be far too great because productivity is a co-operative process. Take the case of hours of labour. If each individual in an industry decided

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that he would take his leisure when it pleased him, then clearly there could be but little co-ordination of work. The productivity of labour would be indefinitely lower. Hence each individual may be regarded as voluntarily acquiescing in some collective determination of these things, because of the inducement of the higher earnings which it permits. In this way and in this sense competition is still effective. The case is really that which arises whenever there are 'technical discontinuities'. The supplier of work — who is also a consumer of leisure — may be regarded in the latter role as purchasing a standardized product, the standard day (or more accurately, the standard leisure). We can conceive in the abstract of several ways of allowing the individual choice in this matter. A common standard and common times must be agreed upon, at any rate for a particular factory. But there is only one *satisfactory* and practicable means of determining the hours of labour, and that is by vote. The will of the majority must decide. The interpretation of actual experience in this field is difficult, however, because there exist so many other motives leading to collective action to determine hours and conditions of employment.

- (9) *'Bitter experience' will usually serve the individual better than restraints.*  
*The lessons of experience often come from chance happenings*

The fact that restraints on individual preference are sometimes defensible does not justify the conclusion that consumers' sovereignty cannot rightly be allowed to become the supreme controlling force in the field of human relations. We admit that at times whole social classes may have been unaware of the best means of adjusting their lives to the changing order. But in the many fields in which this allegation might be made, the individual's ignorance can usually be seen to be one which time will remedy. As a rule, the situation appears to arise only when sections of the community are presented with a new set of circumstances. In the rapidly changing world of to-day this must frequently be so. But it does not necessarily make the imposition or tolerance of restraints expedient. Consider State control. If those who control the State, i.e. the members of governments, are wiser than those who elect them, their leadership may be used to hasten the process by means of which the masses can understand their novel environment. But we have no reasons for believing that

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the controllers of modern States have more practical wisdom than the social classes whom they might wish to help. Nor have we grounds for supposing that they possess any strong motive for ignoring, in the best interests of electors, the mandates through which their power has been obtained. It is equally doubtful whether we can assume that the expression of social opinion through Parliamentary elections is likely to be wiser than its expression through individual preferences. And the sanctions for other forms of collective suppression of individual preferences are no stronger. In general, the passage of time must be relied upon to produce the lessons of experience. Chance happenings will affect the process and often enable new and better things to be tasted.

- (10) *The appreciation of leisure for its own sake (as against income) resulted from the shortening of the working day as a means of restricting production*

A good example of the importance of chance is presented by the history of the hours of labour. For various reasons, the determination of the length of the working day in the industrial world cannot be left to individual whim. But the tendency for the period of workers' leisure to increase during the last century and a half can be said to have been due to a realization of its benefits, only because other factors happened to cause it to be demanded. Shorter hours have in practice been sought almost universally, not because leisure as such has been valued, not because the worker was seeking to escape from the drudgery of factory life, but because the reduced contribution from each worker has served as a means of work-sharing under restricted competition.<sup>1</sup> But whatever the motive for particular collective determinations of hours of work, they have often had an important effect upon taste. They have obviously exerted considerable influences on individual preferences (as between income and leisure, for example) and social standards. The belief that unrestricted competition in the labour field must in itself lead to *oppressive* hours of labour, or in other words, that the individual worker as a consumer of leisure will be *forced* to demand less of it than is good for

<sup>1</sup> Similarly health regulations have been largely inspired by the desire to make the employment of women impracticable and so to decrease their competition. Or again, a very powerful motive in the demand for increasing the school-leaving age has been that of retarding the entry of new hands into the labour market.

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his health or non-material welfare, is an illusion. Where the worker has suffered in this respect, it has been the product of his own misguided will. He has been dominated by an ingrained ardour for increased earnings which are obtainable by him, in any given competitive situation, through increased output. The worker has shown, therefore, an ardour for work, the presence of which has been obscured by the early and continued existence of restrictionism. At one period of industrial history a great deal of over-work in the physical sense may have taken place. With the gradual emergence of the capitalistic economy in the Western world the workers seemed to rush with such eagerness to co-operate in the process of obtaining the incomes, and hence the benefits that the new regime had to offer, that they apparently sacrificed leisure to an extent which is generally believed to have reacted adversely upon their health. The traditions of the classes who formed the factory workers brought no desire for leisure over and above the Sunday, the usually leisurely meal-times and breaks in the working day, and the few hours of evenings. They had to acquire the appetite for leisure; and rational initiative may not have been the chief cause which gave them the taste for it.<sup>1</sup>

(11) *The growth of demand for money-income (as against leisure) by primitive peoples has been largely a result of pressure forcing them into the industrial system*

Where the capitalistic economy has not existed, we have not found this burning desire for increased incomes. Observers of those races which have been brought suddenly into a free regime, and have not yet had time to taste or appreciate what capitalism has to offer, have been inclined to regard consumers' will as defective for the reason that the great mass of people are reprehensibly lazy to their own detriment. The same problem receives expression in opposite terms. 'The effect on the Dyaks of a freedom from oppression', said Sir James Brooks, 'has been just the reverse of what I expected. The freedom from oppression, the reduction of taxation, the security for

<sup>1</sup> Idleness itself may be pleasant to those fatigued, but the desire for rest periods is probably a relatively unimportant factor in the demand for leisure if eight hours of sleep can be obtained. The attractiveness of leisure increases as the benefits obtainable through it increase. Thus, the demand for a Saturday afternoon holiday in England reflected in part a sincere wish for leisure, very largely arising from the development of association football.

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life and property, has made them lazy. I always thought that it would have made them industrious, and eager to improve their condition.<sup>1</sup> The use of the word 'lazy' here really seems to be a form of unconscious intolerance. The 'laziness' of primitive people may be inconvenient to immigrants who have been reared in a capitalistic environment; but until the former have acquired the tastes which are developed in the modern economy, the tendency asserts itself for higher rates of pay to be responded to by a decreased willingness to work. The natives will make use of increased power to earn by demanding a longer period of leisure. It is presumptuous for us to talk about this being contrary to 'the real interest' of those who have been moulded by the tribal system. Life has meaning to them only in the light of their customary social environment. Experience in the Union of South Africa in connection with the Bantu suggests that the so-called 'laziness' tends to disappear as the natives, gradually learning to understand the money economy, begin to find significance in the products of industrialism. And it is true that once they have thoroughly experienced the rush and rigour of the Western world they are reluctant to return, or even incapable of returning to the leisurely tribal life. The natives were once taxed to force some of them into the white man's system, whereas to-day South Africans are obsessed by the fear that they may overrun it. But the fact that some of the natives have been driven into what has happened to be a higher civilization which they now have no desire to leave, hardly justifies the mildly coercive measures which were responsible for it.

<sup>1</sup> Quoted in Sumner and Keller, *op. cit.*, Vol. III, p. 2127.

## CHAPTER XVIII

### TASTE AND TOLERANCE

(1) *Superior ethical significance may be attributed to the principle of liberty*

So far the claim that the values produced under consumers' sovereignty are 'right' or 'good' has been carefully avoided. In other words, there has been no assumption that the democratic control (through the market) or economic activities is desirable from any ethical point of view other than that which gives supreme importance to the principle of liberty. In emphasizing the fact of the sovereignty of the consumer, it has not been argued that he *ought* to be sovereign. All that has been claimed on behalf of the social or competitive solution of values is that in its impartiality and impersonality it satisfies our criteria of liberty and justice. It will now be suggested that values under natural scarcity in response to consumers' sovereignty are the only ones that can be taken as providing the ideal control of society's activities. The basis of our contention is as follows: Rejecting all systems of absolute ethics and aesthetics, judgment as to the goodness or badness of the result of any valuation process can only be personal; so that we have no more satisfactory criteria of the goodness of society's preferences in the objective expression than we have of the goodness of individual taste. But under our assumption of the absence of absolute standards, it seems that there is only one *conceivable* criterion of the desirability of values for which we can expect general acceptance, namely, that the forces determining them have been social, not private. It is for this simple reason that *liberty* (which we regard as practically synonymous with *tolerance*) must be regarded as a higher over-ruling principle.

(2) *Our individual tastes and preferences have been largely imposed on us by society, and acquire rigidity from imitation and habit*

There is nothing inherently good about individual autonomy in the expenditure of individual income, except that it is directly derived from this higher principle. Our tastes and desires have, after all, been almost wholly imposed upon us by the teachings, the



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tastes, and the standards of those among whom we live. We are creatures of our environment, and although our innate differences cause ultimate preferences to vary from individual to individual, our emotions *as we know them* and our conduct are merely a response, whether deliberate or impulsive, to a given social milieu. Moreover, we cannot even regard our response as being in the nature of simple continuous adjustment. Habit and imitation stand out clearly as moulding our feelings and social reactions at any moment; and although habit represents the embodiment of former decisions which were the result of thought (and is hence essential to the economy of the individual's energies), it is still true that we are in practice largely its slaves. 'It is a mistake', says E. R. Hadley, 'to draw too fine-spun deductions as to the motives which guide buyers in their choice, when three-quarters of the buyers exercise no choice at all. It is not merely that people want things which hurt them, or which fail to do them the maximum good . . . but that they buy things without knowing whether they want them or not, through sheer *vis inertia*.'<sup>1</sup> But Hadley regards this inertia as invalidating any approach which accords importance to the consumers' will. Wicksteed recognized this *inertia* without jumping to the conclusion that it detracted from the significance of consumers' preferences. 'Our purchases and our general conduct alike', he said, 'are largely determined by mere inertia and tradition. Our action is often guided neither by an estimate of the future nor by a direct impulse, but by mere habit formed on past estimates and impulses. And even when we form deliberate estimates, the material on which we exercise our judgment may be supplied not by the present facts, but by a traditional feeling based on what they used to be.'<sup>2</sup> 'There are people who seem hardly to reckon with any direct perceptions or experience of their own at all. They regulate their lives, and apparently even their feelings, by symbols and indices rather than facts . . . They do not even eat what they like or what suits them, but things that have become to them symbols of festivity, languor, or of vigour, as the case may be. The extreme and all-embracing power of this disease specially besets men who pique themselves on their practical views of life, their robust common sense and their preference for solid facts above mere phantoms.'<sup>3</sup>

<sup>1</sup> Quoted in Foreman, *Efficiency and Scarcity Profits*, p. 190.

<sup>2</sup> Wicksteed, *op. cit.*, p. 117, Vol. I.

<sup>3</sup> *Ibid.*, p. 115.

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- (3) *The 'pecuniary motive' arises through desire being moulded by habit. But habit is essential to the economy of private existence*

An analysis of one person's habitual conduct may cause it to appear as utterly absurd to another. The 'folly' of a miser to whom a former means (money) acquires the character of an end will be clear, for instance, to most 'normal' beings. But we find so many parallels of the transformation of means into ends when our own experience is subjected to introspection that we are forced to realize the folly of trying to distinguish between rational and irrational preferences. Even the size of the conventional monetary unit can be seen to exercise (indirectly, through the influence of habit) a far-reaching influence upon our tastes and our relative desires for different types of commodities. Wicksteed pointed out that 'minor expenses are lighter in a country in which the unit is the franc than those in which it is the florin'.<sup>1</sup> This is one particular manifestation of what may be called 'the pecuniary motive'. It is a motive which has often been referred to in criticism of arguments which have sought to justify the supremacy of consumers' will. It is separate from, but often connected with and apt to be confused with, the 'conspicuous expenditure' motive, derived from the respect given to pecuniary success (referred to in paragraph 11). The case of the miser and the case of the business man whose life is 'cramped' by his absorption in the task of securing financial success arise in this connection. Individuals, having in the first place made pursuit of income their immediate aim, have gradually lost any clear realization of its intermediary function, and making it an end in itself, have pursued what some moralists have regarded as 'a mere phantom'. Wicksteed argued that money 'can never be more than the means (though it may be the necessary means) to happiness, and the man who habitually thinks of things under their pecuniary aspects becomes the slave to a symbol and will often sacrifice the thing symbolized to it'.<sup>2</sup> There are few of us, according to Wicksteed,

<sup>1</sup> Wicksteed, *op. cit.*, Vol. I, p. 251. Even in countries in which there are parallel currencies and coins (like England and South Africa) tradition may have an important effect on values. Thus, the popularity of the 'tickey' (the three-penny piece) in South Africa causes a wide range of objects and services to be valued at three-pence which are commonly sold for one penny in England. The larger conventional unit of currency facilitates the tacit (or sometimes formal) monopoly in the absence of which the competition of supplies would lead to the substitution of dealings in lesser coins. This seems to have exercised a marked influence upon relative preferences for different types of commodities within a certain range of consumption.

<sup>2</sup> *Ibid.*, p. 115, Vol. I.

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who are not sufferers from this aberration in some form or other. 'We buy useless things because they are "so cheap", or refuse to buy things the price of which we find unexpectedly high, although they are well worth the money to us. We buy the cheap thing under the sympathetic illusion caused by the sense of how much more than its price it would be worth to somebody else . . .'<sup>1</sup> This 'distortion' (if we may legitimately use this word) of our plans of life and tastes is, however, certainly not irremediable and with most of us not serious. It arises not so much out of anything which could be significantly described as inherent human vice, but out of the personal technique which individuals have developed in adjusting their lives to the very complex society in which they exist. Social life must be built on habit, and the individual cannot be forever questioning his habits. Thus, at times, the person accumulating a fortune may realize that his motive is the acquisition of safety for himself or his family, but for long periods he may be aware only of his task of maximizing the balance of his profit and loss account. 'To an Englishman', said Senior, 'wealth is safety. He can purchase with it the avoidance, removal, or the mitigation of almost every ill to which humanity is exposed.' But he may soon become oblivious of his original incentives and come to feel joy or satisfaction in the mere acquisition of wealth. When *immediate* objects (such as the pursuit of income) are most clearly envisaged, the individual is often likely to be more successful in attaining his *ultimate* ends.<sup>2</sup> Whatever the results on the fullness of his life, he will enjoy a certain private efficiency in the concentration on a clear-cut aim. Moreover, the search for higher income, although not in its origin rational, may become as pleasurable as a game and not necessarily typical only of sordid natures, even when the idea of ultimate satisfactions from prestige, safety, or power to consume is but vaguely present. 'Industry and trade', says Professor Knight, 'is a competitive game, in which men engage in part from the same motives as in other games or sports. This is not a matter of want-satisfaction in any direct or economic sense: the "rewards" of successful participation in the game are not wanted for any satisfying power dependent on any quality which they possess as things, but simply as insignia of success in the game, like the ribbons, medals, and the like which are conferred in other sorts of contests.'<sup>3</sup>

<sup>1</sup> Wicksteed, *op. cit.*, pp. 115-6, Vol. I.

<sup>2</sup> Compare Wicksteed, *op. cit.*, p. 186.

<sup>3</sup> *Quarterly Journal of Economics*, 1923, p. 586.

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- (4) *The element of custom in consumers' taste does not detract from the consumers' sovereignty ideal*

In the last analysis the pecuniary motive, like all other motives derived from habit and reflected in the consumers' will, must be regarded as a matter of taste about which we must not dispute. We may talk of the individual's tastes and preferences being 'corrupted' through his immediate ends supplanting ultimate ends. But if we do, we merely express our own likes and dislikes. There are innumerable influences incidental to social organization which are reflected in taste, and they are no more to be condemned than the ethically and aesthetically neutral (or arbitrary) influences from the world of nature which bear upon our tastes. Indeed, it is surely not an exaggeration to say, in view of human tradition being so largely embodied in habit, that it is *custom*, in countless forms, which gives life its meaning, not only among primitive tribes, but among the most sophisticated and unconventional coteries of modern society. It is largely true that the motives of those who strive to accumulate incomes through business have come to resemble those of participants in a game. But the game of making an income is one which the entrepreneurs of the present generation understand. And the game's motive is, in itself, at least as defensible as any other. There is no way of purging it of the merely habitual factor. All we can say on the question of the goodness of individual motives and preferences as expressed in market forces is that freedom of initiative to advocate changes of taste and aspiration ought to be secured. And it can be shown, we believe, that this can be best effected or ensured through competitive institutions. Hence the elements of rigidity and custom in consumers' taste cannot be held in any realistic way to detract from the desirability of consumers' sovereignty as a social ideal.

- (5) *The desire for 'mere novelty' does not detract from the consumers' sovereignty ideal*

Moreover, the critics of taste seem at other times to be objecting (with equal innocence of their essential intolerance) that the tendency of individuals is to break away from habit and to seek novelty for its own sake. Such critics tell us that consumers, in refusing to conform to habit and fashion, are irrational. They neglect the good for the merely novel. But we have no criteria to tell us how much 'mere novelty' consumers ought to be allowed to have.

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- (6) *Competition 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*

In order to see the question of mass taste, as moulded by habit and imitation, in its full setting, we must again refer to the relation of economic equality to consumers' sovereignty. It may be argued that for liberty to be justified as a higher principle, the preferences of each individual *ought to exert an equal influence*. The acceptableness of the resulting values will certainly be greatest, as we have already pointed out, under equality of incomes. Moreover, as we shall argue in Chapter xx, the institutions which tend to render consumers' sovereignty effective do not conflict in any respect with the equalitarian ideal. But assuming economic inequality, and admitting that this involves inequality of power, the method of exercising that power under the limitations imposed by competitive institutions, involving as it does the diffusion of power, can be seen to minimize the strength of the individual preferences of the wealthy. It is true, as Wicksteed pointed out, that 'a shilling represents to me the same power of drawing on the circle of exchange, that is the same power of securing co-operation towards the accomplishment of my purposes, whether it comes from the purse of a millionaire or of a pauper; and therefore the economic forces will press me with equal power into the service of either if each offers me a shilling'.<sup>1</sup> But he failed to stress or recognize the importance of the fact that the aggregate demand of millionaires has to compete with a much greater *aggregate* demand on the part of the poor and moderately well-off people; and that under competitive institutions such initial inequality would be capable of exercising power only through the medium of demand. Now the relatively successful majority under consumers' sovereignty consists, in all fields in which conditions of decreasing costs exist,<sup>2</sup> of those with the greatest *aggregate* demand for consumers' goods. Hence the relatively poor (in so far as their demand happens to be concentrated on things whose standardization will result in a cheapness which appeals effectively to their pocket) will have an influence quite unrelated to

<sup>1</sup> Wicksteed, *op. cit.*, Vol. I, p. 189.

<sup>2</sup> By 'decreasing cost conditions' we mean, in the broadest terms, circumstances in which the larger the demand for a particular commodity, the greater the economies achievable in its production.

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the small incomes per head which they may possess. The results of this power which competitive institutions accord to the aggregate demand of the relatively poor are commonly deplored by those who dislike competition. Sensitive critics find it easy to decry mass production and to suggest that it results in the supremacy of a contagious mediocre taste.<sup>1</sup> They have no difficulty in showing that a cultured or artistic minority may be forced to suffer from its results, especially when the relatively poor have had no time to acquire higher aesthetic standards. But the 'tyranny' of the majority in this field is one which still gives a wide range of choice to minorities; and the scope available to the minorities is dependent in part upon the smallness of the economies realizable from a large aggregate demand.<sup>2</sup> We do not deny that the sovereignty of the consumer has *contributed towards* the growth of the taste that has given us (in the short run of the modern age, at any rate) what many of us feel to be the inanities of most contemporary films and musical comedies; that to-day provides fortunes for girls of rare beauty, and pittances for musicians and artists of great (and occasionally the rarest) talent, if they still choose to pursue musical or artistic careers.

(7) *We can endeavour to encourage the community to desire 'more worthily and wisely'*

To many critics of competitive society such facts alone would seem to constitute a sufficient condemnation. But it is always open to those who despise general taste to set about changing it, in so far as that is within their power. And it may certainly be argued, and the economist as such would never quarrel with the assertion, that the desire to improve taste and morals may be a higher task than the desire to minister to it. 'The man who can make his fellows desire more worthily and wisely', said Wicksteed, 'is doubtless performing a higher task than the one who enables them more amply to satisfy whatever desires they have.'<sup>3</sup> To preach against war, against drug

<sup>1</sup> It is most important that a clear distinction should be made between mass production due (a) to the focusing of uniform but free demand through competition (e.g. where it makes for cheapness and its success is clearly to satisfy consumers' preference); and (b) to a standardization forced on consumers as under an authoritarian State or 'rationalization'.

<sup>2</sup> In other words, the efficiencies of small scale production are an important condition determining the effectiveness of response to select demand.

<sup>3</sup> Wicksteed, *op. cit.*, p. 123, Vol. I.

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traffic and against a thousand other 'evils' of modern society; to strive to raise popular appreciation of beautiful things: these pursuits may express the supreme heights of human endeavour. It may, perhaps, be possible to give meaning to the contention that there is a weight of gross irrationality bearing on morals and taste. In our argument, however, we have not claimed any basic rationality for those factors which determine our scales of preferences.

(8) *It is the frustration, not the expression of consumers' sovereignty which is more important in preventing the realization of minority demand*

But although we admit that consumers' sovereignty has *contributed towards* what the author regards as the appalling taste of to-day, we cannot admit that it is *responsible*. Thus, the monopolistic organization of the theatrical and film world is such as to hinder the response to minority demands, and this keeps back the educative tendency of discriminating preferences.<sup>1</sup> Mr. Kingsley Martin pointed out some time ago that, in so far as the Press is concerned, giving the public what it wants refers not to what it wants in the long run, but to what it will buy most readily in the unthinking mood in which men and women read their newspapers over the breakfast table or when they return tired from a day's work. But the real reproach against the Press to-day is not that it does not give to the majority what it wants in the long run, but that minorities are relatively badly served. The standardization which results from concentration of power (owing to capital and labour monopoly in the newspaper world), not only prevents adequate catering for more select tastes, but succeeds in developing acquired tastes of a standard kind which are biased by the mediocre requirements of bulk demand. Thus, Mr. Kingsley Martin's charge cannot be said to amount to a criticism of consumers' sovereignty. For what he deplures is the result of its frustration, not its expression. And the remedy is diffusion of power which, we believe, can be accomplished through the establishment

<sup>1</sup> The use of 'persuasive' advertising (as opposed to 'informative' advertising) may be an adjunct to the monopolistic organization which frustrates minority taste. Much publicity is employed, on the other hand, with the object of producing continuous changes of taste through fashion change. But private advocacy alone can scarcely be objected to if the rest of our argument is acceptable. 'Persuasive' advertising (and like activities adding to 'selling costs') may be condemned *on other grounds*. It can, for instance, be shown to be socially wasteful when producers try to get as much of the market as possible through publicity expenditure, owing to competition in price being prevented by the State or private collusion.

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of competitive institutions. Neither can his charges be held to constitute a criticism of private initiative in stimulating change of taste. His strictures condemn the system under which advocates of minority taste have difficulty in getting continuous access to a wide public. Professor Sargent Florence seems to have missed this point in his attempt to refute what he calls 'the conventional dictum' as expressed by Professor Plant, that the community of consumers is 'the controlling employer in the productive system', and 'the business man simply one of the many faithful servants'. Professor Florence argues that this is 'no longer true as regards design of product. In fact the initiative in proposing comes from the producer — the consumer merely disposes; he buys the proposition or leaves it on the retailer's shelf.'<sup>1</sup> In fact, the extent to which consumers' sovereignty can be effective in this and similar respects can be shown to depend upon the degree to which the diffusion of power exists. Where entrepreneur initiative is widely diffused, it will release those competitive forces which compel producers to exercise a lively initiative in thinking out what designs consumers are likely to appreciate. Then, continuity of consumption, plus the power of substitution, will coerce entrepreneurs in respect of design as with all the other attributes making up the quality of the products they control, unless most consumers happen to be indifferent to design.

- (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*

Yet the man of culture, if his criteria are those of the past, has really very little of which to complain in the triumph of mass taste in modern society. He may deplore it; yet he should recognize that the scope for the realization of his own aesthetic feelings has never been so wide. Standardization in consumers' goods is largely the product of the consumers' preference for cheapness, and the technical facts on which the economies of mass production rest are the means which have made their preference realizable. But the same technical facts have contributed to the cheaper satisfaction of the connoisseur's demand. In so far as his demand springs sincerely from love of the elegant, the delicate, the refined, and is not unconsciously motivated

<sup>1</sup> P. Sargent Florence, *Logic of Industrial Organization*, pp. 63-4.



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by the desire to possess what is merely rare and expensive, machine production has cheapened and increased the power of passive enjoyment of things of beauty on the part of many. There never has been a greater popular interest, for example, in music, the drama and literature than that which exists to-day. The gramophone and wireless have brought first-rate music within the reach of the poor, the standards of commercial art have been continuously advancing, amateur dramatics have never been so flourishing, and the number of books sold expands annually.

- (10) *Dispassionate judgment on aesthetic questions is difficult because our standards are warped by the 'exaltation of the defective'*

The difficulty of disinterested consideration of the alleged corruption of social criteria of beauty by mass influences is added to because our aesthetic standards have been derived from the past, from ages in which the distribution of standards of material comfort was more unequal than it is to-day. The cheap article—the machine-made article, is considered ugly because it is unconsciously associated with the vulgarity of a menial class. Even Professor Bonn seems to reflect the usual dislike of the technique which has brought the luxuries of last century into the slums of to-day in his disparaging references to 'canned-goods capitalism'.<sup>1</sup> As Veblen has pointed out: 'The requirements of pecuniary decency have, to a very appreciable extent, influenced the sense of beauty and of utility in articles of use or beauty. Articles are to an extent preferred for use on account of their being conspicuously wasteful; they are felt to be serviceable somewhat in proportion as they are wasteful and ill adapted to their ostensible use.'<sup>2</sup> This is not only expressed in the obvious form of inveterate snobbery, like that of Ruskin, Morris and their followers in what Veblen contemptuously called the 'exaltation of the defective', but it tones all our aesthetic judgments.

- (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*

A point of view of an opposite kind (although writers like Veblen never clearly recognized the antithesis) suggests that human tastes

<sup>1</sup> Bonn, *Prosperity*, p. 77.

<sup>2</sup> Veblen, *Theory of the Leisure Class*, p. 126.

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and preferences are degraded through the undue influence of the demand of rich people in respect of fashion. This is the cry of those who happen to deplore ostentation and the ranking high in human estimation of modes of life and conduct which can only be acquired through the possession of wealth. Matters of this kind, we must repeat, are usually held to lie outside the sphere with which the economist is directly concerned.<sup>1</sup> But he must recognize that such a judgment has an important significance when it comes to an assessment of the 'goodness' of any form of society, as that seems to be understood by many of its critics. Here also, all that can be pleaded is that with the growth of equality the tendency to accord an inordinate respect to the mere possession of wealth will probably be much less marked. Those traditions that result on the one hand in 'social snobbishness', and on the other in that subtle modification of aesthetic criteria that we have just noticed, are traditions whose persistence largely rests on the continuance of large private fortunes and conspicuous inequality; and they are already tending to lose power. The past generation has witnessed noticeable changes in ideas and outlook causing rank, family and bank balances to be rated less highly in general esteem. One cannot, of course, gainsay the allegation that the great mass of fairly poor people from the lower middle classes upwards tend to ape (what the majority of readers will probably judge to be) the less admirable aspects of the lives of persons of wealth and status. Indeed, we are *all* trained to the unconscious mimicry of the 'conspicuous expenditure' of those classes which are better off than ourselves in a pecuniary sense. The student of Veblen can perceive the inevitable influence of this tradition (quite apart from the mere fashion) even on the demagogue whom it sometimes pays to don the garb of the proletarian. And all can see its more obvious expression. Periodicals like the *Tattler*, the *Sphere*, the *Bystander*, and so forth have been referred to as 'reflections of organized snobbery', yet they portray the interests and aspirations of a great body of middle class people who subscribe to them; and they are hardly different in tone from papers like *Home Notes*, *Home Chat*, and other journals that circulate largely among the poorer classes. The attitude that is manifested by these facts has been held by those who have followed Veblen to involve a 'waste' of effort and

<sup>1</sup> The economist recognizes, of course, that the traditions of a leisure class may have a close bearing upon the social attitude towards the levelling tendencies of competition.

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resources. In most expenditure, it is argued, there is an element of 'waste' which arises from a veiled desire for ostentation in the search for 'social position'. But if people do regard highly the impressions they half-consciously believe they give to others of their economic and social standing, it is hard to show why the State or any body of individuals should have the right to deny them the power to satisfy those aspirations, however ignoble they may seem to be, and whatever their origin. Perhaps, as the community grows in wisdom and understanding, other things will tend to be appreciated at a high value by them; but we have no impartial criteria to apply in passing judgment on present day preferences. We must be prepared to tolerate, therefore, tastes of which we are unable to approve. The case for competition rests on this tolerance. It cannot be said of those philosophers who have argued most wholeheartedly in favour of economic freedom that they have approved of contemporary taste or, in the case of the more eminent of them, that they have conformed to the contemporary regard for money power. They have recognized 'conspicuous expenditure' as a fact: they have not commended it.<sup>1</sup> Has there ever been, for example, a philosopher more contemptuous of the distinction and respect accorded to great wealth than Herbert

<sup>1</sup> Adam Smith recognized that 'with the greater part of rich people, the chief enjoyment of riches consists in the parade of riches . . . In their eyes the merit of an object which is in any degree either useful or beautiful, is greatly enhanced by its scarcity, or by the great labour which it requires to collect any considerable quantity of it, a labour which nobody can afford to pay but themselves. Such objects they are willing to purchase at a higher price than things much more beautiful and useful, but more common'. (*Op. cit.*, Vol. I. p. 173.) And Senior pointed out in 1827 that 'among the educated classes *vanity* supplies the place of appetite as a motive both to exertion and to expenditure. *The desire of distinction* if we consider its universality and its constancy, that it affects all men and at all times, that it comes with us from the cradle and never leaves us till we sink into the grave, may be pronounced to be *the most powerful of human passions* . . . The most obvious source of distinction is the possession of superior wealth. It is the one which excites most the admiration of the mass of mankind, and often is the only one which they feel capable of attaining. To seem more rich, or, to use a common expression, to keep up a better appearance than those within their own sphere of comparison, is, with the great majority of those who are placed beyond the fear of actual want, the ruling principle of conduct'. (*Op. cit.*, p. 67.) Adam Smith's criticism of Mandeville in his *Theory of Moral Sentiments* is no defence of ostentation. Indeed, the essential truth in Veblen's well-known contention would have been emphasized had he been able to give due weight to the following sensible comments: 'If the love of magnificence, a taste for the elegant arts and improvements of human life, for whatever is agreeable in dress, furniture, or equipage, for architecture, statuary, painting and music, is to be regarded as luxury, sensuality and ostentation, even in those whose situation allows, without an inconveniency, the indulgence of those passions, it is certain that luxury, sensuality and ostentation are public benefits: since, without the qualities upon which he thinks proper to bestow such opprobrious names, the arts of refinement could never find encouragement and must languish for want of employment.' (Quoted in Cannan's Introduction to the *Wealth of Nations*, p. xliii.)

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Spencer? Was there any other writer before Veblen who deplored with such insight into its effects, the reactions of the 'false' and 'unworthy' worship of pecuniary success?<sup>1</sup>

(12) *Economic freedom gives the masses the chance of sampling 'higher things' and acquiring the taste for them*

It is difficult to compare changes in popular taste historically, for the class that counts has been continuously widening. The relation of aesthetic standards to resisted or realized competition is also hard to judge. But as economic freedom provides the widest range of choice and alternatives, it seems probable that in the end, if human beings on the whole possess innate qualities enabling them to appreciate 'the best things', they will gradually acquire the taste for them — as time gives the more venturesome and original among them the chance of sampling these higher pleasures, and spreading the tidings of higher things.<sup>2</sup> If it is true, then, that there has been a serious degeneration of taste in recent years, and hence of the nature of the flow of productivity that constitutes the response to it, that can probably be explained on the grounds that it represents the expression of aspirations which are still developing, aspirations which will be increasingly refined as culture accumulates and is diffused throughout social classes to which it is as yet new.

<sup>1</sup> Discussing what he termed the 'indiscriminate respect paid to wealth', Herbert Spencer pointed out, many years before the appearance of Veblen's *Theory of the Leisure Class*, that 'to be distinguished from the common herd — to be somebody — to make a name, a position — this is the universal ambition; and to accumulate riches is alike the surest and the easiest way of fulfilling this ambition. Very early in life all learn this. At school, the court paid to one whose parents have called in their carriage to see him, is conspicuous; while the poor boy whose insufficient stock of clothes implies the small means of his family, soon has burnt into his memory the fact that poverty is contemptible. On entering the world, the lessons which may have been taught about the nobility of self-sacrifice, the reverence due to genius, the admirableness of high integrity, are quickly neutralized by experience: men's actions proving that these are not their standards of respect. It is soon perceived that while abundant outward marks of deference from fellow citizens may almost certainly be gained by directing every energy to the accumulation of property, they are but rarely to be gained in any other way; and that even in the few cases in which they are otherwise gained, they are not given with entire unreserve, but are commonly joined with a more or less manifest display of patronage.' (*The Morals of Trade, Essays*, 1891 Edition, Vol. III, p. 1434).

<sup>2</sup> Professor Knight appears to hold the opposite opinion, but his view is based on a condemnation of inherent human qualities. He says: 'Our general moral teaching would indicate that it is easier to corrupt human nature than to improve it, and observation of the taste-forming tendencies of modern marketing methods tends perhaps to confirm the view and to substantiate a negative verdict on individualistic activity of this sort.' (*Quarterly Journal of Economics*, 1923, p. 593 [footnote]).

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(13) *It is the goodness of tolerance, not the goodness of the taste which emerges, that constitutes the sanction for consumers' sovereignty*

But the case for consumers' sovereignty cannot rest upon other grounds than those derived from the principles of liberty and tolerance. One might agree with the vaguely directed criticisms of present-day social preferences which poetical and emotional essayists still occasionally indulge in — ('vaguely directed' because they usually give the impression that it is the competitive aspects of social organization rather than taste that they are attacking); one might feel every sympathy with what is implied in their condemnation of 'mass-production ideas and ideals'; and yet one might feel at the same time that the consumers' power, which we have admitted has in part been responsible for what they condemn, *ought* to have had all the influence it has been able to exercise. 'If all the men wore scarlet trousers', said D. H. Lawrence, 'they would not think so much of money; if they could dance and hop and skip, and sing and swagger and be handsome, they could do with very little cash. They ought to be naked and handsome, and to sing in a mass and dance the old group dances, and carve the stools they sit on, and embroider their own emblems. They wouldn't need money. And that's the only way to solve the industrial problem; train the people to be able to live, and live in handsomeness, without needing to spend.' Now we might many of us agree that this passage conceives of a very beautiful world; but there are others who might not, and the case for freedom insists that they must be protected from any attempt to *impose* such a beautiful society upon them. Those who objected to Mr. Lawrence's views as to the conditions of happiness might even be in a great majority. In that case those who agreed with him would be able to do no more, under a truly competitive system, than try to convince the masses of their folly. But do such critics of conventional tastes realize sufficiently clearly the nature of the assumptions they are making? If so, they must recognize frankly that their work for 'the good' as they conceive of it will have to be along the lines of interpreting to an unhappy society the lessons of its own experience. They must still approve of that freedom to existing individual preference and choice which is limited only by the impartial coercion of socially determined values. It is the failure to recognize this which constitutes the radical weakness in Dr. Robson's *Relation of Wealth to*

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*Welfare.* He is constantly criticizing what people in fact want but believes he is making a case against a particular means of giving people what they want, namely, the individualist system. He does not even argue that that system is in itself responsible for the corruption of taste.<sup>1</sup> The fact is that, to use Wicksteed's words, the 'network of interchanges created and sustained by the economic forces is, morally, socially, and aesthetically, absolutely indifferent. It serves to enable every man to pursue his purposes, such as they are, beyond the range of the direct applicability of his own faculties and resources to them. It enables the saint who has the will but not the power to do some great deed to enlist the co-operation of the sinner who has the power but not the will to do it. But in order to make the sinner help him to the accomplishment of his purposes he has been obliged himself to help the sinner to the accomplishment of his. It is an arrangement by which each will further the other's purpose, irrespectively of what he thinks of it, in order to further his own.'<sup>2</sup> How to rid humanity of what we may consider to be the prejudices and superstitions that weigh upon it is a question which lies beyond our present interest. The task may or may not be easier under competition, liberty and tolerance than under benevolent restraint. But because the acceptance of consumers' sovereignty as an ideal implies tolerance, there is no implication that it must be regarded as reflecting something which is in itself sacred, that the social standards and tastes reflected by it *ought* not to be changed. On all these ethical and aesthetic questions we can say nothing about the goodness of social preferences. Values under competitive institutions simply reflect, they do not determine the different kinds of standards concerning aspirations and ways of living which are possessed by individuals. They are not to be blamed for those standards. The standards and tastes of the majority may be both bad and contagious; but for the minority to object implies intolerance. The ethical and aesthetic ideals of individuals must be subject to the *higher principle* of liberty. Those who

<sup>1</sup> The alternatives available to individual choice are largely the product of chance discoveries and chance inventions. The state of taste that so many critics are half-consciously deploring seems to be due largely to the desire for novelty, the desire to imitate and the tendency to form habits. It is these factors on the demand side, and purely technical factors on the supply side, that are mainly responsible for 'mass production', not the existing system of arranging production. A more flexible economic organization might, of course, be arranged — one which would tend to give the greatest play to originality in demand and variety in supply. But critics of taste seldom follow this line.

<sup>2</sup> Wicksteed, *op. cit.*, p. 395, Vol. I.

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love good music or are fond of pictures may deplore the fact that the world will not remunerate its musicians and artists highly, and that the supply of first rate musicians and artists is therefore small. But their feelings on this topic must be regarded as similar to those of a Catholic living in a Protestant country who may regret the heresies of the community in which he is situated. The tolerance of bad taste, with its social implications, is as important as religious tolerance. We are not sure that Professor Knight has seen the full significance of this. He appears to regard the foolishness of men in not pursuing more real or worthy objectives as constituting a fundamental defect in the competitive solution of values.<sup>1</sup> He says: 'The modern idea of enjoyment as well as achievement has come to consist chiefly in keeping up with or getting ahead of other people in a rivalry for things about whose significance, beyond furnishing objectives for the competition, little question is asked.'<sup>2</sup> The present writer shares this conviction, but the regret which accompanies it is a purely personal thing. We cannot see any justification for condemning the tendency except in the light of purely personal criteria. The contention that 'valid criticisms of the existing economic order relate chiefly to its value standards, and relatively much less to its efficiency in the creation of such values as it recognizes'<sup>3</sup> will be accepted as an enlightened judgment by many who will nevertheless reject the suggestion that these values are *socially* indefensible. There is no paradox involved. Although society may be rightly *persuaded* to accept the standards of sensitive and enlightened persons, there are no grounds for trying to force these 'higher' tastes upon them. The meaning of tolerance has never been more clearly illustrated than by Wicksteed when he said: 'Thus a man may be engaged in designing or executing elaborate implements of war, say torpedoes, and he may take keen delight in the problems which face him, in the experiments and tests which he applies, and in the gradual overcoming of difficulties and perfecting of processes. At the same time he may believe in the reduction of armaments, and may regard the policy which his art subserves as a cruel infatuation.'<sup>4</sup>

<sup>1</sup> In part he deplores the spirit of emulation through which 'conspicuous waste' can be said to come into existence. We have already pointed out the uselessness of deploring men's instinctive nature out of which emulative tendencies in some form must surely find expression under conditions which allow any freedom at all to the individual.

<sup>2</sup> *Quarterly Journal of Economics*, 1923, p. 587.

<sup>3</sup> *Ibid.*, 1923, p. 582.

<sup>4</sup> Wicksteed, *op. cit.*, Vol. I, pp. 198-9.

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- (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*

In reasoning this way, it might be asked, have we not argued that no meaning can attach to any criterion of the goodness of social arrangements? Is not this implied by the contention that we have no ethical or aesthetic criteria? The answer is that we have had recourse to a conception of social goodness which rests solely on our demonstration that liberty must be regarded as good. Liberty, as manifested chiefly through the spirit of tolerance, is the supreme principle. Our criterion is completely detached from individual or personal preferences; yet it is one that is allied to the notions of justice and impartiality. The ideal value becomes that social value which is achieved in the absence of contrived scarcities, that is, under competitive institutions. But even then it is only defensible, as we have seen, on the same sort of grounds as a ballot box decision is defensible.<sup>1</sup> No higher virtue is claimed for it.<sup>2</sup> Our case rests on the fact that consumers' sovereignty and the social values it produces are the product of 'freedom'. They are achieved in a system that subordinates the individual to a social coercion which gives him a wide range of preferences, and which relieves him from any coercion or control on the part of private or group interests. The only grounds on which the consumers' sovereignty ideal may be attacked is by a refutation of our conception of liberty. It may be true that in building on this conception the whole of the present argument is resting upon weak foundations. But our plea for the consumers' sovereignty ideal does not rest on the assumption that 'The Voice of the People is the Voice of God'. It rests on a common-sense view of history which suggests that the people will consent to be ruled only in a regime which can be seen to give them equal rights and equality of opportunity. Communist and Fascist proletariats may, in their inarticulateness, in the puny, puppet-like existence which *appears* to be their lot, show no marked longing for the benefits of freedom. But in a world of the printing press and cheap communications, scepticism

<sup>1</sup> The solution of values under competitive institutions contains an element of arbitrariness (probably very small) in terms of consumers' sovereignty. See Hutt, 'Discriminating Monopoly and the Consumer', *Economic Journal*, March, 1936.

<sup>2</sup> We must repeat, however, that there is not the slightest comparison between the relative effectiveness of this all-embracing means of enabling individual wills, in all their subtlety, to contribute towards the determination of values, and that crude system of determining which of a set of politicians is to be allowed to make decisions on the community's behalf.



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cannot be effectively crushed. Minorities will claim the right of private judgment, and the only safeguard of that right is its universality. Mr. Loveday has told us that 'more than one country in Europe has buried unmourned its ideal of the liberty of the individual'.<sup>1</sup> He sees that ideal buried beneath the State, the Trust and the Union. We do not believe that this ideal is dead. It cannot be dead. Within those classes who retain or acquire the franchise, the ultimate attainment of economic liberty is an inevitable *dénouement*. And few students of contemporary affairs regard the repression of the masses under Communism and Fascism as indicating the trend of social development. To-day, a hardly conscious social struggle to bolster up an outworn distributive scheme is causing a continuously spreading encroachment on economic liberty, freedom of comment, and disinterested publicity in economic matters. As the inevitable ultimate accompaniment of this struggle, we find its reinforcement, in several countries, by the complete removal of political liberty. For no dictatorship could survive under interested or disinterested criticism. But of the eventual triumph of competition and the rule of consumers' sovereignty there seems hardly room for doubt. As certainly as the democratic form has evolved, as certainly as dictatorships will dissolve, so will the substance of freedom finally be achieved through the subjection of the individual and the group to consumers' sovereignty. It may be that we are at present in the social and industrial dark ages; but we shall emerge.

<sup>1</sup> *Britain and World Trade*, p. xv.

## CHAPTER XIX

### THE IRRELEVANCE OF HEDONISM

- (1) *The unnecessary hedonic premise in orthodox theory has enabled misconceived criticism*

THE historian of ideas will probably regard it as one of the curiosities of economics that it should for so long have been assumed that some hypothesis concerning motive was necessary for logical completeness. The conception of the 'economic man' (which until recent years constantly cropped up with dubious relevance in economic works in the orthodox tradition<sup>1</sup>) was the form in which this assumption first appeared; whilst since the 'eighties of last century, under the influence of the mathematical economists, concern about motives has hardly consciously pervaded economic analysis in a more subtle manner, — through the belief that the science had to build on the measurement and aggregation of subjective quantities of happiness or satisfaction. The Utilitarian tradition seems to have had a truly unfortunate effect upon pure theory owing to the inheritance of concepts and terminology borrowed from it. Not that the hedonic premise has at any time seriously weakened Classical and orthodox theory from within; but it has given critics something which they could seize with eagerness, for it was often expressed in terms savouring of egoism. 'The borderlands of Economics', says Professor Robbins, 'are the happy hunting-ground of the charlatan and the quack, and, in these ambiguous regions, in recent years, endless time has been devoted to the acquisition of cheap notoriety by attacks on the alleged

<sup>1</sup> It occurs even in Professor Knight's well-known article, 'Ethics and the Economic Interpretation' (*Quarterly Journal of Economics*, 1922) but he has taken away all its significance when he defines 'wealth' as 'merely an abstract term covering everything which men do actually (provisionally) want' (p. 475). To him the economic man is simply 'the rational man, the man who knows what he wants and orders his conduct intelligently with a view to getting it' (p. 474). But we need assume no more rationality in men than that (to use Professor Z. C. Dickinson's words) they 'act for the sake of expected consequences'. Very curiously, Professor Knight still regrets the dropping of 'the economic man' concept, under the impression that it is 'essential to scientific analysis'. He believes that 'in essentials it has been revived in the concept of the indifference function of the mathematical economists' (*Ethics of Competition*, p. 286, footnote). We fail to see the grounds for this opinion. Our answer to Professor Knight on this point is really contained in Chapter xvi, paragraphs 8 and 9.

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psychological assumptions of Economic Science. Psychology, it is said, advances very rapidly. If, therefore, Economics rests upon particular psychological doctrines, there is no task more ready to hand for the intellectually sterile, than every five years or so to write sharp polemics showing that, since psychology has changed its fashion, Economics needs "rewriting from the foundations upwards". As might be expected, the opportunity has not been neglected. Professional economists, absorbed in the exciting task of discovering new truth, have usually disdained to reply: and the lay public, ever anxious to escape the necessity of recognizing the implications of choice in a world of scarcity, has allowed itself to be bamboozled into believing that matters, which are in fact as little dependent on the truth of fashionable psychology as the multiplication table, are still open questions on which the enlightened man, who, of course, is nothing if not a psychologist, must be willing to suspend judgment.<sup>1</sup>

(2) *The crude expression of eighteenth-century thought on psychology was largely due to the part which it was intended to play in the theory of morals, from which it was desired to exclude sentimentalism*

At no time, even when the defects of exposition were most apparent (judged in the light of modern criticism), have typical attacks on the economists' hedonism been justly aimed. Obvious venom has usually characterized such attacks, in recent as well as in past periods.<sup>2</sup> We must admit that the search for scientific principles by eighteenth-century social philosophers did produce a naively puerile psychology. But the mere facts that Hume, Helvetius, Hartley, Priestley, Adam Smith, and Bentham himself had been impressed with the importance of Newton's contributions to the physical sciences, and that they conceived of themselves as bringing the same methods into the service of the moral sciences, does not justify Dr. Halevy's assertion that 'what is known as Utilitarianism . . . can be

<sup>1</sup> Robbins, *Nature and Significance of Economic Science*, First Edition, pp. 83-4.

<sup>2</sup> But even friends have been responsible for the same misconceptions. Thus Buckle, who regarded the *Wealth of Nations* as 'probably the most important book that has ever been written' (*History of Civilisation in England*, Vol. I, p. 214), made the quite indefensible assertion that in it Adam Smith 'everywhere assumes that the great moving power of all men, all interests, and all classes in all ages and in all countries, is selfishness. He represents men as pursuing wealth for sordid objects, and for the narrowest personal pleasures' (quoted in Cliffe Leslie's *Essays*, Second Edition, p. 9, footnote).

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defined as nothing but an attempt to apply the principles of Newton to the affairs of politics and of morals'.<sup>1</sup> The Utilitarians regarded themselves as fighting against human prejudice, as indeed, they were, if one considers their contemporary critics. And this fact largely accounts, we believe, for the crudeness of the embryo psychology which was developing from their studies. It seems to have been the very earnestness of their endeavour to adhere to the strictest realism which led them to think that in the theory of morals there was no place for 'sentimentalism', and to assume, in Bentham's terms, that 'self-regarding' motives (typically expressed in 'pecuniary interest') predominated over 'extra-regarding' ones. They were supremely conscious of the harm wrought by emotionalism in thought on social affairs, and they wanted to formulate a number of objective and indisputable principles based upon empiricism.

(3) *The charge that Bentham made 'the fundamental selfishness of man . . . the corner stone of his philosophy', is not true*

This was the purpose of Bentham's calculus of pleasures and pains. He himself appears to have been less troubled about its adequacy than he was concerned with the actual institutions of his day. It was inequalities, corruption, inefficiency, which claimed his attention, and his 'calculus' was simply a tool at his command, not a master to whom he was subservient.<sup>2</sup> The same is true in a lesser degree of his chief disciples. For they never supposed their leader to have believed in the existence of a social system which was, as Austin remarked in 1832, 'flatly inconsistent with the obvious facts' and therefore 'hardly deserving of serious refutation'.<sup>3</sup> Mrs. Hamilton's assertion of Bentham that 'the corner stone of his moral philosophy was the ingrained and fundamental selfishness of man'<sup>4</sup> must be regarded as

<sup>1</sup> Halevy, *op. cit.*, p. 6. Halevy regards Adam Smith's use of the word 'gravitating' as evidence of his indebtedness to Newton. Helvetius had said in 1758: 'If the physical universe is subject to the laws of motion, the moral universe is not less subject to the laws of interest' (Quoted Wallas, *Our Social Heritage*, p. 244, and Halevy, *op. cit.*, p. 19). Graham Wallas and Halevy seem to have placed too much weight on this phrase. The similarities between the logical system of political economy which has developed through the refinement of Classical thought, and the improved methods which led to the substitution of the Copernican for the Ptolemaic system has, curiously enough, been commented on by Böhm-Bawerk. (Quoted in Gide and Rist, *op. cit.*, p. 544).

<sup>2</sup> Bentham was as much a propagandist as a scientist, but was there ever a reformer who thought so little about giving 'a genial tone' to his teachings?

<sup>3</sup> Austin, *op. cit.*, p. 121, footnote.

<sup>4</sup> Hamilton, *op. cit.*, p. 18.

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a reflection of the usual misrepresentation by the numerous enemies of Utilitarianism, or the result of a reading that has been more concerned with texts than with obvious intentions. In fact, the economists and the Philosophic Radicals all retained their common sense, in spite of the crudeness of the assumptions which they wrongly believed were required. 'In all his expositions of the theory of utility', said Austin, 'Mr. Bentham assumes or supposes the existence of disinterested sympathy.'<sup>1</sup>

- (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*

The other Benthamites were, however, occasionally rather inconsistent in their use of the term 'interest', sometimes using it, as J. S. Mill pointed out, to describe 'anything which a person likes', and sometimes in a context which implied 'private, or worldly, interest'.<sup>2</sup> The explanation of this verbal inconsistency appears to be that the Utilitarians perceived, as did Mill himself, that the 'influence of a sense of duty, or feelings of philanthropy (are) motives never to be exclusively relied on, although . . . they influence almost all rulers in some degree, and some rulers in very great degree'.<sup>3</sup> 'Although the actions of rulers are by no means wholly determined by their selfish interests, it is as a security against those selfish interests that constitutional checks are required.'<sup>4</sup> In other words, it was recognized that social and economic institutions could not be planned on the assumption of some indefinite distribution of altruism in human hearts.<sup>5</sup>

- (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*

But Mill apparently regarded himself as bound by the traditions of his immediate predecessors. He still argued that political economy

<sup>1</sup> Austin, *op. cit.*, p. 125.

<sup>2</sup> Mill, *Logic*, First Edition, Vol. II, p. 553.

<sup>3</sup> *Ibid.*, p. 555.

<sup>4</sup> *Ibid.*, pp. 557-8.

<sup>5</sup> It was Tucker's recognition of this in the eighteenth century which prompted his reference to 'universal self-love' which he regarded as leading to the 'monopolizing principle'; the object of his clamour for reform being to give this force of 'self-love' such a direction that it may promote the public interest by pursuing its own'. Quoted Mund, *op. cit.*, p. 43).

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was 'concerned with man solely as a being who desires to possess wealth', and he continued to say that the science considered 'mankind as occupied solely in acquiring and consuming wealth'. Yet he could at the same time ridicule the appropriateness of his own assumptions by adding that not 'any political economist was ever so absurd as to suppose that mankind are really thus constituted'.<sup>1</sup> Senior attempted to substitute a more realistic notion of human motive, but still felt that a specific hypothesis was essential. Criticizing Mill, he put forward what he believed to be an actually true proposition, namely, 'that it is an universal object of desire — that every man desires to obtain additional wealth with the least possible exertion of labour or of abstinence from immediate enjoyment'.<sup>2</sup> This was a much more reasonable contention. Moreover, regarding wealth as consisting ultimately of services, he was approaching remarkably closely to a wholly realistic view of economic endeavour. Yet a common-sense writer like Bagehot was unable to go further and realize that assumptions about self-interest were quite superfluous, even in the most abstract theory, in that type of study of human relations which was contained in economic text-books. Indeed, he went back to Mill's position. Economics, he thought, simplified human nature; it looked at 'one part of it only'. 'English Political Economists', he said, 'are not speaking of real men, but of imaginary ones: not of men as we see them, but of men as it is convenient to us to suppose they are.'<sup>3</sup> But he thought, nevertheless, that his imaginary conception did apply usefully to the state of commercial society then existent in England. It is true, of course, that when we consider the case of a business firm we may assume that the first aim of the management is to produce a certain financial result — the maximization of a balance called 'profit'. But there is nothing imaginary about that. And so far as the individual's attitude is concerned, political economy has obviously never assumed that he sought above all else, either the maximum money income (that is obvious from the discussions of variations in remuneration of different employments), or the expenditure of income for 'selfish' ends.

<sup>1</sup> J. S. Mill, *Essay on Some Unsettled Questions of Political Economy*, p. 139.

<sup>2</sup> Senior, *op. cit.*, Vol. I, p. 65.

<sup>3</sup> Bagehot, *op. cit.* (1876), p. 8.

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- (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 continued to believe that the assumption of self-interest had to be the basis of abstract analysis*

Cliffe Leslie, writing the same year as Bagehot, might have stimulated a great step forward when, developing a thesis he had put forward some years before, he criticized the Classical writers for lumping together into one supposed basic principle of human nature a great variety of different desires, wants and sentiments. But the influence of his comments was weakened through his mistaken notions as to the nature of abstract method. He did not show, what some of his contemporaries *could* have been shown, how the study of the realization of human preferences could be undertaken.<sup>1</sup> Subsequent economists failed to follow up his criticism. Jevons made what he called 'self-interest' the very basis of his *Theory of Political Economy*. F. A. Walker expressed the fallacy in an even more downright manner. He held that 'whenever any economic agent does or forbears anything under the influence of any sentiment other than the desire of giving the least and gaining the most he can in exchange, be that sentiment patriotism, or gratitude, or charity, or vanity, leading him to do any otherwise than as self-interest would prompt, in that case, also, the rule of competition is departed from'.<sup>2</sup> But no more than the Classical economics were the arguments of these writers invalidated by such encumbering and irrelevant hedonic assumptions. Pantaleoni who, in his *Pure Economics*, devoted the first two chapters to an explanation of the hedonic principle as the basis of his subsequent analysis, *actually* viewed the economic problem as that of obtaining 'a given result with the smallest comparative means; or conversely, to obtain any maximum result with any given means'.<sup>3</sup> How up to date this sounds! Indeed, Pantaleoni often seemed, in those chapters, to be on the point of breaking away from his own inherited dogma. He mentioned the case of the complete reversal of egoism, i.e. universal altruism, and came to the conclusion that it would produce exactly the same effects. 'Altruism, if supposed to be universal, neutralizes itself,' he said, as changing all the signs of an equation

<sup>1</sup> Cliffe Leslie, 'On the Philosophical Method of Political Economy', reprinted in his *Essays in Political and Moral Philosophy*, p. 220.

<sup>2</sup> F. A. Walker, *Political Economy*, Third Edition, p. 92.

<sup>3</sup> Pantaleoni, *Pure Economics* (English Translation, 1898), p. 5.

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leaves the initial agreement. But as to how his reasoning would have had to be altered in, say, a society in which other-regarding motives mingled in equal degree with the self-regarding, he did not in fact deal. Had the tradition in which he wrote allowed him to see it, he would have observed that the 'results' wanted in such a community would have had an identical relation to the theories he thought were standing on a postulate of hedonism. As it was, he jumped to the conclusion that in so far as the hedonic hypothesis did not correspond with reality, the conclusions of theoretical economics needed adjustment. Edgeworth similarly referred to 'the prevalence of self-interest' as 'the first principle of pure economics'.<sup>1</sup> And the Austrian School, under Böhm-Bawerk, have felt it imperative to reason from a formally similar hypothesis; although, as Professor Robbins has pointed out, 'Böhm-Bawerk explicitly repudiated any affiliation with psychological hedonism . . .' and 'from the beginning the Mengerian tables were constructed in terms which begged no psychological questions'.<sup>2</sup> In the end, 'self-interest' with the Austrians has simply meant what the individual wishes to do, and the formal principle has served mainly to mislead critics who have believed it to embody in some manner the old misconceptions.

(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*

Mr. J. N. Keynes has taken a slightly modified stand in relation to his predecessors, but he still argues that economics 'presupposes psychology' and that the 'natural starting-point for the economist in his more abstract studies is a consideration of the motives by which individuals are usually influenced in their economic relations'.<sup>3</sup> He also looks as though he is coming very near to renouncing this view when he says of 'economic laws' that they are 'not simple laws of human nature', but 'laws of social facts resulting from simple laws of human nature'.<sup>4</sup> And his contention, of Jevons's conception of economics as 'a calculus of pleasure and pain', that it does not 'con-

<sup>1</sup> Edgeworth, *Papers Relating to Political Economy*, Vol. I, p. 173.

<sup>2</sup> *Op. cit.*, p. 84.

<sup>3</sup> J. N. Keynes, *Scope and Method of Political Economy* (1890), p. 65.

<sup>4</sup> *Ibid.*, p. 86.



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stitute the central theory of economics' also awakens our hopes. What appears to be his ultimate verdict leaves us guessing, however, for he says that 'it should be regarded as an essential basis of economic reasonings, rather than as an essential portion of the science at all'.<sup>1</sup> Yet if it is to be regarded as a *basis* of economic science in the same way as the physical facts of the world may be regarded as a basis, why should it be necessary to make any *assumptions* whatsoever? F. C. Montague pointed out in *Palgrave's Dictionary* that 'political economy has no necessary connection with either the selfish or the unselfish form of hedonism',<sup>2</sup> but he still believed that 'the economist cannot explain the action of human beings with reference to wealth, unless he has a theory of human nature'.<sup>3</sup> Gide and Rist have told us that economics studies 'man, not men — the type, not the individual — the *homo economicus* stripped of every attribute except self-interest'.<sup>4</sup> They have, it is true, tried to explain 'the law of self-interest' in common-sense terms. They have asked: 'Could anything be more universal or permanent than this law, which is simply the most natural and the most rational statement of the law of self-preservation?'<sup>5</sup> But their question invites the criticism that they elevate self-preservation above social preservation, in spite of their plea that the 'law' implies neither egoism or egotism. Marshall's position was certainly a modified one. He held that 'it will . . . probably be always true that the greater part of those actions, which are due to a feeling of duty and love of one's neighbour, cannot be classed, reduced to law and measured; and it is for this reason, and not because they are not based on self-interest, that the machinery of economics cannot be brought to bear on them'.<sup>6</sup> But it is difficult to conceive of how self-regarding actions are more capable of measurement than other-regarding ones. Their tendencies in causing the particular things that are wanted by society to be provided are indetical with those arising from any other motive.

<sup>1</sup> J. N. Keynes, *op. cit.*, p. 91.

<sup>2</sup> *Palgrave's Dictionary*, Article on 'Hedonism'.

<sup>3</sup> *Ibid.*, Article on 'Morality'.

<sup>4</sup> Gide and Rist, *op. cit.*, p. 355.

<sup>5</sup> *Ibid.*

<sup>6</sup> Marshall, *op. cit.*, Third Edition, p. 87. But Marshall described as unfortunate 'the belief that economists are adherents of the philosophical system of Hedonism or of Utilitarianism' (p. 77 n.)

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- (8) *Davenport and Wicksteed have pointed out the irrelevance of hedonism; 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 its dregs. But its final elimination may be slow*

Professor H. J. Davenport pointed out in 1908 that even in the case of the Austrian School in whose work hedonistic terminology is conspicuous, 'there is not one single essential doctrine in the system that might not, without substantial impairment or change of economic bearing, be stripped of its psychological or ethical implications'.<sup>1</sup> Wicksteed was even more definite. The economic relation, he said, was 'entered into at the prompting of the whole range of human purposes and impulses, and rests in no exclusive or specific way on an egoistic or self-regarding basis'.<sup>2</sup> His impressive contributions on this point should have taught the world that economics has been concerned, not with 'the nature of certain kinds of behaviour arbitrarily separated off from all others', but with 'a certain aspect of behaviour viewed as a whole'.<sup>3</sup> Yet the old tradition persists. Professor F. H. Knight's scepticism in 1922 (when he expressed doubts as to whether 'human wants . . . can be treated as data, or even whether they are properly scientific data at all'<sup>4</sup>) did not lead to his own recognition that it is impossible to separate off certain human objectives as those of 'an economic man', and that the conception is of no help in abstract analysis. Nor did all these contributions lead to any rapid recantation on the part of economists generally. Professor Robbins's *Essay on the Nature and Significance of Economic Science* contains the most complete refutation of the remains of hedonism, in its development of the implications of his demonstration that ends as such do not form part of the subject matter of economics.<sup>5</sup> The ultimate influence of this contribution will probably be to eliminate for all time attempts to

<sup>1</sup> Davenport, 'Value and Distribution', quoted in Scott, *Development of Economics*, p. 417.

<sup>2</sup> Wicksteed, *op. cit.*, Vol. I, p. 169.

<sup>3</sup> Professor L. Robbins in Introduction to Wicksteed's *Common Sense of Political Economy*, p. xxii.

<sup>4</sup> 'Ethics and the Economic Interpretation', in *Quarterly Journal of Economics*, 1922, p. 455. Knight argued that 'there is no definable objective, whether subsistence, gratification of fundamental impulses or pleasure, which will serve to separate any of our activities from the body of conduct as a whole'. *Ibid.*, p. 472.

<sup>5</sup> *Op. cit.*, pp. 82-95. Also p. 56 (footnote), where Professor Robbins, after showing that 'value is a relation, not a measurement', comments: 'Recognition of the ordinal nature of the valuations implied in price is fundamental. It is difficult to overstress its importance. With one slash of Occam's razor, it extrudes for ever from economic analysis the last vestiges of psychological hedonism.'

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explain price determination in psychological terms. But this is not going to be rapid. Mrs. Robinson, after reading Professor Robbins's *Essay*, can still argue that 'if individuals act in a predictable manner, but from a wide range of complicated motives, the economist must await the verdict of the psychologist on what those motives are. Meanwhile the optimistic economists are working out their analysis on the simple assumption, and resolutely refusing to despair of evolving a technique which will allow them to assume the existence of whatever other human motives have an influence in the economic sphere'.<sup>1</sup>

- (9) *The concept of consumers' sovereignty requires no assumptions concerning human motives*

The criticisms of traditional Utilitarianism made by T. H. Green and others have been on different grounds from those put forward here. Most economists have regarded their attacks as mere quibbles. But they are in any case irrelevant to the present study. We are simply required to make what Professor Z. C. Dickinson has called 'the common-sense hedonistic assumptions that people usually act for the sake of expected consequences'.<sup>2</sup> And even in this definition the term 'hedonistic' has lost all real meaning. It is quite unnecessary to base the conception of 'consumers' sovereignty' upon philosophic hedonism or any similar assumptions. No distinction is called for as between the self-regarding and other-regarding impulses in human nature. Similarly no distinction can be made between 'economic' and 'non-economic' motives. Every motive that affects human conduct has a like relevance to consumers' sovereignty. And existing motives need not be regarded as being the simple product of the innate nature of individuals. Whilst it is true that 'human beings finally refer all things to themselves', as Dr. Lippmann has pointed out, 'men's ideas of all things and of themselves are not instinctive. They are acquired'. They are the product of the whole social heritage. We need make no assumptions whatever, therefore, either as to the existence of, or about the goodness or badness of motives. We cannot even assume that in practice the predominance of altruistic motives would improve things as judged by commonly accepted

<sup>1</sup> J. Robinson, *Economics as a Serious Subject*, p. 10.

<sup>2</sup> Z. C. Dickinson, *Economic Motives*, p. 205.

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standards. There will always be the problem of rationing scarce means between conflicting ends. 'Saint and sinner alike will desire to do the things whereby they can further their own purposes.'<sup>1</sup> The expression of altruistic feelings or the so-called 'higher motives' may result in the same social conflicts as the expression of 'mercenary motives'. The clash between individual preferences may still be there. Consider the rivalries of charitable bodies. Or consider the clash between equalitarianism and the precept that 'charity begins at home'. Marshall regarded the family affections as pure altruism,<sup>2</sup> but they might be regarded by some (capable of envisaging the point of view of society as a whole) as the mainspring of an unfair preference which the individual has for the welfare of his own children.

- (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*

The concept of utility, as it has actually been employed since Jevons made it the basis of formal analysis, is completely unconnected with psychological hedonism. It is a mere implication of the fact that consumers have preferences and the power of choice. Whether or not the 'utility theorists' were interested in Utilitarian psychology (and this is most improbable<sup>3</sup>), their actual theories were uninfluenced by it. Their terminology was affected (especially that of Jevons), but not the content of their teaching.<sup>4</sup> Since the 'eighties, the social utility

<sup>1</sup> Wicksteed, *op. cit.*, p. 209.

<sup>2</sup> Marshall, *op. cit.*, p. 86.

<sup>3</sup> Professor Viner has pointed out of the utility theorists of the mathematical schools (such as Gossen, Jevons, Wallas, Böhm-Bawerk and Wicksteed) that he can 'find no evidence . . . that they found their utility doctrines ready to hand in the contemporary psychology and that they used these psychological doctrines as major premises from which to derive *a priori* their price-theories. Their writings do not show any special acquaintance with the psychological speculations current at the time.' (*Journal of Political Economy*, 1925, p. 375).

<sup>4</sup> Had it only been possible for Veblen to have recognized this, his contributions might have been doubly important. The marginal analysis, for which he affected admiration as a logical system but expressed contempt as a machine for sociological investigation (on the grounds of the false psychology on which it rested), could have been equally well employed in the light of his own psychological assumptions. It would, moreover, have made him more fully aware of his *other* assumptions, and would probably have exposed to him the influence of his own emotionalism upon his reasoning.

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of a commodity and its *scarcity* have in fact been identical notions. But not many have recognized that *scarcity* describes a purely objective quality attaching to things demanded. The motives (like the tastes) which lead to demand have, in truth, been irrelevant. It can be shown that the notion of an economic welfare which represents an aggregation of individual welfares, which in turn represent a summation of all the individuals' 'consumers' surpluses' defined by the utility schedules of the commodities which each of them demands, is absurd unless it is conceived of as the extent to which the expression of individual preferences receives the most effective response. And the expression of individual preferences is best regarded as consumers' sovereignty. Now, what the economists have really been thinking about in conceiving of the economic welfare of the community is something which corresponds to our conception of the degree to which consumers' sovereignty is realized. For this reason, most of the discussions of the utility theorists can be directly relevant to studies in which the notion of utility as such is absent. Thus, in replacing the idea of economic welfare by that of consumers' sovereignty, we have not destroyed the significance of most utility studies.

- (11) *The concept of consumers' sovereignty, in bringing greater realism into economic theory, brings out the small practical significance of certain utility studies*

We have, however, introduced a concept which greatly enhances the realism of economic theory. It throws an entirely new light upon the appropriateness of the subsidiary concepts that we may be led to adopt, and the methods of abstraction that appear likely to be fruitful. Incidentally, it brings economic science much more vividly into relation with political science. Indeed, the claim might almost be made that, building on consumers' sovereignty, economics becomes a branch of political science. Electors' sovereignty and consumers' sovereignty under democratic institutions are complementary. The individual's autonomy is expressed within the limits imposed by both. They cannot be considered apart. We have shown that as an ideal consumers' sovereignty has the same sort of validity as a ballot box decision, that it is justified in so far as liberty and tolerance may be regarded as ethically superior principles. And this recognition of its essential similarity to the ballot, and this dropping of all hedonic

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import, serve to bring out the very limited significance of *certain* studies based on the utility conception, especially most of those which have centred around the problem of discriminating monopoly. It is not that these studies can be said to be irrelevant to consumers' sovereignty, but in transposing the results of abstract reasoning into terms which can have realistic application to practical problems, considerations which at first seem to loom large are soon left with a negligible importance.

## CHAPTER XX

### INEQUALITY

(1) *Equality of rights and opportunities must be regarded as an end in itself*

THE ideal of equality is derived, we have seen, from the principle of liberty. The tolerance of inequality of rights and opportunities is clearly inconceivable under representative democracy. Where representative government exists, the poor will be increasingly disinclined to tolerate their relative penury (which they will vaguely believe to be due to unequal treatment) if they believe that it can be remedied without adding to their absolute penury. They will be similarly disinclined to accept a lower status and social dignity unless they believe that their inferior condition is based upon innate disabilities which they are unable to overcome. But under all systems of government, to quote Herbert Spencer, 'men perpetually exhibit a tendency to assert the equality of human rights. In all ages, but more especially in later ones, has this tendency been visible. In our own history we may detect signs of its presence as early as the time of Edward I, in whose writs of summons it was said to be a "most equitable rule, that what concerns all should be approved of by all" . . . The sayings and doings of daily life continually imply some intuitive belief of this kind. We take for granted its universality, when we appeal to men's sense of justice . . . So spontaneous is this faith in the equality of human rights, that our very language embodies it. *Equity* and *equal* are from the same root; and equity literally means *equalness*'.<sup>1</sup> We may, perhaps, reject Spencer's theory of the 'intuitive belief', but sheer expediency seems to make it necessary to admit the principle of equal rights. It safeguards peace. We may, therefore, assume that equality in the sense of equality of rights and opportunities is a 'good' or an end in itself, and are not concerned with the sanctions for seeking it.

(2) *The common assumption that competition is a cause of inequality is prima facie untenable*

'The economic importance of political liberty and equality', says Mr. Dickinson, 'lies chiefly in the fact that human beings frequently

<sup>1</sup> Herbert Spencer, *Social Statics*, pp. 91-2.

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regard it as a means to the acquisition of economic liberty and equality, and desire it or abhor it accordingly.<sup>1</sup> But most other critics of modern society have failed to realize the connection between equality and liberty. Indeed, it is on the fact of absolute inequality that most of the philosophic *opponents* of economic liberty concentrate their attention. It seems to have suppressed in most of them the ability to consider, with any degree of detachment, the nature of the social control which is exercised under competitive institutions. Their reasoning probably runs something like this: 'The existing inequalities of wealth are unjustifiable either on economic or moral grounds. We live under a competitive system. The value of the work of the great mass of people is low. The value of the work and property of a relative few is high. In relation to human material welfare, or judged by ethical standards, the solution of value resulting under competition is an arbitrary one, and hence deserving of condemnation. It follows, therefore, that competition itself must be condemned.' They are reinforced, of course, in their belief that it is an evil force by considerations that have already been noticed — by their realization of how it adversely affects the interests of particular groups of poor people whose welfare they have been observing; and, as previously shown, they do not consider how this is related to the fact that there is hardly any group of persons in society which would *not* gain from a particular restriction of competition. But to return to the argument that we have attributed to them; the fundamental and unjustifiable assumption is that competition is in some manner the cause of inequalities; and this leads to the inference or further assumption that the fact of unequal wealth can be rectified by simple and obvious restrictions on competition or interference with the mechanism of value. As a matter of fact, to the economist studying society, competition appears, *prima facie*, to be the great levelling force. One would have thought that the onus would have been on its opponents to show that this was not so. But the combined results of custom-thought and power-thought have put competition on its defence in this matter. We have seen, however, that the fact of economic inequality does not make *consumers' sovereignty* an undesirable social force. In this chapter, we propose to demonstrate that competitive institutions, which enable its fullest realization, tend, incidentally, to bring about equality of opportunity. If this contention

<sup>1</sup> Dickinson, *Institutional Revenue*, p. 47.



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is accepted, it must be regarded as a most fortunate conclusion, in view of equality having inevitably to be the declared aim of any acceptable policy.

- (3) *The recognition by Mr. Dobb and Mr. Dickinson of the fundamental equalitarianism of competition is merely a development of the implications of orthodoxy*

Of the self-styled Socialist critics of the existing regime, only Mr. Dickinson and Mr. Dobb appear to have recognized the basically equalitarian character of competitive forces. Discussing 'the familiar principle that things and persons will seek that economic use in which the realizable price is highest', the latter says: 'Where ideal economic freedom reigns, it will only be when natural limitations apply to personal endowments that the operation of this principle will be seriously prevented from equalizing the incomes of individuals. But where institutional factors hamper the operation of this principle, economic freedom will to this extent be circumscribed, and the tendency to equality of individual incomes will not exist.'<sup>1</sup> The work of Mr. Dickinson has been built upon a realization of the same fundamental equalitarian tendency. The approach of these writers is in a sense novel, but the novelty is due, not to their having broken away from the traditions of orthodoxy, but from their having developed them. Mr. Dobb would probably be surprised to be told that his ideals, premises and reasoning (as originally enunciated in 1925) approach those of the Classical economists, whom he represents, at times, as mere apologists for parasitic capitalism. In his more specific criticisms he suggests that they drew their assumptions from a state of classless individualism and then applied them to a system of capitalist undertaking.<sup>2</sup> We have seen, however, that they regarded a state of competition as an ideal or norm; that they only recognized the presence of harmony when that was also present; and that they clearly did not assume its universal presence in practice. It would be more true to say that they regarded *competition* as 'natural' than to say that they made the 'mistake of assuming that the particular social and economic framework of nineteenth-century Europe was 'natural', a form from which any other social economic order was a deviation'.<sup>3</sup>

<sup>1</sup> Dobb, *Capitalist Enterprise and Social Progress*, p. 102.

<sup>2</sup> *Ibid.*, p. 144.

<sup>3</sup> Dickinson, *op. cit.*, p. 16.

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(4) *The Utilitarian and Classical economists had inherited an ideal of social equality*

The Utilitarians regarded the greatest measure of practicable equality as a main condition of 'happiness'. By the Classical economists also, equality seems to have been conceived of as at any rate a desirable condition; for as philosophers their allegiance was to the Utilitarian school. They had both inherited from Locke an ideal of social equality that the Socialists may be regarded as having acquired, through the medium of Rousseau, from the same source. The modern conception of the 'classless society' may not have been present, but Locke had envisaged a society 'wherein all the power and jurisdiction is reciprocal, no one having more than another; there being nothing more evident than that creatures of the same species and rank, promiscuously born to all the same advantages of nature, and the use of the same faculties, should also be equal one among another without subordination or subjection'.<sup>1</sup> And the philosophy of Locke seems to have been the rock upon which the so-called 'individualism' of the early nineteenth century was built.

(5) *As realistic students of their contemporary world, the Utilitarians and Classical economists assumed that certain institutions inconsistent with equality of opportunity were unalterable. Bentham's 'non-disappointment principle' was important in this connection*

Our discussion in Chapter VIII has shown how misrepresented and misunderstood has been the attitude of the Benthamites and economists. That they failed to appreciate the importance of *institutional* restrictions of competition and that they failed to ask several important questions to which they should have sought the answer has been confessed.<sup>2</sup> That they took much for granted when they contemplated the institutions of their day has also been frankly admitted. But is there anything remarkable in their having inherited with the rest of society some of the ideas and prejudices of a previous age? They certainly seemed to regard as natural (in the sense of

<sup>1</sup> Locke, *Of Civil Government*, Chapter II, section 4.

<sup>2</sup> The tyranny of contemporary ideas upon the Classical economists is perhaps best reflected in the tone of Adam Smith's remarks on the only occasion on which he thinks it worth while referring to women in the *Wealth of Nations* (Cannan Edition, Vol. II, p. 266).

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there being nothing surprising in it) a social system involving marked contrasts in conditions. Yet it would be most unjust to say that they thought of the social order as something imposed by nature and possessing a permanent significance. The survival in some nineteenth-century writers of the conception of a providential, natural order, to interfere with which was bound to be harmful, undoubtedly had some influence in dulling their critical alertness. But the effect was seen more in the verbal form than the actual content of arguments or contentions. It is easy to misunderstand the Utilitarians. Their rejection of the doctrine of 'natural rights' and their apparent assumption that in the conditions of their day inequalities of fortune were inevitable, must not blind us to the fact that they were essentially equalitarians in sentiment. Even Bentham, who among the Utilitarians seems to have been most sceptical about the possibility of attaining that measure of equality for which the demagogues of his time were agitating, would have welcomed any practicable means of raising, by redistribution, the standard of living of the working masses. 'Equality requires', he said, 'that though it be at the expense of all the other members of the community, the income of those whose income is composed of the wages of labour be maximized. Reason. Of these are composed the vast majority of the whole number of the members of the community.'<sup>1</sup> The equality which the Benthamites envisaged as an ideal was one founded on the concept of utility, which we are now coming to regard as unsatisfactory.<sup>2</sup> The grounds on which they believed some measures of inequality to be inevitable were never adequately analysed. In part the ghost of Malthus constantly perturbed them. More important, they were impressed with the errors of remedies which were inconsistent with the functioning of the property system (for which Bentham had, in Marshall's words, 'an almost superstitious reverence'). Taking the world as they found it, it seemed obvious that anything which attacked the prosperity of the middle class would have adverse repercussions upon all. This was a common-sense and almost certainly wise judgment. But in the application of the utility criterion, what Bentham called the 'non-disappointment principle' was relevant, a principle which he regarded as the foundation of human

<sup>1</sup> Bentham, *Works*, Vol. III, p. 230.

<sup>2</sup> The economists' arguments for greater equality have, however, been based on this concept until very recently. Cannan used to teach that 'the utility of additional income diminishes as the income grows' (*Wealth*, Chapter XIII).

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respect for property. To take from one man to give to another caused, in general, more unhappiness to the former than it brought in happiness to the latter. In these rather clumsy terms the Utilitarians expressed their principal objection to the 'levelling system'.<sup>1</sup> Direct attempts at levelling, it was thought, would also react adversely on security, abundance and subsistence; and these, from the point of view of human happiness, were of higher importance than equality. 'Practicable equality', had, therefore, to be distinguished from 'conceivable equality'. The 'non-disappointment principle' really embodies Bentham's view of a particular aspect of the inescapable inertia to be encountered in any attempt to modify human institutions. As common-sense students and realists, the Utilitarians rightly considered social arrangements, as they then found them, to be unalterable in their generation.<sup>2</sup> They were primarily students of their contemporary era. Compare the position of a realistic economist in the Union of South Africa to-day. He might well deal with the question of the remuneration of the non-European population without dwelling on the obvious reasons why their earning power must continue to be of a lower order. He will know that the aspirations of a White proletariat exclude those of different coloured skin from most walks of life in which valuable services for the community might be rendered. But he may feel that this state of affairs must be accepted as inevitable; and his discussions of practical matters will then be founded on this as an hypothesis. To some extent it is clear that the Classical writers *did* take a similar line to this. They disliked the agitators who (to quote Bastiat, the most down-right member of the *laissez-faire* school), whilst fanning 'the flame of present discord' and causing capitalists and workmen 'to regard each other with an eye of envy and distrust', could do nothing to ameliorate the lot of the masses.

<sup>1</sup> Bentham, *ibid.*, Vol. I, p. 358.

<sup>2</sup> The attitude of Whately on this question seems to reflect the Classical economists' scepticism of (but by no means hostility to) the sort of suggestions for reform which they commonly encountered. "There is a presumption in favour of every *existing* institution. Many of these (we will suppose, the majority) may be susceptible of alteration for the better; but still the "burden of proof" lies with him who proposes an alternative; simply on the ground that since a change is not a good in itself, he who demands a change should show cause for it. No one is *called on* (though he may find it advisable) to defend an existing institution, till some argument is adduced against it" (*op. cit.*, p. 108).

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(6) *The Utilitarians and Classical economists believed in the reform of the inheritance laws as a means of promoting equality*

Apparently on the assumption that the 'principle of non-disappointment' did not apply with the same seriousness in the process of inheritance, the Benthamite philosophers stressed the reform of the laws of inheritance as a means of achieving greater equality. They thought that reform could bring about the splitting up of large fortunes and the diffusion of wealth. Unfortunately, not many of the Classical writers were able to see the full implications of the property institution. They can hardly be blamed for this, as reformers and Socialists abused rather than criticized them. But J. S. Mill was certainly able to view the problem realistically. 'The laws of property', he said, 'have never yet conformed to the principles on which the justification of private property rests . . . They have not held the balance fairly between human beings, but have heaped impediments upon some, to give advantage to others; they have purposely fostered inequalities, and prevented all from starting fair in the race. That all should indeed start on perfectly equal terms is inconsistent with any law of private property; but if as much pains as has been taken to aggravate the inequality of chances arising from the natural working of the principle, had been taken to temper that inequality by every means not subversive of the principle itself . . . (it) would have been found to have no necessary connection with the physical or social evils, which almost all Socialist writers assume to be inseparable from it.'<sup>1</sup>

(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*

It was in Bastiat's writings that the implications of Classical orthodoxy in respect of the relations of competition and equality can be most usefully studied. In his discussions, Classical beliefs were reflected with more faith, dogmatism and crudeness than elsewhere. He was also, perhaps, the most enthusiastic of the Socialists' opponents. But his opposition was directed against their attacks on property, not against their equalitarianism. He was impressed with the importance of the *accumulation* of capital in the interests of social

<sup>1</sup> Mill, *Principles*, pp. 208-9. (Quoted in Dalton's *The Inequality of Incomes*, p. 63.)

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welfare; and he regarded the hostilities of the Socialists as directed against this supreme ameliorative agency which humanity had at its command. Capital, he thought, had 'its roots in these attributes of man — Foresight, Intelligence, and Frugality'. Its accumulation necessitated 'a noble empire over ourselves and over our appetites', it was animated 'by love of our families', and it required 'present sacrifices for the sake of those who are dear to us'. To create capital was 'to prepare food, clothing, shelter, leisure, instruction, independence, dignity, for future generations', the motive being one which was 'eminently social'.<sup>1</sup> But to hold these views Bastiat certainly did not feel that he had to regard the distribution of his day as inevitable in the long run. He looked to the 'communistic' and 'equalizing' force of competition for the rectification of social injustices. He deplored the condition of those of the poor who had 'not yet been able, by the acquisition of Property, to raise themselves to a higher and more comfortable condition'.<sup>2</sup> And if progress had inevitably to be slow, we had to remember that 'absolute poverty and destitution is the inevitable starting-point of the human race'.<sup>3</sup> Moreover, he asked, 'have we not had monopolies, privileges, and unequal taxation'?<sup>4</sup> The tendency in his day was, however, for the labourer to accumulate capital. During the past hundred years, he said, the class possessed of property had 'been recruited from the labouring class'.<sup>5</sup> He held that the tendency for 'a great many employments which required at the outset much knowledge and varied acquirements . . . (to fall) by the mere lapse of time, into *routine*, and come within the sphere of action of classes generally the least instructed',<sup>6</sup> was a process which was elevating the poorer classes. Its tendency was, under competition, necessarily to raise and not to lower average remuneration and, he said, 'in so doing it ameliorates the condition of the human race in the only way in which it can reasonably be elevated, namely, by an increase of material prosperity, ease, leisure, moral and intellectual improvement, in a word, by enlarging *consumption*'.<sup>7</sup> But competition, he said, did not exist. The laws of his day ran counter to it as much as they aided it; and, he said, 'when it is asked whether the inequality of conditions is owing to its presence or its absence, it is sufficient to

<sup>1</sup> Bastiat, *op. cit.*, Part I, pp. 186-7.

<sup>2</sup> *Ibid.*, Part II, p. 66.

<sup>3</sup> *Ibid.*, Part II, p. 64.

<sup>4</sup> *Ibid.*

<sup>5</sup> *Ibid.*, Part II, p. 62.

<sup>6</sup> *Ibid.*, Part II, p. 63.

<sup>7</sup> *Ibid.*, Part I, p. 283.

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look at the men who make the greatest figure among us, and dazzle us by the display of their scandalous wealth, in order to assure ourselves that inequality, so far as it is artificial and unjust, has for foundation conquests, monopolies, restrictions, privileged offices, functions, and places, ministerial trafficking, public borrowing — all things with which Competition has nothing to do'.<sup>1</sup> Could not this quotation easily be mistaken for an excerpt from the writings of Mr. Dobb or Mr. Dickinson? That Bastiat was aware of the equalitarian forces that were working in any unrestrained competitive system is further emphasized in the note, found among his papers, which indicated a line of thought that he never lived to develop. The note reads: 'Amelioration of the labourer's lot found in wages themselves and in the natural laws by which wages are regulated. 1st, The labourer tends to rise to the rank of a capitalist and employer. 2nd, Wages tend to rise. *Corollary.* — The transition from the state of a paid workman to that of an employer becomes constantly less desirable, and more easy.'<sup>2</sup> The idea in Bastiat's writings of the existence of essential, providential harmonies in economic relations was as unfortunate as it was with his contemporaries and predecessors, but it was connected with an assumption as to the ultimate effectiveness of competition, and involved some recognition of the redistributive effect of values determined under economic freedom. The individualists, Sir Leslie Stephen has pointed out, 'were attacking a system which they held . . . to be especially injurious to the weakest classes. Possibly they expected too much from the simple removal of restrictions; but certainly they denounced the restrictions as unjust to all, not merely as hindrances to the wealth of the rich'.<sup>3</sup> What they did do — and it is here that the Socialists lost their great opportunity — was to provide the science, the method of analysis which would have pointed the way. But as we have shown, the leaders of the poorer classes spurned a weapon which, whilst it would have helped them as reformers, would have hindered them as politicians, as power-seekers.

### (8) *The fact of inequality of opportunity proves that competition is frustrated*

The truth is that the grounds upon which competition can be held to be the most desirable controlling force in society condemn

<sup>1</sup> Bastiat, *op. cit.*, Part I, pp. 283-4.

<sup>2</sup> *Ibid.*, Part II, p. 73.

<sup>3</sup> Stephen, *The English Utilitarians*, Vol. I, p. 134.

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completely the existing inequalities of wealth and opportunity. That this truth has not been frequently or strongly stressed must be attributed to the Socialists' hostility to or ignorance of orthodox economics. The economists themselves certainly failed *to bring out* the equalitarian nature of competition (although it was implicit in their teachings) until Mr. Dobb and Mr. Dickinson had emphasized 'institutional restrictions'. The problem can best be expressed, we suggest, in the following terms. Competitive institutions satisfy the criterion of enabling the maximization of consumers' sovereignty. If not frustrated, competition leads to an impersonal control of the distribution of all productive resources, human or other, in accordance with the community's demands. The facts of modern society prove that such frustration must be present. For who can pretend that our *human* resources are at present impartially and impersonally disposed? There is hardly any justification for the common assumption that the distribution of *innate* capacity or ability is widely different as between the social classes occupying the various income levels in society. In so far as amentia is concerned, it is true, as indeed we should expect, that a larger proportion of those afflicted is found in the poorer classes of the community. But apart from this, social biologists cannot contend that the children of the wealthy possess, on the whole, inborn intelligence or physical capacity of a greatly superior order. Moreover, even the most extreme eugenist would find it impossible to argue that the distribution of ability is such that the existing distribution of wealth is thereby explained. It follows that although those forces that we term 'competition' are *tending* to promote equality of opportunity among different classes of society, they have not been allowed to succeed owing to the limits imposed by human institutions as a whole. There must be factors which obstruct mobility in respect of the utilization or development of human resources.

- (9) *Under present social arrangements, an initial absolute 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*

Even a new society starting with initial absolute equality would be



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unable to preserve it under existing social arrangements. Not only would differential ability and chance factors lead to inequalities arising within a single generation, but, at any time, the luck of birth would enable certain individuals to be in a position to commence the accumulation of a fortune. During the modern industrial age, the larger the income possessed by an individual, the more easy has further accumulation been for him; for it seems that the larger one's income, the greater the proportion of it that one will be inclined to save (from the various motives that lead to saving); and the possession of a large income gives differential opportunities of many kinds, especially in respect of the performance of *entrepreneur* functions.<sup>1</sup> Thus, during the lifetime of individuals there are tendencies leading to the growth of large differences in 'incomes from property', even among some of those who started with only the normal advantages of the poorer classes. In so far as these fortunes have been earned through the recipients' initiative or foresight in supplying the people more cheaply or more effectively than previously with things they need, the accumulation during a single lifetime is, however, capable of fairly strong if not unqualified defence. It is desirable to make attractive those activities that add to the wealth of the community. In so far as the fortunes have been due to mere chance — for example, to the individual happening to possess a piece of land that increased in value, when he was not deliberately speculating in land, the defence is less easy; but on grounds of expediency there is a good case for non-interference in such circumstances. Passive holders of property probably lose much more on the whole than they gain — except during periods of rapid economic advance in virgin countries. When, however, differential fortunes are acquired as a result of the deliberate contrivance of scarcities in things for which people are in need or even languishing (and such is the nature of monopoly), private accumulations of wealth like these are difficult to defend and only a dubious principle of expediency will justify the advocacy of non-interference. But expediency might well permit an individual who accumulates to enjoy the incidental (i.e. not *deliberately* contrived) differential opportunities derived from his wealth.

<sup>1</sup> The element of 'profit' probably figures most largely in the incomes of those who have the biggest incomes from passive ownership.

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- (10) *Inequalities of condition in one generation tend to beget further inequalities in the next*

If the effects of differential rates of accumulation could be somehow cancelled at the death of an individual the problem would, of course, be greatly diminished. But we know that inheritance of wealth and the institution of the family play a most important role in modern society. Inheritance may be dated from the time of the child's birth, for his special advantages begin then. From the earliest days in which environmental influences begin to affect his nature, the benefits of having 'chosen his parents well' are counting in his favour. If, in addition to a good home and the resources sufficient for an education that gives status and opportunity, he is heir to a fortune from property accumulated by his forefathers, he has, of course, an immense advantage in respect of earning power over other members of society with equal inborn powers. The degree of relative benefit varies from that which gives to the fortunate one the chance of entering a well-paid profession because his parents can afford to pay the cost of training, to that which enables a man of mediocre ability to become the director of large companies, and exercise great influence and enjoy a big income. These inequalities in one generation tend to beget further ones in the next, for, as we have seen, a good income makes further accumulation easy. There is, however, something in the theory that the sons of the wealthy are often 'spoilt' by their upbringing and so tend to lose their wealth through sheer 'slackness' or that they seek in unduly large numbers occupations that bring them a valued status in society but relatively small money incomes. This last factor seems to weaken, but not to destroy, the tendency for inequalities to be perpetuated.

- (11) *The family institution as it exists in contemporary society is inconsistent with equality of opportunity*

Now, differential ownership of property (which is the result of the inheritance system) would not, in itself, lead to unequal *earnings* in respect of an individual's services if perfect competitive institutions really existed. For the possession of an income from property would give absolutely no special advantages in the way of power to respond to the consumers' will. Let us, therefore, confine our attention to the particular restrictions which result in those differential advantages

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that the children of the wealthy receive as wage and salary earners. Such advantages are largely derived from environment and education. 'Just as political liberty implies equality of political rights', says Mr. Dickinson, 'so does economic liberty imply equality of economic opportunity. An individual may only be said to be economically free when he is free to choose any of the openings for which he is inherently physically or mentally qualified (this involves the opportunity to develop or acquire the necessary non-inherent qualifications) and to engage in it with as much chance of success as any other person with the same abilities.'<sup>1</sup> Thus, the attainment of 'equality of opportunity' in the field of earnings from work or services obviously involves impartial investment in what has been called 'human capital'. A good education cannot be given to children without expense, and this expense may be regarded, from the point of view of society, as an investment in its people. It is here that we encounter an important defect in existing institutions. That form of provision for the future in which investment is made in 'human capital' is principally stimulated through the family institution. Parents find vicarious satisfaction (through affection, or mere pride) in the achievements of their own children or protégés; and present-day morals imply parental responsibility. But this mechanism does not result in the most efficient development of scarce inborn powers in society as a whole. In certain of its aspects the family institution must be regarded as a bulwark against economic equality. It emphasizes what Bentham called 'the non-disappointment principle', for children of wealthy parents are born to certain expectations; their standards, which will dominate their whole lives, are derived from the superior and privileged environment of their childhood or youthful days; they are nurtured from the first in conditions which tend to confirm their anticipation of stability in their social class and status. It is possible that if the family could be superseded completely over a period of transition, the State becoming the parent of all and undertaking also the functions of supporting adults in old age and sickness, there might be attainable as the initial condition of a new social order, a measure of equality which might satisfy the dreams of Utopian idealists. But, in the first place, to advocate such changes would be to violate public sentiment. Modifications of social institutions lead to a transmutation

<sup>1</sup> Dickinson, *op. cit.*, pp. 48-9.

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and not the extermination of human impulses and emotions; but we cannot disregard the fact that far-reaching alterations in the arrangements of mankind are commonly regarded as likely to wipe out all those aspects of human nature which the world has come to respect most sincerely. In the second place, in the light of the ideal of liberty, the case in favour of the preservation of the family institution with most of its existing functions, seems to be strong.<sup>1</sup> In the third place, the family can hardly be superseded so long as private whim in the bringing forth of children is left free. It is the corollary of the right of individuals to bear children that the parents shall undertake some substantial part of the responsibility of caring for their offspring. The family, with its existing functions, does not appear to be working badly in this respect in those countries in which knowledge of birth control is sufficiently widespread. Unfavourable environment for the child is a product of his being a burden on the resources of his parents. If the differential birth rate which in these days tends to load the poorest families with the heaviest responsibilities in the nurturing of children could be reversed, the trend to equality would be stimulated. As to how far the family as we know it is sociologically inevitable, we have no final knowledge. Its functions have certainly been profoundly, if gradually and harmoniously, modified over the course of history. Its apparent partial subordination in Soviet Russia may teach us a good deal. In the meantime we must face the fact that the degree of competition permitted by the property system in respect of investment in children and juveniles is not powerful enough to enable the impartial development of their powers. State education is the practical compromise at the disposal of this and probably several future generations.

(12) *The impartial development of inborn powers cannot be arranged through the acquisition of property rights in the future earnings of others*

The most desirable investment in human material is not spontaneously effected because the wealthier members of society have no motive for investing in the children of the poor. They would get no return, as they cannot obtain property rights in the children's future earnings. The competitive mechanism, resting as it does upon the

<sup>1</sup> See Appendix to this chapter (paragraph 28, p. 346).

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principle of property, appears to be repugnant to human feelings in this field. Social sentiment does not permit its undoubted influence towards greater equality of opportunity, by allowing the transfer to others, of property in an individual's services. It is sometimes possible to make contracts which bring a return to those who have spent money on the improvement of an individual, but it is generally quite out of the question where children are concerned. The adult can invest in himself by spending his own savings on his education, or sometimes even by borrowing for that purpose. But for the child or juvenile, institutions do not exist which provide for a return to those who pay for their training. Only in the case of relatives who have a claim on children's earnings does the idea of property intrude in a mild form. It is the non-utilization of the property device in this field and the consequent absence of the competitive principle which constitutes the marked barrier to equality of opportunity and not, as is Mr. Dickinson's suggestion, 'the making of education into a competitive commodity, of which the longest purse can purchase most'.<sup>1</sup>

(13) *Prima facie, State loans rather than subsidies are required to establish equality of opportunity in education; but further consideration suggests that unconditional subsidization is desirable.*

The failure of the property institution to function in this field makes it necessary to consider the problem of what rectification of the situation is attainable. How far can State-provided education enable the best development and utilization of society's human resources? There may be no *collective* altruism to replace the so-called family altruism in 'making sacrifices' to provide for children's education. But the community will still demand skill, and the collective provision of the means of producing it is simply a particular way of responding to demand. We must be careful, however, to consider the full implications of this function of the State. We must remember that the incomes of those whose training has been expensive includes an important increment which must be regarded as in the nature of a return on the capital invested in them. Now there is, *prima facie*, no reason why State funds should be used to provide free education for the poor and relatively poor if the whole

<sup>1</sup> Dickinson, *op. cit.*, p. 58.

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of the extra return to the recipients from the enhanced value of their services is to accrue to the individuals themselves. The result will be, if other things remain the same, not the *better utilization* of social resources, but their *mal-distribution*. As Professor Cannan pointed out: 'If everyone could get free training for every profession, the costly ones would be over-supplied, because they would no longer bear their own complete cost — the services of the trainers would not be charged against the service.'<sup>1</sup> He suggested that this difficulty could be got over by the taxation of the services of those who have received special teaching; and there are other ways of enabling the recipients of costly training to redeem to the State the capital advanced to them out of the extra earnings which the investment has produced. Unless there *are* (taking the whole field of the beneficiaries), such additional increments, it is difficult to justify the expenditure. State loans, rather than subsidies, are needed to establish equality of opportunity. But the handicaps on the educated poor are many, and the property-less individual with a good training is in practice often at a great disadvantage as compared to his rival in possession of an income from property, quite apart from the many other advantages which the latter is likely to have. Moreover, the individual who is educated at his parents' expense receives his education as a gift. Hence it may be held to be undesirable to burden the former with obligations from which the accident of birth has relieved the latter. The community's benefit in the fullest availability of exceptional powers may be most likely to be secured through unconditional subsidization. The case for this view seems strong in so far as 'general' education is concerned, both in respect of free elementary education and endowed or State-provided scholarships for young people of promise. It must be remembered, however, that as a practical policy, investment to develop human powers through the medium of State education of the masses must be carried out with due regard to (a) the deferred nature of the return that will be reaped, (b) the existence of other barriers to economic equality,<sup>2</sup> and (c) the inevitable slowness of any harmonious (and hence defensible) change in the relationships between social classes. If these conditions are disregarded, the attempt to bring about *productive* investment in the relatively poor will be bound to fail.

<sup>1</sup> Quoted in Dickinson, *op. cit.*, p. 49.

<sup>2</sup> Consider, for example, the rapidly growing barriers (based on educational privileges) to the entrance of the better paid professions.

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- (14) *Equality of opportunity may precipitate greater equality of property ownership, but direct redistribution through taxation must be considered*

The achievement of equality of opportunity in the development and disposal of human powers might not in itself cause an obviously acceptable degree of economic equality; for inequalities in income from property would remain. There are some grounds for supposing that such equality of opportunity would gradually (after a few generations) bring about a much greater equality in property ownership. For if competitive institutions existed, large estates would tend to break up and there would be few special advantages derivable from differential wealth. But if for any reason policy could not be sufficiently effective along these lines, the problem of securing direct redistribution might remain. In part the subsidization of education would involve redistributive taxation. But it might be necessary to devise further means of reapportioning rights to income from the hire value of physical instruments of production and other property.

- (15) *To challenge the right of free bequest or to defend redistributive taxation is not to depart from the consumers' sovereignty principle*

The interference with the right of free bequest is in the nature of a restraint on the exercise of a testator's preferences. It is justified *directly* according to our consumers' sovereignty criterion only because institutions which seem to be unalterable in any other manner cause the inheritance system to frustrate the most effective development of human powers. If the idea of property in capital invested in an individual's education were not repugnant to us in most circumstances, *this* sanction for redistribution of property ownership could not arise. As things are, it is not certain that equality of opportunity itself could ever persist in the presence of gross inequalities of property ownership; and an unrestricted right of bequest *might* still perpetuate them. There are some grounds for believing that in practice equality of opportunity would be constantly threatened through the inheritance system. The enthusiasm of reformers might carry through an initial scheme, but the greater the dispersion of property ownership, the more difficult would it be to secure its continuance when the excitement of change had passed and the original alertness had died down. But complete abolition

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of capital inheritance may be demanded on *other* grounds which may at first appear to conflict with the consumers' sovereignty criterion. Even if equality of opportunity existed, public opinion might see no justification for some children being the inheritors of fortunes whilst others, of equal powers, inherited nothing beyond their rights and opportunities. They might deny that there is any more justice in permitting an individual to bequeath his capital to his children than there is in the system of hereditary titles (under which the son inherits supposed claims to distinction from his ancestors). The right of free disposition of the source of one's incomes from property is likely to be and is in fact being contested. To-day this right is challenged mainly by pleadings based on a confused assumption that the wealth of the rich is the cause of poverty. In the future the challenge is likely to rest on stronger grounds. The mere fact that emulation plays so important a part in modern society makes it imperative that the conditions of the contest conform to certain rules which seem to be common to all games (or at any rate to those in which individual or group prowess is a factor). The similarity of the motives which actuate economic life to the motives which are expressed in games has been brought out vividly in the writings of Professor Knight. Now public opinion will regard the game as fairly conducted if all players commence with equal scores.<sup>1</sup> But the public will also demand that there shall be no right for a successful player to hand over part of his score to another. The objection to such a procedure is felt to have a moral aspect when the game is economic life, because the 'scores' which are inherited confer the right of control through consumers' sovereignty. The transfer of income rights through gambling and sweepstakes might be tolerated: in those cases the individual who receives the winnings or windfall has risked something. And we admit also that, as things are, the inheritor of an unexpected fortune is congratulated by almost all: no one condemns him for his 'good luck'. But as the community grows more socially minded it will be progressively less inclined to permit an unrestricted freedom for a testator's preferences, for it will feel that the game of life is less equitable when it exists. In other words, it will recognize in a vague way the fundamental principle

<sup>1</sup> Handicaps on the more able and gifted which are common in games have no parallel in economic life, unless progressive taxation can be realistically described in these terms.



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which we pointed out in Chapter xv, namely, (1) that the conditions of liberty require restraints exercised through market demand to be impartial, and (2) that the idea of impartiality in a restraint can have no other meaning than that 'each member of society shall have equal rights in respect of the acquiring of power to contribute to the conditions from which the social control of all individuals emanates'. It is, we believe, in respect of the testator's rights alone that there is any serious clash between the exercise of free preference and the conditions of liberty. But in some measures the same considerations may apply to differential income-rights acquired during an individual's lifetime. Except to the extent that equality of opportunity (to be secured through education and other 'social services') is the aim, the justification for progressive taxation *with redistributive intent*,<sup>1</sup> apart from death duties, must rest (again using our games analogy) on the grounds that each success makes further successes easier so that initial equality in the game is too rapidly upset in the absence of some handicap.<sup>2</sup> The use of death duties and progressive taxation with a view to obtaining distributive justice in *this* sense involves the search for equality as a social *end*. We do not contend that society does, in fact, envisage a greater measure of equality of property ownership as a major end (which it does not, at present, know how to seek). But it is a *conceivable* social ideal. And if it is being sought, then a system of property institutions under which periodical redistributions are effected comes to be visualized as a necessary condition for the harmonious social life, as essential as the judiciary, the police, and defence arrangements.

### (16) *The question of direct redistribution is likely to grow in importance*

The importance of this problem is likely to grow because it seems probable that income from property will increase relatively. This is an end to be welcomed. It is desirable that a constantly expanding proportion of the total income of society should go to the remuneration of property as opposed to labour. Increased earnings by

<sup>1</sup> To charge the wealthy more for such State services as Defence, the Police, etc., is justified, of course, according to other principles.

<sup>2</sup> The arrangements of the British Association Football Leagues may be used to illustrate these points. At the beginning of each season all teams in a League start on terms of equality. And the more successful (and hence, on the whole, the wealthier) clubs are restrained from taking full advantage of their position by restrictions on transfers of professionals and on the salaries payable to them.

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property may be taken as an indication that human travail is being lightened. In spite of the perpetual recurrence of perturbation about the supersession of men by machines, intelligent thought about social relations must see that the tendency is merely a manifestation of mankind's success in harnessing physical nature to perform the task of providing it with subsistence and clothing and other things which are fundamental to civilized existence. Indeed, as we have argued earlier, it is such technological developments which have themselves dissolved the principal arguments in defence of a society based on inequalities. The object of redistribution brings us, therefore, to the questions of taxation and saving. For taxation of fortunes is the most obvious means of redistribution; and it is by saving alone that the instruments of production are forged and provision for the future made.

- (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*

It is probably correct to say that progressive taxation, even since the Great War, has never been purposely used with a view to redistribution. If it has had that effect in any degree it has been more an incidental result than a deliberate aim. It has been the growing revenue requirements of an increasingly active State that have led to it. As to how far democratic power vaguely seeking distributive justice has vied with the search for the maximization of revenue in causing the adoption of the progressive principle, it is not easy to estimate. But redistribution can clearly be *sought* along the lines of compulsory transference of wealth through the State from rich to poor. We must, therefore, consider some of the possibilities in this field. The effectiveness of taxation as the means, depends principally upon the wisdom and reasonableness of the governments employing it. The main difficulty arises out of the fact that the world is not a single political unit. Different schedules of imposts and levies (existing and anticipated) in different parts affect the distribution of investment, even when they fall, not on incomes as such, but with relatively heavy incidence on the large incomes. Now it is usually to the interests of the wage-earners as such in any particular area,

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especially of the poorer classes, that the greatest possible amount of investment (which is largely equivalent to development) shall be made within their territory. They want to retain and attract capital, not drive it away. Hence, although it is possible for the State to transfer to itself not only part but even the whole of the rights to remuneration from existing and completely immobile productive resources, thus providing a fund to be used for the benefit of the less wealthy sections of the community, such might be regarded as a breach of faith or 'repudiation' by investors from abroad who had lent before the imposition of the tax, and it would deter not only *their* investments in that area in the future, but those of the nationals of the area concerned, in so far as they were allowed to export capital or able to live abroad for purposes of tax-dodging. From the standpoint of any nation the position is clear enough in principle. Drastic attempts to tax the rich for the benefit of the poor will (in so far as the savings of foreigners and freely disposable internal savings could be profitably employed at the current rate of interest) result in the availability of a smaller aggregate of productive resources. In other words, the country as a whole will be poorer unless the apparent sacrifice of wealth really represents an investment which adds to the powers of the people in a way that ultimately brings a countervailing social or material return. In brief, the case against discriminatory (i.e. 'progressive', bearing heaviest on the larger incomes) taxation, as a means of redistributing wealth, is that where blindly applied (as is likely in vote-catching policies), and where any marked degree of economic mobility exists among the resources of production, the principle of substitution may cause the ultimate incidence of taxes to fall on the community as a whole and not on the wealthy taxpayers especially. Productive development in the world adjusts itself to ruling circumstances; and taxation is an important factor. The danger in attempted redistribution through taxation is that the short-run effects of the policy may easily engender a false optimism as to its benefits. The poor of to-day may be helped at the expense of those who will be with us a decade hence. The period over which irresponsible authoritarian interference with the value mechanism may appear to be able to effect a useful redistribution is probably fairly long in the case of progressive taxes. But its permanent benefits may be no less illusory. Apparent success in redistribution through taxation may be due to a failure to take into account the

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possibility of the gain to the present poor being counterbalanced by a loss to the future poor. Nevertheless, greater equality once obtained (through progressive taxation of incomes) the new situation need have no tendency to drive capital away from a national area. The ultimate effect can well be simply to cause wider dispersion in its ownership. Moreover, the burden on the earnings of capital may be light when typical incomes from property are relatively small. For the main purpose of the funds obtained must be the promotion of equality of opportunity along the lines discussed in the previous paragraph. The better utilization of the community's powers may then be expected to increase the profitableness of investment. The net attractiveness to productive resources of the national area subject to progressive taxation may increase rather than decline. Foreign capital might be exempted from differential taxation, and the number of wealthy nationals who could effectively dodge taxation by emigration could be carefully watched when devising policy. But the necessary arrangements would be extraordinarily difficult to make. It would not be impossible, for example, for the capital of nationals to simulate an alien ownership. Experiments in this direction, if they are really to benefit the poor, do seem to require governments with an enlightenment and disinterestedness such as existing political institutions could never secure.

- (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*

A consideration of another kind is the *possibility* that new heavy taxation, especially differential taxation of inheritance, *may* have a serious effect upon the relative strength of desires to save and to consume on the part of the more wealthy members of the community. As to how we should pass judgment on changes of this kind is not clear unless we can say that the desirability of providing for posterity has, in fact, general acceptance, in spite of individuals as such being unprepared to make the provision. The motives which have in the past led to a given measure of saving have had some connection with the concern of individuals in the welfare of posterity, especially in respect of provision for children and descendants; but

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it may not have been a very close one.<sup>1</sup> With the abolition of inheritance of wealth or heavy taxation of inheritances, or with the decline of the family as an institution, that concern with the future will probably be even further weakened. It is, difficult to argue, however, that society *ought* to accumulate for the general good of future generations. We have no *principle* to tell us how much society should save, or how much of its efforts and resources should be devoted towards provision for the future. Hence, there can surely be no essential wickedness or folly in 'living on capital'. Quite apart from the difficulty of deciding whether we mean our children, grandchildren, great-grandchildren or subsequent generations when we talk about posterity, we shall always be up against the insoluble and certainly not flippant conundrum of why we ought to worry about the welfare of posterity, which has done nothing for us! Suppose the greater equality (whether due to improvement in competitive institutions or continuous transfers through taxation) could be expected normally to result in society as a whole changing its relative preference in favour of immediate as opposed to distant satisfactions. Then, to deprecate any falling off in savings would necessitate the application of ethical standards over-riding the social will as expressed in that system. Mr. J. M. Keynes is surely pleading for a solution (to this and allied problems) which he feels to be ethically superior to that determined by consumers' sovereignty when he says: 'I believe that some co-ordinated act of intelligent judgment is required as to the scale on which it is desirable that the community as a whole should save, the scale on which these savings should go abroad in the form of foreign investments, and whether the present organization of the investment market distributes savings along the most *nationally* productive channels. I do not think that these matters should be left entirely to the chances of private judgment and private profits, as they are at present.'<sup>2</sup> Mr. Keynes gives us, however, no inkling of what *his* criteria of the right amount of savings and their right distribution happen to be. It is difficult to find any clear significance in what is apparently the key-word, 'nationally'. But we cannot so easily put on one side the question of

<sup>1</sup> Professor F. H. Knight goes so far as to say: 'It is doubtful whether the interest in the future "as a whole" can be considered as economically rational at all, and it is certain that such an interest plays little if any role in actual saving and investment.' *Risk, Uncertainty and Profit*, preface to Re-issue, p. xix.

<sup>2</sup> J. M. Keynes, *op. cit.*, pp. 48-9, our italics.

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society's time preference. For if questioned about the desirability of having due regard for the interests of posterity most people would in fact reply immediately, just as Mr. Keynes seems to do, that such is the duty of the present generation. It is probably true to say that the great majority of persons believe this to be their 'inner conviction'. The collective declaration of preferences may be different from the facts of individual preferences.<sup>1</sup> It seems, therefore, that we may have to take as a criterion of goodness in any social system whether or not it is likely to consider posterity's interests.

### (19) *The causes which lead to saving will not be absent in an equalitarian regime*

If we accept this criterion, however, it still does not follow that the achievement of equality would in itself be in conflict with the interests of subsequent generations. There are no good grounds for assuming that accumulation will fall off in an equalitarian regime. Not only will the motive to save not disappear, but we cannot rightly take for granted the common presumption that its ultimate power will be diminished. The length of human life and the uncertainty of death will, in themselves, provide a motive for thinking of the future. It may be that rights to income will be taken more in the form of annuities than in a form that retains the source of income intact; but we cannot safely infer from this that the net amount of saving will be considerably less. The causes which have led to provision for the future have, in past ages, been closely connected with social institutions as a whole. Accumulation of the sources of income has been stimulated *on the one side* by the individual's desire to provide for his own future (frequently with the hope of increasing means<sup>2</sup>); by the uncertainty of the time of death; by love of children; by the desire for the status and feeling of power brought by wealth, and the desire that one's children shall retain their family status;<sup>3</sup> and

<sup>1</sup> This sort of paradox is common. It appears to be due, in the main, to the fact that declarations are *public* acts, made to an audience. The invention of flag days, indicating those who contribute, greatly affected the 'will to give' in street collections.

<sup>2</sup> Adam Smith said that 'the principle which prompts to save, is the desire of bettering our condition, a desire which, though generally calm and dispassionate, comes with us from the womb, and never leaves us till we go into the grave'. (*Wealth of Nations*, Cannan Edition, Vol. I, p. 323).

<sup>3</sup> 'It is only when taken in a sense far removed from its naive meaning that consumption of goods can be said to afford the incentive from which accumulation invariably proceeds. The motive that lies at the root of ownership is emulation'. (Veblen, *Theory of the Leisure Class*, p. 25).

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finally by the embodiment in habit of the above, the latter being expressed in some degree in miserliness or 'the pecuniary habit of mind'. And *from the other side*, accumulation has been stimulated by the demand for capital by society at large.

(20) *During a generation striving to redistribute capital ownership, saving is likely to be discouraged*

Now does the fact that in the past the ease of saving on the part of the wealthy has dominated this process imply that a drastic fall in the amount of provision for the future will come about under a system in which greater equality has been achieved? It does seem probable that accumulation would be discouraged *during the course of a generation which was actually striving to redistribute the ownership of property*. Any rapid transition to a state of equalitarianism in a liberal regime would be likely to bring about a reaction in the form of capital shortage. On this point, the judgment of the Classical writers was probably the result of wise insight into the social conditions of their day. They realized the part played by unequal wealth in the process of accumulation, and this, they thought, contributed greatly to the advancement of the material condition of humanity. A growing population required an even more rapid rate of accumulation of capital. This could only be accomplished, they believed, under a system of distribution in which wealth was concentrated in the possession of those to whom saving was easy.

(21) *In the long run direct redistribution would not discourage saving if it were accompanied by improved competitive institutions. Society would then require and be able to command more, not less capital*

But when we consider a longer period, fears concerning the supply of savings can be seen to vanish, provided that the equality that is being devised has been precipitated by competition or accompanied by its increasing effectiveness. We need not tackle the problem in terms of the demand for capital, or the rate of interest; for we know that the material equipment of the world in its present state would be insufficient to provide a good standard of material comfort for all the people, even if there were no monopolistic restrictions on its use. The crucial point is that under economic freedom there would be no hindrance to the provision of the required productive capacity.

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It has often been demonstrated that the equal distribution of existing incomes would not greatly raise the economic level of the masses. But that form of equality which is the outcome of competitive institutions would release the power to increase incomes through adding to capital wealth. In other words, if all restrictions on the use of resources were removed (and that is what the notion of competitive institutions implies), then, in obedience to the dictates of consumers' sovereignty, the essential equipment to provide for the physical welfare of the masses would certainly be demanded and provided. Quite apart from any interest in posterity which might still remain, the members of a community of developing equality would be found voluntarily ordering their lives in such a way that a larger proportion of their efforts would be devoted to providing for the relatively distant as opposed to the immediate future. In this manner there would emerge a new equilibrium based on a time preference which it would be impossible to regret in the light of any social criterion. And the mere fact that human lives overlap would be sufficient to secure to posterity a world in which the accumulated resources at their disposal were adequate.<sup>1</sup> Thus, the attainment of equality through competition is fundamentally different in its reactions upon saving from the attempted attainment of the same end through taxation alone; for whilst the former automatically releases productive power, the latter leaves intact all the restrictions on the full use of the world's natural and acquired productive resources. Progressive taxation alone does not disturb the vested interests in whose defence the idea of 'over-production' has been invented. Their incomes may be reduced, but the sources of their wealth remain unchanged in nature.

(22) *The effects of technological progress and birth control will enable a classless society to save, even if each generation does its own saving*

The question of accumulation is linked to the problem of the size of population, which takes on a different complexion when the necessity for human drudgery has been lifted by the machine, and when the discovery of birth control has enabled humanity to curb the results to which the full natural life has led earlier generations.

<sup>1</sup> Similarly, a decline in the importance of the family institution would not result in posterity being left without accumulated resources.



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We need no longer regard the cessation of growth in numbers as a calamity. The populations of future communities are likely to reach equilibria and possibly vary little from age to age. If that is so we shall attain to a condition in which each generation does its own saving and in which any necessity for worrying about the interests of posterity as such will be absent. It follows, therefore, that Mr. Dobb's fears that his hypothetical ideal state of 'classless individualism' would suffer from 'a comparatively small accumulation of capital and little provision for its productive use',<sup>1</sup> and his compliment to monopolistic capitalism that it is a progressive force in comparison with his ideal, are unfounded. Only during the difficult transitional passage to that society would the repercussions on saving be likely to be serious. And such difficulties could be overcome, not only through authoritarian accumulation by taxation of the workers (at a rate determined by a calculation of average time preference), but better by the temporary raising of *thrift* into one of the major social virtues and encouraging the relatively poor to save part of the wealth gradually being transferred to them. Authoritarian transferences from the wealthy to the very poor in the form of old age pensions might conceivably have the effect of encouraging rather than discouraging thrift. This view has been urged, although its truth is a question of fact to which experience so far gives us no certain answer.

### (23) *The Rignano plan provides the ideal type of redistributive taxation*

The particular method of taxation chosen with the intention of effecting redistribution is a question of some importance. The bold use of death duties in accordance with some scheme on the lines of that put forward by Rignano would be most defensible, if it were accompanied by other reforms contributing to economic mobility.<sup>2</sup> For even under complete equality of opportunity there would be great differences of individual earnings; and an absolute right of bequest might, as we have seen, disturb the ideal of basic equality of

<sup>1</sup> M. Dobb, *op. cit.*, p. 44.

<sup>2</sup> The Rignano scheme is a system of taxation under which the individual's own accumulations of property during his life-time are free from heavy death duties whilst that part of his property which represents inheritance or gifts from others is very heavily taxed on his death, the incidence varying according to the relative age of different portions of what the deceased had inherited or received as gifts, and according to the relationship of the beneficiaries of his bequests to him.

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opportunity. Popular entertainers, for example, would continue to command high earnings through the scarcity value of their services. And whilst it would be desirable to permit capitalization of earnings and allow those who had successfully served the community some right of bequest in accordance with their desires, there would probably be but small loss from a modification of the embodiment of property rights with a view to emphasizing the already existing tendency towards disintegration and diffusion of large fortunes. Subdivision of fortunes, the process of *morcellement*, and the decline of the spirit of primogeniture are even now exerting a levelling influence. The Rignano plan might supplement these factors. However important a part the institution of inheritance may be playing in the contemporary methods of providing for the future, it is by no means sacred in its present form. Indeed, it is, as Mr. Dickinson has pointed out, later in development than the institution of property in general. 'To present-day Englishmen', he says, 'the right of settling the disposition of one's property after death appears as natural as that of disposing of it during one's lifetime. This was not always so and it is possible that all rights of private property were originally limited to the lifetime of the owner.'<sup>1</sup> There is hardly any doubt that society could adapt the functioning of its mechanism of accumulation to gradual changes in the property laws bearing on the right of bequest. In the world that we know, however, there is little to be said in favour of the heavy taxation that is actually coming to be imposed in many countries. Of the funds raised, at least as much is usually spent for the benefit of the relatively wealthy as in the interests of the relatively poor. Disinterested study must bring home to any student the tremendous wastes involved in government expenditure under the modern State. It often seems probable, indeed, that most of the advanced industrial areas are already over-taxed in the sense that the poor are thereby worse off even in the present. Politicians think in terms of what is expedient within the period that comes before the next election. The broader problems with which we are now concerned are seldom in their minds. It is the recognition of this which lies at the back of much of the apparently 'selfish' opposition to taxation on the part of the relatively wealthy. Indeed, Professor Knight goes so far as to suggest that 'it is problematical whether there would be any really

<sup>1</sup> H. D. Dickinson, *op. cit.*, p. 40.

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serious resistance to the most drastic taxation, if men generally believed that the taxes would be equitably assessed, honestly collected and spent, and effectively used for purposes indubitably promoting the public weal. The fact is that on the grounds of experience men generally do not believe this, but believe the opposite.<sup>1</sup>

(24) *A single country endeavouring to get rid of institutional restrictions and restrictive personal status generally, would have to impose restraints on immigration; and although equality of opportunity would be achievable, only a limited equality of earnings could be hoped for*

The degree of equality of earnings that can be expected to result from competitive institutions within a single country when all other countries maintain the traditional institutional restrictions is, however, limited. In a Free Trade country, the actual *rates* of remuneration for any type of work which is competing with foreign production will be influenced by the rates paid abroad. In other words, the relative values of different kinds and grades of skill within the country concerned will in part be determined by their 'institutionally' contrived scarcities and incidental plenitudes<sup>2</sup> in the world market outside. To see the full significance of this let us assume that equality of opportunity can be arranged in a certain community simply by the elimination of restrictive status, and that no problem arises, therefore, from the necessity to invest capital in the development of human powers. Then, rates of pay in the higher paid categories of jobs will tend to fall, owing to workers moving from the lower to the higher paid jobs. If the demand for the product in any particular case is elastic (as we may assume it to be if foreign countries do not impose new tariffs or raise existing ones), the extent of the fall will not be large if no immigration takes place. There will be a corresponding tendency for the lower rates of pay to rise — again, if there is no increase in numbers. But suppose immigration is permitted. Then, the tendency for the lower rates to rise will be checked because immigrants will add to the labour supply. Moreover, possessing equality of opportunity in their new country, the

<sup>1</sup> *Ethics of Competition*, pp. 316-317.

<sup>2</sup> 'Almost every contrived scarcity implies an *incidental plenitude*; for when resources are excluded from co-operating within a particular productive sphere, they are rendered available for other uses and hence cheapened for such employments.' Hutt, 'Natural and Contrived Scarcities', *S. A. Journal of Economics*, September, 1935. 'Contrived plenitudes' seem to be relatively unimportant in this problem.

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more able among the immigrants will compete for the higher paid posts, thus reducing even more considerably the higher rates of pay. The ultimate equilibrium will be one in which all the frustrated talents in other countries are subject to the attraction of the one country which gives them an outlet. Such talent may then command little more than the lowest grades of labour, the equilibrium being determined by the costs and disadvantages of emigration to poor but able workers, the demand for whose best services is excluded in their own countries by institutional restrictions. All the available special skill and capacity from abroad will be tempted to crowd into the sole area which does offer a free market for it. Now this will be an 'advantage' to the area concerned in the sense that the aggregate supply of goods and services which its productivity can command will be greater. But under free immigration the claims of immigrants on the value of what is produced will reduce claims per head, possibly seriously. Hence immigration restrictions may have to reinforce the various inertias, home ties, language differences, and costs of movement which restrict labour mobility. It may be that these already existing restraints on the international mobility of people will be insufficiently powerful if the equalitarianism of competitive institutions is to be brought about. The question is solely one of the number of claims on the value of productive effort which may be tolerated.<sup>1</sup> Such restrictions will involve no departure from the principles which condemn local separation. The absence of *laissez-passer* is possibly as important a cause of our present distresses as the absence of *laissez-faire*. In a world in which equalitarian institutions existed universally, such restrictions would be without justification. They might, however, be desirable supplementary agencies to protective inertias in a single national area striving for distributive justice. But to limit the number of immigrants according to, say,

<sup>1</sup> The same problem arises in connection with the tolerable birth rate. But the economic problems, and (in a world which has not thrown off its barbaric conventions in respect of political and religious supremacy) political problems which would arise out of attempts to realize the optimum population in an equalitarian community cannot now be discussed. It is in respect of the quantity problem of population that we find the sole justification for a 'national' policy. The limitation of freedom of immigration can even be justified in the light of universal ethics. It enables the advantages and virtues of the rational determination of numbers to be demonstrated to other nations. As Cannan pointed out, 'if any people acts as if its ideal of progress was, in J. S. Mill's picturesque phrase, "a human anthill", it is probably desirable that it should be confined within as narrow limits as possible. It is better that it should learn that over-population is an evil, and how to avoid it, in one country or continent, than after extending it all over the world'. (*Wealth*, p. 274.)

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the number of emigrants; or to select immigrants according to an estimate of whether their services will add more to the *aggregate* of incomes than they can claim from it, will not necessitate any restriction on the free movement of products. It will still be true that free trade with foreign parts will be to the community's benefit. The total number of claims on what is produced can be limited whilst foreign competition remains effective. It is for this reason that, in spite of the existence of equality of opportunity, internal and external rates of pay may not greatly diverge in respect of industries which are subject to the competition, actual or potential, of foreign producers. Individuals possessing the most scarce powers will be chosen for the better paid posts, whilst those with the most common capacities will be forced into the lowly paid occupations. There will be a change in the type of economic specialization adopted by the country — a greater concentration on the higher paid kinds of jobs. A greater proportion of the more lowly paid work will be performed abroad and a greater proportion of the more highly paid work will be performed at home. The extent to which the upper grades of work will fall in value will depend (apart from the factor of elasticity of demand) upon the relative actual (i.e. 'natural') scarcities of capacity to perform them. The better paid professions will not be swamped by the concentration in them of frustrated foreign talent.

(25) *A regime enabling investment to develop inborn powers impartially might require the imposition of emigration restrictions*

Let us now consider a regime in which equality of opportunity is also secured through the development of latent powers by means of investment in the education and training of human beings. In such a country it is clear that emigration restrictions as well as immigration restrictions will have to be imposed. For as the community will have invested heavily in those who perform the higher types of work it cannot be expected to sacrifice that capital for the benefit of foreign countries. It will certainly pay this grade of workers to emigrate to other lands in which equality of opportunity in respect of the development of inborn powers has been absent. They will not be subject there to the relatively low rates ruling in their own country. But this will not only frustrate the equalitarian aim, but will amount to giving free training at an outlay from which

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no return is secured.<sup>1</sup> Hence, unless refunds of capital are made, emigration may have to be prevented. When this question of capital expenditure does not arise, however, there is no danger of the higher paid groups of workers deserting for abroad simply because similar work is better paid there. For if they do not possess the status which protects parallel occupations in foreign countries, they will gain nothing from emigrating to them. And even if they do possess what was formerly valuable status at home, it will probably benefit them but little in a status-valuing country abroad, as the benefits of rank are usually confined to one's country of birth.

(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*

Equality of opportunity may, therefore, be accomplished without the dispersion in actual rates of earnings being greatly diminished. But in such a community there might be very few, and perhaps none at all, employed in the lowest grades of employment. The dirty work could be left to the foreigner. Machinery would replace the lowest grades of labour as it became expensive, and in so doing possibly make the optimum population smaller. But the competition of capital equipment with labour would merely be a retarding influence, not a frustrating one; so that even a single community could accomplish a measure of actual equality which, in spite of its being obviously limited, might be worth striving for. Moreover, we have so far refrained from taking into account the full repercussions of the introduction of competitive institutions into an area. It would probably have much more far-reaching consequences than we have yet suggested. There is, as Veblen so constantly emphasized, an appearance of an immense undeveloped productive power existing in modern communities.<sup>2</sup> It seems as if this power only awaits the introduction of competitive institutions to be released. In countless fields and by innumerable devices we see the deliberate contrivance of scarcities, the abolition of which would surely enable the dissolution of what we to-day regard as physical poverty. If reality lies

<sup>1</sup> Universities in fact do this, in part, for foreign students. But the foreign students may be regarded as paying for the prime costs of their education.

<sup>2</sup> Veblen suggested that the product of industry could be increased by from 300 to 1,200 per cent!

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behind this appearance, the result of one or more important countries gradually removing internal trade restrictions and dissolving institutional restrictions would be to force the others to follow suit.<sup>1</sup> And the more countries which were compelled to take this course, the greater would be the tendency for equality of opportunity to be accompanied by a small dispersion in the values of different skills, that is, small inequality of earnings.

(27) *The recognition of the implications of this chapter must wait for a more enlightened age*

We have devoted this chapter to the discussion of inequality because we saw that the objection to a competitive society often rested upon the assumption that it led to an indefensible distribution of wealth. We have noticed the relationship in which competition stands to attempts to remedy the injustice or wastefulness of inequalities. It is itself the basic levelling force. That the contrary belief has widespread acceptance is due to the antagonism of the principle to other suggested remedies; but those are remedies for whose success there is no hope. It has been demonstrated that attempts to make the poor as a whole better off by trying to rig the value mechanism are as certain to fail as efforts to peg the barometer in order to produce fine weather.<sup>2</sup> Wage-fixations, whether by the State or trade unions, cannot increase the aggregate receipts of the relatively poor. They may benefit particular groups, or even particular classes of workers for a fairly long period of years. But this applies only to a limited class — and it will nearly always be certain privileged labour groups, and not the under-dogs, who benefit. Whether this simple truth will receive influential recognition within the present author's lifetime is extremely doubtful. Nevertheless the fact remains that competition is pre-eminently the force tending to bring about equality. We must probably wait for a more enlightened age before we can hope for the acceptance of the proposition that in the condition of natural and uncontrived scarcities we have the only conceivably acceptable criterion of distributive justice. Even a mind as penetrating as that of Wicksteed seems to have been so overpowered by the strength of

<sup>1</sup> It is one of the wisest of Trotsky's sayings that the dispute between capitalism and communism will finally be decided by their respective achievements in the field of productivity.

<sup>2</sup> Hutt, *Theory of Collective Bargaining*.

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contrary assumptions on the part of others that he could say: 'Economic forces and relations' (and he appeared, as a rule, to mean by these words those forces that are generally termed 'competition') 'have no inherent tendency to redress social wrongs, or ally themselves with any ideal system of distributive justice.'<sup>1</sup> He also had failed to recognize the ultimate significance of consumers' impartiality. As Dr. A. E. Monroe and others have pointed out, 'the tendency of incomes to equality has been too much neglected in value theory'.<sup>2</sup> And it is when demand is impartial, when purchasers are completely ignorant or indifferent to the status (e.g. rank, age, sex, race, nationality or religion) of producers, and when other institutions do not protect status, that this tendency to equality finds realization.

### (28) *Appendix on the Importance of Maintaining the Family Institution*

The principal argument in favour of the family institution is based upon the guarantee which it gives of a multitude of discretions determining the form in which the social heritage is transmitted. We have noticed the immense importance of the deliberate fashioning of human character, of the conscious inculcation of qualities and beliefs in the young which forms the educative process; and we have realized how the characteristics and conduct of individuals in each generation are thereby moulded to a certain form, a form which critical opinion can but slowly modify. Lewis pointed out in 1849 that 'this transmission of opinions from one generation to another . . . which results from family influences . . . doubtless contains a considerable alloy of evil, inasmuch as it perpetuates error in combination with truth, and affords no test for their discrimination'.<sup>3</sup> But to *concentrate* power in this respect entirely in the State is a course which, to those to whom the traditions of liberty appeal, is an alarming prospect. The sheet anchor of freedom is diffusion, not concentration of power. The discrimination of error and truth must rest ultimately upon the discernment of society itself. The diversity of ideas in respect of tastes, morals and beliefs which is maintained in each generation when separate families play some part under the

<sup>1</sup> Wicksteed, *op. cit.*, Vol. I, p. 169.

<sup>2</sup> A. E. Monroe, *Value and Income*, p. 37 (footnote). Dr. Monroe refers to Oppenheimer's *Wert und Kapitalprofit*.

<sup>3</sup> Lewis, *op. cit.*, p. 11.



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protection of a liberal State, enables the right and the wrong, the ugly and the beautiful, to compete before the audience of the community and so add to the sum of social experience. Communal kitchens, communal laundries, and communal crèches may, as schools have already done, replace certain of the functions which have been traditionally associated with the family. But parents must be secured the right of advising and guiding their children as they absorb from the social heritage at large. The curtailment of parental rights and powers is justified on exactly the same grounds as those which we have argued might justify State intervention to protect adults from the effects of their own follies.<sup>1</sup> We have no definite criteria to tell us to what extent parental discretion should be controlled by the State. The supreme principle of liberty suggests that it is better to risk erring in the direction of allowing too much rather than too little freedom.<sup>2</sup> Moreover, it does seem that the family, with all the traditional stupidities associated with it — its petty hatreds, and the narrowness of vision which it so often fosters, provides an atmosphere much more conducive to the development of psychological dispositions compatible with 'the full life' than 'institution arrangements'. A friendly critic of the manuscript of this book writes: 'I'm against Russia and the Public Schools. There's a strong similarity in the atmosphere.' Curiously enough, some recognition has been accorded to our conception of the family function in Russia, where, in respect of religious instruction only, all teaching outside the home is forbidden to children under eighteen years of age.

<sup>1</sup> See Chapter xvii.

<sup>2</sup> This is a parallel but different problem from that of determining the stage at which the child should be released from the guardianship of his parents. Here also, it is desirable to risk allowing the child early rather than late the right of private judgment.

## CHAPTER XXI

### VESTED INTERESTS AND THE DISTRIBUTIVE SCHEME

- (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<sup>1</sup>*

It is seldom that the force of competition is attacked by the propertied-classes on the grounds of its levelling tendency. It is disliked because it is felt to be in conflict with the maintenance of 'prosperity', or because it is 'ruinous'. There is a sense in which the impartiality of competition may be regarded as ruinous, although it is rather misleading and may be dangerous to put it this way. There are, however, real dangers to which the harmonious social life would be subjected if competition were suddenly accorded unrestricted sway. Given the survival of aristocratic or 'leisure' class traditions in society, and the monopolistic and authoritarian character of modern communities, any sudden increase in the effectiveness of competition might have a disastrous effect. The existing distributive system depends upon the diversion of productive effort through deliberate and customary restrictions in countless different forms. Not only is the division of the value of the flow of productivity between social classes fundamentally influenced thereby, but between various groups within the same income-level strata similar tendencies assert themselves. The stark equalitarianism and impartiality of competitive institutions, their callous disregard for private interests, would conflict radically with the present social order. They would bring dismay and desperation to those whose income-rights were violently reduced. The psychology of modern communities has become adapted to a situation in which restraint of competition is the normal thing. Social habits, ideals, beliefs, aspirations, and sometimes morals, are adjusted to its existence.

<sup>1</sup> Several passages in this and the following paragraph have been taken verbatim from two articles by the present author, namely, 'The Nature of Aggressive Selling', *Economica*, August, 1935, and 'Logical Issues in the Study of Industrial Legislation in the Union', *South African Journal of Economics*, March, 1935.

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Human nature as we know it has been reared and fashioned in a system in which privately contrived restriction and coercive intervention by the State in the determination of values are operative on all sides. Even our leaders in commerce and industry and government are profoundly influenced by this economic tradition. They would be bewildered by far-reaching changes in the economic framework within which they are accustomed to work. To attempt to arrange things so that competition is given a rapidly increasing effectiveness might be disastrous to many conspicuous classes, and the repercussions from their losses might be felt over the whole economic field. Moreover, the carriage and transmission of what sensitive minds regard as culture in its highest sense is probably dependent upon the absence of catastrophic disturbance of the present system of distribution (although this does not imply, of course, that the continuance of culture depends upon the persistence of inequalities). It is an irrational world that we are studying, and we must face the facts that perfect competitive institutions are unattainable, and that their fanatical acceptance as the goal of practicable reform in the short run is likely to be disastrous. A perfect competitive system can still be accepted as a democratic and equalitarian ideal, but it ought to be subordinated to gradualness in any policy which has the effect of dissolving protected income rights. Wicksteed has pointed out that if the air had been monopolized, the dissolution of the monopoly would be a 'crushing disaster' for the owners of the monopoly. 'Their strength', he said, 'and the abundance of the supply of all producible things which they command, would depend upon the existence of a vast and imperative want on the part of other men, for a thing which they alone could supply. Let that want be supplied without their control and the increased wealth of the world at large would fatally undermine their economic position.'<sup>1</sup> The avoidance of such disasters may justify gradualness in the transition to unrestricted competition and its concomitant of equality of opportunity. Similar dangers might be met with if there were a sudden burst of important capital-economizing and labour-economizing inventions. But such increases of knowledge in fact come slowly and never give rise to problems of like magnitude to that which we are now considering. It is the *general* release of productive power that constitutes the difficulty.

<sup>1</sup> Wicksteed, *op. cit.*, Vol. I, p. 348.

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The fact that it is essentially a short-run problem does not affect our contention that it is a crucial consideration in relation to the problem of devising competitive institutions.

(2) *Existing restrictions on competition are in fact aimed at the preservation of a particular distributive scheme*

When world changes (such as the rise of formerly backward countries, or currency depreciation on the part of competing countries) bear strongly on a particular area in such a way as to threaten to modify its distributive scheme in a revolutionary manner, further restrictions of competition in order to preserve that scheme from catastrophic modification are capable of reasoned if not valid defence. The strength of the belief that it is desirable to exclude competition in such circumstances is suggested by the fact that governments *seem* to find themselves driven to take such measures. Throughout the whole world to-day we see economic policies dominated by a more or less unformulated desire to maintain the existing proportions in which income is divided between social classes, or between certain groups defined in other ways, e.g. rentier and profit-receiver, sheltered and unsheltered trade, farmer and industrialist, and so forth. The belief is that 'planning', 'orderly marketing', 'rationalization', import quotas, 'reflation', and the like are introduced in the interests of the productive scheme. In every case their true direct effect is towards the maintenance of an existing distributive scheme, the restoration of a former distributive scheme, or some other change for the advantage of a certain group or class. Although the advocates of such 'controls' of 'anarchic' production stress, sometimes quite sincerely, the efficiency of the arrangements which they suggest, they do so with a lack of self-criticism and a light-hearted dismissal of objections which are ample evidence of their desire to embrace views which imply that their interests (or the interests of groups whom they represent or for whom they have sympathy) do not clash with the interests of society at large. These policies can, however, be seen to have the effect of curtailing actual productivity (although conspicuous productivity is often added to). Hence, they diminish incomes in the aggregate, whilst maintaining, or restoring in a rough sort of way, or enhancing, the income rights per head of classes or groups which were tending to become poorer or thought that they

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ought to become richer. The restrictive schemes adopted might indirectly have beneficial effects upon productivity, but only because they may on occasions prevent such violent disturbances in the distribution of income-rights as are likely to throw the system of production 'out of gear'. Productive power cannot easily readjust itself to far-reaching changes in demand due to income being rapidly transferred from one class to another.<sup>1</sup> But in practice the recognition of threats to distribution has led to the unconscious elevation of the *status quo* (based on inequality) into an ideal, even by those who have imagined themselves to be fighting on behalf of the poor for distributive justice.

### (3) *When successful, the restrictions discussed above bring 'prosperity'*

This can be seen to constitute the true nature of the complex of circumstances commonly conceived of as 'prosperity'. This term 'prosperity' can seldom be regarded to-day as even roughly synonymous with social opulence or plenty. For a plenitude of products might be accompanied by that phenomenon which loose writing calls 'over-production'. More usually, the word 'prosperity' seems to connote the presence of conditions which may or may not involve an abundance of wanted things. Consider the various 'New Deals', inspired by the final jettison of orthodox economic teaching. Under these schemes, attempts are being made to 'bring back prosperity' through the curbing of output and productive power. The State enforces or encourages open restriction of production; it brings about the same result through encouraging collusive price and wage fixations (or itself is active in this sphere); it diverts capital development from channels in which it would be competing with existing capital resources by bribing or forcing it into the provision of 'public works'; and finally it has recourse to higher tariffs and currency depreciation which have similar basic effects. And when it is said that 'capitalism cannot distribute the product of its immense capacity',<sup>2</sup> all that is meant is that the income-distributive scheme cannot stand up to the fullest utilization of productive resources.

<sup>1</sup> Currency depreciation similarly exercises its most important influence on the distributive scheme, but its effects are general and tend, in some degree, to restore the *relative* rates of remuneration for the services of different kinds of productive resources which restrictions on competition have upset. Hence, the result may be to cause a recuperation in productive activity. But as a policy it seems to be tantamount to burning down your house in order to roast pork.

<sup>2</sup> Macgregor, *Enterprise, Purpose and Profit*, p. 3.

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- (4) *But neither capital as a whole nor labour as a whole can benefit from restrictions*

The reasoning behind such policies is essentially naive. The following is not a misrepresentation of the logic which motivates them:

Prices (and incomes dependent on them) are inconveniently or disastrously low. Therefore they must be raised. The only way in which they can be raised is by limiting the quantity of goods or services to which they attach.

It is correctly understood that the ultimate effect of this restriction of productivity may be to prevent the decline in incomes, in all clearly defined fields which can be contemplated, from the ownership of *existing* material capital resources; but there is no parallel realization of the fact that the fuller utilization of these resources, together with the toleration or facilitation of competing development would (in the absence of disorganization due to suddenness of change) increase the aggregate return to capital as a whole. Similarly, it is correctly understood that the maintenance of wage-rates and the enforcement of exclusive labour policies may preserve the private benefits of many conspicuous labour groups, but there is no parallel realization that a free labour market would lead to increases of aggregate earnings on the part of workers as a whole. The current conception of prosperity envisages *rates* of remuneration (rates of dividend and rates of wages) and not aggregate receipts. 'Over-production' is a conception relevant to distribution, not production. Veblen, discussing the 'inordinately productive' nature of modern industry, said that 'the rate and volume of output have to be regulated with a view to what the traffic will bear — that is to say what will yield the largest net return in terms of price to the business men who manage the country's industrial system. Otherwise there will be "over-production", business depression and consequent hard times all round'.<sup>1</sup> But although one may admit the plausibility of this charge as applied to the aims of entrepreneurs, the idea that the attainment of private optimum outputs by groups of organized capitalists will lead to the optimum return to capital as a whole, is a most serious error.

<sup>1</sup> Veblen, *Engineers and the Price System*, p. 8. See also Veblen, *The Vested Interests*, p. 63.

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- (5) *Restrictions on competition engender an increasing instability that is seldom understood*

The defence of the distributive scheme by means of price maintenance not only represses the sources of plenty but entails an increasingly unstable equilibrium. Restrictions on competition might be defended if they were known to be temporary, and their purpose was to facilitate the trend to a more stable equilibrium. They might be tolerated, for instance, if they could be shown to protect the individual from immediate calamity and so enable him to find new openings from among the opportunities created by improved mobility, or if they could be seen to be fulfilling the purpose of making bearable a period in which methods of compensation for drastically reduced income rights were being devised. Whether or not the restraint of competition has often performed this function, it has never been its recognized purpose. Once a contrived scarcity has arisen in practice, those responsible for it will fight for its permanence. But if such restrictions are regarded as permanent requirements for the maintenance of prosperity (which is the tendency under contemporary policies), then disruptive forces will be quietly gathering to break out in disastrous redistribution later on. (It will be called 'disastrous competition'.) Unfortunately, it is an almost universal assumption to-day that the rehabilitation of a depressed community is to be secured by 'the cutting down of supply in conformity with reduced demand'. Governments are everywhere groping for principles of wise restrictionism. To-day they call the policies they are trying to formulate 'planning'. They envisage a mechanism for keeping 'inordinate productive power' permanently in check as a means of securing the conditions necessary for continuous prosperity. Or they envisage a system of monetary 'control' (designed to effect 'recovery') which, as we have suggested, tends to bring about a not dissimilar result. Dr. Hicks has said that 'when we are looking for policies which make for economic stability, we must not be led aside by a feeling that monetary troubles are due to "bad" economic policy, in the old sense, that all would go well if we reverted to free trade and *laissez-faire*. There is no reason why policies which tend to economic welfare, statically considered, should also tend to monetary stability. Indeed, the presumption is rather the other way round. A tariff, for example, may be a very good instrument of recovery on occasion, for precisely the reason which free-traders deplore; that it

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harms a great many people a little for the conspicuous benefit of a few. That may be just the sort of measure we want. These will be unpalatable conclusions; but I think we must face the possibility that they are true. They offer the economist a pretty hard life, for he, at any rate, will not be able to have a clear conscience either way, over many of the alternatives he is called upon to consider. His ideals will conflict and he will not be able to seek an easy way out by sacrificing either'.<sup>1</sup> We believe, however, that the dilemma lies, not in the clash between consumers' sovereignty (Dr. Hicks's 'economic welfare') and *monetary* stability, but in the incompatibility of present attempts to secure the full utilization of productive power and the preservation of 'prosperity' in the special sense that we have given to the term. There are grounds for holding that what is known as 'monetary instability' is a mere reflection of an unstable distributive scheme. As the present writer has pointed out in discussing British experience, 'the so-called period of deflation following 1925 could be profitably studied as a fight between a set of distributive arrangements and productive efficiency. The "overproduction" which deflation seemed to precipitate (in the case of certain commodities) represented production in excess of the desirable level only in the sense that the producers (including the workers) could obtain less from the full utilization of the resources at their command than they could obtain if scarcities were deliberately contrived. Now, the curtailment of productive power causes growing instability in distributive arrangements in spite of the short-run effect often being to perpetuate traditional income rights. Potential competition acquires an increasingly sinister aspect, and more and more props (in the way of restrictions) are called for to maintain an increasingly unstable structure. Currency depreciation may preserve a system of distribution, and deflation may threaten to destroy it; but we can conceive of the continuance of the same phenomenon even under a regime in which the currency factor is regarded as having a constant influence. The perfect monetary system would not prevent the perpetual fight between productive efficiency (enforced where competition is effective), on the one hand, and the vested interests which determine the division of the value of productivity (as they can do when competition can be restricted) on the other hand'.<sup>2</sup>

<sup>1</sup> 'Suggestion for Simplifying the Theory of Money', *Economica*, 1935, pp. 18-19.

<sup>2</sup> Review Article in *S. A. Journal of Economics*, December, 1934, p. 477.



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- (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*

The false thinking which gives apparent justification to these restrictive policies obscures the valid case for a qualified tolerance of restrictionism. We believe also that blindness to the real significance of the distributive scheme on the part of the world's teachers and leaders constitutes the major obstacle to the reform of economic institutions. And what is most alarming of all, it appears to be the source of the gravest danger to the remnants of liberalism and the right of private judgment. The realist reformer must recognize that whilst the system of distribution must be modified (if representative democracy and the freedom which is its counterpart are to be preserved), the process must be carried out gradually and according to design. Competition having been so effectively resisted in the past, is now the most revolutionary force which has ever threatened modern civilization. It is dangerous because the scramble for private advantage which is still going on has dammed back a force which has, so to speak, increased in pressure as each new outlet has been stopped. The Socialist and Fascist movements of the present age are incidental products of unenlightened resistance to it. The same fallacies colour the economic philosophies of both, in spite of the former being avowedly equalitarian in motive and the latter building on the principle of 'respect of betters'. Both are partly the offshoot of that discontent which arises when the distributive scheme is in process of disintegration; and the threatened or actual disintegration which confronts society to-day is the result of the inherent instability of its monopolistic organization. To the middle classes of Europe, Fascism has appeared to offer salvation from the depredations of the proletariat, and it may well have the effect of preserving the economic foundations of the existing social classes. But it is possible that the fear of direct spoliation by means of uncompensated confiscation of property through the dictatorship of the proletariat has so far been a less potent force in stimulating Fascist reactions than the discontent caused by ill-understood attempts to bolster up a system of distribution. For to maintain the distributive scheme has entailed restrictions incompatible with the utilization of technological progress and improving education. The defence structure which has hardly

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consciously or quite unconsciously sought to preserve the social order from the menace of an equality-precipitating competition has lacked resilience. It has worked like an ineffective wedge, not as a brake which could have guaranteed a tolerable smoothness in the trend towards the classless state. Fascism has been welcomed as a powerful and dependable bulwark against the forces of disruption. The tendency of the working classes to embrace Communism has been due in part to similar causes. There are many groups of workers who, although rightly classified as 'very poor', are nevertheless *privileged* in the sense that complete mobility within the group defined by their income level stratum would rob them of an important part of their already low incomes.<sup>1</sup> It is the constant fear of this class that rates of wages will be broken down by an ever-threatening incipient competition. This poverty-cursed class is itself the product of restrictionism, for it contains the outcasts of wage-regulation and trade unionism in their alliance with monopolistic capitalism. In times of depression it may often become more and more overcrowded, because, in the protection of the distributive scheme, equitable arrangements as between individuals are seldom made in the labour field. Except when work-sharing by means of shortened hours is practised, the workers driven from remunerative employment by contrived labour scarcity are forced into relatively unskilled work. The most that is ever done for them is to give a mere sop in the form of unemployment insurance benefit or some other 'dole' or compensation. In these circumstances great power attaches to the propagandists' suggestion that the cause of relative poverty is the wealth of the capitalists.

(7) *Orderly social reform postulates the absence of catastrophic dispossession of the owners of privileged rights*

If liberal institutions are to be preserved for humanity, it must be recognized that the principal feature of any orderly reform of

<sup>1</sup> It was one of Veblen's most serious blind spots that he could not bring himself to admit this, in spite of an annoying hesitancy and vagueness and sometimes contradictoriness on the very few occasions on which he ventured to refer to the matter at all. He contended, even of the A. F. of L. members, the aristocrats of American Labour, that they 'assuredly are not of the kept classes, nor do they visibly come in for a free income. Yet they stand on the defensive in maintaining a vested interest in the prerogatives and perquisites of their organization. They are apparently moved by a feeling that so long as the established arrangements are maintained they will come in for a little something over and above what would come to them if they were to make common cause with the undistinguished common lot'. (*The Vested Interests*, p. 165).

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social institutions is its guarantee that the expectations of individuals shall not be so violently disturbed as to cause individual distress. We admit that in any society in which responsibility and the right of initiative are delegated through the property institution as complementary requirements of social co-operation, no sacredness can attach to expectations as such. In disposing of one's property and efforts one must be prepared to be penalized for mistakes. But we are not starting from an equalitarian (i.e. competitive) system. The world we know is one of status and monopoly. Life has meaning for us as individuals only in the light of standards and aspirations developed in the past from the environment which we have chanced to experience. However desirable, or even imperative, equality may be as a long-run ideal, its rapid and unanticipated introduction would bring great suffering to the innocently privileged classes. And it would cause also a devastating shock to that part of our social system which is the vehicle of our highest culture. If the attainment of equality could be sincerely proclaimed as the object of social policy and the continuance of that policy guaranteed; and if the attainment of greater effectiveness for competition could be shown to be essential for this object; and if the owners of privileged rights could be honestly assured that they would not be subjected to any catastrophic dispossession; then it should be possible to obtain general and enlightened support for a revolutionary recasting of social institutions with a view to ultimate equality of opportunity.

- (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*

When we emphasize the necessity for assuring the privileged classes that they will not be dispossessed, we are simply facing the implications of the fact that they are certain to resist by all means within their power changes which rob them of their customary surroundings, circle of friends, status and resources. The vested interests (on the existence of which the unequalitarian system is built) are strong and skilful. They are, moreover, confident of their innocence of all anti-social motive. Social reform which seeks to annihilate an accumulation of protected income rights is doomed

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to certain failure. Such rights can be dissolved in posterity, not in the present. 'A vested interest', said Veblen, 'is a marketable right to get something for nothing.'<sup>1</sup> But the evil of such rights does not lie in the burden of the claims which they give their possessors, in spite of such claims constituting, in the aggregate, the source of economic inequality. In any individual instance it is impossible to say that one income right is more of a burden on society than another, when they are mutually convertible. As Mr. Dickinson has pointed out, 'their individual peculiarities are submerged in their common characteristic of titles to income'.<sup>2</sup> The social burden lies in the particular means of conferring value upon the claims. The values of these claims are dependent upon the contrivance and maintenance of scarcities. Now if the means of contriving and maintaining restrictions on productivity could be removed, there would be no obvious insurmountable obstacle to the continuance of claims of the former absolute magnitude. There would be a larger total to divide; privileged claimants would not have to be mulcted: the unprivileged could still gain. In other words, during the first transition to a competitive system, vested interests can be and must be compensated. Whenever competition is rendered more effective, a fund is created out of which compensation for vested interests may be obtained.

(9) *The payment of such compensation can be shown to be inherently practicable and the ultimate dissolution of the burden demonstrated*

We cannot here discuss the necessary mechanism for arranging the compensation of vested interests. It is but one of the problems connected with the introduction of competitive institutions; and this is a topic which requires a separate treatise. But it will be profitable to indicate now the inherent practicability of the compensation principle. It seems likely that the practical problem of buying out the vested interests will first have to be faced by governments when genuine efforts to reduce customs tariffs are forced upon the world. We believe, however, that similar questions will have to be encountered, sooner or later, in all fields in which the development of productive power has been restrained. Let us suppose that circumstances compel a community to set out to break up the whole system

<sup>1</sup> Veblen, *The Vested Interests*, p. 100.

<sup>2</sup> H. D. Dickinson, *op. cit.*, p. 169.

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of 'conscientious withdrawal of efficiency'<sup>1</sup> which is typical of the modern world. How could the preservation of existing income rights be arranged, then, as a competitive regime was in process of establishment? In some cases it would be expedient to compensate by creating fixed claims on the product of an industry; but in other cases such a policy might defeat its primary object, and State compensation would have to be resorted to. The idea of the proceeds of taxation being used in this way is likely to appal some readers. But compensation would go to individuals, not to 'firms'; it would be so devised as not to destroy 'incentive'; and it could be temporary. There is no reason why any special claims preserved in this way should not die with the recipients. For example, artisans, the obsolescence of whose skill has long been obscured by apprenticeship regulations, could be granted pensions (fixed or declining according to the age of the individual) to make up for the discrepancy between their earnings in the free labour market and their earnings under the labour protection regime. But new entrants to the industry would not be so compensated. The arrangement of compensation for the recipients of income from capital could proceed on the same principles; but the task would be easier, for the mechanism of the capital market enables an individual's investments to be widely spread; and in view of the fact that aggregate receipts from dividends would increase, in many circumstances an automatic solution of the problem would be effected as new capital developments become remunerative. Moreover, the burden of compensation on the State finances would diminish for another reason. Not only would compensatory pensions fall (for younger individuals) according to a schedule, but in the case of a decline in the cost of living, readjustment of all such claims in a downward direction could be provided for. Downward revisions on these grounds would be likely because the regime would involve the gradual opening of new channels of investment and new opportunities of employment, all of which would tend to cheapen the existing flow of production. Restrictions of output, the exclusion of investment from favoured fields, and demarcations preventing labour mobility would all be gradually dissolved. Rents, food prices and clothing prices would almost certainly come down. Further reductions in an individual's claims could be made as he prospered, although not on such a scale as might be considered

<sup>1</sup> Veblen, *The Engineers and the Price System*, p. 14, p. 37.

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likely to destroy his incentive to maximize his income within the limits permitted by competitive institutions.

- (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*

The transition to the new social order would, however, proceed slowly. The practicable rate is a matter upon which little could be said until cautious experience was available. The present writer hopes in a later work to treat of the process of actually creating and maintaining competitive institutions — institutions, that is, which could enable the free movement of productive resources in accordance with the dictates of consumers' sovereignty. In the various Common and Statute Laws against restraint of trade, and in the anti-trust legislation of certain countries, we have experience of attempts at the creation of such institutions. At times these attempts have been enlightened. More often they have been extraordinarily crude, and there is nothing surprising in the small success that has attended them. But prominent among the causes of their failure is the fact that, when it has been sought to modify anti-monopoly methods to meet changing technological and institutional conditions, there has been insufficient recognition of the impossibility of successfully challenging the vested interests which ineffective administration in the past has allowed to grow up. Our most important experience in this field comes from the United States. In the light of the foregoing discussion it seems virtually incontrovertible that the gradual emasculation of the Sherman and Clayton Acts by the Courts has been very largely due to their recognition of the catastrophic repercussions which would result from the precipitation of competition. The Government's abstention from prosecuting, except in the more notorious cases of contravention of the law, and the apparently deliberate incapacitation of the Federal Trade Commission, must be ascribed in part to the same causes. Probably the most serious single blow that has been dealt to the anti-trust principle in the United States was the introduction of the 'rule of reason' during the Standard Oil and American Tobacco Company cases in 1911. Mr. Chief Justice White's verbose and confusing judgment which enunciated this rule 'was generally taken', says Professor Fetter, 'to

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be a calming assurance to the jumpy nerves of "big business" that nothing rash would be done in unscrambling the other industrial omelettes'.<sup>1</sup> But any attempt at a general 'unscrambling' would have brought frantic, probably unscrupulous and almost certainly irresistible opposition on the part of organized capital as a whole. By 1911, it appears, ineffective administration of the law had already allowed monopolization to go too far. It was no longer possible to suppress it. The income rights based on its existence had by that time acquired claims as morally valid as those derived from any other forms of property. The rule of reason had, therefore, a large measure of actual justification, in spite of the reasoning which led to it having been hopelessly erroneous, and in spite of its happening to legalize what, according to any straightforward interpretation of the anti-trust laws, would have been policies of unquestionable illegality.

- (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*

It may be felt that the hope of dissolving the inequalities resting on vested interests gradually, as those of privileged status die out, is utterly visionary; for the child itself will usually inherit in its environment, aspirations and expectations similar to those of its parents. Why, it may be asked, should we expect greater reasonableness in the coming generation? In Russia, the crucial posts in the government of the country and the administration of its economic life are reserved strictly for citizens with the right antecedents. The son of a *nepman* or a *bourgeois* is, we are told, suspect and almost always disqualified. The danger of his having inherited the bourgeois mentality is too great to be risked. His ideas may be incompatible with the working of the supposedly propertyless and classless machine of which he would have to be a part. If we admit, then, that the vested interests of the present generation cannot be defied because of the certainty of their successful resistance, how can we argue that those who are born into the wealthy classes will suffer without a struggle their degradation to a lower social stratum? Our answer is that their education must prepare them to expect no higher

<sup>1</sup> Fetter, *Masquerade of Monopoly*, p. 360.

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rank, in whatever branch of social service they choose, than their innate powers, plus the special advantages which they will in any case receive from their family associations, can secure for them in the market place. No less than the Soviet order, the community that we imagine will have to interpret and reiterate its philosophy and ideals. In some respects the task may prove to be more difficult; for the suppression of family tradition, which is likely to be frequently hostile, would constitute too great a direct risk to that freedom of thought and expression whose maintenance is the ultimate aim. But in certain other ways the leaders of the new regime will have an easier task as gradualness will be the first principle and the changes will not be felt to be violent. Moreover, the contemplated regime will have some resemblances to the sort of Socialism which Bernard Shaw visualized when he declared that he believed in a levelling up, not a levelling down. The rapid dissolution of material poverty and the early rise to eminence and power of working-class youths as they encounter the possibilities of emergent equalitarianism may well be more prominent than the disappointed hopes and frustrations of the sons of rich parents. And whatever happens the young can adjust themselves. The spirit in which large bodies of men accepted without serious complaint the lesser discomforts of war (largely because their friends, in the same predicament, were sharing their lot) may help through such a transition. Privileges will be lost in common so that individual prestige will not suffer. In Russia, the opposition to the new society they have tried to establish has come almost entirely from the older people — those whose outlook was irretrievably conditioned under vastly different institutions. The Communists have dealt brutally with their old folk. That was probably the only way open to them in view of the catastrophic nature of their revolutionary programme. But the revolution which we envisage will not require brutality. For the trend to a new era, if not based on actual consent, is likely to be accepted, however reluctantly, as the necessary outcome of changes which have already gone too far to be checked or reversed. It is true that the passing of the classes will be widely regretted by those who have themselves enjoyed the rank and power of the existing order, and are aware of the ultimate destiny to which the transition is leading. Yet their own dignity need not be destroyed; and there need be no grounds for their probable apprehensions that the culture for whose safety they have cared will be wantonly



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ravaged. It will inevitably be brought home to those who live long into the new age that mere pride of possessions — satisfaction in the conspicuousness of mere relative opulence — has toned most of their values. But they will see, as the old have already grown accustomed to seeing, that the young have different ideals and are happy with them. And successive generations will move slowly into a society whose values reflect new qualities to which respect and distinction attach. By education and through contact with changed institutions, the homage paid to accumulated wealth, if it persists at all, will be much more discriminate and based on the recognition (which can seldom be validly made to-day) that large incomes are the product of rare and wanted services for the community.

### (12) *The regime envisaged is one of a limited but practicable Utopia*

We fear, however, that most readers will still imagine that in suggesting the possibility of dissolving vested interests by arranging for a posterity in which they do not exist, we are asking them to contemplate yet another wholly impracticable Utopia. The new world that we envisage is certainly one in which far-reaching changes will be necessary; in which political as well as economic institutions will be drastically reformed; in which the creation of conditions of disinterestedness for judges, rulers, administrators, experts and teachers is a primary function of government; in which the convention of secrecy in State and private business affairs is no longer blindly accepted; and in which the rights of free contract are more rationally determined. But from the point of view of devisable economic institutions the ideal is, we believe, a wholly practicable one. The political obstacles to its achievement may be insurpassable until the instabilities of a competition-resisting world have forced realities into the limelight.

### (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*

A feeling for the obvious justice of equality of opportunity is, we think, almost universal to-day among sensitive minds. It is this which has driven so many of those with liberal feelings into an uncritical

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sympathy with and approval of the Bolshevik experiment; for its ostensible ideal does, at any rate, give recognition to the principle of equality. If the Russians have so far failed to produce a society which the working classes of advanced capitalist countries could tolerate, no one with any conception of the difficulties they have met with could blame them. But to their friends we must emphasize the futility and crudity of their economic creed. Moreover, Communism seems hardly likely to succeed in getting a hold in any countries other than Russia, and possibly (if recent events are not merely ephemeral) Spain. There is nothing in capitalist development to suggest, as Marx believed, that it is evolving to a stage at which its overthrow will be easily effected or automatically result. All the current evidence seems to support the opposite thesis. The sufferings caused by an unsuccessful war might enable another Communist revolution, but we cannot infer this with any confidence from the supersession of the pre-capitalistic Czarist regime during the unparalleled disorders of 1917. Since the fiasco of the revolt in Germany of 1923, despite the continued activities of the Comintern, the possibility of a successful uprising has seemed more and more remote. The little Communist groups of bourgeois intellectuals which are scattered about the world may quite likely succeed in attaining some considerable political power. But the only benefit that this can bring to the Communist cause is the extra guarantee that it gives to Russia that she will not be wantonly attacked. The large vested interests in capitalism (already shrewdly aware of their opponents' aims) have surely too strong a hold over the weapons of coercion and the means of controlling the public mind to make their expropriation even a distant possibility. Where the masses are thought likely to seize political power with the intention of confiscating property, the response will be some variant of Fascism; and because the Communists will have precipitated working-class misery as their most effective propaganda device whilst working for revolution, the Fascists will usually be able to offer with some measure of sincerity the prospect of a more stable and materially tolerable regime than the existing one. To work for Communism to-day is in fact to work for Fascism. The lovers of liberty who wish to fight Fascism and all that it implies must range themselves with equal vehemence in opposition to Communism and its methods of propaganda. They must recognize the dangers in its revolution-precipitating technique,

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in its temporary vested interests (in countries outside Russia) in the continuance of poverty, proletarian suffering and discontent. But that does not mean that they must acquiesce in the present system. They can still work for their ideal of distributive justice and equality of opportunity. And here they will have what might conceivably prove to be an immensely powerful plea. Their appeal can be made, not so much to the under-dog for whose benefit they will be mainly working, but principally to the privileged classes whose sense of social justice may be successfully aroused when fear of the destruction of the connections, habits and environment which are believed to give meaning to their lives has been allayed. It is within the power of modern communities to abolish poverty, and in a manner which will not violently disturb those income-rights to which individual aspirations have become adjusted. The age of gross inequalities of wealth and privilege has to go unless the world is going to revert to an industrial medievalism. But with whatever dismay the 'upper classes' may greet the realization that they must accept the passage of the old age as an alternative to the destruction of almost all that is implied in the idea of liberty, they need not be subjected to the hostility which has been deliberately fostered with power-seeking motives and with varying degrees of vindictiveness in the political labour movements. The bourgeoisie and higher estates have at least as much humanity and public spirit in their make-up as the lower orders. Individually, they are no more responsible for the 'injustices' of the present regime than the unprivileged masses. Punitive dispossession of the wealthy is not only unnecessary, but if achievable would place terrible and avoidable physical burdens upon the masses for the period of some decades. And what is most important of all, the pursuit of such an aim will simply cause the raising of a permanent barrier against equalitarian forces whose resisted and pent-up power is to-day threatening the fabric of an indefensible economic and political system.<sup>1</sup> Some students whose analysis of the economic world has led them to conclusions not dissimilar to those which we have reached appear to believe that the

<sup>1</sup> Aristotle pointed out that 'revolutions in democracies are generally caused by the intemperance of demagogues', and quoted the cases of Cos, Rhodes, Heraclea, Megara and Cyme where 'the demagogues, in order to curry favour with the people', wronged the notables and forced them to combine ('for a common danger', he said, 'unites even the bitterest enemies'), the ultimate result in these and other cases being that the notables dissolved the democracies and established oligarchies. Aristotle, *Works*, Ed. W. A. Ross, Vol. X, pp. 1304 (b), 1305 (a).

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achievement of something resembling the 'Dictatorship of the Proletariat' is an indispensable first step towards the realization of their ideals. Not only do they show a really naive faith in the incorruptibility of the holders of power when they happen to profess allegiance to Communist ideals, but they quite obviously shut their eyes to the political realities of modern industrial countries. Eagerly grasping the discontent and unrest of the working classes as evidence that 'the capitalist system' is threatened, they blink the fact that the real threat is to representative government and to that very freedom of speech which has enabled Socialist and Communist agitators to acquire such influence as they have. If distributive justice is to be fought for, the tactics must be to preserve and make full use of such remnants of liberal institutions as are still at our command.

- (14) *The ideal of economic liberty is not likely to become an effective political objective until the clash between productive efficiency and inequalitarian distribution has grown even more serious*

We have no illusions, however, as to the probability of an equalitarian society being *deliberately* sought along the lines which we have suggested. We have indicated the *economic* practicability of our suggestions mainly in order to bring out the full significance of our contention that competition is in itself essentially a levelling force, indifferent to mere status, and destructive of privilege. The aim has been principally to demonstrate the extraordinary confusion of thought which is common on the topic of competition. We have not argued that our suggested means of achieving equality are *politically* practicable in the sense of providing an objective which could to-day be put before electorates. We cannot contend that the search for equality by the only methods which can have any chance of actually securing it is *likely* to become an active issue in politics through the growing enlightenment of those whom it pays to mould opinion. Politicians of whatever party may be expected, in the present state of their minds, to regard our central thesis as harmless nonsense. And in any case there seems to exist no mechanism for financing reformers who might wish to put such ideals before the community. Moreover, there are no reasons for believing that those classes who stand to gain from greater equality will ever be able to see much plausibility in the ideas which have been expressed in these

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pages. Actual labour parties have been financed out of the proceeds of restrictionism. But sooner or later the problems arising from the clash between productive efficiency and the present inequalitarian system will have to be faced. We have hinted that the urgency of these problems may quite possibly first become evident when serious attempts are made to stabilize currencies and remove tariff barriers; for the absolute necessity for the payment of compensation to injured interests will then be realized. Perhaps then, befogged by the discussions which will consequently eventuate, the harassed statesmen may look for and find some glimmer of light in this book. But if our thoughts are to have any influence in preventing or allaying the catastrophies for which we seem to be heading, they are much more likely to reach the channels of power indirectly, interpreted by others who see the problem more simply and who wield a more skilful pen. We hope, however, that our arguments and suggestions may not prove absolutely impotent in respect of policy in the present age. The statesmen of Western Europe and America may shortly have to make decisions of the gravest moment. Will they assume that they are confronted with the dilemma of Fascism *versus* Communism? Or will they realize that in a truly competitive system productive power is capable of immense extension, and that markets for the expanded production may be found through the demands of whole classes who will be automatically lifted from poverty?

### (15) *The liberal ideal*

Our plea is, in short, for that economic liberty which was dimly visualized by the Classical economists, and whose coincidence with the *summum bonum* has been an implication of the subsequent teachings of economic orthodoxy. We have attempted to show that expert, dispassionate and disinterested thought on these matters has been the preserve of those whose gropings in a world of divergent beliefs and arguments (beset on all sides by the lure of interests) have led them to the path of orthodox tradition. Finally, we have suggested that economic liberty, with the equality of opportunity which it has always implied, is an attainable ideal. We have, in other words, offered a glimpse of the sort of Utopia which could take shape in the dreams of a realist—the liberal ideal. So we commend these thoughts to other dreamers of a better world who have faith in reason.

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