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Economic Doctrines

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Municipal University of Wichita

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ECONOMIC DOCTRINES

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To the Memory of

JOHN KEELER NEFF

Lieutenant Colonel, U.S. Army
Engineer Amphibians

PREFACE

In matters of diction and style but few can hope to approach the high attainment of Adam Smith and John Stuart Mill; yet all may plan to avoid the abstractions of Ricardo, the repetitiousness of Henry C. Carey, and the absolutism of the strict deductionists. It would be well if economists heeded the advice of Henry George, given his son in the four rules for successful writing, to wit: "Make short sentences, use small words, avoid adjectives, and shun fine writing."

An author's responsibilities are many; the decisions he must make seem innumerable. To select materials wisely requires the exercise of discriminating judgment. In the act of selection much material is examined, parts of which are rejected as unsuitable for the author's design and purpose. Since "well begun is half done," plan and pattern are indispensable. They are yet more; they are harbingers of success or portents of failure.

What shall be done must serve the needs of the reader; what the reader needs is that which serves as the best aid to his understanding. As an aid in thinking, the exploration of the thoughts of others proves fruitful. Among the precursors chosen are found professional, technical, and businessmen; philosophers, professors, and engineers. Among them, too, must be included those who have had leisure to observe, to study, and to think.

Since economic theory is interdependent with life itself, human relationships influence the formulation of economic ideas and their interpretation and grouping into system. In dealing with ideas and their grouping, the inevitable abstract method palls on the reader and lessens interest. To reduce this characteristic to minimum proportion, there are embodied biographical sketches of the chief contributors to economic thought through the cen-

turies, as well as descriptive and historical materials relating to institutions.

Personalizing introduces a measure of the concrete, as does the inclusion of historical and descriptive matter. These are devices which assist the student's memory and provide data for ready contrast and comparison. Although these ideas were held in mind in the preparation of the manuscript, the customary treatment found in a book of economic thought has not been neglected. The object is to be practical and to a degree popular; it is not the desire to attain these ends by being superficial.

In the revision Chapter 1 has been expanded by the inclusion of sketches of the theory underlying selected economic systems. A chapter has been added outlining the Keynesian economic theory, which has been widely publicized since the First World War and adopted by some governments in the hope that its application would speed recovery from economic depression and the shrinking economy.

The conviction that the whole cannot be known before all the parts and that no part can be thoroughly understood until its relation to the whole is clear has prompted the preparation of a summary chapter to afford a comprehensive view of economic doctrines, past and present.

The author acknowledges the invaluable assistance of his wife and daughters in helping him put his ideas into words and their hearty cooperation in preparation of the manuscript for the publishers.

FRANK AMANDUS NEFF

WICHITA, KANS.
January, 1950

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Chapter 1. INTRODUCTION

No one dwells outside the orbit of economic activity. All are consumers, and the vast majority are producers of material commodities or personal services. Consequently, speculation regarding economic phenomena takes on an importance of the first rank. This becomes the more evident when, as now, economic ideas conflict and practices are in wide variance. Hence, it is highly pertinent to study not only the history of institutional arrangements but also the history of the development of economic doctrines.

Though economic phenomena existed in the relatively static simple life of primitive man, economic life was so limited, in the earliest ancient cultures, and so monotonous as virtually to preclude speculation in humdrum activities. Nevertheless, the study of the succession of economic facts, since the beginning of record making, represents a highly important field of research in that it bears a close relation to the rise and form of economic thought.

Even though wide interest in the development of the whole of economic science is not old, and the deductive approach – the early prevailing method of study of the science – did not stimulate research, yet Adam Smith, writing in the eighteenth century, introduced a modification in method which, though still basically deductive, presented clarifying concrete material by way of illustration. The elaboration of the historical approach by the adherents of the historical and socialist schools was delayed, however, until the latter half of the nineteenth century. Since then, closer attention has been given to the study of the development of economic ideas. Recent widespread demand for an explanation of theory has focused attention upon the history of economic ideas as an instrument in dealing with current views and trends. There is deep-seated belief that, if not continuous, economic ideas are to a

degree persistent and recurrent. Although economic ideas fade, they do not wholly die but rather retain all the while most remarkable powers of recuperation when favorable occasion presents itself. This is true even though the terms used may change from the *œconomy* of the Greeks to that of the *political economy* of later centuries and then back again to the *economics* of our period.

The Objective of Economic Analysis

The determination of the essences of the present economic system, or parts of it, is the primary purpose of economic analysis. But a further public demand upon economists is the determination of the right thing to do in any serious contingency. In the latter case grave differences of opinion are manifest – remarkably so, because they arise from the analysis of the same materials. This is true owing to a lack of preliminary agreement as to the definition or scope of economics. Is it an exact science? Are its principles universally valid, or is the science essentially social and historical? These are pertinent questions. Obviously, economics is the study which concerns itself with man's endeavor to provide himself with the things needed for the satisfaction of his wants; things that conduce to the satisfaction of human wants constitute wealth. Consequently, however it may be defined, the *science of economics* in all of its aspects becomes a fascinating study.

Economic Thought and Man's Activities

Man's wants have a good deal to do with his activities, and his activities are related to his environment. Between environment and economic ideas there is a close relationship. Environment motivates thinking, and thinking in economic matters brings forth explanations. But industry does not find sufficient explanation in the attempt to satisfy wants. Customs, habits, and instincts also are motivating forces. The determination of the scope of the science of economics and its definition rest upon the appraisement of a number of criteria.

Typical Definitions

Are we to conceive of economics as the theory of social wealth, or shall it be defined as the study of mankind in the ordinary business of life? Truly, Say's definition – the science of the production, distribution, and consumption of wealth – is much broader in its implications than the narrower scope allowed by the deductions from Senior's four postulates, which, briefly stated, are:

1. The universal desire to obtain more wealth with the least sacrifice.
2. The Malthusian principle of population.
3. The law of diminishing returns from land.
4. The possibility of the indefinite increase of the powers of labor and other wealth-producing instruments by using their products as a means of further production.

Too, economics may be defined as a science of attaining means to reach objectives. This definition brings into focus the subject matter of other studies. Objectives lie in the province of ethics; incentives lie in the realm of psychology. Whether or not the definition be widely inclusive, in an adequate survey enough of science and philosophy must be included to provide material to link the economic to other phases of life.

With social change, new economic questions present themselves. Institutions exert their influence, as does physical environment. Man is affected by circumstances surrounding him; he may rise above them, or he may fail to benefit fully from particular situations, yet his environment continues a material factor. Religious influences, political preferences, evolutionary tendencies, and the general spirit of the times all have their effect. Even a prevalent mode of thinking and a dominant philosophy may sway or divert economic endeavor. Thus political economy (the traditional term for our present-day "economics") cannot readily be divorced from other branches of study, nor can the principles of political economy be absolute and applicable alike to every set of circumstances. Rather, one stage of development follows another, and economic ideas arise appropriate to each. Particular stages of

economic evolution do not occur simultaneously everywhere, nor is their sequence identical in all countries.

Logic and Method

On the logical side, the methods available to the student of economic questions are deductive, observational, and comparative, the second and third serving as a part of induction. All methods were not open to the earliest thinkers in the fullest degree because data, in ample quantity to serve as the basis for scientific generalizations, were lacking. Moreover, the investigator was without adequate skill and training as well as without some appropriate research aids. These circumstances led to the overuse of the method of deduction. It is conceded that predominance of deduction is prone to lead to abstraction, to extreme conclusions, and to beliefs at variance with realities. Though one may reach valid conclusions through deduction, an abstract "economic man," who all the while ignores the influence of variable social factors, cannot be set up to determine upon an infallible course of action.

A predilection to narrow the scope of economics fosters abstraction, too, and leans toward or seeks the deductive method. Overemphasis of deduction tends toward fixed assumptions which, taken as premises, prove unsound in the face of evolving social conditions and consequently implement the arrival at erroneous conclusions.

Those who seek to broaden the scope of economics, since they are critical of an absolute and static character of economic analysis, favor a concrete approach and the inductive method of reasoning. On the other hand, the unrestrained use of the inductive method and the concomitant interest in verification may overwhelm because of the host of cases and so tend to frustrate the discovery of principle. Hence, the use of a one-sided method which draws examples from history and from observation may reap a barren harvest of trustworthy generalizations.

In contrast with the deductive method, the inductive works from the particular to the general and stresses observation of facts in the external world to serve as the basis of empirical laws. Since

human nature itself is not unchangeable, economic doctrines are not good for all times and places; for conclusions can be established only by the collection and observation of many particular cases illustrative of the phenomena of actual life. Induction stresses proneness to variation; deduction, posited upon absolute and unchangeable general premises, leads to conclusions which may be construed as absolute and which may be clothed with characteristics of fictitious cosmopolitanism and perpetuity. While dogmatic absolutism denies critical examination in the light of the times and rejects the concept of relativity, induction never quite approximates a satisfying degree of finality.

The Role of Philosophy

A thinker's point of view is also influenced by fundamental philosophic beliefs. Since ancient times the two great opposing tendencies in philosophy have been idealism and materialism. In the strict sense, idealism denies the reality of matter and considers it merely a presentation of the mind; materialism, on the other hand, asserts matter as existing independently of mind.

For the materialists, physical facts determine mental processes. Their concept of nature is physical, and they live in a world ruled by laws of matter. In contrast, idealists believe the true nature of things is intellectual and that man is not a creature of material environment.

Idealistic thinkers stress (1) morality and duty; (2) that man through the influence of appropriate institutions and effective education can improve himself; and (3) that through social cooperation man may carve out his own high destiny. Materialists regard man as dominated by nature; consequently, economists leaning toward this philosophy consider individuals subject to the impelling power of natural law.

The materialist, feeling that he is dominated by nature, tends to be a pessimist since he must rely upon nature's beneficence to bring about an improved future condition. However, his belief in the potency of the principle of natural selection may be so overpowering as to instill complete optimism, a conclusion based on nature's long-run power of readjustment. The idealist is nor-

mally an optimist. He believes that there are innate tendencies in man which assure the victory of the human mind over the forces of material environment. But the idealist may appear a pessimist in the short view when he prophesies the imminence of full collapse unless his reform projects are adopted and pushed to hurried development.

Idealists emphasize the importance of social institutions, and consequently a restricted sphere is allotted to individualism. The individual is held subordinate to society, and the idealistic principles of morality and duty are stressed in spite of material limitations. By the idealist, the laissez-faire principle is given a severely restricted role. What is good for man and what he actually needs may, under the doctrine of idealism, have to be determined by the state and provided for him through its intervention. It follows that the state may have to decide what is economic overproduction or underconsumption. Thus, in times of economic stress, the theory of a planned economy obtrudes.

It is the idealists' conception to set some limit to consumption. This is an aim out of harmony with the idea of unlimited expansibility of beneficial consumption. To conceive of judgments in control of physical facts is to deny the potentiality of unlimited wants. According to this view, a slump below an ideal standard of living calls for a managed productive economy and a stimulus to consumption through state intervention. The materialists, with their belief in the unlimited expansion of human wants, in theory conclude that overproduction is impossible. For them abundance of goods betokens economic well-being.

Comte's Stages

Comte distinguishes three stages in the evolution of human thought. They are not necessarily manifest in chronological sequence only; they may be coexistent in a given society. These stages he named the theological, the metaphysical, and the positive. In tracing phenomena to causes, early investigators, overwhelmed by multiplicity of facts or lacking time and facilities for their collection and classification, perforce used the deductive method predominantly. In the first two of Comte's stages, speculations were based on slight foundations, and the abstract deduc-

tive method suggested itself as the only feasible procedure. In the first stage, the theological, phenomena are traced to the direct action of supernatural beings as their cause; in the second, the metaphysical, phenomena are conceived to have their causes in nature – in the form of abstract essences within objects but distinct from them. In the positive stage, phenomena are classified and arranged in the sequential order of cause and effect; relations are examined and explanations given by rational and concrete methods. Here induction finds its use.

The theory that the processes of life are not exclusively determined by mechanical causes still has its valiant defenders. That designs are apparent in nature and ends immanent is still the concern of many. There are some who trace final causes to supernatural powers, and others whose mode of thought places them in the metaphysical stage. The latter deduce economic phenomena from fundamental principles of nature. They are prone to narrow and arbitrary definitions which give to their conclusions a tinge of unreality. Their harsh and apparently unfeeling attitude toward economic problems engenders an impression of futility which invokes the characterization of economics as the "dismal science." The historical economists, insisting upon a closer tie to the manifestations of the realities of life, provided materials which gave the desired impetus to users of induction. The statistical method has been evolved; induction and deduction have found their coordinate uses; and the results are now obtained through the processes of full scientific procedure.

Theoretical Approaches to Political Economy

Man looks to philosophers and scholars for explanations of perplexing economic problems. From them he receives contradictory statements as to the scope of the science and the proper method of approach.

For centuries past economics was considered a subsection of ethics or politics, and the science did not receive the attention of writers except as it was related to ethics, morals, religion, or politics.

Though economics is now generally granted an independent place among the social sciences, there is no agreement as to its

scope and perspective. One group of scholars emphasizes the wealth-creating effect of industrial activities, while another stresses consumption and its effects upon the well-being of society, and still others focus attention upon capitalistic and collectivist groupings. Consequently, different schools of thought emerge as to the method of approach. The following are outstanding: (1) the philosophical, (2) the classical-deductive, (3) the historical, (4) the neoclassical, (5) the welfare, (6) the institutional, (7) the Keynesian.

The Philosopher's Approach

This approach is the oldest in the history of economics. The Greek philosopher Plato described an ideal society in his *Republic,* in which philosophers governed according to the principles of a moral code. Aristotle, a contemporary and disciple, dealt more with economic forces. Yet he also was primarily interested in their moral aspects. The Church Fathers of the Middle Ages were motivated largely by moral and religious considerations. Writers of social utopias held ideas based on the continuation of religious, ethical, and political doctrines. Adam Smith held to a nature-philosophy theory and described the "economic man" motivated by the principle of enlightened self-interest.

The Classical-Deductive Approach

The followers of Adam Smith — Ricardo to Cairnes — are generally classified as members of the classical group of economists. They believed that economic life is governed by laws universally applicable. After examining economic data and making observations, they subjected available material to a rigorous isolation process to remove the incidental from the basic factors. They then analyzed the operation of the fundamental forces to discover the norm toward which economic activity tends. Thus was constructed the "natural order" and the "economic man" as the driving force in economic life.

When conclusions reached by the process of abstract deduction from generally accepted major premises did not conform in all

respects to the realities of life, the discrepancies were regarded as either temporary or abnormal. Such variations, however, were not appraised as of sufficient weight to alter or affect the fundamental laws of economic science.

The Historical Approach

Obviously the classical theories which were granted the characteristics of universality and perpetuity by their adherents met with opposition from critics and dissentients. These insisted that facts and institutions of a single country could not provide the data from which to construct economic theory applicable to all places under all conditions. They concluded that a comparison of the available factual material relating to the economic development of the various nations was necessary in order to discover economic laws. Historical facts and descriptive analyses induced a broadening of the too-narrow basis of the classical-deductive approach. On the other hand, insistence upon the dominating importance of the historical-inductive method revealed a maze of diversities and obstructed advance to declared objectives.

The Neoclassical Approach

Since economic conditions change, new doctrines were evolved to account for modified points of view. Recognition is given to divergence from traditional economic theory and attention paid to concrete economic reality. Overappraisement of the deductive and historical methods of reasoning and the necessary reconcilement of objective and subjective theories of value made mandatory a restudy of apparently clashing factors. This was done by the neoclassicists under the leadership of Alfred Marshall.

The Welfare Approach

Classical economists emphasized production, supply, and costs in their approach to economic science. Under the stimulus of criticism changes have been suggested in criteria, procedures, and objectives with the result that present economic theory stresses

consumption, demand, and utility. Welfare economics gives importance to the ultimate values found in ethical and aesthetic principles. The method of approach is qualitative, not quantitative. Under this plan human costs are set over against the utilities derived; economic interests are harmonized and economic welfare maximized. This is to be accomplished through the realization of the social function of business and its social control as a substitute for the profit-seeking motive. All is advocated with the hope of a more equitable distribution of income and larger expenditures for final consumption.

The Institutional Approach

A group of present-day scientists is developing a new doctrine as a substitute for the classical principles which they reject. They contend that the determining forces of most economic activities are lodged in existing institutions. These are largely psychological, comprising habits, customs, and general economic arrangements. In the institutional system social inheritance and man's biological attributes play a larger part in human behavior than the enlightened-self-interest doctrine of the classical economists acknowledged. According to the institutionalists, calculation and foresight were overvalued and psychological and biological factors given too small a role.

The Keynesian Approach

Keynes directs the attention to economic forces operative in the development of unsatisfactory business conditions. Much of the theory centers in methods of combating the depression phase of business cycles. The remedy suggested is that of full employment, which is attained when involuntary unemployment reaches the lowest attainable minimum.

Summary

Economic science is now predominantly dynamic; it is historical and statistical, as well as deductive in method. It is based upon

the accepted principles of social evolution. The economic man, "Robinson Crusoe," though shorn of his former high importance in processes of analysis and deduction, should not be entirely disregarded. There are types of investigation in which the abstract-deductive method serves as the best instrument. There are others in which social facts may be ascertained and traced to their causes in contemporary circumstances, in human nature, or in the natural world; these the complete method serves.

Economics is no longer the isolated study of wealth. It is accepted as related to other social phenomena, and it is well established that while there is an economic side to morals there is also a moral side to economics. A more humane spirit prevails, optimism as to the amelioration of the condition of the masses gains strength, and a genial warmth of feeling tempers an otherwise cold or unsympathetic approach to the problems of improvement and general well-being.

Chapter 2. ECONOMIC THOUGHT IN ANCIENT TIMES

That primitive man consciously held some ideas in explanation of the habits of animals, the change of seasons, and powers of the soil in relation to their ability to satisfy human wants is generally conceded; but both the number and importance of his ideas are of minor significance. With the bulk of property communally owned and the private exchange of commodities at a minimum, economic organization was so simple as to require little explanation. Furthermore, observation of primitive tribes discloses that among them the motive of personal gain is but a weak incentive to economic effort. With their low standards of material comforts — their wants small and easily satisfied — leisure is esteemed relatively more, and gain less, than among civilized people.

Weak Incentive to Economic Effort

The unbalance between wants and their ready satisfaction has been attributed variously by writers to environment, to climate, to the joy of placid existence, and to lack of economic incentive resulting from a great variety of causes. For peoples in primitive society, very few wants beyond the need for food, shelter, and clothing constitute effective incentives toward economic enterprise. Leisure time is devoted to recreational activities and the observance of religious practices. Arrangements for laborious tasks are often such as to combine social events with them, interspersed at rest-period intervals. Tribal-imposed standards, dictated by custom and tradition, are stronger incentives than money lure.

The Economic Order Relatively Static

Prior to the exposure of natives to systems of higher culture, their economic order, being under the influence of slow evo-

lutionary changes impeded by custom, was virtually static and held small need for explanation. Under the influence of a higher culture, the primitive native learns by imitation and derives acquired, or secondary, wants. He begins to appreciate and desire the goods enjoyed by others of superior well-being.

Gradual Change in Social Arrangements

In highly developed stages of tribal society different social arrangements become necessary. Forces of production are organized with a view to full scope of efficiency. Division of labor appears and develops to a point which requires the exchange of surplus products and the extension of private ownership to include producers' goods. Production is no longer primarily for direct consumption, but for exchange. Now society has advanced from the simple to the complex, and an explanation of its economic structure is therefore necessary. Of the changes in ideas which accompanied early economic transformations, anthropologists tell us little. Information is gleaned from the archaeologists, from collections of myths, and from history preserved in cuneiform and hieroglyphic writings. Evidence of ancient social thought is generally bound up in legends concerned with the justification of, or an attack on, an existing social order.

The Hebrew Contribution

In the economic thought of the Hebrews, tribal organization of society is the normal order, and morals are the central theme of the educational system. Though, in the discussion of the problems of patriarchal society, statements about economic ideas were scattered and fragmentary – set as they were in the prevailing ethical and metaphysical systems – they had a disproportionately greater power of influencing men's minds when compared with more recent refined scientific theories. In periods of critical economic convulsions the influence of theorists becomes pronounced. In such times there is a natural tendency to search for comprehensive philosophies of life in the face of strange, compelling ideologies.

Biblical Analogies

It is impossible to find Biblical analogies for all modern economic phenomena, but the life described in the Old Testament possessed some typical capitalistic characteristics, viz., division of labor, private property, market exchanges, and money. The disintegration of the primitive community was in process, and the extension of the development of private property and trade increased the possibilities of accumulating wealth. There arose a marked division between rich and poor. Following the establishment of the Hebrew monarchy, the luxury of the court, lavish expenditures on public buildings, and costly wars brought impoverishment to the masses, land alienation, and the formation of a proletariat.

Emphasis upon Precept

In a theocratic system there is a tendency to carry precept to a high degree of minuteness. Injunctions, coming from the sacerdotal class who quote divine authority, take the form of commands. Characteristic of these is the prescribing in detail of the time and manner of performance by everyone of many specific acts. The moral side of economic acts is held in the foreground. There is admonition against greed, pride, and arrogance; there is insistence upon honesty in exchange relations; and there is exhortation to justice, mercy, and beneficence in all social behavior.

Opposition to Change

Changes in the economic structure of Hebrew society were denounced by the prophets as engendered by the covetousness of new commercial classes, the usurers, and the land-grabbers. Unaware that the old social order had become inadequate in the developing economic structure, they scored departure from cardinal principles of Jewish law. The prophets did not clearly vision the need for change in institutions because of man's growing mastery over productive forces. Consequently, man's behavior was harshly cited as the sole cause of breakdown, irrespective of

his impelling incentives; hence, they worked for the restoration of former conditions.

The prophetic revolt, significant though it was, failed to gain its objective. The system they supported was one of exaggerated surveillance when compared with the pattern of later society. By injunction or restraint, dominion was exercised over actions which, in modern civilization, are entrusted to general intellectual and moral influences.

The Greek Development

Homeric Greece had a rather complete self-sufficing economy. But information gleaned from myths and legends of the heroic period indicates that decay of tribal organization had advanced beyond the initial stage.

In Hesiod's *Works and Days* (seventh century B.C.), a poem written with the objective of teaching farmers the true principles of agriculture and economy, the order of economic thinking is theocratic. Divine disposing power and priestly rules are couched in precept and proverb. But from the time of Thales, father of Greek science and philosophy (sixth century B.C.), the development of methods of thought promoted the substitution of abstract theories for the hereditary structure of theocratic convictions.

After tribal bonds were broken there was private property in land, division of labor, trade, and a monetary system. Classes existed, and the social organization was dominated by a landed aristocracy. Subsequently, the rising merchant class came into conflict with the rich landowners. The increasing power of money and the domination of the agricultural export market led to the impoverishment of peasants and the accentuation of a conflict of interests between classes.

The reforms of the Solonian constitution were instituted in the years 594 to 593B.C. to prevent the worst consequences of the new economic practices. But the struggles between the aristocracy and commercial classes continued. The presence of a mass of slaves, the existence of impoverished peasants and artisans, and the ensuing clamor intensified every act of the contending parties for political power.

In the constitution of Cleisthenes (509 B.C.) democratic power gained the ascendancy in Athens. Popular support was won by the commercial classes through the display of salient merits as compared with the achievements of the aristocracy. Under Themistocles, the Greek champion against Persian aggression, democratic government won great renown; but Athenian internal economic decay, with its trade and manufacture on a basis of slavery, brought about collapse following conflict with aristocratic Sparta.

It had not yet become manifest that economic laws applicable to a society founded on tradition, status, and caste differ from those of a commercial and industrial order. The Greeks had to learn the hard way that the validity of any body of economic doctrine is limited to the conditions it truly describes.

By the time of Plato personal gain-seeking activities had advanced to proportions not harmonious with a society properly founded upon the principles of moderation and justice. Avarice played so large a part in the conduct of men that the philosopher laments that but few observe moderation in the face of keen desires and multiplied wants. Plato regrets that the mass of mankind had become ensnared in the meshes of unbounded desires and that men preferred gains without limit. Cupidity and greed he scorns. They are contrary to his teaching, which depicts economics as a subsection of ethics and politics.

PLATO

BIOGRAPHICAL SKETCH. Plato (427–347 B.C.) was born in Athens; regrettably but few particulars of his life are known. Beyond doubt he was well connected and carefully educated. In about his twentieth year he came directly under the influence of Socrates and was his favorite and constant pupil. After the death of his renowned teacher in 399 B.C., he traveled in North Africa, southern Italy, and Sicily. Ten years later he returned to teach in the Athenian gymnasium known as the Academy. He taught without remuneration, having a patrimony sufficient for his wants. Essentially an aristocrat, Plato was in spiritual and romantic revolt against democratic Athenian society, inspired, as it was, by the excesses of commercialism. His writings are in the form of dialogues, in all of which Socrates participates. They possess the literary

charm of model prose. For the economist, the most important are *The Republic* and *The Laws.*

Philosophic Approach to Economics

In classic Greek philosophy, economics, in the form of the ordinary business of life, was despised. This is sufficient reason why it was not given place as an independent subject worthy of separate and sustained study. In the ancient world, society rested upon caste, and the city-state was founded on slavery. Work assigned to a slave was in disrepute and held dishonorable. Furthermore, the Greeks were organized for war and not primarily for industry. Noble forms of occupations were, in practice, restricted to military and administrative duties with the exception of agriculture. Excluded from a share in civic activities, the free artisans, as well as the servile class, became unfitted in character through lack of intellectual progress for positions in industry requiring skill and initiative. These conditions failed to stimulate the full and free inquiry which is engendered by an efficient modern industrial system.

Origin of State Rested on Economic Grounds

Though there was among Greeks an absence of a connected system of economic theory, Plato first offered a systematic exposition of the origin of the state. Its origin is attributed to economic considerations in charming Platonic style:[1]

> A state arises, I conceive, out of the needs of mankind; no one is self-sufficing, but all of us have many wants. . . . Then, as we have many wants, and many persons are needed to supply them, one takes a helper for one purpose and another for another; and when these helpers and partners are gathered together in one habitation, the body of inhabitants is termed a State. . . . Now the first and greatest of necessities is food, which is the condition of life and existence. The second is a dwelling, and the third clothing and that sort of thing. And now let us see how our city will be able to supply this great demand. We may suppose that one man is a husbandman, another a builder, someone else a

[1] Plato, *The Republic,* Book II.

weaver: shall we add to them a shoemaker, or perhaps some other purveyor to our bodily wants? The barest notion of a State must include four or five men.

After giving consideration to the essential needs there follows a discussion of division of labor. It is explained that food, shelter, and clothing are best provided by groups of persons following different trades, first because of "diversities of natures among us which are adapted to different occupations," and second because of aptitudes: "All things are produced more plentifully and easily, and of a better quality, when one man does one thing which is natural to him and does it at the right time, and leaves other things." The approach is ethical and carries substantial validity for the explanation of division into trades; but division of labor into the tasks characteristic of modern machine industry cannot so satisfactorily be explained by diversities in human nature. Adam Smith, in the discussion of the same subject, asserts that man has almost constant occasion for the help of his brethren, but that he may not expect it from the benevolence but rather through the effective means of a good bargain based on self-interest.

Appropriate Size of a City-State

In Plato's theory, diversity of human endowment is the basic cause of division into occupations; hence, in order to reap the full benefit of natural endowment in productive skill, the city-state must be large enough to facilitate each man in the doing of what is natural to him. According to Plato's theory, the ideal size for best results is one which comprises 5,040 lots, an aggregate not so large but that all citizens may be known to each other and of a size to be administratively most convenient inasmuch as the figure is divisible by all numbers to 10.

Views of Adam Smith and Plato Compared

With Adam Smith, refinement in the division of labor is limited only by the extent of the market. The economic advantage is seen to arise from skill acquired in the constant use of

special tools, time saved in elimination of the practice of taking up and laying down of various tools, stimulus to the invention of better machines and processes, and the more highly productive use of capital when idle time of tools and machines is reduced to a minimum. Specialization in production brings with it the necessity of making exchanges. Because of man's natural propensity to trade, barter, and exchange, society is held together by productive and commercial organization, prompted by self-interest.

For Plato, the simplest form of the state requires the occupations of husbandman, builder, weaver, and a few others representative of primary trades, each confined to his own calling. The more extended and matured state includes retailers, sailors, exporting and importing merchants, and their necessary subordinates. The advanced or luxurious state adds actors, dancers, barbers, confectioners, cooks, and others to the community. The limit of necessity having been exceeded in the advanced state, the desire for an unlimited accumulation of wealth requires more territory with an unwanted extension of the population.

Occupations of Craftsmen and Menials Incompatible with Citizenship

In the ideal state no full citizen is to be a handicraftsman, for citizenship is held to be an art in itself requiring much study. Since the citizen's pursuit of virtue is a full-time occupation and no one is to follow two crafts, craftsmen cannot have political rights. There are two classes of persons, the rulers and the ruled. The former are citizens with full political rights; the latter class, engaged in the prosecution of industry, are held in slight esteem because their vulgar occupations tend to a degradation of mind and enervation of body. Hence, they are considered unsuited for the higher duties of men and the requirements of full citizenship. As was customary in all ancient societies, menial tasks were committed to foreigners and slaves.

It is in Plato's plan to set aside from childhood members of the ruling class and to educate them in philosophy and the arts of war. At the age of thirty, those most excellent in the qualities of general virtue are chosen by examination; from among these lat-

ter are selected those who serve as governing guardians; the ones not singled out serve as auxiliaries in general administration. Thus the caste system is made to support the aristocratic tradition, but class antagonism is to be absent in that the guardians possess no property beyond what is necessary. Women are eligible to become guardians.

No Prototype in History of the Ideal State

The ideal state pictured by *The Republic* was the prototype of neither democratic Athens nor aristocratic Sparta. In the former the social order was made unstable by class conflicts, and in the latter the government was in the hands of a hereditary class without the careful education and selection required of the *Republic's* guardians. Corruption and decadence were present in both.

ARISTOTLE

BIOGRAPHICAL SKETCH. Aristotle (384–322 B.C.) was born at Stagira in Macedonia. His father, physician to King Amyntos II of Macedonia, claimed descent from Aesculapius, the Greek god of medicine. At about the age of seventeen and after the death of his parents, Aristotle came to Athens to study in the school of Plato, where he became preeminent as a student and where he remained until Plato's death twenty years later. After residence at Atarneus, in Mysia, and at Mitylene, he was invited by Philip of Macedon to serve as tutor to his son Alexander, then in his fourteenth year. After Alexander succeeded to the throne, Aristotle continued to live at the court as friend and counselor.

When the Alexandrian Asiatic campaign was begun in 334 B.C., Aristotle returned to Athens and established a school in the Lyceum which he conducted for 12 years before he was forced into exile by a prosecution for impiety. Because he delivered his lectures while walking up and down with his pupils in the wooded walks *(peripatos)* of the gymnasium, his school was called Peripatetic. Pupils gathered from all parts of Greece, and his school became the most popular in Athens.

A thinker of extraordinary range and power, he left important works on logical, theoretical, and practical subjects. The latter are inclusive of ethics, politics, and economics. His writings are characterized by scientific precision and an impressive respect for facts. His style, however, is devoid of grace and elegance; it is often uneven and obscure.

Though he wrote no separate economic treatise, many discussions were approached from the economic point of view. His preeminent position among Greek scholars and his prestige among the Schoolmen gave his theories wide currency and a pronounced influence in the development of economic thought.

Aristotle's Idea as to the Origin of Society

Aristotle traces the origin of society to a natural instinct in man to associate with his fellows, and not, as do Plato and many other writers, to economic necessity. Man he describes as a political animal and the state, therefore, as a creation of nature. While Plato stood for an exaggerated idealism, Aristotle, accepting the state as a natural organism, views both economics and ethics from a practical political angle. The younger philosopher had a rare capacity for observation and sound judgment in selecting from varied contemporary and historic political experiences the data on which to ground his generalizations. His knowledge was for his day encyclopedic; and situated as he was, close to, but yet outside, the actual movement of vital affairs, he held a point of vantage as spectator and judge.

Citizenship Strictly Limited

Aristotle agrees with Plato in excluding the immediate cultivators of the soil, mechanics, and small tradesmen from a share in government because they were debased by the nature of their occupations and lacked the leisure necessary to acquire the virtues of a citizen. His attitude toward mechanics is also reflected in a passage of Xenophon's *Œconomicus:* [2]

> They [the vulgar arts] utterly ruin the bodies of workers and managers alike, compelling men, as they do, to lead sedentary lives and huddle indoors, or in some cases to spend the day before a fire. Then as men's bodies become enervated, so their souls grow sicklier. And these vulgar crafts involve complete absence of leisure and hinder men from social and civic life; consequently men such as these are bad friends and indifferent defenders of their country. Moreover, in some

[2] Xenophon, *Œconomicus*, Book IV, secs. 2 and 3.

states, particularly in those accounted warlike, no full citizen is permitted to practice the vulgar arts.

Community Property Disapproved

Aristotle is in disagreement with Plato in the matter of community property. The argument is that it violates natural human instincts and, consequently, that it will not work. Naturally, complaints would arise because there would not be an equal sharing in enjoyments and toils; the common purse would lead to disputes between those who labor much and get little and those who labor little and consume or receive much. Aristotle, accordingly, advocates private possession of property with a use in common where practicable and enjoins liberality in a responsible stewardship over wealth. He wrote:[3]

It is clearly better that property should be private, but the use of it common; and the special business of the legislator is to create in men this benevolent disposition. Again, how immeasurably greater is the pleasure, when a man feels a thing to be his own; for the love of self is a feeling implanted by nature and not given in vain, although selfishness is rightly censured; this, however, is not the mere love of self, but the love of self in excess, like the miser's love of money; for all, or almost all, men love money, and other such objects in a measure. And further, there is the greatest pleasure in doing a kindness or service to friends or guests or companions, which can only be rendered when a man has private property. The advantage is lost by the excessive unity of the state.

Views on Wealth Accumulation

The accumulation of wealth Aristotle favors only to the extent that it is a part of "domestic economy." On this point he says:[4]

Of the art of acquisition then there is one kind which is natural and is a part of the management of a household. Either we must suppose the necessaries of life to exist previously, or the art of household management must provide a store of them for the common use of the family or state. They are the elements of true wealth; for the amount of

[3] Aristotle, *The Politics*, Book II, Chap. V.
[4] *Ibid.*, Book I, Chaps. VIII, IX.

property which is needed for a good life is not unlimited, although Solon in one of his poems says that –

No bound to riches has been fixed for man.

But there is a boundary fixed, just as there is in the arts; for the instruments of any art are never unlimited, either in number or size, and wealth may be defined as a number of instruments to be used in a household or a state. And so we see that there is a natural art of acquisition which is practiced by managers of households and by statesmen. . . .

There is another variety of the art of acquisition which is commonly and rightly called the art of making money, and has in fact suggested the notion that wealth and property have no limit. . . . The kind already described is given by nature, the other is gained by experience and art.

. . . . . .

Of everything which we possess there are two uses: both belong to the thing as such, but not in the same manner, for one is the proper, and the other the improper or secondary use of it. For example, a shoe is used for wear, and is used for exchange; both are uses of the shoe. He who gives a shoe in exchange for money or food to him who wants one, does indeed use the shoe as a shoe, but this is not its proper or primary purpose, for a shoe is not made to be an object of barter. The same may be said of all possessions, for the art of exchange extends to all of them, and it arises at first in a natural manner from the circumstances that some have too little, others too much. Hence we may infer that retail trade is not a natural part of the art of money-making; had it been so, men would have ceased to exchange when they had enough.

Household Management Extolled; Acquisition of Unnatural Wealth Condemned

Household management (natural economy) is extolled and unnatural wealth getting (chrematistics) is disapproved by Aristotle. The criticism does not extend to primitive barter since it is concerned with what is natural, but retail trade beyond the satisfying of one's normal requirements falls under his ban. He contends that the introduction of a system of currency promotes the development of unnatural finance, which adds to the volume of money merely by means of exchange and enriches one at the ex-

pense of another. Usury is scored as the worst of the evil forms of finance because it makes a gain out of money itself and not out of the natural use of it. The natural use of it is in exchange and not in putting it out to increase at interest.

True and Proper Arts of Moneymaking

Throughout the discussion nature is accorded a superior place in the production of true wealth. This foretokens the eighteenth-century physiocratic view, which stresses agriculture and the other extractive industries. In the exposition he also points out the distinction between value-in-use and value-in-exchange. A quotation of useful and exchange types of moneymaking from Aristotle reads:[5]

> The useful parts of money-making are, first, the knowledge of live-stock, – which are most profitable, and where, and how, – as, for example what sort of horses or sheep or oxen or any other animals are most likely to give a return. A man ought to know which of these pay better than others, and which pay best in particular places, for some do better in one place and some in another. Secondly, husbandry, which may be either tillage or planting, and the keeping of bees, and of fish, or fowl, or of any animals which may be useful to man. These are the divisions of the true or proper art of money-making and come first. Of the other, which consists in exchange, the first and most important division is commerce (of which there are three kinds – commerce by sea, commerce by land, selling in shops – these again differing as they are safer or more profitable), the second is usury, the third, service for hire – of this, one kind is employed in the mechanical arts, the other in unskilled and bodily labor. There is still a third sort of money-making intermediate between this and the first or natural mode which is partly natural, but is also concerned with exchange of the fruits and other products of the earth. Some of these latter, although they bear no fruit, are nevertheless profitable; for example wood and minerals.

XENOPHON

BIOGRAPHICAL SKETCH. Xenophon (c.434–355 B.C.), Greek historian, essayist, and soldier, was born in Athens and early became a pupil of Socrates. In 401 B.C., he joined the Greek mercenaries who accom-

[5] *Ibid.*, Book I.

panied Cyrus the Younger in his campaign to overthrow his brother the Persian king, Artaxerxes II. He was on the expedition, not as a soldier, but as an observer from curiosity. After the defeat and the death of Cyrus on the battlefield of Cunaxa, the Greek generals were inveigled into a trap and treacherously assassinated.

The leaderless Greeks chose other commanders, among them Xenophon, to conduct their retreat through the wild mountainous regions northward to the Black Sea. After five months of harassment by guerrilla attacks they reached Trebizond in 400 B.C. The story of the expedition is the subject of the *Anabasis*, Xenophon's best known work.

Xenophon fought on the side of Sparta in two subsequent wars, the first against Persia and the second against his own Athens, for which he was formally banished from that city. In the war of Sparta against Persia, he captured a wealthy Persian nobleman whose subsequent ransom raised Xenophon from poverty to competence.

Xenophon composed writings at Scyllus, where he resided for twenty years as a country gentleman. His chief works besides the *Anabasis* are the *Cyropædia*, a philosophical romance; the *Hellenica*, a history; and the *Memorabilia*, recollections of Socrates. The *Cyropædia* contains a remarkable discussion of division of labor. Among his minor writings are *Œconomicus*, and the *Ways and Means to Increase the Revenues of Athens*, in both of which economic questions are discussed in a practical manner.

Though Favoring Agriculture, Promotion of Manufacture and Trade Advocated

Xenophon was endowed with practical genius. His treatise entitled *Œconomicus* is a dissertation on domestic economy; it is an animated discussion of some aspects of contemporary life. An agricultural writer primarily, he furnishes the motto for the physiocrats in saying: "When husbandry flourishes all the other arts are in good fettle; but whenever the land is compelled to lie waste, the other arts of landsmen and mariners alike well-nigh perish."

Xenophon's praise of agriculture is pronounced. He describes it as the giver of all things, easy to learn, an art dear to servants, pleasanter for the wife, delightful to children, and more agreeable to friends. While sharing the ordinary preference of the ancients for agriculture, he attributes greater importance to man-

ufacture and trade than other writers. The devices he proposes as ways to increase the revenues of Athens are akin to those of mercantilism. He would extend privileges to foreigners, grant favors to merchants, raise a capital fund by subscription to build accommodations for seamen and merchants, and erect public houses of entertainment for all who come to the city. He urges the state to build vessels for conveying merchandise and to let them out for hire. These activities, he believes, would add to the revenue of the city.

Silver Mining to Be Made a State Industry

Great profits, too, could be drawn from the silver mines, he believes, if properly managed. Large-scale operation is recommended to reap the benefit of increasing returns. This, he insists, certainly could be done since the silver mines are inexhaustible and silver has the peculiar quality, not even possessed by gold, of maintaining its value (never losing it) regardless of abundant supply. The following quotation shows what an ardent silverite Xenophon was:[6]

> But though the earth containing silver has been so long dug and cast up, consider how small a portion the heaps which have been thrown out are of the hills that remain still in their natural state, and that contain silver underneath them. Nor does the space of ground that is dug for silver appear to be at all diminished, but to be perpetually extended in a wider circuit; and during the time the greatest number of men were in the mines, no one was ever in want of occupation, but there was always more work than enough for the hands employed. At the present time, too, no one of those who have slaves in the mines is diminishing the number of them, but is indeed continually adding to it as many as he can; for, when few are engaged in digging and searching, little treasure is found; but when many are employed, a far greater quantity of silver ore is discovered; so that in this occupation alone, of all those that I know, no one envies those that extend their operations. All persons that have farms would be able to say how many yokes of oxen, and how many workmen would be sufficient for their land; and if they send into their fields more than are necessary, they consider it a loss;

[6] Xenophon, *On the Means of Improving the Revenues of the State of Athens*, Chap. IV.

but in the mining operations for silver, they say that all are constantly in want of workmen. For the consequence is not the same in this case as it is when there are numbers of workers in brass, and when, as articles made of brass they necessarily become cheap, the workmen are ruined, nor is it the same as when there are excessive numbers of blacksmiths; or as when there is abundance of corn and wine, and when, as the fruits of the earth are cheap, agriculture becomes unprofitable, so that many farmers, quitting their occupation of tilling the ground, betake themselves to the employments of merchants, or innkeepers, or bankers; but, in regard to the silver mines, the more silver ore is found, and the more silver is extracted, the greater is the number that devote themselves to mining. Of furniture, when people have got enough of it for their houses, they do not much care for buying additional supplies; but nobody has ever yet had so much silver as not to desire an increase of it; and if people have a superabundance, they hoard it, and are not less delighted with doing so than with putting it to use. When communities, too, are in the most flourishing condition, people have very great use for money; for the men are ready to be at expense for beautiful arms, or fine horses, or magnificent houses or furniture; and the women are eager for expensive dresses, and golden ornaments. When communities, on the other hand, are in distress, whether from scarcity of corn or from the effects of war, they are still more in want of money, as the land lies uncultivated, both for purchasing provisions and for paying auxiliary troops.

Among the suggestions as to the arrangement of public matters so that maintenance might be secured from the common resources for the whole Athenian people were the investment by the state of a large sum of money in slaves and the conduct of silver-mining operations by the 10 tribes of Athens. Public ownership and operation were urged because private operators were poorer than of old and because of the great risk of loss of capital.

Joint Stock Organization Fruitful

Xenophon also urged the organization of joint stock companies by the union of the fortunes of individuals. He believed this type of mining enterprise could be ventured with greater safety than the individually owned. He believed that associated private adventurers would not inconvenience the public companies but that the coexistence of public and private ventures would make

each proportionately stronger. The plan suggested was a long-range one to be instituted gradually. Under the "building-by-degrees" program competitive costs would not be advanced and efficiency would be maintained. Moreover, installment construction would prevent the repetition of errors previously committed and give facility to operations well planned. Furthermore, if everything were not done at once, means for the whole need not be procured; under a plan of a part done first and the rest deferred, incoming revenue might provide capital for future developments.

Slavery Made Profitable

Profits to be expected from the use of slaves in the mines were believed large and to be appreciably augmented from auxiliary enterprises attendant upon public works. The following quotation makes this plain:[7]

> Not only the profits from the slaves, then, would increase the resources of the city, but, as a vast number of people would collect about the mines, there would also arise a great income from the market held there, from the rent of the public buildings around the mines, from the furnaces, and from all other sources of that kind. Our city, too, if it be thus supported, will become extremely populous, and land about the mines will grow as valuable to those who possess it there as to those who have it around Athens. Should all indeed be done that I have proposed, I maintain that the state will not only be better supplied with money but will be more quiet and orderly, and better prepared for war.

An Advocate of Peace

Xenophon declares that for abundant and uninterrupted flow of revenue peace is to be preferred to war, as the history of Athens proves. The vast sum of money brought in during peace should not be squandered in financing wars lest the momentum gained in spending carry the state into a deficit economy and force a resort to onerous requisitions. He urges that the arts of peace be practiced and that Athens assume the role of peace-

[7] *Ibid.*, Chap. IV.

maker throughout Greece. The naturalness of the position of Athenian leadership in inter-Grecian affairs must readily be acknowledged by all. The advantages of peace are set forth as follows:[8]

. . . those states, assuredly, are most prosperous, which have remained at peace for the longest period; and of all states Athens is the best adapted by nature for flourishing during peace. Who, indeed, if the city were in the enjoyment of peace, would not be eager to resort to it, and shipowners and merchants most of all? Would not those who have plenty of corn, and ordinary wine, and wine of the sweetest kind, and olive oil, and cattle, flock to us, as well as those who can make profit by their ingenuity and by money-lending? Where would artificers too, and sophists, and philosophers, and poets, and such as study their works, and such as desire to witness sacrifices, or religious ceremonies worthy of being seen and heard, and such as desire to make a quick sale or purchase of many commodities, obtain their objects better than at Athens?

Favors Large City Population for Economic Reasons

Xenophon is not disturbed by the prospect of increasing urban population. He does not hold to Plato's limit of size as a unit of highest efficiency, nor does he extol the small communities. For Athens, he recommends a large population, both transient and permanent. As he says:[9]

For just as all other arts are developed to superior excellence in large cities, in the same way food at the King's palace is also elaborately prepared with superior excellence. For in small towns the same workman makes chairs and doors and plows and tables and often the same artisan builds houses, and even so he is thankful if he can only find employment to support him. And it is, of course, impossible for a man of many trades to be proficient in all of them. In large cities, on the other hand, inasmuch as many people have demands to make upon each branch of industry, one trade alone, and very often even less than a whole trade, is enough to support a man; one man, for instance, makes shoes for men, and another for women; and there are places even where one man earns a living by only stitching shoes, another by cutting them out,

[8] *Ibid.*, Chap. V.

[9] Xenophon, *Cyropædia*, Book VIII, par. ii, 5–6.

another by sewing the uppers together, while there is another who performs none of these operations but only assembles the parts. It follows, therefore, as a matter of course, that he who devotes himself to a very specialized line of work is bound to do it in the best possible manner. Exactly the same thing holds true in reference to the kitchen; in any establishment where one and the same man arranges the dining couches, lays the table, bakes the bread, prepares now one sort of dish and now another, he must necessarily have things go as they may; but where it is all one man can do to stew meats and another to roast them, for one man to boil fish and another to bake them, for another to bake bread and not every sort at that, but where it suffices if he makes one kind that has a high reputation – everything that is prepared in such a kitchen will, I think, necessarily be worked out with superior excellence.

All of this sounds ultramodern and highly extraordinary from a writer of more than two thousand years ago.

Roman Economic Theories

But little of economic thought was formally propounded by the Romans; rather, their theory was implicit in their actions, and specific contribution was scanty. This is accounted for by the fact that Roman thinkers approached questions from the political rather than the economic side. What theoretical inquiry there was on economic topics was made by the philosophers, the writers on agriculture, and the jurists.

The philosophers, conscious of the decay of industry, lamented the growing spirit of self-indulgence and the departure from primitive simplicity. They censured luxury and counseled the right uses of wealth. Agriculture was extolled as a noble occupation, for the Roman Empire had its beginnings in small agricultural communities. A transition had come about from the early simple organization to a complex social structure. The small landowner had become impoverished, and wealthy classes of large landowners, moneylenders, and merchants were created by the activities of war and conquest. The industrial arts and commerce were considered ignoble pursuits – an idea, however, not based on an economic appraisement but derived from the opinion that they lacked respectability.

CICERO

BIOGRAPHICAL SKETCH. Marcus Tullius Cicero (106–43 B.C.), the greatest of the Roman orators, sprang from a family of equestrian rank and rose to the Roman consulship after becoming distinguished for eloquence. He is one of the most admired of ancient writers because of the purity and elegance of his style. His works consist of orations, treatises – philosophical, rhetorical, and moral – and letters.

Cicero studied philosophy, law, and Greek literature. He traveled abroad, conversed with philosophers in Greece, and visited the most distinguished orators at Rhodes. His greatest fame followed the exposure and defeat of the conspiracy of Catiline. He was named *parens patriae* but, because of revealed irregularities in the prosecution of the Catilinian conspirators, became unpopular with the ruling party and had to go into exile. He was later recalled to Rome but did not succeed in regaining the measure of his former influence.

After the death of Julius Caesar he became the implacable enemy of Antony and composed the inimitable *Philippics* against him. Though friendly to Octavius, when the latter rose to the consulship Cicero was proscribed and, upon endeavoring to escape from his home at Tusculum when the news of his proscription arrived, was waylaid and murdered by a party of soldiers.

Cicero's Views on Economic Questions

Among the philosophers, Cicero, liberal-minded though he was, held characteristic Roman views toward economic questions. He was willing to tolerate wholesale trade, opposed usurious moneylending, and praised agriculture. In his *De officiis* he wrote:[10]

> Now in regard to trade and other means of livelihood, which ones are to be considered becoming to a gentleman and which ones are vulgar, we have been taught, in general, as follows: First, those means of livelihood are rejected as undesirable which incur people's ill-will, as those of tax gatherers and usurers. Unbecoming to a gentleman, too, and vulgar, are the means of livelihood of all hired workmen whom we pay for mere manual labor, not for artistic skill; for in their case the very wages they receive is a pledge of their slavery. Vulgar we must consider those also who buy from wholesale merchants to retail imme-

[10] Cicero, *De officiis*, Book I, xlii.

diately; for they would get no profits without a great deal of downright lying; and verily there is no action that is meaner than misrepresentation. And all mechanics are engaged in vulgar trades; for no workshop can have anything liberal about it. Least respectable of all are those trades which cater to sensual pleasures:

"Fishmongers, butchers, cooks and poulterers,
And fishermen,"

as Terence says. Add to these if you please the perfumers, dancers and whole *corps de ballet.*

But the professions in which either a higher degree of intelligence is required or from which no small benefit to society is derived – medicine and architecture, for example, and teaching – these are proper for those whose social position they become. Trade, if it is on a small scale, is to be considered vulgar; but if wholesale, and on a large scale, importing large quantities from all parts of the world and distributing to many without misrepresentation, it is not to be greatly disparaged. Nay, it even seems to deserve the highest respect, if those who are engaged in it, satiated, or rather, I should say, satisfied with the fortunes they have made, make their way from the port to a country estate, as they have often made it from the sea into port. But of all the occupations by which gain is secured, none is better than agriculture, none more profitable, none more delightful, none more becoming to a freeman.

Seneca

Biographical Sketch. Lucius Annæus Seneca (4 B.C.–A.D. 65), son of a rhetorician, was born at Cordova in Spain. He went to Rome at an early age, where he studied under his father's instruction. His writings comprise many philosophical treatises, essays, and letters. Follower of the Stoic tradition and possessing a very attractive style, he displaced Cicero for an extended period as the model of composition. The writings show so fine an appreciation of noble traits in human character and conduct as to simulate the teachings of Christianity. First the tutor and later for five years the chief minister of Nero, he was instrumental in directing the wise and successful early rule of the young emperor. Through the intrigue and plots of the court, Seneca lost his influence and was later condemned to death by Nero on the accusation of complicity in the conspiracy of Piso.

Praise of the Natural

Though the Romans did not develop economic theory and their somewhat commonplace views are not of great interest, the later

veneration for the ancient writers was the cause of a greater influence than their intrinsic worth merited. Seneca, in common with the Stoic philosophers, believed in the existence of an inherent natural order, attributing superiority to what is natural over that which is contrived.

Money was looked upon as the root of most evils. Lending at interest was condemned; greed was seen as a prolific source of injustice. Moderation was praised and a return to the simple life urged. Among purely economic ideas held by Seneca there are some that are significant; e.g., in the remark that some things have greater value than their price, utility is recognized as a criterion in the determination of exchange value; in the statement that the various quarters of the earth are differently endowed with natural resources, the implication of the necessity to make exchanges is carried, and recognition is given to the principle of geographical division of labor.

Pliny

Biographical Sketch. Pliny the Elder (Gaius Plinius Secundus) (A.D. 23–79), a Roman writer and scientist, was born at Comum, but at an early age he went to Rome. Possessed of means, he put himself under the instruction of the best teachers and retained an intense interest in science and history all his life.

During a long and successful official career, a part of the time as governor of Spain, he devoted himself with incredible industry to the assembly of a vast collection of scientific facts, chiefly from Greek sources. The information gathered through his lifetime is contained in a huge work called *Natural History* – really a sort of encyclopedia. This work until recent times was considered, second to Aristotle only, the standard authority and was used by all educated Europeans. Pliny lost his life in the eruption of Mount Vesuvius as he was studying that phenomenon and serving as admiral of the fleet trying to save the people fleeing from the city of Pompeii.

Belief That Evil Results Flow from Money

Pliny has a consciousness of the decay of industry and the relaxation in morals. Gold he views as discovered to the ruin of mankind. Much happier was the age when things were bartered. He recognizes, however, the economic causes which give gold its

superiority over other metals, viz., that it is the most malleable of materials, the most durable among the metals, free from rust, and suffering no damage from fire. With him, as among Romans generally, the confused view on money extended to ideas about the nature and function of capital, which accounted for the disapproval of lending money at interest.

Cato

Biographical Sketch. Marcus Porcius Cato (234–149 B.C.), a celebrated Roman, inherited from his plebian father a small estate in the territory of the Sabines. This he cultivated with his own hands. He developed a natural gift of eloquence by constant practice until he became a capable orator. At the age of seventeen he made his first military campaign against Hannibal, who was pillaging Italy. Of him, Plutarch says:[11]

"Cato grew more and more powerful by his eloquence, so that he was commonly called the Roman Demosthenes; but his manner of life was yet more famous and talked of. For oratorical skill was, as an accomplishment, commonly studied and sought after by all young men; but he was very rare who would cultivate the old habits of bodily labor, or prefer a light supper, a breakfast which never saw the fire, or be in love with poor clothes and a homely lodging, or could set his ambition rather on doing without luxuries than on possessing them. For now the state, unable to keep its purity by reason of its greatness, and having so many affairs; and people from all parts under its government was fain to admit many mixed customs, and new examples of living. With reason, therefore, everybody admired Cato, when they saw others sink under labors, and grow effeminate by pleasure; and yet beheld him unconquered by either, and that not only when he was young and desirous of honor, but also when old and grayheaded, after a consulship and triumph; like some famous victor in the games, persevering in his exercise and maintaining his character to the very last."

Cato successively held the offices of quaestor, aedile, praetor, consul, tribune, and censor. For his brilliant campaign in Spain he obtained the honor of a triumph. Unsparing severity and zealous application as censor made his name proverbial. The striking feature of his closing years was the incessant declaration "*Delenda est Carthago*" with which

[11] *Plutarch's Lives*, Cato.

he closed all of his speeches, no matter what the subject or occasion. Of his works, *De re rustica* alone survives.

Belief in the Superiority of Agriculture

Cato extolled agriculture and the superiority of an agricultural population. He believed that if the old Roman virtue were restored moral corruption could be stayed and the commonwealth strengthened. His agricultural writing was on the technical aspects of husbandry, as the following extract indicates:[12]

When he [the farmer] has considered how his fields should be cultivated, what tasks should be completed, what not, then on the next day he ought to summon the vilicus and inquire what work has been accomplished, what still remains; whether the work is far enough advanced for the season, whether what still remains can be completed, what has been done about the wine, corn, and other products. . . . He should buy what is wanting for the year, have the surpluses sold, let out the necessary contracts. He should give orders concerning the works he would have completed, and the things he is inclined to let, and leave his order in writing. He should carefully inspect his flocks, make his sales, sell the superfluous oil, wine, and corn, if they are giving a good price; sell the old oxen, the refuse of the cattle and sheep, wool, hides, the old carts, old iron tools, and old and diseased slaves. Whatever is superfluous he ought to sell: A farmer should sell, not buy!

VARRO

BIOGRAPHICAL SKETCH. Marcus Terentius Varro (116–27 B.C.) was a prolific writer and the most learned man of ancient Rome. His literary works are counted at 74, and his books number 620. He wrote the most important treatise on ancient agriculture known. He served in the army and subsequently held several public offices. He was selected by Caesar to collect and arrange the great library designed for the people. A friend of Cicero, he too was proscribed by Antony. He escaped from Rome, however, and later under Augustus he returned from exile. Of his many writings on varied subjects including language, history, and philosophy, only his treatise on agriculture *(De re rustica)* has come down to us in its entirety.

[12] Cato, *De re rustica*, II.

Production and Management Advice

Varro gives practical advice on home production and advantageous purchases for the farm as follows:[13]

> . . . as for the articles which can be raised on the farm or manufactured by the servants, none of these should be bought. Of such a nature are nearly all those utensils in the manufacture of which you use osiers and other materials at hand in the country; for example, baskets, broom-baskets, threshing-sledges, winnowing vanes, hoes; so, too, those in the making of which are employed hemp, linen, rushes, palms, bulrushes, as ropes, cords, coverings. But in the case of things which you cannot produce on the farm make your purchases with a view to their usefulness rather than ornament, and then their cost will not eat up their profit. This will be especially the case if you get them where they can be obtained good in quality, close at hand, and cheap in price.

Varro recognizes the economic factor of the market as an influence in the determination of goods to be produced. Close to the city he notes the advantage in cultivating large gardens and fields of violets and roses and other things such as a city welcomes.

He entered the field of industrial psychology when he advocated the giving of occasional rewards to overseers in order to win their good will. Toward laborers, he recommends an attitude which would tend to reduce their sense of inferiority and by generous treatment stimulate them to enthusiasm for work.

By cold calculation of replacement costs, Varro concludes that hired laborers should be used instead of slaves if the work is in unhealthful regions. Recognizing also the inefficiency of bond servants, he favors the assignment of the more important tasks to hired workers on projects employing slave labor.

Columella

Biographical Sketch. Lucius Junius Moderatus Columella, contemporary of Seneca, flourished about the middle of the first century A.D. He was born at Cadiz in Spain. He wrote 12 books on agriculture, all extant. They treat of the cultivation of all kinds of corn and garden vegetables, trees, flowers, the vine, the olive, other fruits, and

[13] Varro, *De re rustica*, I, xxii, 1, 2.

the rearing of cattle, birds, fishes, and bees. The book of *De re rustica* on gardening is in hexameter verse.

Columella Favors Small Holdings

Columella held agriculture in high regard. In his estimation husbandry was nearly akin to wisdom. In weighing the comparative merits of the large and small systems of cultivation, he was decidedly in favor of the small, self-contained farms as against the large, slave-worked latifundia. He proclaimed the superiority of free over slave labor and attributed the decline of Roman agricultural economy to the use of slave workers.

The Jurists

To the influence of Roman jurists must be attributed generalizations of wide economic significance. A large portion of our daily transactions are regulated in accordance with principles laid down by them.The body of doctrine discovered as common to all nations by the jurists in their practice in the imperial law courts became the rules for the settlement of disputes. This body of laws, known as the *jus gentium,* gained a considerable influence in the evolution of economic thought. It came about through the idea that a body of law common to different nations possessed the characteristic of naturalness and therefore a higher sanction than that of an ordinary law. This idea of natural law was held more or less constantly through the later centuries and became the foundation stone of physiocratic theory and basic in the thinking of Adam Smith.

The jurists also evolved doctrines in the regulation of the Roman commercial mechanism. There developed an individualistic quality in the view of property, in marked contrast with the Greek "communal-use" conception. Freedom of contract was fully supported and the rights of private property upheld. The principles as applied by the Romans have in them the attributes which influence the growth of a rigid individualism and provide an appropriate setting for the conditions of modern capitalism.

Chapter 3. ECONOMIC THOUGHT IN THE MIDDLE AGES

Span and Nature of the Period

The wide sweep of time of approximately a thousand years, spanning the period between the ancient and the modern worlds, has a broader significance economically than was once supposed. The intervening period between its limits — too specifically stated when expressed in the definite years A.D. 476 (the fall of Rome) and A.D. 1453 (the fall of Constantinople) — represents an epoch during which a given point of view reflecting economic ideas was dominant. The institutions characteristic of the period were subject to so gradual a modification as to present to an observer the impression of a static condition.

The Middle Ages present novel features both of a secular and of a religious nature. The lives of the people were organized under the conditions of a "natural economy" dominated by church control of human relationships. On the secular side there was the gradual elaboration of feudalism into a civil system, while on the religious side there was a development into an ecclesiastical order which gained a universal application.

The Social Structure

The essential features of the medieval social structure revolved about the distribution and regulation of property, which consisted primarily of land. Institutions rooted in land tenure had their origin in the developments of the late years of the Roman Empire. Increasing scarcity of agricultural slaves caused a change in the administration of large estates. The small landholders, too, had a change of status. Many, to escape burdensome taxation or to

secure protection, placed themselves under the patronage (patrocinium) of a powerful neighbor; others were violently dispossessed. Thus land was passing into the hands of the nobles, who, short of slaves to till the soil, often granted the request (precarium) of the poor, landless man for the use of land. The latifundia (large estates worked by slave labor) of latter-day Rome required a change in the method of their administration because of the same growing scarcity of slave labor. These were subdivided and rented out in small holdings to freemen or to slaves for a rent in kind or in money. The settlement, too, of the wide frontiers by the establishment of colonies (settled by veterans of the wars) for purposes of protection became common. This colonial system also led to a relationship among inhabitants not unlike that developing elsewhere in the empire.

The patrocinium and precarium represent Roman origins of vassalage. In addition to protection and the means of earning a livelihood provided by the proprietors, the administration of justice fell to them likewise in a form similar to the private jurisdiction of Roman patrons over their villas in the period of disintegration of central control. The German comitatus, too, featured a relationship which may represent the germ from which the medieval institution of the fief developed. One school of historians attributes the land relationship in the fief to the idea of gift among primitive Germans. Distribution of land among a German king's followers granted only a tenure of use without distributing ownership. The precarious tenure bestowed was not unlike that given by Roman landlords under the patrocinium and precarium, which could be terminated at will by the owner.

Whether the prevalence of private jurisdiction was an outgrowth of Roman custom or due to immunity grants from German kings, obligation between man and man had become common and the relationship between the poor man needing protection and the wealthy man granting it took on legal aspects designated by the title commendation. In commendation there was no suggestion of degradation such as was attached to patrocinium; but, whatever its origin, vassalage became virtually a permanent relationship. Class division between lords and serfs was the essence of medieval society.

Citizens of Roman municipal centers, crushed by taxation and shorn of their privileges, were so oppressed that escape from urban life was welcome. Then, too, infiltration of barbarians following the migrations made communication uncertain and consequently diminished commerce. Furthermore, the new ruling class, being of a lower civilization, lacked the refined tastes of the Romans, and so need for manufactures in the form of luxuries was much reduced. Moreover, no market was afforded by the numerous villas because a virtually self-sufficing economy prevailed in them. As a consequence, urban organization waned and a rural economy became virtually universal.

Feudalism

Feudalism is identified by the conjunction of the vassal relationship, land tenure, and private jurisdiction. The fief, held and transmitted by hereditary right, was usually a tract of land but might be anything else which would provide income such as an office, the right to tolls, or some form of monopoly. The king no longer had actual rights over the people of his kingdom except through fief-granting or actual landholding. All rights and duties incident to citizenship arose through the vassal relationship. The final sanction of the relationship rested upon force. Feudal organization was indispensable for the preservation of order and for public defense. The powers of the leading men, during the early centuries of the medieval period, were absorbed in the struggle to found a new governmental system and in the consolidation of power of sufficient strength to resist the assaults of nomad populations.

Under these disturbed conditions agriculture was carried on to serve the needs of an immediate neighborhood. Before the Crusades, interregional markets were lacking, and commerce and manufacture were at a standstill.

Rise of Towns

The Crusades had a powerful economic effect through the enlargement of the horizons of local populations. Commercial enter-

prise once more expanded. Towns and the burgher class rose in importance as against the aristocratic landholders. Transportation and communication were improved. Agricultural products being in demand at greater distances, self-sufficing domestic economy gave way under the pressure of the more advantageous exchange economy. Trading towns took on again a corporate character, trade guilds gained in control of the regulation of industry, and the activities of the individual were regulated according to his status.

Influence of Religion

The Catholic Church had a powerful influence on economic life. It taught the virtues of industry, thrift, fidelity, and obedience. Its teaching heightened the dignity of labor and emphasized the doctrine of human equality. The influence of the Church was not confined to the moral side. The Church, through the accumulation of widely scattered landed property, became the greatest of the feudal lords and in this preeminent position was able to promote the betterment of feudal society. It was a cosmopolitan organization. It sought to regulate all human relationships on the ground that the earthly life is but a preparation for eternal salvation. Except as a means to the ultimate end, mundane things were considered inconsequential, an attitude which induced a passive acceptance of a status in life and hindered the consummation of the equality of all men proclaimed in Christian theory.

Moral Approach to Economic Questions

When economic questions were touched upon during the Middle Ages, they were considered in their relation to morality. Economic speculation was articulated as definitely with ethical and political thought as it was by the Greeks, but it reversed the Greek point of view by insisting upon the dignity of labor, in striking contrast with the repugnance toward labor of a society founded on slavery. Work was construed to be of God and a way of salvation; it was considered as noble as it was inevitable.

The Rule of Justice

The central theme of medieval economic teaching is the idea of justice. All human relations should be governed by justice, so the Church fostered a body of ideas in the form of prescriptions for the guidance of conduct. Spiritual well-being was the goal; consequently, the Church as an organization applied its doctrines to men's daily transactions. Agriculture and handicraft were stamped as legitimate means of earning necessaries, but trade was in disfavor because it lent itself to fraud. Essential trade was regulated, and prices were ordered based on real value. A fair price was one inherent in justice between buyer and seller. All usurious transactions were under Church ban. The determination of justice in monetary and other transactions fell entirely within the jurisdiction of the Church. The authoritative declaration of medieval economic doctrine is found in the writings of St. Thomas Aquinas.

St. Thomas Aquinas

Biographical Sketch. St. Thomas Aquinas (A.D. 1225–1274), greatest of the Schoolmen, was descended from the counts of Aquino in the Kingdom of the Sicilies. He was educated at the Benedictine monastery of Monte Cassino and at the University of Naples, where he studied for six years. At the age of seventeen, he entered the Dominican order and was sent by them to study under Albertus Magnus, a celebrated teacher, at Cologne and later in Paris. In 1257 he received the degree of "Doctor" from the Sorbonne and soon gained the highest reputation as a teacher. He lectured successively at various seats of learning – in London, Rome, Boulogne, Naples, and Paris. Extraordinarily industrious, he wrote as many as 60 works, the most important of which is the famous *Summa theologica.* This work, written in Latin, though professing to be merely an exposition of theology and Christian philosophy, in reality is a systematic summary of the knowledge of the time. In recognition of his scholarship and high-mindedness he was named the "Angelic Doctor" and canonized by Pope John XXII.

Justice in Concrete Application

Concrete applications of the abstract theory of justice in medieval times are found in the theory of private property, exchange,

the just price, the taking of profit, and the prohibition of usury. Aquinas agrees with Aristotle that private property is not contrary to natural law. Furthermore, he believes that production under private ownership exceeds that under communism. Peace and good order, too, it is argued, are better preserved by a system of private ownership. Property right, however, is strictly qualified in that it might be private in possession but has to be common in use, in harmony with the Aristotelian postulate and the idea of Christian stewardship, viz., owner administered in the common interest. Wealth is good only if it leads to a life of virtue. Earthly goods are valued in so far as their use leads to the life of blessedness in heaven.

Trade, though neither natural nor good, is justified if the exchange is made to maintain the household or for the benefit of the country. Justice prevails when the goods exchanged are of equal value. Value is looked upon as an objective quality inherent in each thing; its measure is dependent upon a process of estimation, and just price is associated with a common usefulness and reflected in customary price. It was not supposed that the price could be fixed with complete accuracy; so a slight variation up or down would not seem to destroy the equality of justice.

The sentiment expressed on the permissibility of slight variations, and the thought in the following quotation show the relaxation from the rigor of earlier medieval theory as to just price:[1]

> . . . it is to be said that not everyone who sells for more than he paid is a trader, but only the one who buys for the express purpose of selling dearer. Now if he buys a thing, not for the purpose of selling it but with the intention of keeping it, and later wishes to sell it for some reason, it is not trading though he sells at a higher price. For this can be done lawfully, either because he has improved the thing in some way, or because of the risk he takes in transporting the thing from one place to another, or even in having it transported for him. According to this reasoning, neither the purchase or sale is unjust.

It is evident that recognition was given to time and place utility in the determination of value and that a seller's costs involved those inherent in risks. In a further discussion of frauds committed in buying and selling, the unlawfulness of selling defec-

[1] St. Thomas Aquinas, *Summa theologica*, Q LXXVII, Art. III.

tive things and the necessity of declaring defects are brought out by Aquinas as follows:[2]

I answer that to expose a man to danger of loss is always unlawful; though it is not necessary that a man should always give another any help or advice likely to be of service to him, this being necessary only in certain cases, such as when a person is in his care, or cannot be helped by anyone else. But a seller who offers a thing for sale exposes the buyer to loss or danger by the very act of offering him a defective article, if he may incur loss or danger through the defect in it – loss, if the thing offered for sale is worth less because of such a defect, and he does not reduce the price on account of it; danger, if the use of the thing is hindered or rendered harmful by such a defect, as in the case of a man who sells a lame horse as a fast one, a ramshackle house as sound, decayed or poisonous food as good. Hence, if such defects are concealed, and the seller does not point them out, the sale will be unlawful and fraudulent, and he is bound to make good the loss.

But if the defect is obvious, as in the case of a horse with only one eye, or when the use of the thing, though not suitable for the seller, may be satisfactory for others, and if he makes a proper deduction from the price, because of this defect, he is not bound to point out the defect in the thing, because the buyer might wish to deduct more from the price on account of this defect than ought to be deducted. Hence the seller may lawfully provide against his own loss by keeping silent about the defect in the thing.

That wages are prices in the conception of Aquinas is apparent from his treatment of the subject of wages. A just wage is postulated as the rate or remuneration required to enable the worker to maintain himself in his station in life. That the laborer is worthy of his hire is a cardinal Christian principle. That the just wage is a component of the cost of production and therefore becomes a determinant of price is sensed by Aquinas.

Much space was given to the prohibition-of-usury doctrine by medievalists. It was closely linked up with the sin of avarice and in its worst, but not exclusive, form was identified with the taking of profits from loans of money. At the outset usury was forbidden only to clerics, but subsequently the prohibition became general. In this connection, it must be remembered that in the Middle Ages loans were made largely for consumptive and not produc-

[2] *Ibid.*

tive purposes; loans customarily were made to necessitous persons by friends. Shakespeare adverted to it in the *Merchant of Venice* in saying: "When did friendship take a breed of barren metal of his friend?"

In the Bible, and by Aristotle, usury is condemned, respectively, because it takes advantage of the distress of the poor and because money is barren. Aquinas places the objection on the ground of justice. The taking of interest for the use of money, while assuming no risk and incurring no loss or inconvenience, is considered evil and therefore illegitimate.

The condemnation of interest does not extend to the use of capital in a business enterprise. When money is advanced for investment purpose, a sharing in the profits is considered justified. The owner of capital, partaking of risk in letting a merchant trade with it or in putting it to a craftsman's use, is adjudged both prudent and just in looking for a reward in recompense.

Division of Labor

On division of labor, the Middle Ages accepted the Aristotelian doctrine based on the essentially social nature of man. But the Greek theory that many forms of labor were ignoble and occupations other than agriculture and statecraft disreputable was not held by the medievalist. Different occupations were construed necessary, and the test of reputability was to be found in the measure of their serviceableness. Direct and indirect public services were considered praiseworthy in the fullest degree, while occupations in the interest of private gain were dangerously near to injustice or sinfulness. A merchant's calling was believed so beset with temptations toward evil that the prudent man would prefer to shun it. But if the exchange were made within the range of natural economy, and not primarily to acquire gain, it did not necessarily involve anything dishonorable. The stress was upon the use made of gains, rather than upon gains as such.

Nicole Oresme

Biographical Sketch. Nicole Oresme (c. A.D. 1320–1382) was born in the neighborhood of Caen and educated in Paris. He devoted him-

self to a student's life and rose to the position of grand master of the College of Navarre. Later he was made dean of Rouen and died bishop of Lisieux. He translated several works of Aristotle from the Latin version into French and wrote on theological subjects and mathematics. His celebrated treatise *On the First Invention of Money* was written about 1360. Written in Latin, it was translated into French by the author himself at the request of King Charles V, who was formerly tutored by Oresme.

Oresme's Theory of Money

A theory of money which departs from the typically medieval point of view is presented by Oresme in his *Tractatus de origine, natura, jure et mutationibus monetarum.* It begins with a detailed account of the origin of money and proceeds with the discussion of qualities essential in commodities to make them suitable for adoption as the money medium. Gold and silver are designated as the most suitable metals, and because of the need for money denominations to make large and small exchanges, both of the metals should be used on a bimetallic basis in a single system. The mint ratio between the two metals should be determined by the normal market exchanges. This view places Oresme with those who, in their theories, derive the worth of money from the value of the commodities out of which money is coined.

An interesting description of the origin of money and the qualities of the precious metals for use in coinage follows:[3]

> Thus it came about that one man had more of one thing in his possession than his needs required, while another had little or none of the same thing, but on the contrary had a plenty of something else, of which the first was in need. As if, for example, a man had a surplus of sheep and other cattle but needed grain and bread, while the laborer, on the other hand, had bread enough but lacked cattle. Similarly, one region abounded in a thing of which another was greatly in need. For this reason, therefore, men began to traffic and exchange their riches with one another, without money, one giving sheep for some grain, another his labor for bread or wool, and similarly for everything else. And this practice was long the custom in several cities and countries, as Justinus, the historian, and other ancient authors

[3] Oresme, *Traictie de la première invention des monnoies,* Chaps. I–II.

recount. But since many difficulties and disputes arose among them under this method of exchanging things, clever men devised an easier way – the making of money, an instrument for measuring and exchanging one with another those natural riches by means of which men most easily supply their necessities; for all money is called artificial wealth, as indeed it is, since a man might have an abundance of it and yet die of hunger, as the philosopher Aristotle illustrates by the example of the covetous King, called Midas by Ovid in his *Metamorphoses*, . . . for money does not readily meet the needs of human life, but is an artificial instrument devised to facilitate the exchange of natural riches. Thus it can easily be seen without further proof that money is of great use to the commonwealth, and indeed very necessary, . . .

. . . . . .

And since money, therefore, is an instrument for the mutual exchange of natural riches, as explained in the preceding chapter, it was expedient that such an instrument should be convenient to handle, easy to carry, and such that a small portion of it might buy and exchange natural riches in great quantity, as well as several other conditions which will be noted hereafter. It is desirable, therefore, that money be made of precious material which is not plentiful, such as gold; but a material of which the country has an adequate supply. And when gold does not suffice, money is made of silver also. Where these two metals do not suffice, and adequate supplies cannot be found, then money should be made of alloy or simply of base metal, like the bronze or copper money of ancient times, as Ovid narrates . . .

Oresme places coinage in the jurisdiction of the state, but not as owner of the money medium, which, he says, belongs rather to those who own the country's riches. Consequently, debasement of the coin is illegitimate when resorted to by a prince since it is in reality a concealed tax which dislocates trade and impoverishes the country. Debasement is held both dishonest and an unnatural method of making a profit, the consequences of which lead to the flight of money, the diminishing of foreign trade, and the disorganization of life. Oresme cites an exception, however, in that the community itself may alter money advantageously under a given set of circumstances, as the following quotation shows:[4]

[4] *Ibid., Chap.* XXII.

Since money belongs to the community, as demonstrated in the sixth chapter, it would seem that the community may control it as it wills, and therefore may make as much profit from alteration as it likes, and treat money as its own property. And if the community has great need of a large sum of money for a war or for the ransom of its prince from captivity, or for some other emergency, then it might raise it by altering the money, and this would not be contrary to nature or usurious, since it would not be the act of the prince alone, but of the community to whom the money belongs. Hence many of the reasons advanced above against alteration would not apply in this case. Not only may the community do this for the reasons just stated, but in my opinion it ought to do it, provided the levy is necessary; for in this arrangement about all the conditions desirable for such a levy seem to be combined; it brings in a large revenue in a short time, it is very easy to collect and assess without the services of many officials, and it involves little expense or opportunity for fraud by the collectors. Indeed no other more equitable or proportional plan can be imagined; for he who has more pays more, and being relatively less felt, it is more tolerable without danger of rebellion and complaint by the people. It is also very general, for neither cleric nor noble can escape it by privilege or otherwise, as frequently happens in the case of other levies, causing various jealousies, dissensions, lawsuits, scandals, and other undesirable results which do not arise from the alteration of money.

Chapter 4. MERCANTILISM

A Transition Period

The medieval world, though relatively static when compared with the rapid changes characteristic of recent years, accelerated its movement toward the modern era in the fourteenth and fifteenth centuries. This feature of gradual change was so long sustained that authorities differ as to the beginning of the modern age. Comte and Ingram place the close of the Middle Ages at the end of the thirteenth century, and not the fifteenth, as most writers are wont to do. Others designate the two centuries since the thirteenth as a transition stage between two eras, inasmuch as they were a period of decomposition of the medieval system and the incubation years of important elements of a new order.

In the period of transition, the views of St. Thomas Aquinas, characterized by their peculiar moral, otherworldly, and nonnationalistic qualities, were superseded by ideas of an opposite trend. The ideal of cosmopolitanism waned; the particularism of the feudal system was replaced by the reality of a centralized state with an effective government. The spiritual power became less able to perform its moral office, and the desire for wealth grew. Provincialism no longer dominated economic matters.

Manor and Town Industry

At the height of the development of medieval institutions, the manors and the municipalities controlled economic life. In the towns the guilds dominated; initiative, characteristic of the modern age, was lacking. Masters and workmen of each industry were organized in one body for the control of the details of their business. They were governed by regulations incorporated in elaborate codes specifying quality of goods, prices, wages, hours,

apprenticeship, and other minutiae of detail. Representatives of the guilds dominated the town councils, to which the guilds, in turn, were subordinate.

The manors were largely self-governing, and manorial organization gave character to country life. Their industry was agriculture, but complementary activities were pursued in each manor as but few purchases were made in the towns and at recurring fairs. The characteristic of self-support of both town and country indicated the extent to which the practice of localism was carried. The towns even cultivated surrounding lands by the work of the citizens under guildlike supervision. In the particularistic practices of towns and manors were included some which by evolutionary process were to be superseded by more efficient techniques through a succession of changes culminating in modern quantity production.

Importance of Townsmen

In the Middle Ages, the vast majority of the people were peasants living in country villages, but the comparatively few men of the towns were slowly increasing and taking on a significant importance through their wealth and political influence. As yet, the nobility had most of the wealth and power of control since land was the principal source of revenue; but the towns in their growth were accumulating wealth more rapidly than the country, a condition which reflected a higher material prosperity. Towns became centers of progress, exerting an influence upon the current of events more than proportionate to their population. There the arts developed and inventions were brought forth. Close association, peace, and freedom quickened the mind, liberalized opinion, and prompted a willingness to seek and accept improvements in the methods of economic endeavor. Thus, there is the practical ferment which betokens expansion.

The Centralized State

The growing strength of industrial forces and the increasing range of commerce made emphatic the advantages in the central-

ized state. A pronounced shift in ideas about wealth views it not only as unobjectionable but actually as indispensable, particularly in the part it plays in the service of the state. So production and accumulation of wealth were dwelt upon by both writers and government officials. The treatise by Oresme on public finance was much read and gained wide credence.

Writers on political thought gave assistance in popularizing the idea of the centralized sovereign state. Machiavelli, in his book *The Prince* (1513), urged the use of any methods which would secure centralized government, claiming that a worthy end justified the means used in the attainment. Jean Bodin, in his *Six livres de la république* (1576), named the monarchial form of government superior to the democratic and the aristocratic. He taught that too many pilots at the helm hindered one another. The justification for absolute government he found in the need for good government, and not in divine right. So he evolved his famous doctrine of sovereignty.

Machiavelli

Biographical Sketch. Niccolo Machiavelli (1469–1527), brilliant writer, distinguished statesman and historian, was born in Florence. Little is known of his early years, but it is a matter of record that he entered upon a public career as secretary for the Ten of Florence in his thirtieth year. Thereafter, for 14 years, he directed the affairs of the Florentine Republic which was the center of Italian culture during the Renaissance. Machiavelli was an important figure in an environment in which art and literature rejected medievalism and drew inspiration from models of the ancient world. Being thoroughly familiar with the writings of ancient Rome and enjoying an extensive acquaintance with Greek thought, Machiavelli ignored Scholastic procedure and restored the history of the Greeks and Romans as the source of political truth; thus he set a pattern in direct contrast with medieval tenets, which rejected pagan experience as worthless because of lack of participation in divine revelation. According to Machiavelli's point of view, political philosophy was to be formulated independently of ethical and theological influences.

On the return of the Medici to power in 1512 he was imprisoned for alleged complicity in a plot to overthrow the new government and, when released, retired to his country estate and devoted himself to

literature. His chief works are the *History of Florence, Discourses on Livy,* and *The Prince.* The last-named founded the modern science of politics. In it Machiavelli set forward the idea that morality serves as a proper guide for private conduct but that a benevolent despot is justified in employing any means to achieve a praiseworthy purpose. He was an acute observer of the actual workings of Italian governments of his time and spoke in praise of their craft and diplomacy. Machiavelli believed that a state must expand or perish, and favored a policy imitative of ancient Rome.

Divergent Theories of St. Thomas and Machiavelli

By the end of the fifteenth century the former idea of a united Europe under an imperial ruler was far removed from actuality. Though St. Thomas Aquinas exhibited the historical spirit, and in many respects his views were singularly advanced, he held to the Scholastic type of rationalizing and to interwoven theocratic arguments which subjected the political ruler to the divine law of the Church.

In marked contrast was the method of Machiavelli in his divorce of politics and morality; the union of theory and practice. It was characterized by empiricism – a heavy leaning upon observation and experience. His influence upon the history of political theory was great, and his reputation gave him the premier position among modern philosophers up to Montesquieu.

In making material prosperity the chief motive of political action, Machiavelli assumed the position of chief herald of the mercantilistic state. Extension of power he held as the test of excellence in government; in his opinion every government must extend its authority or perish; a strong, virile, progressive state was his ideal. Jean Bodin concurred in favoring absolutism in government, but he avoided Machiavelli's indifference to morals.

Jean Bodin

Biographical Sketch. Jean Bodin (c.1530–1596), preeminent French scholar and political writer, was born at Angers and studied law at the university there. After spending twelve years at Toulouse lecturing on jurisprudence he removed to Paris to practice law. Unsuited to the vicissitudes a legal practitioner is apt to experience, he spent most of

his life in the public service closely attached to the court of Henry III. By natural disposition opposed to the disintegrating tendencies of religious factions, he supported the monarch in the attempt to quiet dissension and hoped to help secure the crown for Henry of Navarre. He was no closet philosopher. He rejected the uncritical use of history and theological authority. Having no religious prejudices, he was superbly fitted for the work of practical politics. Although in his writings there is evidence of veneration for God, to this day his creed is not precisely known. By contemporaries he was at different times assailed as Catholic, Calvinist, atheist, Mohammedan, and Jew. His chief works are *Les six livres de la république*, and *Methodus ad facilem historiarum cognitionem*. His theory of sovereignty dominated political thought until recent years. In his conception, *sovereignty* is supreme power over citizens and subjects unrestrained by law.

Nationalistic Regulation

Since the interest of both Machiavelli and Bodin was in the creation of a strong state, mercantilism, which was concerned with the economic means by which a state might be made strong, harmonized with their objective. Mercantilism consisted in a sheaf of theories, not all of which developed simultaneously; nor did any writer expound all phases of its ramifications until 1767. In that year and after the heyday of the mercantile doctrines was past, Sir James Steuart published his complete and systematic survey, *Inquiry into the Principles of Political Economy*.

Mercantilism was characterized by regulation. In the bundle of theories constituting it were included the theory of nationalism, the doctrine of low wages and cheap food with the closely related theory of a numerous population, and the theory of industrial preferentials. Foreign commerce was placed at the top of the list of economic activities and agriculture at the bottom. The theory that the precious metals constituted the most important and desirable part of wealth and that through a favorable balance of trade a full supply of gold and silver was assured ~~was~~ a basic teaching. Protection of manufactures and the theory that the sovereign is responsible for assuring the needs of the state by the development of national resources entered into state policy. Mercantilism was rooted in practice; its theories were not expounded

by philosophers; they were deduced from the acts of statesmen, government officials, and business leaders.

In the doctrine of mercantilists a strong state is required to break down opposition to commercial restrictions and to protect trading interests. Dependence on the state appears so real that there is room for argument that political unification was the sole end sought in economic practices. But complete subservience need not be conceded, for to changes in the medieval economic structure must be attributed causal influence in the centralization of political institutions. Divergent individual trading interests saw advantage in a strong state if controlled effectually by a specific group; hence they could all argue the identity of merchant affluence and national prosperity. The case is one of pronounced interaction between economic and political institutions, and political and economic ideas as well.

National Power Related to Wealth and Population

To make a nation powerful two things were considered necessary — riches and population. A numerous people would alike serve the purposes of war and of production. It would make invention, frugality, and industry necessary and bring a nation wealth. Hence, immigration was favored and equal rights to immigrants were advocated on the ground that improved industry would benefit all citizens.

Not much specific reference was made to the rate of wages, but everywhere implicit in mercantilistic argument is the conviction that wages should be low and food cheap. Low wages would hold down the cost of production and make possible the underselling of competitors in foreign markets. Cheap food must be had to hold down wages, and cheap raw materials were considered equally important in holding down costs of manufactured products.

Among the industries, that of foreign trade was given priority, and among the hierarchy of occupations the least important place was accorded agriculture. Manufacturing was given the middle position as a necessary ally of foreign commerce and worthy of being fostered on that account. Compared with his doubtful

position in the Middle Ages, the merchant had come into his own – the preferential position in mercantilism.

The precious metals were highly regarded because they were believed to be beneficial to the economic activity of the country. Money and bullion were looked upon as signs of wealth and of preponderate importance because generally acceptable and most enduring. Some incautious statements have been interpreted as evidence even that money and wealth were confused in their thinking. In any case, bullion was held as the most important form of wealth, and contrivances were devised to acquire it.

The Function of Trade

For a country without mines, if plantations with mines could not be acquired, the desired gold and silver would have to be procured as a result of trade. A maintained excess of exports over imports was their "favorable-balance-of-trade" device to excite the flow of gold inward. In the international rivalries of the day, their zeal in accomplishment was the more ardent because mercantilists held the view that what one country gained in trade the other lost. To maintain the desired unbalance in trade governments protected their manufactured goods intended for the home market in the industries experiencing foreign competition. Stimulation of manufactures for export was also of prime importance to governments. To a considerable degree governmental objectives were attained in the leading countries.

Commercial and manufacturing preponderance was the goal striven for by competing states, and all political and financial resources were marshaled for the purpose. That supremacy might be attained, national industries were supervised; some were curbed, others were aided. Interference with private enterprise was considered justified if prompted by state policy. The state was regarded as the appropriate instrument for the promotion of well-being. To serve this end the state might go to the length of establishing state industries.

Although Machiavelli and Bodin were in line with the mercantilistic trend by their advocacy of uplift through governmental means, and evidences of the method were noticeable as early as

the reign of Spain's Charles V, the first writer to develop the doctrine systematically was Serra, an Italian. Thomas Mun, a contemporary, was the most noted English advocate.

Antonio Serra

Biographical Sketch. Antonio Serra (c. 1580–1650), a native of Cosenzo in Calabria, was the most celebrated Italian mercantilist. His book, *A Brief Treatise on the Causes Which Can Make Gold and Silver Plentiful in Kingdoms Where There Are No Mines,* was published in 1613, a date earlier than that of any other work giving a comprehensive treatment of the subject. On the title page he called himself "Doctor." The treatise was written during his imprisonment, which was due, it was believed, to complicity in a conspiracy for the liberation of Naples from Spain, and the establishment of a republican government. There is no evidence that the book had the attention of his contemporaries, and it probably exerted no direct influence on other early writers. It was brought into notice in the century following its issue. The book is truly remarkable in its treatment of important elements in the acquisition of wealth. Essential factors, he pointed out, include favorable external conditions, a population energetic and industrious, a stable government, and good administration.

Superiority of Manufactures

Serra believed resolutely in the superiority of manufacture over agriculture and that the trade arising from the former is a prime cause in the accumulation of national wealth. He argues as follows:[1]

The quantity of industry will make a kingdom or city abound in money when many and varied trades, necessary, or convenient, or pleasant for human use, are carried on there, in quantities in excess of the needs of the country. This factor ought not only to be placed at the head of the common ones, but in many respects should be rated higher than the particular factor of surplus produce. First, because of its greater certainty, since the artisan is more certain of making a profit by working at his trade than the peasant or other persons by cultivating or preparing their products; this profit being dependent, not upon man's work alone, but upon the nature of the weather, according to

[1] Antonio Serra. *A Brief Treatise on the Causes Which Can Make Gold and Silver Plentiful in Kingdoms Where There Are No Mines,* Chap. III.

the varying needs of the land, which at some times needs rain, at others sun, as well as other conditions. If these are lacking or if unseasonable weather comes, the labor is of no avail; and instead of profit, there is sometimes a loss; but in the trades, *the application of labor is always sure to bring gain.*

Second, *in the trades there can be extension,* and thus the profit can be increased; which is not possible in the case of produce, this not being subject to increase. Nobody, for example, having a territory upon which only a hundred *tomola* of wheat can be sown, will be able to have a hundred and fifty sown; but among the trades, it is just the other way, since they may be multiplied not only twofold but two hundredfold, and with proportionately less expense.

Third, *the trades have a surer market than produce* does, and consequently the profit is surer. That their market is surer should be clear from this reason alone: That produce is hard to keep for any length of time without spoiling; hence, its export from one country to another distant one is exposed to risk on this score; and in case such goods cannot be sold for the time being, and if it is desired to keep them for the future, the same danger threatens. But in the case of the trades, it is quite the opposite, their products being easily preserved, not only for a short but also for a long time; and for the same reason, they may be exported with every facility to any distant country. And the art of navigation being nowadays so improved that in this alone the moderns have surpassed the ancients, having developed trade not only between the east and west and between the south and the north, but even between one hemisphere and the other, so that commodities are readily transported from one place to another; who will not admit that the market for the trades is surer than that for produce, and the profit consequently more certain?

Fourth and last, in most cases *more profit is made from industry than from produce,* as is seen in the manufacture of wool, especially fine cloths, in the manufacture of linen, of silks, arms, pictures, sculptures, printing, and in all branches of the drug industry, with an infinite number of others which it would be superfluous to mention. For all of which reasons this factor ought to be placed ahead of the factor of surplus produce; for when it is found in perfection in a city or kingdom, it will be one of the most potent of the causes bringing in an abundance of gold and silver—much more than surplus produce. In Italy the city of Venice will hold the first place, possessing this factor in perfection; whereby so much produce is obtained through manufactures, and money is brought in, as is well known. The city of Naples,

on the contrary, will be rated as the one in which this factor is found in no perfection. For not only are all or the greater part of the trades lacking there, but such as do exist, except the silk manufactures, are not sufficiently extensive to provide any exports, as is necessary in order to produce the effect in question; or even adequate for its own needs and for the Kingdom of which it is the head, so that it may not have to pay for manufactures from abroad; as will be shown when we come to make a comparison between it and the city of Venice with respect to plentifulness of money.

Thomas Mun

Biographical Sketch. Thomas Mun (1571–1641), son of a London mercer and grandson of an official of the British mint, engaged in foreign trade with marked success. He enjoyed a great reputation among London merchants and became a director of the East India Company in 1615. This position he held continuously for the remainder of his life. In 1621 he published *A Discourse of Trade from England into the East Indies.* It was written in defense of the East India Company's policy of exporting bullion on mercantile voyages. The policy was defended on the ground that more than the amount of bullion exported was imported within six months and that profits were greater under the practice. His book, *England's Treasure by Forraign Trade* – the most famous exposition of mercantilistic doctrines – was written in 1630 for the instruction of his son, by whom it was published in 1664. It had a wide circulation, as six known editions attest. It is well written and systematically organized. Striking similarity of organization between it and Adam Smith's *Wealth of Nations* gives the impression that it may have been the model after which the latter was patterned. Mun's theory of national opulence is so renowned that its author has attained an imperishable place in the annals of economic literature.

How to Enrich the Kingdom

Under the caption, "The Means to Enrich the Kingdom, and to Increase Our Treasure," Mun wrote:[2]

Although a Kingdom may be enriched by gifts received, or by purchase taken from some other Nations, yet these are things uncertain and of small consideration when they happen. The ordinary means therefore to increase our wealth and treasure is by Forraign Trade,

[2] Thomas Mun, *England's Treasure by Forraign Trade,* Chap. II.

wherein we must ever observe this rule; to sell more to strangers yearly than we consume of theirs in value.

Mun presents the earliest clear statement of the theory of the balance of trade and how a favorable balance may be secured for England. He advances ideas of commercial capitalism and assigns a high place to the efficient merchant. As state-adopted policies, he advocates the management of the export of manufactured goods, the control of the carrying trade, and the adjustment of customs duties in a way to attract the inflow of money from abroad. He stands in opposition to the absolute restriction on the export of the precious metals, for he argues profitable trade may be had for money with some countries which otherwise would not trade at all because they have no use for English wares. So, in addition to wares, money may be expended to advantage in increasing the volume of trade, thus bringing in more foreign goods which, when sent out again – as refined products if imports were raw materials – must increase the nation's treasure. His idea involves the principle of the three-cornered trade and is illustrated by him as follows:[3]

Thus may we plainly see, that when this weighty business is duly considered in its end, as all our humane actions ought well be weighed, it is found much contrary to that which most men esteem thereof, because they search no further than the beginning of the work, which misinforms their judgments, and leads them into error; for if we only beheld the actions of the husbandman in the seed-time when he casteth away much good corn into the ground, we will rather accompt him a mad man than a husbandman: but when we consider his labours in the harvest which is the end of his endeavours, we find the worth and plentiful encrease of his actions.

Twelve Methods of Enrichment

Mun enumerates 12 methods for the enrichment of the kingdom. They comprise a complete catalogue of mercantilistic devices. Wastelands are to be brought under cultivation, excessive consumption of foreign wares abstained from, and the principle of pricing exports in harmony with the rule of charging what

[3] *Ibid.*, Chap. IV.

the traffic will bear adopted. Invisible exports are stressed in advocating the use of English ships exclusively in the carrying trade so as to enhance income and merchants' gains. National wealth should be frugally expended and the fisheries in adjacent seas developed. Entrepôt trade is to be encouraged, and trade with far countries cherished. Manufactured goods are to be exported free or otherwise not burdened with too great customs so as to hinder their sale abroad, and money export under prescribed conditions is not to be prohibited. The last method in Mun's program in his own words reads:[4]

Lastly, in all things we must endeavor to make the most we can of our own, whether it be *Natural* or *Artificial;* and forasmuch as the people which live by the Arts are far more in number than they who are masters of the fruits, we ought the more carefully to maintain those endeavours of the multitude, in whom doth consist the greatest strength and riches both of King and Kingdom: for where the people are many, and the arts good, there the traffique must be great, and the Country rich. The Italians employ a greater number of people, and get more money by their industry and manufactures of the raw Silks of the Kingdom of *Cicilia,* than the King of *Spain* and his Subjects have by the revenue of this rich commodity. But what need we fetch the example so far, when we know that our own natural wares do not yield us so much profit as our industry? For Iron ore in the Mines is of no great worth, when it is compared with the employment and advantage it yields being digged, tried, transported, bought, sold, cast into Ordnance, Muskets, and many other instruments of war for offence and defence, wrought into Anchors, bolts, spikes, nayles and the like, for the use of Ships, Houses, Carts, Coaches, Ploughs, and other instruments for tillage. Compare our Fleecewools with our Cloth, which requires shearing, washing, carding, spinning, weaving, fulling, dying, dressing and other trimmings, and we shall find these Arts more profitable than the natural wealth, whence I might instance other examples, but I will not be more tedious, for if I would amplify upon this and the other particulars before written, I might find matter sufficient to make a large volume, but my desire in all is only to prove what I propound with brevity and plainness.

Jean Baptiste Colbert

Biographical Sketch. Jean Baptiste Colbert (1619–1683), celebrated French minister of finance under Louis XIV, was born at

[4] *Ibid.*, Chap. III, sec. 12.

Rheims, the son of a wool merchant. He entered the government service as a youth, and, having attracted the attention of Mazarin, who put him in charge of his private fortune, he gained rapid advancement. Financial talent and administrative ability were proved in reorganizing Mazarin's disordered estate. Efficiency and system were the touchstones which, by the age of thirty-two, made him the confidential agent of Cardinal Mazarin, who, in turn, recommended him to the King. In a brief time he became the virtual dictator of the powerful French monarchy.

Essentially a financier and economist, Colbert became one of the most noted practical exponents of mercantilism – actually the chief executor of the mercantile policy in France. Zealous in his own class interests, he fostered manufactures and commerce by every device. So pronounced was his success that the doctrines of nationalism and the entrepreneural relation of the state to industry were realized in the practices of France to a greater degree than in any other country. Colonies and trading companies were promoted; the merchant marine and the navy expanded. Though an advocate of the theory of free expenditure to stimulate trade, Colbert found Louis XIV too ardent a disciple of the spending policy; consequently, he protested against the unbridled royal extravagance.

Colbert was a marvelous administrator; in ten years he doubled the King's revenues, as French commerce and manufactures rapidly increased. He kept the King's accounts and directed six ministries, which called for a work schedule of sixteen hours daily. Notwithstanding herculean efforts on the part of Colbert, the King greatly overspent the munificent public income.

In spite of his genius, Colbert's plans were nearly all defeated. Broken in health and without strength to support the tension of unrelaxed application, he died, so to speak, at his desk. Because of heavy tax burdens and the near bankruptcy of the state, he, though blameless, was bitterly hated by the people he had faithfully served. His coffin had to be guarded from the mob by a detachment of soldiers, and he was buried secretly at night.

Colbertism

The theory of governmental assistance to industry was developed to such a degree in France by Colbert that in the French language the policy is designated by the term *Colbertism*. Under it model industries were established, inventors protected, immigrant workers solicited, and French workers enjoined from leav-

ing the country. Tariffs were imposed on imports and bounties paid French ships engaging in foreign trade. Exportation of the precious metals was prohibited; monopolies were encouraged; and meticulous governmental supervision was imposed upon the manufacture, quality, quantity, and sale of all commodities.

Internal means of transportation were improved by betterment of roads and the construction of canals. Colonies and trading companies were promoted, and solid material prosperity supported a mighty naval and military establishment which rivaled that of England and Holland. The docks and arsenal at Toulon were reconstructed, and shipyards were established at Rochefort, Calais, Brest, and Havre. France succeeded Spain as the leading power of Continental Europe.

Though Colbert was primarily an administrator, his letters, instructions and other papers are expositions of his ideas on economic subjects. In them are found a defense of every phase of his highly regulatory and paternalistic system. Science was not overlooked, and academies were established, viz., the Academy of Inscriptions, the Academy of Science, and the Academy of Architecture. The Royal Library and the Garden of Plants were enlarged. An astronomical observatory was built, and the measurement of the meridian begun.

Cameralism

In Germany political economy arose out of the cameralistic sciences, which comprise the body of doctrine occupied with the management of the public domain and the administration of financial affairs. In the body of rules and regulations developed by the cameralists, political, juristic, technical, and economic ideas appear. The *camera* (in German, *Kammer*) was the royal treasure chamber and by inference the treasure therein. Cameral affairs concerned the economy of the prince – the maintenance, increase, and administration of the royal income. Cameralists were quite thorough mercantilists, but they were more than that; they made more of domestic industry than their English and French prototypes. In the tomes of cameralistic theory, chapters were included dealing with the technology of agriculture, grazing,

mines, and forests. Hence cameralism has had a broad influence which appears in the common division of German economic science into theory, technology, and finance.

Philipp Wilhelm von Hornigk

Biographical Sketch. Philipp Wilhelm von Hornigk (1638–1712) was born at Mainz, studied law at Ingelstadt, and practiced his profession at Vienna. In 1690 he entered the service of the Cardinal of Passau, by whom he was subsequently appointed privy councillor. He published two tracts on public law which were followed two years later by a book of great repute in its day, entitled *Oesterreich über Alles, wann es nur will.* It was a highly popular work and went through 12 editions in a generation. Though von Hornigk was a thoroughgoing mercantilist, his chief thesis was on self-sufficiency, which stresses the fact that the might and eminence of a country consist in things necessary or convenient for its subsistence, derived, so far as possible, from its own resources, in addition to a surplus of gold and silver.

Von Hornigk's Rules

Von Hornigk postulates rules for the attainment of cameralistic ends. The most is to be made of the country's soil, every useful plant is to be experimented with, and every effort made to discover domestic deposits of gold and silver. Commodities not usable in the natural state are to be refined or fabricated by native workers because their value may be enhanced two-, ten-, twenty-, or a hundredfold. Attention should be given to population so as to make it as large as the country can support and as efficient at work as systematic instruction can make it. The exportation of gold and silver is to be prohibited.

The foregoing principles represent, in summary, the first four rules tabulated by von Hornigk to raise a country to a position of might and eminence. The remaining five are given in full quotation:[5]

Fifth, the inhabitants of the country should make every effort to get along with their domestic products, to confine their luxury to these alone, and to do without foreign products so far as possible (except

[5] Philipp Wilhelm von Hornigk, *Oesterreich über Alles,* Chap. I.

where great need leaves no alternative, or if not need, widespread, unavoidable abuse, of which Indian spices are an example). And so on.

Sixth, in case the said purchases were indispensable because of necessity or *irremediable* abuse, they should be obtained from these foreigners at first hand, so far as possible, and not for gold or silver, but in exchange for other domestic wares.

Seventh, such foreign commodities should in this case be imported in unfinished form, and worked up within the country, thus earning the wages of *manufacture* there.

Eighth, opportunities should be sought night and day for selling the country's superfluous goods to these foreigners in manufactured form, so far as this is necessary, and for gold and silver; and to this end, *consumption,* so to speak, must be sought in the farthest ends of the earth, and developed in every possible way.

Ninth, except for important considerations no importation should be allowed under any circumstances of commodities of which there is a sufficient supply of suitable quality at home; and in this matter neither sympathy nor compassion should be shown foreigners, be they friends, kinsfolk, *allies,* or enemies. For all friendship ceases, when it involves my own weakness and ruin. And this holds good, even if the domestic commodities are of poorer quality, or even higher priced. For it would be better to pay for an article two dollars which remain in the country than only one which goes out, however strange this may seem to the ill-informed.

There is no need of further elucidating these fundamental rules of a general national economy. Their reasonableness is obvious to every man of intelligence. I do not mean to exclude all exceptions. The circumstances of each country may allow them now and then but only rarely. If countries and their way of looking after things are considered according to these rules, it will be easy to judge their general economy.

Johann Heinrich von Justi

Biographical Sketch. Johann Heinrich von Justi (1717–1771) was born in Thuringia and educated in several German universities. His specialty was jurisprudence. In 1750 he was appointed professor of cameral sciences in Vienna. After a few years in Austria, he became successively a member of administrative commissions in Göttingen and Berlin. Because of alleged irregularities in his accounts as director of mines and superintendent of glass and steel works, he was removed from office and thrown into prison, where he died. He was a volumi-

nous writer; though incorporating much that had been done by predecessors, yet the analyses and classifications are new. His *System des Finanswesens,* written in 1766, is so able a treatise that it has gained him rating as the greatest of the German cameralists.

Justi's Doctrines

In Justi's book on political economy, cameralistic doctrines were summed up and organized. His exposition proceeds on the assumption that economic science is confined to matters dealing with the maintenance and increase of the wealth of private persons, while cameral science devotes itself to matters pertaining to the income and other indicia of governments. Since freedom, safety of property rights, and prosperous industry are the essentials of a prosperous state, the means to assure them are a chief concern.

Justi lays great emphasis upon commerce and a favorable balance of trade; yet he insists that the importance of agriculture and mining must not be overlooked. He stresses the advantages in cheap food and low wages. Another one of his tenets is the desirability of an increasing population. In one respect he is not thoroughly mercantilistic, for he sees that the interests of merchants are not always harmonious with those of the government.

It is pointed out that a civil society has to spend a good deal for its maintenance and welfare but that expenditures should be held at a moderate level. He definitely places the expenses of monarchies above those of republics because in the latter, if of the ideal type, there is much free service. Where in republics this condition does not prevail there is implicit evidence, he believes, of official corruption. Expenses should not be allowed to increase because of purely imaginary wants; expenditures should all be really necessary and useful.

Furthermore, Justi considers it both natural and reasonable that the state should, as far as possible, maintain itself out of income from its direct and special property. Subjects should not be asked to make contributions except in an amount to balance the inadequateness of the state's income from other sources to meet necessary expenses.

Nothing is considered subject to so great abuse as income from taxes and contributions. Since men are very ingenious in thinking up new needs when the source of income is another man's property, the natural result is the resort to contributions and the steady increase of taxes until the burden becomes intolerable to the subjects and ruin is brought upon both subjects and state. History reveals the final result as revolution.

Justi's Principles of Taxation

By definition, "taxes and contributions are the payments by the subjects from their private property, which they have to make for the necessary expenses of the state in a certain proportion to their property and earnings, when the revenues from the domains and prerogatives are inadequate."[6] In questions relating to taxes and contributions, Justi sets forth six principles to be constantly kept in mind. The first is that subjects must be able to pay them; the second, that the contributions must be levied upon the subjects with complete equality and just proportions. The third fundamental rule is that the method of raising the contributions must be of such a character that the welfare of the state, of the subjects, and civil freedom suffer no harm. The fourth rule is that contributions should be organized according to the nature of the state and of the form of government. As stated by Justi:[7]

> It is also necessary in all questions of taxes and contributions to consider the nature, situation, fertility, standard of living, and other characteristics of the country; and due regard must be had for the genius, inclinations, sentiments, and spirit of the people. A form of contribution paid by one people without opposition would sometimes arouse much dislike for the government in another people.

The fifth rule is that taxes and contributions must be given a certain and honest basis, fixing them definitely and making them clear to all. The sixth and last rule is that taxes shall be so arranged that they can be collected in the easiest and most convenient way and with as little expense as it is possible to incur.

[6] Johann Heinrich von Justi, *System des Finanswesens*, Book IV.
[7] *Ibid.*

Chapter 5. THE PHYSIOCRATS

The Meaning of the Term Political Economy

For past centuries economics was restricted in meaning to the theory of domestic management. Although now the adjective "political" is deemed unnecessary as a descriptive term in the full title "political economy," when Antoine de Montchrétien first employed it (1615) in the title of his book *Traité de l'économie politique,* it was rated an important service. In the time following the adjective has not been entirely devoid of significance, for the science has been concerned with the business affairs of the state as well as the material welfare of its citizens. Montchrétien, however, provided the name merely for the modern science; the real founders were François Quesnay and his associates.

François Quesnay

Biographical Sketch. François Quesnay (1694–1774) came of peasant stock, studied and practiced medicine, and later became a noted physician. It is said that at the age of eleven he had not learned to read. The first seventeen years of his life were spent on the family farm estate near Paris. He was largely self-tutored in elementary subjects but obtained an apprenticeship to an engraver and later studied surgery, a profession in which, by his twenty-fifth year, he qualified as a master. He attained sufficient reputation in medicine, too, to gain his appointment as court physician to Madame de Pompadour, and later to King Louis XV.

Doctor Quesnay did not enter into the life of the court; his duties light, he devoted himself to study and reflection. His early life on the farm had its influence, for his interest in agriculture persisted amid the diametrically opposite environment of the court. Conferences held in his apartments were attended by famous men, some of whom became converts to his theories on an agricultural economy. Mirabeau the

Elder, who wrote a popular book entitled *l'Ami des hommes* in which the elements of population and agriculture were described as intimately bound together, was invited to one of the meetings. Out of the series of subsequent conferences sponsored by Quesnay there developed the earliest school of economists.

Mirabeau's book created a great sensation, and it was the direct cause of bringing the author and Quesnay together as fellow philosophers. Its author became an ardent and unwearied propagator of physiocratic doctrines, and Quesnay's *Tableau économique* was styled by him as one of the three greatest inventions of the human mind together with writing and money.

Quesnay, the man, has been described as an interesting and engaging personality; as a philosopher, he grasped the conception of a unified science of society; as an economist, he saw agriculture as the sole source of wealth.

The Natural Order

The physiocrats held to the idea of the interdependence of all social classes and the final dependence of these upon nature. The *natural order* was looked upon by them as providential, an order which God had ordained. Revealed by a principle from within, not the product of observation of external facts, it was accepted as obviously the best. Its origin divine, its scope universal, it remained the same for all time.

The natural order was conceived of as a state of nature in contrast with an order artificially created. It was thought to contain nothing to create, nothing to discover, for the natural order was self-evident. According to Du Pont, introspective self-examination reveals the essence of natural law; according to Turgot: "The rights of man are not founded upon history; they are rooted in his nature." Furthermore, it is of the essence of the order that the particular interest of the individual coincides with the common interest. Since the pursuit of self-interest is instinctive, removal of restrictions and a dropping of all coercion prove in all affairs the road to common advantage. It all seemed so simple, so easy of attainment. In fact, the mass of regulations constituting the old regime in France was destroyed in quick order, and the principle of *laissez faire* substituted.

Pierre Samuel Du Pont de Nemours

Biographical Sketch. Pierre Samuel Du Pont de Nemours (1739–1817), noted French political economist, was born in Paris and died in America. He gained a reputation by writing on commerce and political economy but held also successively many positions in public life, including the presidency of the National Assembly twice and that of French commissioner in negotiating with England for recognition of the independence of the United States. To Du Pont we owe the term *physiocracy*, which signifies the *rule of nature*. He made little original contribution to the science of economics, but as an enthusiastic disciple of Quesnay he served as a capable propagandist through his writings in the two journals of which he was the editor. His book *Physiocratie*, published in 1767, is a noteworthy production. He also wrote the *Philosophy of the Universe* and the *Life of Turgot*. He labored incessantly to popularize the doctrine of the natural order and was of material assistance in making physiocracy the vogue in Paris. The following is a typical paragraph from his writings:

"There is a natural society whose existence is prior to every other human association. . . . These self-evident principles, which might form the foundation of a perfect constitution, are also self-revealing. They are evident not only to the well-informed student, but also to the simple savage as he issues from the lap of nature."

During the French Revolution Du Pont was a conservative and became increasingly unpopular as the Revolution progressed. He hid and managed to escape the fury of the mob for a time, but upon being discovered, he was tried and condemned to the guillotine, evading execution only by the termination of the Reign of Terror.

In 1799 Du Pont emigrated with his family to the United States and settled in Delaware. While in America, Jefferson appointed him to draw up a system of national education and to serve as a special representative to Napoleon. He is the French ancestor of the American Du Ponts.

Land the Predominant Factor

The most characteristic doctrine of the physiocratic system was the predominant position of land as an agent of production. The physiocrats saw God operating through nature, which was ascribed the source of value; the virtue of furnishing a net product

they found solely in agriculture except for a minor contribution by other extractive industries – particularly mining. Consequently, labor applied to the raising of crops was virtually the sole form of physical endeavor producing a surplus. From Turgot we have the following:[1]

Land is always the first and sole source of all riches; it is land which, as a result of cultivation, yields all revenue; it is land also which furnished the first fund of advances prior to all cultivation. The first cultivator took the seed which he sowed from plants which were the spontaneous product of land; while waiting for the harvest, he lived by hunting, fishing, wild fruits; his tools were branches of trees broken off in the forests and fashioned by means of sharp stones edged upon other stones; he captured with his hands or in his snares the animals wandering in the woods; he domesticated them; he used them at first for food, later to help him in his work. This first fund increased little by little; cattle were at first the most sought after kind of moveable riches, and the easiest to accumulate: they perish, but they reproduce, and wealth in this form is in a sense imperishable: this fund even grows as a result of mere natural increase, and yields an annual product, either in the form of milk, or wool, hides, and other things, which, with the wood gathered in the forests, constituted the first fund for industrial operations.

Anne Robert Jacques Turgot

Biographical Sketch.—Anne Robert Jacques Turgot (1727–1781) was the most eminent and politically the most important of the physiocrats. He was the son of a government official of distinction and a descendant of an old Norman family. Born and educated in Paris, like many other younger sons of rank he was destined for the Church. He distinguished himself as a scholar and obtained the degree of bachelor of theology.

Entering the Sorbonne, at the age of twenty-two Turgot was elected prior. After three years in the prior's position, he entered the government service, traveled on tours of inspection, figured in brilliant gatherings of the salons, and interested himself with economic subjects.

In 1761 Turgot was appointed intendant of Limoges, then a poverty-stricken province of France. The position provided the opportunity for the practical application of his economic theories, which, in most

[1] Anne Robert Jacques Turgot, *Réflexions sur la formation et la distribution des richesses*, Chap. LIII.

particulars, coincided with those of other leading physiocrats. He introduced the culture of clover and potatoes, founded the porcelain industry in the province, abolished oppressive taxes, and established a relief organization for the destitute in a year of famine. During the period of his intendancy he wrote letters on the grain trade, a treatise on interest, and his most important work, *Réflexions sur la formation et la distribution des richesses.* In the latter he developed Quesnay's theory that land is the sole source of wealth and that the expenses of government should be borne by a single tax on the surplus of agricultural production.

In the face of a financial crisis, the successful administration in Limoges attracted the attention of the administration at the capital city with the result of Turgot's appointment as finance minister. His program called for rigid economy. Trade privileges and sinecures were canceled; the national deficit was reduced; credit was restored; and food riots suppressed. In order to improve general conditions, Turgot moderated duties, freed commerce, encouraged industry, and suppressed the guilds. These drastic measures aroused insistent opposition which resulted in a reluctant dismissal by the King, who at one time said, "Only Turgot and I really care for the People." In private life for the five years remaining to him, Turgot looked on helplessly while the government approached the brink of financial disaster and the country faced economic chaos.

According to Turgot, out of the excess value of production over costs, all classes of society other than cultivators must be supported. Manufactures, commerce, and transport were counted nonproductive in that value added to goods equaled merely the costs borne. Hence, cultivators – specifically the agricultural entrepreneurs – were the means of support of the so-called "sterile" classes. Thus, contrary to the insistence of mercantilists, manufactures were not to be built up at the expense of agriculture; rather, agriculture was to be encouraged through an enlarged application of capital to land, the profits therefrom increased by conducting the industry on a large scale.

The Circulation of Wealth

Proprietorship was given an exalted position because it was regarded as a divine institution and hence the dispenser of the sur-

plus – the *produit net* – to all other classes. How wealth passed from one class to another was an important consideration in their system, and, logically, the detailed order of sequences in the transfer of products was described in Quesnay's *Tableau économique.*

The *Tableau* is a graphic representation of his idea of the circulation of wealth. Three social classes are distinguished: a proprietary class consisting of landed proprietors and others with a title suggestive of a semblance of sovereignty; a productive class of agriculturists – miners and fishermen added; a sterile class consisting of manufacturers, merchants, professional men, and domestic servants.

The Dispensers of Wealth

Landowners are virtually treated with reverence since property is the foundation stone of the natural order. Proprietors are looked upon as the dispensers of all wealth. In defense of private landed property, emphasis is put on the argument that the proprietors cleared or drained the land or inherited it from ancestors who did. Through expenditures of labor and capital, proprietors have helped to make the land and so have acquired a prior and superior right even to that of the actual cultivators. The portion they allotted to themselves is the whole of the *net product.* But, in turn, upon themselves they placed the obligation of furthering the national interest in every way and of bearing the whole burden of taxation.

The agriculturists – the cultivators of the soil – are labeled the productive class. Their productivity, however, is attributable solely to work in cooperation with nature; in effect, according to physiocratic theory, it is nature and not the worker that produces wealth. Yet, because the agriculturists work with nature, they are placed in a class above the industrial workers and others of the same order, to which is attached the epithet sterile because its labor does not produce a surplus.

Under physiocratic theory, the necessaries for the sterile class are procured secondhand from the cultivators. They produce nothing of a surplus. Raw materials and other farm produce they purchase in exchange for their manufactured goods. The com-

mon value of these commodities consists of the value of the original material and the cost of maintaining the worker during the time expended in employment. The worker earns his keep, nothing more. Likewise, the man who merely exchanges does not produce. From the argument it follows that the members of the unproductive class are kept or maintained by the cultivators.

The Tableau Économique

The flow of goods in the circulation of wealth among the different classes is described in Quesnay's *Tableau économique*, which, it was prophesied, would bring posterity incalculable advantages. The *Tableau* illustrates the flow of wealth through the community by means of a zigzag. Capital utilized in production is advanced by the proprietors to the cultivators. The capital thus applied, through nature's aid, results in a gain of 100 per cent over expenses. Half of the fruits of its labor through nature's bounty the cultivator class expends on itself for maintenance, and the other half goes to the proprietary class for its maintenance and reimbursement. Maintenance requires the services of both the productive and sterile classes, for purchases are made from them in equal amounts. In turn, the income of these two classes is expended half to themselves and half to the associated class. The transactions continue indefinitely, affected by two as divisor, until the whole original capital investment has come again into the hands of the cultivators – not to be at rest, however, but to go on its round again in a new season. An extract from Quesnay's *Explication du tableau économique* reads:[2]

> The *productive Expenditures* are employed in agriculture, meadows, pastures, forests, mines, fishing, &c. to perpetuate riches in the form of grain, beverages, wood, cattle, raw materials for the handicrafts &c.
>
> The *sterile Expenses* are made upon handicraft products, housing, clothing, interest on money, servants, commercial expenses, foreign commodities, &c.
>
> The *sale* of the net product which the Cultivator has produced during the preceding year, by means of the *annual Advances* of 600 livres employed in agriculture by the Farmer, furnishes the proprietor a revenue of 600 livres.

[2] François Quesnay, *Explication du tableau économique.*

The *annual advances* of 300 livres in sterile expenses are employed for the capital & the expenses of commerce, for the purchase of raw materials for the handicrafts, & for the subsistence & other needs of the artisan until he has finished & sold his product.

Of the 600 livres of *revenue* one half is spent by the Proprietor on purchases from the productive class, such as bread, wine, meat, &c, & the other half on purchases from the sterile class, such as clothing, furnishings, implements, &c.

These expenditures may incline more or less to one side or the other, as the spender goes in more or less for luxury in the way of subsistence or luxury in the form of ornamentation. . . .

. . . . . .

The reciprocal traffic of one class with the other distributes the revenue of 600 livres from one side to the other; giving 300 livres to each side, over & above the advances which are conserved. The Proprietor subsists by means of the 600 livres which he spends. The 300 livres distributed to each class, added to the product of the taxes, the tithe, &c., which are added to them, can support a man in one or the other class: thus 600 livres of revenue & the supplementary sums can furnish subsistence to three heads of families. On this basis, 600 millions of revenue can furnish subsistence to three million families of four persons of all ages each.

The physiocrats considered it of primary importance to the well-being of the nation that there be a proper adjustment in the circulation of wealth. For if proprietors or industrials should fail to expend half of their incomes for the produce of the cultivators, agriculture would be impaired and its fruits would decline in quantity and value. If, on the other hand, more than the annual advances were returned to the cultivators, the income of the proprietary class would increase and there would also be more to expend on the industrial class. The former condition would result in the decrease of wealth and the latter in a progressive increase.

Laissez Faire

That one should be free to buy or sell within or without the country was implied by the natural order. Trade frontiers were erased, for freedom of trade was required to gain the best possible price. Consequently, physiocrats advocated the abolition of all

measures which mercantilists favored. They exposed the fallacy of the balance of trade theory and refuted the contention that import duties are paid by the foreigners. Though they felt a contempt for commerce, their theory of *laissez faire* prompted them to let trade take its own course in order that it might sink or rise to its proper level. Their theory implied equilibrium as between occupations.

Legal sanction was given to free trade in corn by the edicts of 1763 and 1766 only to be repealed again in spite of the protest of the physiocrats in 1770. Under Turgot the Free-trade Act was reestablished in 1774 but repealed again by Necker in 1777. Turgot had been dismissed from his position as comptroller of the treasury by the King because of the enmity and hostility in all quarters affected adversely by his reforms. The edicts were reinstated ten years after his death in the changes brought by the French Revolution. Turgot has the following to say on economy:[3]

> The spirit of economy in a Nation tends to increase continually the sum of its capitals, to increase the number of lenders, to diminish the number of borrowers. Luxurious habits have precisely the opposite effect; and from what has already been said about the use of capital in all agricultural, industrial, or commercial enterprises, one can judge whether luxury enriches a Nation or impoverishes it.

Turgot's Ideas on Money

The physiocrats permitted trade to take its course without interference except in money matters. There was to be no loaning of money at interest as industrial capital. Only capital used in agriculture was considered productive. But Turgot did not agree to the exception. He believed that prohibiting interest on loans would prevent them, since the money owner had the opportunity of investing it in productive land; consequently, none of them would put out money for other purposes without equivalent remuneration. That Turgot had more advanced views on money loans and investments in agricultural, manufacturing, and commercial enterprises is shown from the following:[4]

[3] Anne Robert Jacques Turgot, *On the Formation and Distribution of Riches,* Chap. LXXX.

[4] *Ibid.,* Chaps. LXXXV and LXXXVI.

A man who lends his money at interest enjoys his income with even less trouble and restraint than the owner of land; but the insolvency of his debtor may cause him to lose his capital.

He will therefore not be satisfied with an interest equal to the revenue from the land he could buy with the same capital.

The interest on money loans should therefore be higher than the revenue of land purchased for the same capital; for if the lender had an opportunity to buy an estate yielding an equal revenue, he would prefer this investment.

For similar reasons, money invested in agriculture, industry, or commerce should yield a profit greater than the revenue from the same capital invested in land or the interest on the same money loaned; for these investments require, in addition to the capital advanced, much care and labor, and if they were not lucrative, it would be much better to produce an equal revenue, which could be enjoyed without doing anything. Besides the interest on his capital, therefore, the entrepreneur must obtain every year a profit to recompense him for his trouble, his labor, his skill, and his risks, and to provide him, moreover, with the wherewithal to replace the annual wasting away of the advances, which he has to convert from the beginning into things subject to change and exposed to all kinds of accidents.

The Function of the State

To the state, the physiocrats assigned important functions such as the construction and maintenance of public works, the instruction of the people so they might comprehend the natural order, and the preservation of the social hierarchy. The form of government desired was that of the absolute monarchy with the office hereditary. The sovereign, however, was looked upon simply as the instrument for the transmission of the higher laws of the natural order, and not as a despot given to personal rule even though it were benevolent.

Appraisement

The doctrines of the physiocratic school never gained a widespread popular influence. The objection that they were too fully absolute in their view of things was just. Their belief in a precise regime, with its universally applicable doctrines, did not allow for

differing stages of social development or national diversities. Nevertheless, the good elements of their teaching were destined to live on through incorporation in the system of Adam Smith, as expounded in the *Wealth of Nations.*

Chapter 6. PRECLASSICAL ENGLISH ECONOMISTS

The breakdown of the regulative system characteristic of mercantilism was gradual, extending over a period of several centuries until its completion in the middle of the nineteenth. When one after another of the restrictions ceased to serve a useful purpose and actually became an obstacle instead of an aid to progress, the system failed of enforcement though still on the statute books.

Growth of Industrial Capitalism

The growth of industrial capitalism, as against the commercial variety which preceded it, is traceable in its beginnings through the sixteenth and seventeenth centuries. Completely overshadowed, this gradual development was of revolutionary magnitude in the eighteenth century, its early growth falling far short of full cognizance. Early technical advance was retarded by restricted markets. Fear of expanded production (fear of goods) brought opposition to improvements in manufacturing techniques. But expanding markets, induced by the power of commercial capitalism, stimulated invention and the ignoring or removal of restrictions. Inevitably, conditions produced the industrialist who was destined to succeed the merchant in economic importance.

Chief among the ideas out of harmony with mercantilistic theory were the following doctrines: first, the recognition of nature and labor, rather than the precious metals, as the source of wealth; second, placing of agriculture in importance before foreign trade; third, the teaching that freedom of industry is superior to restrictions and bounties in promoting prosperity; fourth, the stressing of the idea that prosperity is intimately related to the well-being of the whole population.

Sir William Petty

Biographical Sketch. Sir William Petty (1623–1687), son of a poor weaver, was born at Romsey in Hampshire. In spite of an unimpressive beginning, he became the most important English economist of his day. Endowed with an alert mind and a resourceful nature, he mastered the principles underlying the sciences. His penetrating power of observation made him a master of induction and experiment.

He was educated in his native town and in Normandy after a year at sea as a youth. He testifies in his will that by fifteen he had mastered Latin, Greek, French, arithmetic, geometry, and astronomy through the excellent opportunities afforded him in the Jesuit college at Caen. Following this he served in the Royal English Navy until 1643. Then, for a period of two years, he studied medicine in Leyden, Utrecht, and Amsterdam. Afterward, for a period of a year, he studied anatomy in Paris. Returning to England he completed his medical studies at Oxford and was awarded the degree "doctor of phisick."

Appointed professor of anatomy in 1651, he joined with other learned men in meeting for the discussion of subjects holding the interest of ingenious scholars. Out of these meetings emerged the Royal Society for Improving of Natural Knowledge. It was on the occasion of the society's establishment (1662) that Petty was knighted by King Charles II.

Devoted to Cromwellian interests, he was appointed physician to the army in Ireland in 1652 and later to the position of Lord Lieutenant. As director of the "Down Survey" completed while he was acting as physician general, Petty gained both fame and fortune. Forfeited Irish lands were allotted one-half to Cromwell's army and the other half to the London adventurers who had advanced the money for the campaign costs. Petty purchased for himself a large estate in county Kerry. His devotion to business is manifest; he set up ironworks in the neighborhood, opened lead mines and marble quarries, established a pilchard fishery, and commenced a trade in timber.

Petty's professional connections and his association with men interested in experimental science granted him a freedom from the purely mercantilistic interests in ascendancy at the time; and in his economic writings there was implanted a breadth of vision denied to others more circumscribed by established custom. In speaking of his novel approach to economic problems he wrote in his *Political Arithmetic:*

"The Method I take to do this, is not yet very usual; for instead of using only comparative and superlative Words, and intellectual Argu-

ments, I have taken the course (as a Specimen of the Political Arithmetick I have long aimed at) to express myself in Terms of *Number, Weight,* or *Measure;* to use only Arguments of Sense, and to consider only such Causes as have visible Foundations in Nature, leaving those that depend upon the mutable Minds, Opinions, Appetites, and Passions of particular Men, to the Considerations of others."

Following the Restoration in 1660 and the confirmation of title to his Irish lands, Petty devoted his time to scholarly pursuits. Manuscripts and notes prepared were voluminous – they filled 53 chests. Their subjects covered a wide range. Among those brought to the attention of the Royal Society were the means of combating the plague, a history of clothing, an engine for propelling ships, and a double-bottomed boat. In his economic writings functional analysis and quantitative precision were stressed. Since he considered the method of experiment inapplicable to social and economic affairs, he pioneered in the use of simple statistical methods of analysis. Of himself he said:"My virtue & vanity lies in prating of numbers, weight & measure." An eminent economic scholar's appraisal of Petty was: "A writer . . . of much sagacity and good sense." His first published economic document, *A Treatise of Taxes and Contributions,* appeared anonymously.

Novel Views

The earliest among important English economists who directed his study into the channel of the new thought was Sir William Petty. He antedated by years the period when his ideas gained general acceptance, presenting distinctly new points of view on value, rent, usury, and money. In the realm of method, also, he presented something ingenious and startlingly new. Instead of depending exclusively upon description and rhetorical exposition for clarification of economic ideas, he expressed himself in terms of number, weight, and measure. By developing this novel method of approach in the study of economic problems in his *Political Arithmetic* he gained fame as a founder of the science of statistics. The method of factual research is thus made available as an aid to theoretical analysis.

In Petty's day attention of thinkers was being diverted from trade to production. A leading thought in Petty's exposition is the principle that "labour is the father and active principle of wealth,

lands are the mother." The population he divided into the productive and unproductive classes, the place of anyone in the classification being made to depend on the materiality of the things produced. In a measure he anticipated Ricardo in a labor theory of value and in the explanation of the rent of land. He was a staunch believer in monometalism, insisting that a precious metal other than that established as a standard would have to circulate as an ordinary article of merchandise.

Favors a Spendthrift Policy

In explaining the circulation of tax-money expenditure, Petty strangely enough approves sums amounting to what is commonly designated "regal-spendthrift" waste. He enjoins the King to spend wisely though he supports expenditures of public money to keep men otherwise unemployed at work. He says:[1]

Men repine much if they think the money leavyed will be expended on Entertainments, magnificent Shews, triumphal Arches &c. To which I answer, that the same is a refunding the said moneys to the Tradesmen who work upon those things; which Trades though they seem vain and onely of ornament, yet they refund presently to the most useful; namely, to Brewers, Bakers, Taylours, Shoemakers, &c. Moreover, the Prince hath no more pleasure in these Shews and Entertainments than 100,000 others of his meanest Subjects have, whom, for all their grumbling, we see to travel many miles to be spectators of these mistaken and distasted vanities.

The people often complain, that the King bestows the money he raises from the people upon his Favourites: To which we answer; that what is given to Favourites, may at the next step of transmigration, come into our own hands, or theirs unto whom we wish well, and think to deserve it.

Secondly, as this man is a Favourite today, so another, or ourselves, may be hereafter; favour being of a very slippery and moveable nature, and not such a thing as we need much to envy; for the same way that — leads up an hill, leads also down the same. Besides, there is nothing in the Laws or Customs of England, which excludes any of the meanest mans Childe, from arriving to the highest Offices in this Kingdom, much less debars him from the Personall kindness of his Prince.

[1] Sir William Petty, *A Treatise of Taxes & Contributions,* Chap. III, pars. 4 and 5.

Advantage in Populousness

In expounding his philosophy on population, Petty sees the greatness of a prince in "the number, art and industry of his people" and that a country may be wealthy regardless of its size if adequately provided with people, but emphasis is also placed on the quality of their industry and art. On this we quote:[2]

> Fewness of people, is real poverty; and a Nation wherein are Eight Millions of people, is more than twice as rich as the same scope of Land wherein are but Four; for the same Governours which are the great charge, may serve near as well, for the greater, as the lesser number.
>
> Secondly, If the people be so few, as that they can live, *Ex sponte Creatis*, or with little labour, such as is Grazing, &c. they become wholly without Art.

A Mercantilist in Money Policy

Petty's views on money are mercantilistic. Treasure is for him the most desirable form of wealth. Money and foreign trade hold importance, he states, because of the stimulus to the expansion of a country's industry. In determining the right money supply for a country, the velocity of money's circulation is a factor. He opposes prohibition of bullion exports and also the limiting of interest and exchange rates. He advocates the establishment of a bank to provide capital for widespread trade. His views on usury follow verbatim:[3]

> What reason there is for taking or giving of Interest or Usury for anything which we may certainly have again whensoever we call for it, I see not; nor why Usury should be scrupled, where money or other necessaries valued by it, is lent to be paid at such a time and place as the Borrower chuseth, so as the Lender cannot have his money paid him back where and when himself pleaseth, I also see not. Wherefore when a man giveth out his money upon condition that he may not demand it back until a certain time to come, whatsoever his own necessities shall be in the meantime, he certainly may take a compensation

[2] *Ibid.*, Chap. III, par. 8.
[3] *Ibid.*, Chap. V.

for this inconvenience which he admits against himself: And this allowance is that we commonly call Usury.

And when one man furnishes another with money at some distant place, and engages under great Penalties to pay him there, and at a certain day besides; the consideration for this, is that we call Exchange or local Usury.

As for example, if a man wanting money at *Carlisle* in the heat of the late Civil Wars, when the way was full of Souldiers and Robbers, and the passage by Sea very long, troublesome, and dangerous, and seldom passed; why might not another take much more than an £100 at *London* for warranting the like Summe to be paid at *Carlisle* on a certain day?

Sir Dudley North

Biographical Sketch. Sir Dudley North (1641–1691), born in London, the younger son of an English peer, engaged in trade in the Near East and became a distinguished merchant. His operations, conducted on a large scale, centered in Constantinople and Smyrna. Though a merchant, he attacked mercantilist doctrines, insisting that the whole world constituted a commercial unit not unlike a nation. He opposed state regulation, including price fixing, on the ground that factors of supply and demand would bring related things into balance. He insisted that trade and wealth were best bought by peace, industry, and freedom.

Having risen to a high position as a trusted counselor of the government, North held many offices in turn and was appointed to manage the finances of King James II. The ideas expressed in his famous book, *Discourses on Trade,* were similar to those of Petty and closely approached those of Adam Smith in the *Wealth of Nations.* Though a Tory in politics he was a liberal in economic ideas.

Production and the Removal of Prohibitions

North reiterated the doctrine of Petty that the exploitation of land, mines, fisheries and the placing of their fabricated or refined products in the channels of trade were productive and that from the surplus production above the needs for consumption arose property and riches. Thus it was pointed out that wealth might exist independently of gold and silver and that its

source was human industry whether applied to cultivation or manufactures. Likewise, he asserted that no trade that thrives, be it domestic or foreign, is unprofitable. Much more than others of his day, North emphasized the value of the home trade. He pioneered, too, in his idea of capital, which he called stock. He argued that those who had no ability to use it should lend it to others who did; that it should be lent out like land; and that money rent should be paid for the use of it. Money was not something to be kept. It was to be disposed of in a way to make a profit. His opposition to protection and other governmental regulation extended to any attempt to regulate the rate of interest, on the ground that the supply and demand of borrowers and lenders would better set its level. Trade, since it arose because of the existence of superfluities, should be allowed even to the extent of export of money in the course of traffic because such action, far from diminishing, actually increased the national wealth.

Richard Cantillon

Biographical Sketch. Richard Cantillon (c. 1680–1734), born in Ireland, removed to Paris about the time of the death of Louis XIV. From 1716 to 1719 he was established in the banking business. During the period of the John Law promotion of the Mississippi Bubble and other schemes, Cantillon, convinced of their ultimate failure, speculated on the "bear side" of the market and made a fortune. Having incurred Law's ill will because of his attitude toward the former's promotions, he was forced to leave France and took up residence in London. He attained eminence as a wealthy British merchant with trade establishments in leading centers of Europe.

Although Cantillon is believed to have written extensively, only his *Essai sur la nature du commerce en général* remains. It appears to have been written in English about 1730 and translated by the author himself into French for the convenience of a friend. It was published in England during the lifetime of the author, but in its French form it circulated as a manuscript until published in 1755.

Considering that Cantillon's period still represented high tide in mercantilistic practices, some of the conclusions of the *Essai* are most remarkable, to wit, that land is the source of wealth and labor power the producer of it; that wealth consists of the sustenance, the conveniences, and the comforts of life; and that in the cost of acquiring

skill is to be found the explanation for differences in wages. These are not the ideas of a mercantilist; rather, they are materials out of which the physiocrats and Adam Smith gained inspiration in the fashioning of their systems. The *Essai* has recently been appraised the most systematic statement of economic principles prior to the *Wealth of Nations.*

Cantillon's career was terminated by a violent death. He was murdered by a discharged manservant who, for some unexplained reason, stole some of his master's papers and set fire to the residence to hide his crimes.

Original Contributions to Economic Science

Cantillon's essay is both well planned and well written. It reformulates ideas of others and makes some original contribution to economic science. It is commerce in general that he stresses. The nature, production, and circulation of wealth are all described; prices, money, credit, banks, and foreign exchange are explained; and the distribution of income among the classes of people in a nation (including an examination of rates of wages) is treated. Costs of production, he says, regulate the prices of commodities and services, and the number of laborers adjusts itself to the demand for them arising out of the several occupations.

On Money

Of the increase and decrease in the quantity of money in a state, he has the following to say:[4]

> If mines of gold and silver are discovered in a State, & if considerable quantities of material are taken from them, the Proprietor of these Mines, the Entrepreneurs, & all those who work in them will not fail to increase their expenditures in proportion to the riches & the profits which they will make: they will also lend at interest the sums of money which they have over and above what they need for their expenses. All this money, lent as well as spent, will enter into circulation, & will not fail to raise the price of commodities & merchandise in all the channels of circulation which it enters. The increase of money will bring

[4] Richard Cantillon, *Essai sur la nature du commerce en général,* Chap. VI.

about an increase of expenditure, & this increase of expenditure will bring about an increase of Market prices in the years of most active trade, & by degrees in the least active.

Everybody agrees that the abundance of money, or its increase in trade raises the price of all things. The quantity of money brought from America to Europe during the last two centuries demonstrates this truth by experience.

Views on Production

Cantillon holds to the idea expressed by Petty earlier that land is the source of wealth and human labor the force producing it. To the proprietors he assigns a place identical with that assigned them by the physiocrats later. The resemblance of his argument to theirs is so striking as to suggest the conclusion that the Cantillon essay was utilized by the physiocrats in formulating their theory. Cantillon writes as follows regarding the relation of land and landowners to the national economic life:[5]

If the princes and the proprietors of lands should enclose them, and if they should not allow anyone to work them, it is clear that there would be neither nourishment nor clothing for any of the inhabitants of the state. Consequently, all the inhabitants of the state not only subsist from the product of the land which is cultivated for the proprietors, but also at the expense of these same proprietors from whose land they procure everything they have.

Cultivators receive ordinarily two-thirds of the product of the land, one-third for their expenses and the maintenance of their subsistence, and the other one-third for the profits of their enterprise. From these two-thirds the cultivator supports generally, directly or indirectly, all those who live in the country and also many artisans and entrepreneurs who live in the city, because of the merchandise of the city which is consumed in the country.

Ordinarily the proprietor has one-third of the product of the land, and from this one-third he supports the artisans and other people whom he employs in the city and often people who transport produce from the country to the village.

It is generally supposed that one-half of the inhabitants of the state live in the cities and the other half in the country. That being the case, the cultivator who has two-thirds or four-fifths of the product of

[5] *Ibid.*, Chap. XII.

the land gives directly or indirectly one-third or one-fifth of it to the inhabitants of the city in exchange for produce which he receives from them. . . . This calculation is made only for the purpose of giving a general idea of proportions.

Whenever one examines into the means by which a person lives, he always finds in going back to their source that they come from the property of the proprietors of land, and that they consist either in the two-thirds of the product which is given to the cultivator or the one-third which remains with the proprietor.

In subsequent paragraphs the interdependence of proprietors and other inhabitants of a country is explained. It is pointed out that, the more and the better the land is cultivated, the greater is the volume of produce procured. The more the produce is transformed, the more merchandise can be made from it, and the greater is its value. As stated, the proprietors and other inhabitants have need of each other, but to the proprietors is assigned the duty of giving direction to the whole of endeavor, and it is made manifest that upon the tastes, customs, and methods of the proprietors everything depends.

Still another writer with antimercantilistic views, retaining, however, some mercantilistic errors already largely discarded, was David Hume. He scouted the idea that in international trade what one nation gains the other loses. He wished for flourishing commerce in foreign countries, believing that prosperity abroad promoted it in England also. His method of exposition was historical and sociological.

David Hume

Biographical Sketch. David Hume (1711–1776), eminent philosopher, historian, and essayist, was born at Edinburgh, the youngest son of a Scottish lord. He received a broad education in the University of Edinburgh and abroad. Although destined for the law he turned to philosophy. Retiring to France he wrote his *Treatise upon Human Nature,* which, according to his own statement, "fell dead-born of the press." The *Political Discourses,* published in 1752, were well received. His *History of England,* after completion in 1761, was recognized as a standard work; but because of its political bias it is now valued for literary excellence only. He served the government in various capacities for brief periods in the military and diplomatic services, and in Chatham's ministry as undersecretary for home affairs.

A number of Hume's views on economic subjects were antimercantilistic. They were similar to those of Petty and North. "Men and commodities," he says, "are the real strength of any community." And in further refutation of mercantilistic error he states: "In the national stock of labor consists all real power and riches."

The writings of Hume are characterized by acuteness, lucid exposition, and charm of style. Literary adroitness gives the impression that his economic ideas are new, whereas many of them are apparent innovations only, being in fact felicitous restatements of earlier writers' views.

Hume exercised an important influence on Adam Smith during an intimate friendship of twenty years. They became acquainted when Smith was but sixteen because of the interest Smith had in Hume's *Treatise on Human Nature,* of which he prepared and submitted an abstract to the author. Hume was deeply impressed and had it published in London. Out of this incident, when Smith later assumed the professorship at Glasgow, grew the intimate personal acquaintanceship which terminated only upon the death of Hume. Although Hutcheson, Smith's most influential university teacher, had the initial influence in the formulation of the latter's economic views, Hume had the opportunity to assist in enriching and perfecting them.

The appraisal which values Hume as the most important pre-Smithian economist underestimates Cantillon, whose work is much superior. In the *Wealth of Nations,* Smith calls Hume "by far the most illustrious philosopher and historian of the present age" and elsewhere declares that Hume "approached as nearly to the ideal of a perfectly wise and virtuous man as perhaps the nature of human frailty will permit." Among Smith's friendships, the intimacy with Hume has become classical.

Absurdities of Mercantilism Attacked

Hume lived up to his own precept that "an author is little to be valued, who tells us nothing but what we can learn from every coffee-house conversation." Hume's writings show penetrative thought, and, though profound in treatment, they are lucid. The absurdities of certain mercantilistic policies are exposed and the sophistry of the balance of trade theory attacked. His essay on *Interest* is a most notable contribution in which he opposed the state regulation of interest on the ground that the automatic ad-

justment of the rate served a country's purposes best. In selected paragraphs from the essay we are told:[6]

Nothing is esteemed a more certain sign of the flourishing condition of any nation than the lowness of interest: and with reason; though I believe the cause is somewhat different from what is commonly apprehended. Lowness of interest is generally ascribed to plenty of money. But money, however plentiful, has no other effect, if fixed, than to raise the price of labour. Silver is more common than gold; and therefore you receive a greater quantity of it for the same commodities. But do you pay less interest for it? Interest in Batavia and Jamaica is at 10 *per cent;* in Portugal at 6; though these places, as we may learn from the prices of everything, abound more in gold and silver than either London or Amsterdam.

. . . . . .

Now, what is so visible in these greater variations of scarcity or abundance in the precious metals, must hold in all inferior changes. If the multiplying of gold and silver fifteen times makes no difference, much less can the doubling or tripling them. All augmentation has no other effect than to heighten the price of labour and commodities; and even this variation is little more than that of a name. In the progress towards these changes, the augmentation may have some influence, by exciting industry; but after the prices are settled, suitable to the new abundance of gold and silver, it has no manner of influence.

An effect always holds proportion with its cause. Prices have risen near four times since the discovery of the Indies; and it is probable gold and silver have multiplied much more: But interest has not fallen much above half. The rate of interest, therefore, is not derived from the quantity of the precious metals.

. . . . . .

High interest arises from *three* circumstances: A great demand for borrowing; little riches to supply that demand; and great profits arising from commerce: And these circumstances are a clear proof of the small advance of commerce and industry, not of the scarcity of gold and silver. Low interest, on the other hand, proceeds from the three opposite circumstances: A small demand for borrowing; great riches to supply that demand; and small profits arising from commerce: And these circumstances are all connected together, and proceed from the encrease of industry and commerce, not of gold and silver.

[6] David Hume, *Political Discourses,* "Of Interest."

Commerce and the Merchant Extolled

In the thinking of Hume, the state of industry and commerce in the ultimate determines the interest rate, and profits and interest were named interdependent. Although the land was held the source of all useful articles, yet, in his belief, the landowners received incomes out of proportion to exertion and so were inclined toward extravagance – a condition not true of the commercial classes. The merchants he exalted, for commerce in his theory promotes frugality, augments accumulation, and stimulates lending. So Hume takes a place as a foremost exponent of capitalism. The following quotation is direct evidence of his belief in the efficacy of the merchant class:[7]

Every thing useful to the life of man arises from the ground; but few things arise in that condition which is requisite to render them useful. There must, therefore, besides the peasant and the proprietors of the land be another rank of men, who, receiving from the former the rude materials, work them into their proper form, and retain part for their own use and subsistence. In the infancy of society, these contracts between the artisans and the peasants, and between one species of artisans and another, are commonly entered into immediately by the persons themselves, who, being neighbors, are easily acquainted with each other's necessities, and can lend their mutual assistance to supply them. But when men's industry encreases and their views enlarge, it is found, that the most remote parts of the state can assist each other as well as the more contiguous; and that this intercourse of good offices may be carried on to the greatest extent and intricacy. Hence the origin of *Merchants*, one of the most useful races of men, who serve as agents between those parties of the state, that are wholly unacquainted, and are ignorant of each other's necessities. Here are in a city fifty workmen in silk and linen, and a thousand customers; and these two ranks of men, so necessary to each other, can never rightly meet, till one man erects a shop, to which all the workmen and all the customers repair. In this province, grass rises in abundance: The inhabitants abound in cheese, and butter, and cattle; but want bread and corn, which in a neighboring province, are in too great abundance for the use of the inhabitants. One man discovers this. He brings corn from the one province, and returns with cattle; and supplying the wants

[7] *Ibid.*

of both, he is, so far, a common benefactor. As the people encrease in numbers and industry, the difficulty of their intercourse encreases; The business of the agency or merchandise becomes more intricate; and divides, subdivides, compounds, and mixes to a greater variety. In all these transactions, it is necessary, and reasonable, that a considerable part of the commodities of labour should belong to the merchant, to whom, in a great measure they were owing.

. . . . . .

Commerce encreases industry, by conveying it readily from one member of the state to another, and allowing none of it to perish or become useless. It encreases frugality, by giving occupation to men, and employing them in the arts of gain, which soon engage their affection, and remove all relish for pleasure and expense. It is an infallible consequence of all industrious professions, to beget frugality, and make the love of gain prevail over the love of pleasure. Among lawyers and physicians who have any practice, there are many more who live within their income, than who exceed it, or even live up to it. But lawyers and physicians beget no industry; and it is even at the expence of others they acquire their riches; so that they are sure to diminish the possessions of some of their fellow citizens, as fast as they encrease their own. Merchants, on the contrary, beget industry, by serving as canals to convey it through every corner of the state: And at the same time, by their frugality, they acquire great power over that industry, and collect a large property in the labour and commodities, which they are the chief instruments in producing. There is no other profession, therefore, except merchandise, which can make the monied interest considerable; or, in other words, can encrease industry, and, by also encreasing frugality, give a great command of that industry to particular members of society.

Sir James Steuart

Biographical Sketch. Sir James Steuart (1712–1780), son of Sir James Steuart, Bart., sometime solicitor general of Scotland, prepared himself for the law in the University of Edinburgh. Subsequently, he traveled in the Netherlands, France, Spain, and Italy to study foreign customs and laws. As was later suspected, he may have engaged in political activities inimical to England's reigning house. In 1745, five years after his return to Scotland, he was banished from the country, not to return until 1762. During the years of his exile spent in five countries, associating with influential persons, reading extensively, and shrewdly observing, he organized detached economic ideas into a com-

prehensive set of principles. The work, complete in five books, was published as an inquiry into the *Principles of Political Economy* in 1767. The volume was received with comparative indifference in Scotland but sold reasonably well elsewhere. In Germany it was especially well received because of its emphasis upon the principle of adaptation, a theory especially acceptable to exponents of historical economics.

Comparatively little was added by Steuart to the body of economic doctrine, but the title of his work has become the standard one for comprehensive treatises since. Inopportuneness in the time of publication was a misfortune because, as a systematic survey of mercantilism, it appeared near the close of the era described and when the "system of natural liberty" had already invoked attention. Furthermore, in 1776, only nine years later, the *Wealth of Nations* appeared, more attractive in style and scientifically much superior. The author of the latter neither quoted nor mentioned Steuart's work and at one time remarked that Steuart's conversation was better than his book. Smith's strategy was successful in that it contributed to a rapid eclipse of the work which it was his plan "to confute in every fallacious principle." Since modern appraisement evaluates the *Political Economy* as "the best summation of pre-Smithian British economic theory," its author deserved a better fate.

Last of the Mercantilists

Sir James Steuart was the last important predecessor of Adam Smith. In his thought there are mercantilist remnants, and he is often referred to as the "last of the mercantilists." He holds the role of the statesman all-important since the object of the public economy, according to his definition of the science of political economy, is identical with the purpose of private economy, viz., to secure the maximum of well-being individually and collectively.

Steuart's Population Theory

Steuart evolves a population theory based on the idea that the available food supply influences population increase. An agricultural surplus allows the statesman to contrive employments on the basis of occupational differentiation. The growth of reciprocal wants prompts the division of the population into two classes – the farmers and the "free hands." The cultivators live on the land, but

the free hands have residential freedom. The latter leads to industrial localization in response to the dictating factors – water power, fuel, transportation, and low living costs. By means of money payments, the two classes – cultivators and free hands – are tied together. The interplay of the various factors promotes the growth of wealth. Increased numbers in the population, advantageously employed, preserve the nation's vigor and denote national youth. A constant population indicates maturity; a declining one, old age or decadence. The criterion of ideal occupational allocation is a number of husbandmen sufficient to provide food for all and a population total determined by potential employment for all of them. Ingenuity applied to agriculture and industry makes for an abundance of goods; consequently, labor-saving devices are approved because it is held to be the goal of political economy to produce the most with a minimum expenditure of labor. Furthermore, labor costs are to be held at a minimum or subsistence level for the advantage to be gained in a nation's competitive strength; minimum wages are to be at a level high enough only to provide for what is physically necessary, but superior ingenuity is to receive higher remuneration.

The Statesman and the Favorable Balance of Trade

A high place is allotted to the statesman, and a degree of intelligence bordering on omniscience is attributed to him. The height of intelligence implied is no greater than is presupposed in any planned-economy society; yet the faith placed by Steuart in statesmen is both ingenuous and trustful.

In discussing factors involved in any economy featuring a favorable balance of trade, Steuart advances the "exportation-of-work doctrine," which in his own words states:[8]

> In all trade, two things are to be considered in the commodity sold. The first is the matter; the second is the labour employed to render this matter useful.
>
> The matter exported from a country, is what the country loses; the price of the labour exported is what it gains.

[8] Sir James Steuart, *Works*, II, 2.

If the value of the matter imported be greater than the value of what is exported, the country gains. If a greater value of labour be imported, than exported, the country loses. Why? Because in the first case strangers must have paid, *in matter*, the surplus of labour exported; and in the second case, because the country must have paid to strangers, in matter, the surplus of labour imported.

It is therefore a general maxim, to discourage the importation of work, and to encourage the exportation of it.

Chapter 7. THE WEALTH OF NATIONS

Introductory

The first "economists" – the physiocrats – were only the heralds proclaiming the new science. It was left to Adam Smith to prepare the great work – *The Wealth of Nations* – which has served as the guide for successive generations of economists. Immediately upon its publication in 1776 it took a commanding position, and no treatise since has seriously challenged its primacy, while earlier writings have been so completely eclipsed as to sink into the category of tentative efforts. *The Wealth of Nations* is interesting in subject matter, possessed of literary charm, instructive, and persuasive. After one hundred and seventy years it still enthralls its readers. It comprehends the gospel of naturalism, liberalism, individual initiative, and private enterprise. Its author gained enduring renown.

Adam Smith

Biographical Sketch. Adam Smith (1723–1790), possessor of the most illustrious name in the history of economic thought, was born a posthumous son of Adam Smith, Scottish official, and Margaret Smith, nee Douglas, near Edinburgh in the small town of Kirkcaldy. Reared by his mother, the bond between them was exceptionally close. At the age of three he was carried off by a party of gypsies but was soon rescued unharmed. He remained a delicate child, inclined to fits of absent-mindedness, which continued a lifelong characteristic. He grew up in the burgh school and, well advanced in his studies, at fourteen entered Glasgow University, which at the time was rated among the best in Europe. At Glasgow, Smith was particularly under the influence of Robert Simson, celebrated professor of mathematics, and Francis Hutcheson, professor of philosophy. The latter, an inspiring lecturer, emphasized the principle of industrial liberty and identified

God as a benevolent being living for the welfare of the human race. According to his teachings, the highest degree of welfare is to be found in "the greatest good of the greatest number," a phrase said to be original with him.

After three years in the University, Smith left Glasgow (1740) for Balliol College, Oxford, on a Snell exhibition – a scholarship worth £40 a year. According to the founder's will the holders were to take orders in the Episcopal Church in Scotland, although this provision was not enforced after the union of Scotland with England. Smith had intended to take orders but did not find the "ecclesiastical profession suitable to his taste." He made the trip to Oxford on horseback and did not return home once during his six years' connection even though most of the time disconsolate. During this period he was afflicted by "an inveterate scurvy and shaking of the head" which he tried to cure by taking Bishop Berkeley's tar water. Teaching in Balliol College was at the time at a low ebb, lectures were intermittent, and tutors, though they exacted their fees, did little else; consequently, Smith devoted himself to the Latin and Greek classics and Italian and French authors with the aim to improve his style by translation, particularly from the French. Smith's name does not appear among the list of graduates at Oxford, but this failure to receive recognition was rectified when the University of Glasgow conferred the doctor of laws degree upon him in 1762.

Having decided against becoming a clergyman, he posted back to Kirkcaldy in 1746. During two years of semiidleness he sought a position as traveling tutor without success, since perhaps, hindered by a poor address and absent manner, he failed to impress parents with his fitness to inspire and supervise his charges. Nevertheless, an excellent opportunity presented itself when through an influential friend he was appointed to give lectures in English literature in the University of Edinburgh. At this he continued for three years, proving highly successful. In the winter of 1750–1751 he gave lectures on political economy which proved him well grounded in economic liberalism. In 1751 Smith was called back to his alma mater as professor of logic and in 1752 was transferred to the vacant chair of moral philosophy, formerly filled by his favorite teacher. It is said that in lecturing "he trusted almost entirely to extemporary elocution," that his manner was plain and unaffected, his expression easy and fluent, and his fullness and variety of illustration such as to afford pleasure as well as instruction. Smith's lectures became universally popular, sons of the Scottish aris-

tocracy flocked to him, and even his peculiarities and pronunciation were imitated.

While at Glasgow, Smith became acquainted with a young instrument maker and inventor who had been granted the use of the university workshop after being expelled from the city proper by the trade associations because of failure to obtain a license to ply his trade. The young man was James Watt, who became an intimate companion of Smith. They, continuing in the state of bachelorhood for years, spent much time together. Later they startled, then endowed the world, the one with his ideas, the other with his mechanical appliances.

Among the subjects taught by Smith was that of ethics, and in 1759 he published his *Theory of Moral Sentiments,* which speedily brought him a great reputation. At the age of forty he resigned from his professorship to take a tutorship.

At the time it was customary for the young nobility to travel abroad in order to round out their education since many of the universities had fallen into disrepute. In accord with this tradition, the young Duke of Buccleuch, son-in-law of Charles Townshend, celebrated statesman, went abroad accompanied by Smith. For his service he received a stipend of £300 a year and traveling expenses, and in addition, at the end of the tutorship, a pension of the same amount annually for life. The material advantage obtained through the tutoring contract was in excess of a professor's income. The pension continued for a period of twenty-four years after the travelers returned to Scotland; hence a total of approximately $40,000 was received for the three years spent in the office of tutor. Additional gratification was involved since it afforded him the double privilege of observation in travel, and of conference with eminent personages abroad. At Geneva, he met Voltaire; in Paris, Diderot, D'Alembert, Condillac, Necker, Quesnay, Du Pont, Turgot, and many others. Du Pont mentions that Smith often attended meetings of the leading physiocrats in Quesnay's apartments, where economic discussions were followed with close attention and participated in with keen animation. Turgot and Smith, doubtless, interchanged opinions on the chief doctrines subsequently included in their famous books, then in process of preparation.

Smith's *Wealth of Nations,* begun in Toulouse in 1764, took the form of a completed manuscript by 1773. It was written in the main at Kirkcaldy, where Smith resided with his mother after his return from

France. In 1773 Smith removed to London for additional investigation, to put final touches to the manuscript, and to see it through the press. This took longer than contemplated, for the book, in two volumes, was not published till the spring of 1776. Its success was instantaneous. By 1790, the year of Smith's death, the book had been translated into numerous foreign languages and had run through five English editions. Hume, in recording his estimate of the *Wealth of Nations,* wrote, "It has depth, and solidity, and acuteness, and is so much illustrated by curious facts that it must at last attract the public attention." The prediction was accurate. It was carefully studied by statesmen such as Fox and Pitt; and Edmund Burke declared that it was "in its ultimate results probably the most important book that had ever been written." In recognition of his service in bringing fame to Great Britain as the home of a world-renowned author, the King appointed Smith to the lucrative position of commissioner of customs in Scotland.

His last decade was spent in almost princely affluence; yet he left but a modest estate since much of his income was spent in secret charities. He lies buried in Edinburgh under the largest tombstone in the churchyard.

Smith remaining a bachelor all his life, his mother and a cousin, Jean Douglas, to both of whom he was sincerely attached, made a home for him. In the life by McCulloch we have it that "Smith was about the middle size, well-made, and stout, though not fat or corpulent. His countenance, which was manly and agreeable, inclined more to the Saxon than the Celtic caste, and was well-lighted up by his large, expressive, grey eyes. His disposition was social in the extreme, especially in his own house, and in the company of his early friends. His Sunday suppers were long celebrated in Edinburgh circles." While dictating to his amanuensis he had the practice of standing with his back to the fireplace with his head resting against the wall. In the street or elsewhere, he always carried his cane on his shoulder as a soldier his musket. The power of his memory was extraordinary. He had the peculiar "habits of speaking to himself when alone and of absence in company." Though eccentricities do not prove the possession of genius, no one will deny Adam Smith this attribute.

Relation of Biography to Understanding

Since the principles which a man expounds are normally reflections of his own character, the author's life is of assistance in

the interpretation of his basic beliefs. The foregoing biographical sketch of Adam Smith is intended to serve as an aid to understanding in that it furnishes the circumstances of education, experience, scholarly stimulus, and environment as a setting for the creative work in the *Wealth of Nations.*

As students of political science refer to *Magna Charta* or the *Bill of Rights,* so students of economics turn to Smith's classic for authority and guidance. So impelling is this work, so preeminent in its own field, that in the discussion of it there will be numerous excerpts[1] from which its quality and style will be evident. If the quotations draw the reader to the complete work, the benefit and enjoyment derived will many times pay the effort expended.

True Source of Wealth

Combination of Economic Efforts

In a celebrated passage of his world-famous book Adam Smith proclaimed human activity as the true source of wealth. In production, labor is the active principle and land and capital but passive aids. To land, though passive, is attributed elsewhere in the treatise a special degree of fruitfulness. The full doctrine of the physiocrats relative to the exclusive potency of extractive industry is not refuted, however; nor is the quality of productivity denied to capital. But the teachings of mercantilists as to an especial advantage resident in commerce and in a favorable balance of trade are rejected. The source of wealth, we are told, resides in the general activity of society. Although the part played by labor in production is stated in emphatic terms, the role of material resources and capital was not held by Smith as of inconsequential proportion. The oft-quoted passage from the "Introduction and Plan" of the *Wealth of Nations* follows:[2]

[1] The page references in the footnotes are to the M'Culloch edition of the *Wealth of Nations* published in Edinburgh by Adam and Charles Black in 1863. In other editions the excerpts can be located through the book and chapter numbers.

[2] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations,* "Introduction and Plan of the Work," p. 1.

The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes, and which consist always either in the immediate produce of that labour, or in what is purchased with that produce from other nations.

Accordingly, therefore, as this produce, or what is purchased with it, bears a greater or smaller proportion to the number of those who are to consume it, the nation will be better or worse supplied with all the necessaries and conveniences for which it has occasion.

But this proportion must, in every nation, be regulated by two different circumstances: first, by the skill, dexterity, and judgment with which its labour is generally applied; and, secondly, by the proportion between the number of those who are employed in useful labour, and that of those who are not so employed. Whatever be the soil, climate, or extent of territory of any particular nation, the abundance or scantiness of its annual supply must, in that particular situation, depend upon these two circumstances.

Division of Labor

Although Smith does not mention land, labor, and capital as distinct factors in production as is now always done, he distinguishes between rent, wages, and profits in his distribution of the revenue from the various sources; and the sources of the revenue are, by inference, factors of production. (We are told that, as a result of the collaboration of workers through the division of labor, skill, dexterity, and judgment have been acquired. As a further consequence of the division of labor, there is a great increase in the quantity of work performed by the same number of persons " . . . owing to three different circumstances; first, to the increase of dexterity in every particular workman; secondly, to the saving of the time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many."[3]

In a delightful piece of descriptive writing Smith presents the principle of the division of labor concretely as follows:[4]

[3] *Ibid.*, Book I, Chap. I, p. 4.
[4] *Ibid.*, p. 3.

To take an example, therefore, from a very trifling manufacture, but one in which the division of labour has been very often taken notice of, the trade of the pinmaker, a workman not educated to this business (which the division of labour has rendered a distinct trade) nor acquainted with the use of the machinery employed in it, (to the invention of which the same division of labour has probably given occasion) could scarce, perhaps, with the utmost industry, make one pin in a day, and certainly could not make twenty. But, in the way in which the business is now carried on, not only the whole work is a peculiar trade, but it is divided into a number of branches, of which the greater part are likewise peculiar trades. One man draws out the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head: to make the head requires two or three distinct operations: to put it on is a peculiar business, to whiten the pin is another: it is even a trade by itself to put them into the paper: and the important business of making a pin is, in this manner, divided into about eighteen distinct operations, which, in some manufactories, are all performed by distinct hands, though in others the same man will sometimes perform two or three of them. I have seen a small manufactory of this kind where ten men only were employed, and where some of them, consequently, performed two or three distinct operations. But though they were very poor, and, therefore, but indifferently accommodated with the necessary machinery, they could, when they exerted themselves, make among them about twelve pounds of pins a day.

In the manner described, man effects an easy and natural combination of economic efforts, whereas, among animals, each mature individual is entirely independent when in its natural state and confines itself to direct satisfaction of individual needs. In contrast, man's efforts through the division of labor result in an enormous increase of wealth with a consequent satisfaction of desires and an enhancement of well-being. In Smith's words:[5]

It is the great multiplication of the productions of all the different arts, in consequence of the division of labour, which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people. Every workman has a great quantity of his own work to dispose of, beyond what he himself has occasion for; and, every other workman being exactly in the same situation, he is

[5] *Ibid.*, pp. 5–6.

enabled to exchange a great quantity of his own goods for a great quantity, or, what comes to the same thing, for the price of a great quantity of theirs. He supplies them abundantly with what they have occasion for, and they accommodate him as amply with what he has occasion for, and a general plenty diffuses itself through all the different ranks of the society.

Observe the accommodation of the most common artificer or day-labourer in a civilized and thriving country, and you will perceive, that the number of people of whose industry a part, though but a small part, has been employed in procuring him this accommodation, exceeds all computation. The woolen coat, for example, which covers the day-labourer, as coarse and rough as it may appear, is the produce of the joint labour of a great multitude of workmen. The shepherd, the sorter of the wool, the wool comber or carder, the dyer, the scribbler, the spinner, the weaver, must all join their different arts in order to complete even this homely production. How many merchants and carriers, besides, must have been employed in transporting the materials from some of those workmen to others, who often live in a very distant part of the country! How much commerce and navigation, in particular, how many shipbuilders, sailors, sailmakers, ropemakers, must have been employed in order to bring together the different drugs made use of by the dyer, which often come from remotest corners of the world!

Propensity to Truck, Barter, and Exchange

Throughout the first chapter, which is the most famous in the whole discourse, he treats of the fact that the production of wealth can be best facilitated by the proper organization of labor. Greater dexterity, time saved, and stimulus to invention are the cardinal points toward which separation of different trades and employments and separation of processes within each trade are directed. Smith explains:[6]

This division of labour from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual, consequence of a certain propensity to truck, barter and exchange one thing for another.

. . . . . .

[6] *Ibid.*, Chap. II, pp. 6–8.

It is common to all men, and to be found in no other race of animals, which seem to know neither this nor any other species of contracts.

. . . . . .

As it is by treaty, by barter, and by purchases that we obtain from one another the greater part of those mutual good offices which we stand in need of, so it is the same trucking disposition which originally gives occasion to the division of labor.

. . . . . .

The difference of natural talents in different men, is, in reality, much less than we are aware of; and the very different genius which appears to distinguish men of different professions, when grown up to maturity, is not, upon many occasions, so much the cause as the effect of the division of labour. The difference between the most dissimilar characters, between a philosopher and a common street-porter, for example, seems to arise, not so much from nature, as from habit, custom and education. When they came into the world, and for the first six or eight years of their existence, they were very much alike, and neither their parents nor play-fellows could perceive any remarkable difference. About that age, or soon after, they came to be employed in very different occupations. The difference of talents comes then to be taken notice of, and widens by degrees, till, at last, the vanity of the philosopher is willing to acknowledge scarce any resemblance. But without the disposition to truck, barter, and exchange, every man must have procured to himself every necessary and conveniency of life which he wanted.

. . . . . .

Many tribes of animals acknowledged to be all of the same species, derive from nature a much more remarkable distinction of genius, than what, antecedent to custom and education, appears to take place among men. By nature, a philosopher is not in genius and disposition half so different from a street-porter, as a mastiff is from a greyhound or a greyhound from a spaniel, or this last from a shepherd's dog.

Each animal is still obliged to support and defend itself, separately and independently, and derives no sort of advantage from the variety of talents with which nature has distinguished its fellows. Among men, on the contrary, the most dissimilar geniuses are of use to one another; the different producers of their respective talents, by the general disposition to truck, barter, and exchange, being brought, as it were, into a common stock, where every man may purchase whatever part of the produce of other men's talents he has occasion for.

Although Smith definitely states that the cause of the diversity of occupations lies in man's propensity to truck, barter, and exchange, he also brings out that the division of labor lies fundamentally in the "need for the cooperation and assistance of great multitudes" and also that men specialize because they have almost constant occasion for the help of others. As Smith wrote:[7]

> . . . it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and show them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.
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> As it is the power of exchanging that gives occasion to the division of labor, so the extent of this division must always be limited by the extent of that power, in other words, by the extent of the market.

Conditioning the Market

Conditioning of the market is dependent upon a number of factors, among which are facilities for transportation, density of population, and facilities for exchange and accumulation of stock (capital). Early civilizations were on seacoasts and in great river valleys where communication and transportation were easy and cheap. There it was that conditions became ripe so that a person had the "encouragement to dedicate himself entirely to one employment," influenced by the prospect of exchanging "that surplus part of the produce of his own labor, which is over and above his own consumption, for such parts of the produce of other men's labour as he has occasion for." But the extent to which the division of labor can be carried is proportional to the amount of stock previously accumulated. On the importance of accumulated wealth to enlarge the quantity of production and to extend the condition of well-being, Smith has the following to say:[8]

[7] *Ibid.*, Chap. III, p. 7–8.
[8] *Ibid.*, Chap. I, p. 6.

What a variety of labor, too, is necessary in order to produce the tools of the meanest of those workmen! To say nothing of such complicated machines as the ship of the sailor, the mill of the fuller, or even the loom of the weaver, let us consider, only, what a variety of labor is requisite, in order to form that very simple machine the shears, with which the shepherd clips the wool. The miner, the builder of the furnace for smelting the ore, the feller of the timber, the burner of the charcoal, to be made use of in the smelting-house, the brick-maker, the bricklayer, the workmen who attend the furnace, the mill-wright, the forger, the smith, must all of them join their different arts in order to produce them. Were we to examine, in the same manner, all the different parts of his dress and household furniture, the coarse linen shirt which he wears next his skin, the shoes which cover his feet, the bed which he lies on, and all the different parts which compose it, the kitchen-grate at which he prepares his victuals, the coals which he makes use of for that purpose, dug from the bowels of the earth, and brought to him perhaps by a long sea and a long land carriage, all the other utensils of his kitchen, all the furniture of his table, the knives and forks, the earthen or pewter plates upon which he serves up and divides his victuals, the different hands employed in preparing his bread and his beer, the glass window which lets in the heat and the light and keeps out the wind and the rain, with all the knowledge and art requisite for preparing that beautiful and happy invention, without which these northern parts of the world could scarce have afforded a very comfortable habitation, together with the tools of all the different workmen employed in producing these different conveniences; if we examine, I say, all these things, and consider what a variety of labour is employed about each of them, we shall be sensible that, without the assistance and coöperation of many thousands, the very meanest person in a civilized country could not be provided, even according to, what we very falsely imagine, the easy and simple manner in which he is commonly accommodated.

Division of Labor, Disadvantages

There has been much said about the advantages of the division of labor: what about the disadvantages? Smith is not silent on this point, for in the fifth book he wrote:[9]

In the progress of the division of labour, the employment of the far greater part of those who live by labour, that is, of the great body of the people, comes to be confined to a few very simple operations; fre-

[9] *Ibid.*, Book V, Chap. I, Part III, Art. II, pp. 350, 352.

quently to one or two. But the understandings of the greater part of men are necessarily formed by their ordinary employments. The man whose whole life is spent in performing a few simple operations, of which the effects too are perhaps always the same, or very nearly the same, has no occasion to exert his understanding, or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. . . . His dexterity at his own particular trade seems in this manner, to be acquired at the expense of his intellectual, social and martial virtues. But in every improved and civilized society this is the state into which the labouring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it.

. . . . . .

But though the common people cannot, in any civilized society, be so well instructed as people of some rank and fortune, the most essential parts of education, however, to read, write, and account, can be acquired at so early a period of life, that the greater part even of those who are to be bred to the lowest occupations, have time to acquire them before they can be employed in those occupations. For a very small expense the public can facilitate, can encourage, and can even impose upon almost the whole body of the people the necessity of acquiring those most essential parts of education.

The Natural Order and Spontaneity

Social Facts and Individual Philosophy

Characteristic of the *Wealth of Nations* is its recording of social facts from wide and keen observation and its arrival at a judgment as to their significance. Many, but not all, of its premises are ascertained by observation; others are based on theological and metaphysical assumptions not unlike those cherished by the physiocrats as harmonious with the natural order. Smith has in him feelings depicting naturalism and optimism. These incline him toward the concepts of spontaneity and beneficence and the impulse to remain obedient to an instinctive force — " the natural effort of every individual to better his condition." Personal interest becomes for Smith the fundamental motive in political econ-

omy. Economic order is at once spontaneous and guided by self-interest. Furthermore, institutions which rise spontaneously are proved to be beneficial; what is beneficial is not merely good, it is providential. Self-interest guides man as though he were "led by an invisible hand to promote an end which was no part of his intention."

Spontaneity in Institutional Development

According to Smith spontaneous institutions are the best. The natural social facts – division of labor, the invention of money, and the accumulation of capital – increase wealth ~~and~~ are favorable to economic progress generally. Private interest and public interest are in accord. But it appears that the extension of this principle is confined to production – the application of labor and capital – and not extended to distribution. Smith was not absolute in his optimism, for he often qualifies with the phrases "most frequently" and "in a majority of cases." Nevertheless, he is the great herald of economic liberty, a firm believer in the efficacy of individual initiative, and an ardent advocate of the concept that what is natural is generally to be preferred to what is contrived.

The Stationary State

Smith describes as static the economic condition of a country which has acquired the maximum of wealth permitted by the nature of its soil, climate, and geographical location with respect to other countries.

He declares that when the country is fully populated the competition among the laborers for employment reduces wages to the subsistence level, and unless or until an improvement is made in the organization of industry and the techniques of production, no further increase of population can be supported. He declares also that, when capital is employed to the maximum of business needs, further augmentation through saving results in a decline of profit and the interest rate until a minimum level is reached. At this stage incentive for further capital accumulation ceases, and business expansion is at a standstill. When these conditions

prevail, a static phase of national economy – the stationary state – has been reached.

Although the economy of China is recognized as having long been stationary, Smith suggests that under improved laws and better adapted institutions a further accumulation of wealth and a higher degree of well-being could undoubtedly have been attained. Smith noted in further study that in various countries the stationary status will be reached at different degrees of opulence.[10] This observation is a definite application of the principle of relativity to economic theory and indicates that Adam Smith did not fall into the error of absolutism as did the classicists in later years.

Ratio of Productive Labor to Population

Importance of Capital

Since the efficient application of labor is a source of wealth, the proportion of the total population engaged in productive labor is a criterion which, in Smith's estimation, is intimately related to the use of capital, inasmuch as capital has the faculty of setting labor in motion. Of the different employments of capital the following is said:[11]

> Though all capitals are destined for the maintenance of productive labour only, yet the quantity of that labour which equal capitals are capable of putting into motion, varies extremely according to the diversity of their employment; as does likewise the value which that employment adds to the annual produce of the land and labour of the country.
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> A capital may be employed in four different ways: either, first, in procuring the rude produce annually required for the use and consumption of the society; or, secondly, in manufacturing and preparing that rude produce for immediate use and consumption; or, thirdly, in transporting either the rude or manufactured produce from the places where they abound to those where they are wanted; or lastly, in dividing particular portions of either into such small parcels as suit the occasional

[10] *Ibid.*, Book I, Chap. IX, p. 43.

[11] *Ibid.*, Book II, Chap. V, pp. 159–160.

demands of those who want them. In the first way are employed the capitals of all those who undertake the improvement or cultivation of lands, mines, or fisheries; in the second, those of all master manufacturers; in the third, those of all wholesale merchants; and in the fourth, those of all retailers. It is difficult to conceive that a capital should be employed in any way which may not be classed under some one or other of these four.

Agriculture the Important Economic Activity

Of the various economic activities Smith is highly partial to that of agriculture. This preference rests on the conviction that the amount of labor set in motion by a given quantity of capital is greater in the extractive industries. Next come manufactures; and commerce, subdivided into domestic and foreign with the preference in that order, is placed last. His leaning toward agriculture may have been due to the physiocratic influence; yet his dependence on history and observation would provide a natural inclination in the same direction. He records:[12]

No equal capital puts into motion a greater quantity of productive labour than that of the farmer. Not only his labouring servants, but his labouring cattle, are productive labourers. In agriculture, too, nature labours along with man; and though her labour costs no expense, its produce has its value, as well as those of the most expensive workmen. The most important operations of agriculture seem intended not so much to increase – though they do that too – as to direct the fertility of nature towards the production of the plants most profitable to man. A field overgrown with briers and brambles may frequently produce as great a quantity of vegetables as the best cultivated vineyard or cornfield. Planting and tillage frequently regulate more than they animate the active fertility of nature; and after all this labour, a great part of the work always remains to be done by her. The labourers and labouring cattle, therefore, employed in agriculture, not only occasion, like the workmen in manufactures, the reproduction of a value equal to their own consumption, or to the capital of the farmer and all its profits, they regularly occasion the reproduction of the rent of the landlord. The rent may be considered as the produce of those powers of nature, the use of which the landlord lends to the farmer.

[12] *Ibid.*, p. 161.

Manufactures and Commerce

Smith's preference is plain and well though not convincingly defended; yet despite his partiality he dispels the illusions, harbored by many, as to the unproductiveness of manufactures and commerce. He eloquently emphasizes the interdependence of the different economic activities. On this point he says:[13]

Each of the four methods of employing a capital is essentially necessary either to the existence or extension of the other three [the four are extractive industries, manufactures, wholesale merchandising, and retailing], or to the general convenience of society.

Unless a capital was employed in furnishing rude produce to a certain degree of abundance, neither manufactures nor trade of any kind could exist.

Unless a capital was employed in manufacturing that part of the rude produce which requires a good deal of preparation before it can be fit for use and consumption, it either would never be produced, because there could be no demand for it; or if it was produced spontaneously, it would be of no value in exchange, and could add nothing to the wealth of the society.

Unless a capital was employed in transporting either the rude or manufactured produce from the places where it abounds to those where it was wanted, no more of either could be produced than was necessary for the consumption of the neighborhood. The capital of the merchant exchanges the surplus produce of one place for that of another, and thus encourages the industry and increases the enjoyments of both.

Unless a capital was employed in breaking and dividing certain portions either of the rude or manufactured produce into such small parcels as suit the occasional demands of those who want them, every man would be obliged to purchase a greater quantity of the goods he wanted than his immediate occasions required. If there was no such trade as a butcher, for example, every man would be obliged to purchase a whole ox or a whole sheep at a time. This would generally be inconvenient to the rich, and much more so to the poor.

Prejudice against Shopkeepers

Prejudice against shopkeepers has remained persistent. Even today middlemen are looked at askance. Among tradesmen them-

[13] *Ibid.*, p. 160.

selves there is no accord as to the extent of the legitimacy of merchandising methods. Notice of this is given in the springing up of cooperatives and the legislation prompted by the effort to confine or control operations. This, too, is a matter not new, for in Smith's day the condition obtained. We quote:[14]

The prejudices of some political writers against shopkeepers and tradesmen are altogether without foundation. So far is it from being necessary either to tax them or to restrict their numbers, that they can never be multiplied so as to hurt the public, though they may so as to hurt one another. The quantity of grocery goods, for example, which can be sold in a particular town, is limited by the demand of that town and its neighborhood. The capital, therefore, which can be employed in the grocery trade, cannot exceed what is sufficient to purchase that quantity. If this capital is divided between two different grocers, their competition will tend to make both of them sell cheaper than if it were in the hands of one only; and if it were divided among twenty, their competition would be just so much the greater, and the chance of their combining together in order to raise the price, just so much the less. Their competition, might, perhaps, ruin some of themselves; but to take care of this is the business of the parties concerned, and it may safely be trusted to their discretion. It can never hurt either the consumer or the producer: on the contrary, it must tend to make the retailers both sell cheaper and buy dearer than if the whole trade was monopolized by one or two persons. Some of them, perhaps, may sometimes decoy a weak customer to buy what he has no occasion for. This evil, however, is of too little importance to deserve the public attention, nor would it necessarily be prevented by restricting their numbers. It is not the multitude of alehouses, to give the most conspicuous example, that occasions a general disposition to drunkenness among the common people; but that disposition, arising from other causes, necessarily gives employment to a multitude of alehouses.

Natural Liberty and Government

The System of Natural Liberty Preferable

Smith's naturalism and optimism lead him to a preference for a system characterized by economic liberty. When, after examination, he rejects systems employing the principle of restraint or of

[14] *Ibid.*, pp. 160–161.

preference impelled by bounty, then the simple system of natural liberty introduces itself spontaneously; under it every man is free to pursue his own interest as long as he does not violate the laws of justice. The government, he concludes, is unfitted by nature for economic functions, and therefore in these matters wisdom lies in the principle of governmental nonintervention. His conclusion follows from three, for him, incontrovertible facts; first, spendthrift propensities of governments; second, remoteness, precluding minuteness of attention required; and third, inefficiency of administration because of the negligence and thriftlessness of its agents. On the first point Smith proclaims:[15]

It is the highest impertinence and presumption, therefore, in kings and ministers, to pretend to watch over the economy of private people, and to restrain their expense, either by sumptuary laws or by prohibiting the importation of foreign luxuries. They are themselves always, and without exception, the greatest spendthrifts in the society. Let them look well after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of their subjects never will.

True Function of Government

In enlarging on the second point attention is drawn to what Smith believes is the true function of government, as well as to its incapacity; to wit:[16]

No incitement to the attention of the sovereign can ever counterbalance the smallest discouragement to that of the landlord. The attention of the sovereign can be, at best, but a very general and vague consideration of what is likely to contribute to the better cultivation of the greater part of his dominions. The attention of the landlord is a particular and minute consideration of what is likely to be the most advantageous application of every inch of ground upon his estate. The principal attention of the sovereign ought to be to encourage, by every means in his power, the attention both of the landlord and of the farmer; by allowing both to pursue their own interest in their own way, and according to their own judgment; by giving to both the most

[15] *Ibid.*, Chap. III, p. 154.
[16] *Ibid.*, Book V, Chap. II, Part II, Art. I, p. 375.

perfect security that they shall enjoy the full recompense of their own industry; and, by procuring to both the most extensive market for every part of their produce, in consequence of establishing the easiest and safest communications both by land and by water, through every part of his own dominions, as well as the most unbounded freedom of exportation to the dominions of all other princes.

Incapacity of State Agents

The state's agents, Smith says, who are paid out of public funds, by this token are not interested in administration. Consequently, factors and agents are prone toward "negligent, expensive and oppressive management." In writing of princes who, like private persons, for the purpose of mending their fortunes, have become adventurers in the common branches of trade, the verdict recorded is that they scarcely ever succeed:[17]

> The profusion with which the affairs of princes are always managed, renders it almost impossible that they should [succeed]. The agents of a prince regard the wealth of their master as inexhaustible; are careless at what price they buy; are careless at what price they sell; are careless at what expense they transport his goods from one place to another. Those agents frequently live with the profusion of princes, and sometimes too, in spite of the profusion, and by a proper method of making up their accounts, acquire the fortune of princes.

Type of Enterprise Suited to State Function

With the management of one type of enterprise, observation and history convinced Smith that a state could be safely trusted. It is a type of enterprise in which the capital is small, returns immediate, and management simple. Every sort of country is credited with success in post-office management. On this we quote:[18]

> The postoffice is properly a mercantile project. The government advances the expense of establishing the different offices, and of buying or hiring the necessary horses or carriages, and is repaid, with a large profit, by duties upon what is carried. It is, perhaps, the only mer-

[17] *Ibid.*, Part I, p. 368.
[18] *Ibid.*, p. 368.

cantile project which has been successfully managed by, I believe, every sort of government. The capital to be advanced is not very considerable. There is no mystery in the business. The returns are not only certain, but immediate.

Requirements for Success in Private Enterprise

From what has been related in the last few pages the impression might be gleaned that Smith had an unlimited confidence in the efficacy of individual action. Such a view is an exaggeration. It is true that he preferred individual action in the vast majority of cases, but his was no blind preference. Private enterprises to be useful must meet two conditions, either of which, if wanting, would threaten the risk of losing as much by private as by state enterprise: first, the entrepreneur must be actuated by personal interest; second, competition must keep actions within the limits of justice. Furthermore, nonintervention was set up as a general principle and not as an absolute rule. The sweep of his plea for the economic freedom of the individual was broadened because of his enthusiasm for his attack against mercantilism.

Advantage in Freedom of Wide Markets

On the matter of freedom of trade he presents the absurdity of producing at great expense at home what could better be supplied from abroad at less cost. In the territorial division of labor Smith sees the advantage of utilizing the natural distribution of products among the various countries. The express benefits are the following:[19]

> The importation of gold and silver is not the principal, much less the sole, benefit which a nation derives from its foreign trade. Between whatever places foreign trade is carried on, they all of them derive two distinct benefits from it. It carries out that surplus part of the produce of their land and labour for which there is no demand among them, and brings back in return for it something else for which there is a demand. It gives a value to their superfluities, by exchanging them for something else, which may satisfy a part of their wants and increase their enjoy-

[19] *Ibid.*, Book IV, Chap. I, pp. 195–196.

ments. By means of it, the narrowness of the home market does not hinder the division of labour in any particular branch of art or manufacture from being carried to the highest perfection. By opening a more extensive market for whatever part of the produce of their labour may exceed the home consumption, it encourages them to improve its productive powers, and to augment its annual produce to the utmost, and thereby to increase the real revenue and wealth of the society. These great and important services foreign trade is continually occupied in performing to all the different countries between which it is carried on. They all derive great benefit from it, though that in which the merchant resides generally derives the greatest as he is generally more employed in supplying the wants, and carrying out the superfluities of his own, than of any other particular country. To import the gold and silver which may be wanted into the countries which have no mines, is, no doubt, a part of the business of foreign commerce. It is, however, a most insignificant part of it. A country which carried on foreign trade merely upon this account could scarce have occasion to freight a ship in a century.

Monopoly of Home Markets Undesirable

To give the monopoly of the home market to domestic industry is looked upon in all cases as either a useless or hurtful regulation. We quote:[20]

It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes but employs a tailor. The farmer attempts to make neither the one nor the other, but employs those different artificers. All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbors, and to purchase with a part of its produce, or, what is the same thing, with the price of a part of it, whatever else they have occasion for.

What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. The general industry

[20] *Ibid.*, Chap. II, p. 200.

of the country, being always in proportion to the capital which employs it, will not thereby be diminished, no more than that of the above-mentioned artificers, but only left to find out the way in which it can be employed with the greatest advantage. It is certainly not employed to the greatest advantage, when it is thus directed towards an object which it can buy cheaper than it can make. The value of its annual produce is certainly more or less diminished, when it is thus turned away from producing commodities evidently of more value than the commodity which it is directed to produce.

Public Revenue

Between the value of the annual produce from private enterprise and public revenue there is an intimate relationship, owing to the fact that the expenses of government in greater part must be defrayed by taxes—the people's contribution from private income. This condition has arisen since the time when public stock and public lands provided sources of revenue sufficient for the expenses of government. In the developing state, the old method of crown self-support proved not only inadequate but actually more expensive to society, for as public lands become private property under intensive use, the revenue to be derived from them for the public purse increases.

Taxes, Smith declares, must be paid out of some one or other of the sources of private revenue—rent, profits, and wages. Multiple taxation which impinges equally upon every source of revenue—labor, capital, and land — is advocated. The fundamental rules — the canons of taxation — laid down are as follows:[21]

I. The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state.

II. The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person.

III. Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay.

[21] *Ibid.*, Book V, Chap. II, Part II, pp. 371–372.

IV. Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state.

Controversial Theories

Roles of Capital and Parsimony

Since to Smith's way of thinking the proportion between capital and revenue regulates the proportion between industry and idleness, capital accumulation is highly important both from the state and private viewpoints. "Wherever capital predominates, industry prevails; wherever revenue, idleness." Since the increase or diminution of capital tends to affect the quantity of industry and the number of productive hands in like manner, the means of capital accumulation are examined. We are told that "Capitals are increased by parsimony, and diminished by prodigality and misconduct." Parsimony, and not industry, is held out as the immediate cause of the increase of capital. The argument runs thus:[22]

> Parsimony by increasing the fund which is destined for the maintenance of productive hands, tends to increase the number of those hands whose labour adds to the value of the subject upon which it is bestowed. It tends, therefore, to increase the exchangeable value of the annual produce of the land and labour of the country. It puts into motion an additional quantity of industry, which gives an additional value to the annual produce.
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> If the prodigality of some was not compensated by the frugality of others, the conduct of every prodigal, by feeding the idle with the bread of the industrious, tends not only to beggar himself but to impoverish his country.
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> With regard to profusion, the principle which prompts to expense, is the passion for present enjoyment; which, though sometimes violent and very difficult to be restrained, is in general only momentary and occasional. But the principle which prompts to save, is the desire of bettering our condition; a desire which, though generally calm and dis-

[22] *Ibid.*, Book II, Chap. III, pp. 149–151.

passionate, comes with us from the womb, and never leaves us till we go into the grave. . . . An augmentation of fortune is the means by which the greater part of men propose and wish to better their condition. It is the means the most vulgar and the most obvious; and the most likely way of augmenting their fortune, is to save and accumulate some part of what they acquire, either regularly and annually, or upon some extraordinary occasion.

. . . . . .

Great nations are never impoverished by private, though they sometimes are by public, prodigality and misconduct. The whole, or almost the whole, public revenue is, in most countries, employed in maintaining unproductive hands.

Productive and Unproductive Labor

Smith divides persons into two classes — those who labor, and those who labor not at all. All have to be maintained, and since produce can never be infinite, the proportion of it which goes to maintain those who labor has a direct bearing on the well-being of the people. Of like effect and of proportionate weight is the ratio of productive to unproductive labor. Productive labor adds to the value of the product, while unproductive does not. Smith's theory is analogous to the physiocratic concept of the sterile classes. The argument proceeds:[23]

Thus the labour of a manufacturer adds generally to the value of the materials which he works upon, that of his own maintenance, and of his master's profits. The labour of a menial servant, on the contrary, adds to the value of nothing. Though the manufacturer has his wages advanced to him by his master, he in reality costs him no expense, the value of those wages being generally restored, together with a profit, in the improved value of the subject upon which his labour is bestowed; but the maintenance of a menial servant never is restored. A man grows rich by employing a multitude of manufacturers; he grows poor by maintaining a multitude of menial servants. The labour of the latter, however, has its value, and deserves its reward as well as that of the former; but the labour of the manufacturer fixes and realizes itself in some particular subject or vendible commodity, which lasts for some time at least after that labour is past. . . . The labour of the

[23] *Ibid.*, pp. 145–146.

menial servant, on the contrary, does not fix or realise itself in any particular subject or vendible commodity. His services generally perish in the very instant of the performance, and seldom leave any trace or value behind them, for which an equal quantity of service could afterwards be procured.

The labour of some of the most respectable orders in the society is, like that of menial servants, unproductive of any value, and does not fix or realise itself in any permanent subject or vendible commodity which endures after that labour is past, and for which an equal quantity of labour could afterwards be procured. The sovereign, for example, with all the officers both of justice and war who serve under him, the whole army and navy, are unproductive labourers. They are the servants of the public, and are maintained by a part of the annual produce of the industry of other people. Their service, how honourable, how useful or how necessary soever, produces nothing for which an equal quantity of service can afterwards be procured. The protection, security, and defense of the commonwealth, the effect of their labour this year, will not purchase its protection, security, and defense for the year to come. In the same class must be ranked some both of the gravest and most important, and some of the most frivolous professions; churchmen, lawyers, physicians, men of letters of all kinds; players, buffoons, musicians, opera-singers, opera-dancers, &c. The labour of the meanest of these has a certain value, regulated by the very same principles which regulate that of every other sort of labour; and that of the noblest and most useful produces nothing which could afterwards purchase an equal quantity of labour. Like the declamation of the actor, the harangue of the orator, or the tune of the musician, the work of all of them perishes in the very instant of its production.

The distinction which Smith made between productive and unproductive labor has not been accepted by economists of the present day. His distinction rests on the difference between commodities in a material form and goods of the personal-service type. His classification of services as unproductive has been generally rejected.

Dual Approach to the Subject of Value

On the subject of value Smith writes in a confused fashion. He declares that the word "value" has two different meanings; one is the expression of an object's utility, the other is its power of

purchase. He calls them value in use and value in exchange. To quote:[24]

> Nothing is more useful than water; but it will scarce purchase any thing; scarce any thing can be had in exchange for it. A diamond on the contrary, has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it.

Smith proceeds to investigate the principles of exchangeable value, but the principle of utility is dismissed without further discussion. He states that it is his endeavor to show the true measure of exchangeable value which constitutes the real price of all commodities; the different parts which compose the real price; and the different circumstances which sometimes raise some or all of these parts of price above or allow them to fall below their natural or ordinary rate.[25]

Smith finds "every man rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life," and he finds the value of a commodity not to be used or consumed by the possessor himself in the quantity of labor it will command. But he sees difficulty in ascertaining the true proportion between two different quantities of labor. It is only in the early and rude state of society that "the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another." For when stock has accumulated and its owners "employ it in setting to work industrious people, whom they will supply with materials and subsistence," profits become a part of the value of goods in some proportion to the extent of the stock utilized. Likewise, "as soon as the land of a country has all become private property, the landlords like all other men, love to reap where they never sowed, and demand a rent even for its natural produce." Here he concludes:[26]

> In every society the price of every commodity finally resolves itself into some one or other, or all of those three parts; and in every improved society all three enter more or less, as component parts, into the price of the far greater part of commodities.

[24] *Ibid.*, Book I, Chap. IV, p. 13.
[25] *Ibid.*
[26] *Ibid.*, Chap. II, p. 23.

In the fifth chapter of Book I, the whole emphasis is upon labor for, we are told: "Labour, therefore, is the real measure of the exchangeable value of all commodities." Yet even here the real worth of an article to the man who has acquired it and wants to dispose of it is the "toil and trouble" which it can save him or which can be imposed upon other people. "Toil" is labor true enough, but "trouble" may include other items besides toil, for we cannot be certain that the use of the two words is for alliterative effect only. Two paragraphs illustrate the course of the argument:[27]

The real price of everything, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people. What is bought with money or with goods is purchased by labour as much as what we acquire by the toil of our own body. That money or those goods indeed save us this toil. They contain the value of a certain quantity of labour, which we exchange for what is supposed at the time to contain the value of an equal quantity. Labour was the first price, the original purchase-money, that was paid for all things. It was not by gold or silver, but by labour, that all the wealth of the world was originally purchased; and its value to those who possess it, and who want to exchange it for some new productions, is precisely equal to the quantity of labour which it can enable them to purchase and command.

. . . . . .

But, though labour be the real measure of the exchangeable value of all commodities, it is not that by which their value is commonly estimated. It is often difficult to ascertain the proportion between two different quantities of labour. The time spent in two different sorts of work will not always alone determine this proportion. The different degrees of hardship endured, and of ingenuity exercised, must likewise be taken into account. There may be more labour in an hour's hard work than in two hour's easy business; or in an hour's application to a trade, which it cost ten years labour to learn, than in a month's industry at an ordinary and obvious employment. But it is not easy to find any accurate measure either of hardship or ingenuity. In ex-

[27] *Ibid.*, Chap. V, pp. 13–14.

changing, indeed, the different productions of different sorts of labour for one another, some allowance is commonly made for both. It is adjusted, however, not by any accurate measure, but by the higgling and bargaining of the market, according to that sort of rough equality which, though not exact, is sufficient for carrying on the business of common life.

Rent a Monopoly Price or a Gratuity

With regard to rent, too, Smith entertains more than one opinion. In some passages of the *Wealth of Nations* he regards rent as a monopoly price, and in Book II, Chapter V, he explains that rent arises because:[28]

> In agriculture, too, nature labours along with man: and though her labour costs no expense, its produce has its value as well as that of the most expensive workmen. The most important operations of agriculture seem intended, not so much to increase – though they do that too – as to direct the fertility of nature towards the production of the plants most profitable to man. . . . Planting and tillage frequently regulate more than they animate the active fertility of nature; and after all their labour, a great part of the work always remains to be done by her. . . . Over and above the capital of the farmer and all its profits, they regularly occasion the reproduction of the rent of the landlord. . . . It is the work of nature which remains after deducting or compensating everything which can be regarded as the work of man. . . . No equal quantity of productive labour employed in manufactures can ever occasion so great a reproduction. In them nature does nothing – man does all; and the reproduction must always be in proportion to the strength of the agents that occasion it.

In the passage from which the above quotation is taken, the conclusion reached is that "Rent may be considered as the produce of those powers of nature, the use of which the landlord lends to the farmer." The clarification of obscure points in rent theory awaits the attention of Malthus, Ricardo, and von Thünen.

Appraisement

Adam Smith remains constant in the support of his general thesis that "the great object of the political economy of every

[28] *Ibid.*, Book II ,Chap. V, p. 161.

country, is to increase the riches and power of that country." In the elucidation of points comprehended in its scope he toils steadfastly. By reasoning and by examples drawn from his observation and from history, he, according to one of his biographers, John Rae, "persuaded his own generation and governed the next." In spite of the somewhat faulty arrangement of the materials in the five books of his treatise, the impression left following its perusal is that there has been a masterly handling of a multitude of facts, that the work is a great classic, and that its author was a veritable colossus of learning.

Chapter 8. UTILITARIANISM – JEREMY BENTHAM

In point of time, Bentham bridges the gap between Adam Smith on the one hand and Malthus and Ricardo on the other. During the three or four decades before 1800, the effects of the early period of the Industrial Revolution were producing changes in living of a far-reaching character. Among the forces inducing the changes were the rise of the factory system with the attendant shifts from old to new techniques, the invention of power machinery, and the introduction of modernized transportation. The changing phenomena naturally stimulated economic thought.

Jeremy Bentham

Biographical Sketch. Jeremy Bentham (1748–1832), most influential of the immediate successors of Adam Smith and a distinguished writer, thinker, and reformer, was born in London, son of an English solicitor of considerable means. He is said to have begun the study of Latin and history at the age of three. A brilliant student, he attended Oxford and was awarded the B.A. and M.A. degrees before he was twenty. Thereupon he entered Lincoln's Inn, but, to the disappointment of his father, he did not continue in the practice of the law because he found it distasteful. Being deeply interested in social philosophy and enjoying leisure because of his inherited wealth, he devoted his entire life to the study of problems related to the welfare of man. An illustration of Bentham's practical approach to the problem of human betterment is shown by his becoming the most distinguished member of Robert Owen's new business organization,[1] after the latter's associates, objecting to the mixing of business and philanthropy, withdrew from the partnership.

Between the years 1787 and 1798 Bentham published a series of economic monographs and books which were significant from the point of view of the economist. Among his published writings, the most

[1] For an account of the venture, see Chap. 19.

significant contributions were in government and law, but his treatises, *A Manual of Political Economy* and *Defense of Usury,* are renowned works on economics. In the latter, he criticized Adam Smith for advocating a legal maximum rate of interest at a level but little above that of the market. Bentham argued that in an industrial society the law should interfere only in case of fraud and that the interest rate is to be left to the free contract of borrower and lender. It is said that Smith admitted Bentham had made his case.

Failure to attain his ambition to make a political career for himself is to be attributed to a naturally bashful disposition which unsuited him for the give-and-take of politics. Bentham was retiring, exclusive, and eccentric, perhaps whimsical. An extraordinary evidence of whimsicality is cited: There sat a man at a dinner table, waxen-faced, wearing a wide-brimmed straw hat, silver hair dropping to the shoulders. He sat silently, eating nothing; the dinner guests ignored him, in fact seemed oblivious of his presence. Who was this man? He was the dressed-up skeleton of Bentham, dead a century, but attending in person the hundredth anniversary of his departure from life. In his will he had directed that his body should be dissected in the presence of friends and his skeleton placed in University College, London. The will further recited that his bones should be put together in such a manner as to allow the skeleton to be placed in a chair with the posture indicative of deep thought, and at any commemorative gathering it should be "stationed in such a part of the room as to the assembled company shall seem meet." The whim just described is symbolic of Bentham's desire to perpetuate his philosophical influence and system through succeeding generations.

"The greatest good of the greatest number," the central idea of the utilitarian system, was to be attained through an application of the hedonistic calculus – the pleasure and pain psychology. Bentham believed this possible in the economic life by resorting to the use of the Smith-created "invisible hand" of free competition and free trade. It was to be accomplished through the provision of a realistic economic order based on individual exchange cooperation. Toward the attainment of this objective Bentham devoted his life – a span of fourscore and four years.

A Follower of Smith with Utilitarian Bent

Bentham accepted the economics of Adam Smith, but Smith's mixing of ethics and moral philosophy with economics provided

him with more of the earmarks of the sociologist than is the case with Bentham. The high point of difference, however, lies in Bentham's substitution of rational tests for the metaphysical assumptions of nature philosophy which are characteristic of Smith. Individuals in following their own interests are no longer led unconsciously by a divine hand. In "economics" they are governed by a rational force, the principle of utility – the excess of pleasures over pains.

As Bentham was the leading philosopher of his day, his writings were influential in the classical economy of the early nineteenth century. He was an intimate friend of James Mill and Ricardo. He also cast his shadow upon John Stuart Mill of the next generation. His approach to economics was psychological and ethical. His effort was to maximize social happiness, in the accomplishment of which he gave benevolence but a small part. In a celebrated paragraph he declared:[2]

> Nature has placed mankind under the governance of two sovereign masters, *pain* and *pleasure*. It is for them alone to point out what we ought to do, as well as to determine what we shall do. On the one hand the standard of right and wrong, on the other, the chain of causes and effects, are fastened to their throne. They govern us in all we do, in all we say, in all we think: every effort we can make to throw off our subjection, will serve but to demonstrate and confirm it. In words a man may pretend to abjure their empire: but in reality he will remain subject to it all the while. The *principle of utility* recognizes this subjection, and assumes it for the foundation of that system, the object of which is to rear the fabric of felicity by the hands of reason and of law. Systems which attempt to question it, deal in sounds instead of sense, in caprice instead of reason, in darkness instead of light.

The Measure of Utility Used as a Guide

After defining utility, Bentham relates the interest of the community to that of the sum total of the interest of those who compose it. Then he applies the principle of utility to the conduct of society in such manner as to conclude that it is the proper and

[2] Jeremy Bentham, *An Introduction to the Principles of Morals and Legislation*, Chap. I.

sole guide for statesmen and administrators in the performance of their functions. Significant definitions follow:[3]

By utility is meant that property in any object, whereby it tends to produce benefit, advantage, pleasure, good, or happiness (all this in the present case comes to the same thing), or (what comes again to the same thing) to prevent the happening of mischief, pain, evil, or unhappiness to the party whose interest is considered: if that party be the community in general, then the happiness of the community: if a particular individual, then the happiness of that individual.

. . . . . .

It is vain to talk of the interest of the community, without understanding what is the interest of the individual. A thing is said to promote the interest, or to be for the interest, of an individual, when it tends to add to the sum total of his pleasures: or, what comes to the same thing, to diminish the sum total of his pains.

. . . . . .

When a man attempts to combat the principle of utility, it is with reasons drawn, without his being aware of it, from the very principle itself. His arguments, if they prove anything, prove not that the principle is *wrong*, but that according to the applications he supposes to be made of it, it is *misapplied*. Is it possible for a man to move the earth? Yes; but he must first find out another earth to stand upon.

To Bentham, happiness is an incentive to action since it determines for men what they shall do. To him it is, in fact, more than this, for it is also a standard of conduct in that it determines what men ought to do. The duality is followed throughout; happiness is both a psychological principle and an ethical criterion. Aristotle recognizes that happiness for most men lies in the identity of the good with pleasure, that for those of superior refinement there is a disposition to identify happiness with honor, while the philosopher finds it in the pursuit of wisdom. James Mill, in his *Elements of Political Economy*, declares that the men of middling fortunes, those to whom society is generally indebted for its greatest improvement, obtain, as a class, the greatest sum of human enjoyment. John Stuart Mill adds his testimony when he declares that "some kinds of pleasure are more valuable than others." He maintains that his declaration is "quite compatible with the prin-

[3] *Ibid.*, pars. III, V, XIII.

ciple of utility." In his essay on *Utilitarianism* he states the principle concretely as follows: "It is better to be a human being dissatisfied than a pig satisfied; better to be Socrates dissatisfied than a fool satisfied. And if the fool, or the pig, is of a different opinion, it is because they only know their own side of the question."

As to whether or not the feelings of different people are comparable, Bentham answered in the affirmative. In the weighing of the pleasures and pains a common measure – a common denominator – had to be found. Bentham proposed money for the purpose, and, decades later, the neoclassical economist, Alfred Marshall, made the like selection as the only common measure of the force of motives.

How to Maximize Happiness

Bentham's constant search was for the method whereby the enjoyment of individuals might be maximized and hence how the enjoyment of society (since society consists of the sum total of individuals) might be maximized. In his theory, wealth and its distribution provide the keys since through wealth comes opportunity. Concerning the relation of wealth and happiness he lays down the following propositions:[4]

1. Each portion of wealth is connected with a corresponding portion of happiness.
2. Of two individuals, possessed of unequal fortunes, he who possesses the greatest wealth will possess the greatest happiness.
3. The excess of happiness on the part of the most wealthy will not be so great as the excess of his wealth.
4. For the same reason, the greater the disproportion between the two masses of wealth, the less the probability that there exists an equally great disproportion between the masses of happiness.
5. The more nearly the actual proportion approaches to equality, the greater will be the total mass of happiness.

According to Bentham, there is a positive relationship between wealth and happiness: the more wealth, the more happiness. But in his rules reprinted above and in other parts of his writing, he makes it plain that happiness does not increase in the same pro-

[4] Jeremy Bentham, *Principles of the Civil Code*, Chap. VI.

portion as does wealth; that is, additional increments of wealth do not provide proportional increments of happiness. Bentham really applies the law of diminishing utility without formally stating it. Of course Bentham's system had to fail because of the absence of a measuring mechanism for quantities of happiness conferred upon individuals, and so, since *greatest happiness* of the individual is incalculable, there is failure in the attempted determination of the *greatest happiness of the greatest number.*

Economics a Science and an Art

In his book, *A Manual of Political Economy,* he points out that the subject is at once a science and an art; that its value lies in the subserviency of the science to the art. He also contrasts *sponte acta* and *agenda.* The former he applies to voluntary measures promoted by government for the common end. A few paragraphs quoted best show the trend of his thought:[5]

Political economy is at once a *science* and an *art.* The value of the science has for its efficient cause and measure, its subserviency to the art.

According to the principle of utility in every branch of the art of legislation, the object or end in view should be the production of the maximum of happiness in a given time in the community in question.

In the instance of this branch of the art, the object or end in view should be the production of that maximum of happiness, in so far as this more general end is promoted by the production of the maximum of wealth and the maximum of population.

The practical questions, therefore, are – How far the measures respectively suggested by these two branches of the common end agree? – how far they differ, and which requires the preference? – how far the end in view is best promoted by individuals acting for themselves? and in what cases these ends may be best promoted by the hands of government?

. . . . . .

With the view of causing an increase to take place in the mass of national wealth, or with a view to increase of the means either of subsistence or enjoyment, without some special reason, the general rule is, that nothing ought to be done or attempted by government. The

[5] Jeremy Bentham, *A Manual of Political Economy,* Chap. I.

motto, or watchword of government, on these occasions, ought to be — *Be quiet.*

For this quietism there are two main reasons: — 1. Generally speaking, any interference for this purpose on the part of government is *needless.* The wealth of the whole community is composed of the wealth of the several individuals belonging to it taken together. But to increase his particular portion is, generally speaking, among the constant objects of each individual's exertions and care. Generally speaking, there is no one who knows what is for your interest, so well as yourself — no one who is disposed with so much ardor and constancy to pursue it.

Generally speaking, it is moreover likely to be pernicious, viz. by being unconducive, or even obstructive, with reference to the attainment of the end in view. Each individual bestowing more time and attention upon the means of preserving and increasing his portion of wealth, than is or can be bestowed by government, is likely to take a more effectual course than what, in his instance and on his behalf, would be taken by government.

The Province of Government

Without any special reason, government action was not to be resorted to since every law is an infraction of liberty and restraint brings pain — the pain of denial. As a consequence, Bentham favored unrestricted competition and the determination of choices made on the basis of the enlightened self-interest of the individual. Thus the utilitarian program of the greatest good of the greatest number was to come to fruition. In Bentham's system government was to be at a minimum. On this he speaks with strong conviction for he says: "Future governments will not have honesty enough to be trusted with the determination of what rights shall be maintained, what abrogated — what laws kept in force, what repealed." Government was also to be kept at a minimum because otherwise taxes would have to be increased. On this point he has the following to say:[6]

To estimate the good expected from the application of any particular mass of government money, compare it always with the mischief produced by the extraction of an equal sum of money by the most

[6] *Ibid.*

burthensome species of tax; since, by forbearing to make application of that sum of money, you might forbear levying the amount of that same sum of money by that tax, and thereby forbear imposing the mass of burthen that results from it.

Bentham's Leadership among the Philosophical Radicals

Bentham's idea of economics as an art as well as a science is reflected in his leadership among the philosophical radicals in their reform efforts. The group included James Mill, Ricardo, John Stuart Mill, some members of Parliament, and other influential men. At times their efforts were joined with other groups though not in full sympathy with the latter's programs; nor, of course, can all reforms consummated be credited completely to Bentham's group. The list of reforms is highly impressive, viz., the Reform Bill of 1832, the Municipal Corporations Act of 1835, the repeal of laws against combinations of laborers and against Catholics and Dissenters, the extension of the franchise, a new poor law (1834), abolition of duties on imports (completed by 1846), a new bank act (1844), popular education, and attention to public hygiene and sanitation.

There was much of the reformer in Bentham. He was an ardent friend of education and worked unremittingly to induce Parliament to provide liberally for popular education, England not following the American practice in public education. In general, Bentham accepted the economics of Smith, but on one vital point there was an outright rejection – the use made of the metaphysical principle of the nature philosophy. For the rejected principle he substituted rational utilitarianism. "Natural rights," he wrote, "is simple nonsense: natural and imprescriptible rights, rhetorical nonsense – nonsense upon stilts."

Chapter 9. EARLY AMERICAN ECONOMIC THOUGHT

Abounding natural resources in America provided such extraordinary opportunities as strongly to influence the economic thinking of the pioneer settlers. Of necessity, the occupations were confined to extractive industries at the outset with agriculture predominant and the fisheries next in importance. Trapping, the exploitation of forest products, and mining received their due attention.

Influence of Environment

The self-sufficing economy of the frontier became the ruling order and rugged individualism the prime characteristic. The principle of selective migration enhanced the competence of many communities. Primitive conditions of life demanded unremitting industry and the practice of a prudent frugality. Exposed as the settlers were to the rigorous natural order, ingenuity and foresight were instilled as a consequence in those who survived. The instinct of self-preservation was supplemented by the simple, practical devices of backwoods invention. Evidence of man's conquest over nature in the simpler matters of life developed in the typical settler a feeling of competence and power. Labor was dignified, and frugality was considered a virtue. It follows that out of the experiences and ideals of the pioneer was constructed the country's fundamental economic pattern.

With resources bountiful, capital lacking, and population sparse, exploitation was the order of the early day. The fruitfulness of labor and the creativeness of the individual mind fostered the concepts of free acquisition of wealth and the right of private property. Freedom to establish business enterprises, the naturalness

of occupational mobility, and the right to buy, sell, or possess became ineradicable aspects of early American society.

Since barter was inconvenient and an inadequate means of exchange of wealth, a money mechanism was seen to be necessary; therefore, measures were early taken in a collective capacity to provide the needed supply of currency. It is not surprising that among the first American economic writings there should appear pamphlets on the currency question.

American colonial society was dynamic and geared to the extractive industries; so, contrary to the prevailing economy in leading European countries, the regulations of mercantilism were unsuitable, distasteful, and largely inoperative in the colonies. They throve under the mother country's "policy of salutary neglect." The developments of the colonists' first century became the heritage of the second, and Benjamin Franklin served as the first exponent of its economic thought. America, basically agricultural and individualistic, was characterized in the eighteenth century by the prevailing philosophy of naturalism and rationalism that was Franklin's.

Benjamin Franklin

Biographical Sketch. Benjamin Franklin (1706–1790), American writer, scientist, and statesman, was born in Boston, youngest son of a chandler, but destined to become the greatest character of colonial America. His formal classroom training was confined to a few years in a school in the city of his birth. Though early evidence of scholastic aptitude supported the father's intention to educate Benjamin at Harvard College in preparation for the ministry, the family budget was too scant to make the plan feasible. So, Franklin became one of the many who proceeded by self-direction to acquire an education.

Having a zeal for reading he devoured Bunyan, Defoe, Plutarch, Locke, and volumes on diverse secular subjects in addition to his father's dry library on theology. His literary style, rated the best of his time among colonials, was acquired by analysis of Addison's *Spectator* papers and diligent practice in imitation of them.

His self-education continued throughout his life. He read widely in natural science, conducted experiments, became renowned as a discoverer in electricity, and made many applications of science in practical use, for example, improvements in chimneys, the lightning

rod, and the Franklin stove. By his own efforts also, he gained an acquaintance with Latin, Italian, French, and Spanish. Thus, in unconscious fulfillment of prophetic plan, he prepared himself for attendance at the court of France to gain indispensable assistance for America's cause.

The hope of a Harvard education having been abandoned, at the age of eleven Benjamin was apprenticed to his half brother James, a Boston printer. A newspaper, the *New England Courant,* started and published by the older brother, provided a convenient vehicle for some secretly written articles of Benjamin's. His brother later discovered the authorship, and, after some serious difficulty with the authorities owing to liberal views expressed in some of the published articles, he treated Benjamin with great harshness; consequently the younger brother resolved to abandon his apprenticeship and run away.

At the age of seventeen he started for New York and, when he found the opportunity for work unpromising in the Dutch colony, continued to Philadelphia. He arrived in the Quaker settlement with a dollar in his pocket, obtained employment immediately as a compositor in the shop of Andrew Bradford, and, except for the time spent abroad, remained for more than half a century to become the leading citizen.

Franklin soon attracted the attention of the governor of Pennsylvania, Sir William Keith, who agreed to help him set up for himself and induced him to go to England to select type and presses for a superior printery projected for Philadelphia. Having arrived in London with no letter of credit awaiting him as promised, Franklin went to work at his trade as a journeyman to support himself.

After eighteen months he returned to Philadelphia. Soon, with a partner, he was established in his own business and began publishing a newspaper which was well managed and of high reputation. *Poor Richard's Almanack* first appeared in 1732, the year of Washington's birth, and was published annually in large editions for twenty-five years. He promoted the founding of a public library and lent assistance toward the improvement of educational techniques. He was a prime mover in the organization of the Philadelphia Academy, forerunner of the University of Pennsylvania. In the latter project, Franklin's plan was to found a college which would prepare young men to serve as leaders of the people and as ornaments to the country.

Franklin served ably in the Provincial assembly of Pennsylvania and in 1757 was appointed as agent to England for that colony. Other colonies did likewise, and so he became virtual spokesman for

American interests generally. Oxford and Edinburgh conferred upon him their highest degrees, and he was elected fellow of the Royal Society. Later he served as a member of the Continental Congress and signed the Declaration of Independence. After the Revolutionary War he served as one of the commissioners who drew up the Treaty of Peace, held the office of governor of Pennsylvania, and acted as a delegate in the Constitutional Convention of 1787.

In Europe, Franklin was the intimate friend of important thinkers, including Quesnay, Turgot, Adam Smith, David Hume, Edmund Burke, and many others. By almost fifty years in his writing he anticipated the Malthusian doctrine and enunciated the American doctrine of high wages. His published works include his inimitable *Autobiography* and a great number of political, financial, economic, and scientific papers. Benign, sage, renowned in reputation at home and abroad, he was unequaled except by Washington. In cosmopolitanism Franklin stood alone, having climbed to the pinnacle of success by self-directed achievement.

Economic Essayist

Franklin was not only a many-sided person but also an early worker in many fields of endeavor. In time, too, he preceded the great characters who contributed the classics to economic literature. It was in the year of his migration to Philadelphia (1723) that Adam Smith was born, and Smith was hardly out of swaddling clothes when Franklin (in 1729) wrote his first pamphlet on an economic subject, entitled *A Modest Enquiry into the Nature and Necessity of a Paper Currency.* In the discussion of interest, Franklin anticipated both Smith and Turgot. Of special significance in estimating Franklin's economic genius is his contribution to the clarification of the law of population, written in 1751, fifteen years before Malthus was born.

Observations on Population

The following excerpts are drawn from Franklin's essay, *Observations Concerning the Increase of Mankind and the Peopling of Countries.* They afford convincing testimony, not only of depth of thought, but also of logical interpretation and practical

application of economic deduction. The principle of relativity is seen at work when Franklin points out that data from full-settled old countries do not suit new countries. He also shows that prudent restraint is an active force in population's increase and that this principle was actually operative in both city and country. Since land was plentiful in America, Franklin considered earlier marriages and larger families than in Europe a typical American fact. We quote:[1]

1. Tables of the proportion of marriages to births, of deaths to births, of marriages to the number of inhabitants, &c., formed on observations made upon the bills of mortality, christenings, &c., of populous cities, will not suit countries; nor will tables formed on observations made on full-settled old countries as Europe, suit new countries as America.

2. For people increase in proportion to the number of marriages, and that is greater in proportion to the ease and convenience of supporting a family. When families can be easily supported, more persons marry, and earlier in life.

3. In cities, where all trades, occupations, and offices are full, many delay marrying till they can see how to bear the charges of a family; which charges are greater in cities, as luxury is more common; many live single during life and continue servants in families, journeymen to trades; hence, cities do not, by natural generation, supply themselves with inhabitants; the deaths are more than the births.

4. In countries full settled the case must be nearly the same; all lands being occupied and improved to the height, those who cannot get land must labor for others that have it; when laborers are plenty their wages will be low; by low wages a family is supported with difficulty; this difficulty deters many from marriage, who therefore long continue servants and single. Only as the cities take supplies of people from the country, and thereby make a little more room in the country, marriage is a little more encouraged there, and the births exceed the deaths.

5. Europe is generally full settled with husbandmen, manufacturers, &c., and therefore cannot now much increase in people. America is chiefly occupied by Indians, who subsist mostly by hunting. The hunter, of all men, requires the greatest quantity of land from whence to draw his subsistence, (the husbandman subsisting on much less, the gardener on still less, and the manufacturer requiring least

[1] Benjamin Franklin, *Observations Concerning the Increase of Mankind and the Peopling of Countries,* 1751.

of all). The Europeans found America as fully settled as it well could be by hunters; yet these, having large tracts, were easily prevailed on to part with portions of territory to the new-comers, who did not much interfere with the natives in hunting, and furnished them with many things they wanted.

6. Land being thus plenty in America, and so cheap as that a laboring man that understands husbandry can in a short time save money enough to purchase a piece of new land sufficient for a plantation, whereon he may subsist a family, such are not afraid to marry; for, if they even look far enough forward to consider how their children, when grown up, are to be provided for, they see that more land is to be had at rates equally easy, all circumstances considered.

7. Hence, marriages in America are more general, and more generally early than in Europe. And if it is reckoned there that there is but one marriage per annum among one hundred persons, perhaps we may here reckon two; and if in Europe they have but four births to a marriage (many of their marriages being late), we may here reckon eight, of which, if one half grow up, and our marriages are made, reckoning one with another, at twenty years of age, our people must at least be doubled every twenty years.

Population Provides Not Only Labor but a Market

That Franklin is not a closet philosopher is always evident in his writings and well illustrated in his pamphlet on population. His is a practical turn. He explains that cheap labor in the colonies will not develop into competition with English workers since labor will not be cheap in America with so vast a territory yet to fill. Journeymen to trades and other day laborers reject low wages when unoccupied land beckons to settlers. Franklin concludes that there will be no interference with the mother country's manufactures but that the proportion of increase of the colonies will set up an equally proportional increase in the demand for England's finished goods and a like augmentation in trade. Franklin further points out that Britain, as a wise and good mother, will not too much restrain manufactures in the colonies lest by reason of large American demands prices should rise to the point where foreign merchants might compete and so build up manufactures in countries competitors of England. Finally, the English colonies should

not be kept so restrained as not to be able to assist the mother country or add to her strength. Franklin continues:[2]

22. There is, in short, no bound to the prolific nature of plants or animals, but what is made by their crowding and interfering with each other's means of subsistence. Were the face of the earth vacant of other plants, it might be gradually sowed and overspread with one kind only, as for instance, it might in a few ages be replenished from one nation only, as for instance, with Englishmen. Thus, there are supposed to be now upwards of one million English souls in North America (though it is thought scarce eighty thousand have been brought over sea), and yet perhaps there is not one the fewer in Britain, but rather many more, on account of the employment the colonies afford to manufacturers at home. This million doubling, suppose but once in twenty-five years, will in another century be more than the people of England, and the greatest number of Englishmen will be on this side of the water. What an accession of power to the British empire by sea as well as land! We have been here but little more than one hundred years, and yet the force of our privateers in the late war, united, was greater, both in men and guns, than that of the whole British navy in Queen Elizabeth's time. How important an affair then to Britain is the present treaty for settling the bounds between her colonies and the French, and how careful should she be to secure room enough, since on the room depends so much the increase of her people.

23. In fine, a nation well regulated is like a polypus. Take away a limb, its place is soon supplied; cut it in two, and each deficient part shall speedily grow out of the part remaining. Thus, if you have room and substance enough, as you may by dividing make ten polypuses out of one, you may of one make ten nations, equally populous and powerful, or rather increase a nation tenfold in numbers and strength.

The Price of Wages

With the wages question Franklin was also thoroughly familiar. His personal experience, his keen power of observation, his analytical mind, his prolonged stay in various foreign countries enabled him to arrive at a broad understanding of the situation of the working man. His discussion of the wage problem is both in-

[2] *Ibid.*

teresting and sound. In 1783 he published an essay on the augmentation of wages from which the following extract is taken:[3]

The independence and prosperity of the United States of America will raise the price of wages in Europe, an advantage of which I believe no one has yet spoken.

The low rate of wages is one of the greatest defects in the political association of Europe, or rather of the old world.

If the term *wages* be taken in its widest signification, it will be found that almost all the citizens of a large State receive and pay wages. I shall confine my remarks however, to one description of wages, the only one with which government should inter-meddle, or which requires its care. I mean the wages of the lowest class, those men without property, without capital, who live solely by the labor of their hands.

Hand Workers the Most Numerous Class

This class of hand workers is designated the most numerous in a state; and when, among these, wages are so low as to provide but scanty subsistence, bare necessities only remain, and even these fail if labor through any cause is interrupted. Resulting conditions lessen well-being, banish happiness, and, in the case of the aged and sick, reduce to beggary.

The real cause of the misery of wageworkers is laid at the door of governments which apply but feeble remedies in the attempt to check the spread of pauperism. To the evil of pauperism is traced the depravity of morals and the fostering of crime. Franklin scores the maxim – which he labels horrible – that the people must be kept poor in order to hold them in subjection. He denounces, also, the belief that they must be kept poor in the interests of commerce. He calls the motive "cruel and ill-founded" which prompts low wages to hold down the cost of production in order to augment exports and the taking of large profits from foreign nations through favorable trade.

Governments, we are told, should renounce advantages of foreign commerce which can be had only by forcing half the nation to languish in misery. At best, the maintenance of the policy re-

[3] Benjamin Franklin, *Reflections on the Augmentation of Wages which Will Be Occasioned in Europe by the American Revolution.*

sults in the enrichment of but a few merchants. A political society's duty is to promote the happiness of the greatest number and not to take sides with the stronger in an already unequal contest between those who pay and those who receive wages. No policy is justified which tends to impoverish the body of the nation by reducing wages to a low level.

Any theory which is based upon a positive correlation between low wages and low costs of production is declared false. Franklin points to a lowering of the price of the merchandise rather than to a reduction of wages as the felicitous procedure. Wages may rise, while costs of production fall, if machinery in use is perfected, if the men employed are intelligent and industrious, and if the routine of production follows the plan of a judicious division of labor. Promotion of skill, application of machine or animal power, an effective organization, and intelligent direction bring about the results desired. In a manufactory operating in the manner described, wages may be doubled at the same time that production costs are much reduced.

Although "excessively high wages in America are an obstacle to the foundation of large manufacturing establishments," yet it must not be concluded from this that manufactures cannot prosper unless wages in America are reduced to the European level. Says Franklin:[4]

> High wages attract the most skillful and most industrious workmen. Thus the article is better made; it sells better; and, in this way, the employer makes a greater profit than he could do by diminishing the pay of the workmen. A good workman spoils fewer tools, wastes less material, and works faster than one of inferior skill; and thus the profits of the manufacturer are increased still more.
>
> The perfection of machinery in all the arts is owing in a great degree, to the workmen. There is no important manufacture in which they have not invented some useful process, which saves time and materials, or improves the workmanship. If common articles of manufacture, the only ones worthy to interest the statesman, if woolen, cotton, and even silk stuffs, articles made of iron, steel, copper, skins, leather, and various other things, are generally of better quality, at the same price, in England than in other countries, it is because workmen are there better paid.

[4] *Ibid.*

The low rate of wages, then, is not the real cause of the advantages of commerce between one nation and another; but it is one of the greatest evils of political communities.

Effect of America's High Wages on Europe

After Franklin declares the wage situation in the United States to be "infinitely better than in the wealthiest countries in the old world," he proceeds "to show how the high rate of wages in America will increase the rate in Europe." Two distinct causes are said to unite in producing the effect. The first is the greater quantity of labor which will have to be performed in Europe in consequence of the growth of another great commercial nation; the second, the emigration of European workmen to America in order to enjoy the better wages paid.

In enlarging on the first point, reference is made to the addition of several millions of men to the commercial world in America and how these create a market demand for goods produced by the various branches of industry. Since the stimulation of demand for goods will increase the amount of demand for manual labor, the daily rate of pay of workers will tend to respond in accordance with the principle of supply and demand.

It is noted that wages in Europe will be raised by another circumstance. The reference is here to an increasing quantity of subsistence procurable even where the rate of wages is not increased. The prospect of balanced employment and its desirability is referred to also. More continuous employment, even at the same rate of wages, can be looked upon as an advantage in European countries. Another factor making for the augmentation of wages which is pointed out by Franklin is the creation of a reciprocal demand between countries possessing some products peculiar to themselves.

The Influence of Emigration

Emigration to America, or the mere possibility of it, is described as a potent cause in the raising of the price of work. Franklin's argument is supported by reference to the flow of emigrants, fol-

lowing the Revolution, from Ireland and Germany to America because of the attractiveness of better pay for common labor. The export of a part of the labor supply from the emigrant countries tends to raise the daily wage or to increase the steadiness of the work. This condition becomes the more effective in wage advance because of the increased American demand for Irish and German products. The illustrations given for the specific countries can be applied generally; consequently the expansion of America in wealth and population under a policy of free commerce produces a salutary effect upon Europe.

Summary

Franklin, in his realistic approach to questions which he studied, sifted material of observational and historical nature. Factual proof of abundant quantity led him to the conviction that in economics the principle of relativity is a potent factor. In this, as in a number of other ideas, Franklin was a pioneer since much of his writing antedates that of Adam Smith. His ideas are predominantly optimistic; his thoughts are primarily positive and concrete. His critical arguments are amplified by illustration, and when an idea is negatived he offers a convincing positive substitute. In discussing population's growth he suggests the factor of prudential restraint as the balancing force; in his argument against mercantilistic policies he indicates that the stimulus to be derived from free enterprise in the development of natural resources ensures the well-being characteristic of an advancing state; in his recognition of the efficacy of the geographical division of labor he advances implicit proof of the comparative advantage in production which free commerce fosters; in his pronouncement of the American theory of wages he indicates his belief in the positive correlation between good wages and satisfactory output by industrial enterprises. Franklin, through rationalism, naturalism, realism, and optimism, derived his firm conviction of the salutary future of America. Franklin saw the interests of countries interrelated to such a degree that, without denying others the benefits of an altruistic policy, an expansive well-being was to be the certain heritage of the American people.

Chapter 10. THE PRINCIPLE OF DIMINISHING RETURNS

The noun "populousness" normally carries with it in a significant manner the connotation of a comparative advantage; for, in contrast, a scanty or scattered population indicates low capacity production. Repeated reference is made by prominent writers to the need for the productive power of labor. The scriptural injunction is "Be fruitful and multiply, replenish the earth." Plato's most efficient city-state is a community of 5,040 families. A quotation from Sir William Petty reads: "Fewness of people is real poverty; and A Nation wherein are Eight Millions of people, are more than twice as rich as the same scope of land wherein are but Four." Sir James Steuart maintained that a growing population preserved national vigor and that a declining one betokened decadence.

In mercantilistic and physiocratic thought an increasing population was an asset. The economic future was comparatively cheerful to contemplate, for increasing man power would readily bring about the conquest of nature and fill the horn of plenty. Dismal thoughts about society's progress were not entertained by many, and no one brooded over it.

But this condition of things was not to carry over into the nineteenth century. The reason for the change was not alone, nor predominantly, the plight of the workers affected by the Industrial Revolution in the later decades of the eighteenth century; the reason for the change in ideas was more directly traceable to a book entitled, *Essay on the Principle of Population,* which was published in 1798. First it appeared anonymously, but later editions, revised and enlarged, appeared under the author's name.

The Malthusian Theory

The first edition of the *Essay on Population* by Malthus, an unknown author, presented most shocking ideas. It dispelled the

relatively cheerful picture depicted in the writings of Smith and Bentham and substituted a drawing gloomy in outline. The outlook for population, according to Malthus, was both dismal and desperate. A numerous population was now a threat with a portent of disaster; it might no longer be regarded as advantageous.

Thomas Robert Malthus

Biographical Sketch. Thomas Robert Malthus (1766–1834), famous political economist, was born at The Rookery, County Surrey, youngest son of Daniel Malthus. The family was highly respected and in very comfortable circumstances. For generations scholarship was a family tradition – Thomas' great-grandfather was apothecary to Queen Anne; his father was a country gentleman of learning, a friend of many philosophers of his time and especially of Hume and Rousseau.

The younger Malthus, a student of the humanities, was educated at Cambridge, where he was awarded honors in Latin, Greek, and mathematics. He was ordained minister in the Established Church and took charge of a small parish at the age of thirty-one. The following year (1798) he published his celebrated work, *An Essay on the Principle of Population as it Affects the Future Improvement of Society.* The first edition, published anonymously, was virtually a pamphlet, but in the six subsequent editions during the lifetime of the author the argument was amplified and matured. The second and succeeding editions were brought out under the author's name.

The *Essay* was suggested by discussion of the writings of William Godwin with his father. Godwin made manifest his illimitable confidence in the future of society and in the progress of science in a number of published works, notably, *An Enquiry Concerning Political Justice and Its Influence on General Virtue and Happiness* (1793, second edition 1796) and *Avarice and Prodigality* (1797). Godwin set forth in particular the influence of reason on the conduct of man. In short, his theory supported the perfectibility of the human race and a gradual reduction of population until reproduction ceased and man became immortal.

The father defended Godwin's views and the son opposed them. The younger Malthus took the position in the argument that Godwin had overestimated the influence of reason upon the improvement of society. Accordingly, after study, which in the course of the years became widely extended, Malthus arrived at the conclusion that population tends to increase more rapidly than the means of subsistence.

According to Malthus, the frightful rapidity with which population grows if allowed to take its own course and the relative slowness with which the means of subsistence increases are brought into balance by the positive checks – famine, disease, and war – and the preventive check of prudential restraint.

Vilification was elicited by each edition, though with each issue more and more emphasis was placed by the author upon prudential restraint. The echo of controversy is still heard after more than a century. In the imaginings of traducers Malthus was a near monster when, in truth, he was the most mild-mannered of men. One of his biographers never saw him ruffled, and he described him as never elated in success nor downcast in abuse. Miss Martineau said Malthus was "one of the serenest and most cheerful men that society can produce."

In 1823 he was appointed professor of modern history and political economy – the first position established under this title – in the College of Haileybury, newly founded by the East India Company for the training of young men who were to enter their service. According to his own testimony he must have been a popular instructor, for his "hearers not only understood his lectures, but did not even find them dull."

Malthus ranks as a great economist even though his general reputation is dwarfed by his notoriety as the author of a sensational theory of population. The theory was disconcerting because it denied man's ready progress toward wealth and happiness.

Plan of the Malthusian Essay

The *Essay* is a work on demography, not a writing on economics proper, but as a study of population, statistical and descriptive, it lies on the margin of the science. Even so it presents a new factor, biological in its character and of broad influence upon the economic theories of production and distribution. It has been remarked that the *Essay* might be construed as an answer to Adam Smith's *Inquiry into the Nature and Causes of the Wealth of Nations* and that it would be an apt procedure to rename the work of Malthus *An Essay on the Causes of the Poverty of Nations.*

The arduous struggle for self-preservation of millions of people is projected into the foreground; the instinct for procreation implanted in man is presented in a manner to constitute a stubborn

obstacle to progress. By memorable formula is stated the tendency of population to increase faster than food supply. The means of subsistence is shown as the limit of population, and the check to its disproportionate increase is the unavoidable misery imposed by nature.

In the formula presented by Malthus, the maximum increase to be expected in the amount of the harvest in a period of time – say, twenty-five years – could be in a ratio of arithmetical progression only while the tendency of the population to increase is in geometrical progression. The number of people who can live in a given place cannot exceed the number that can gain subsistence there; the excess population must die of hunger. In his study of primitive society Malthus discovered that a large proportion actually died of hunger. Insufficient nourishment brings starvation, cannibalism, infant exposure, slaughter of the aged, ravaging disease, and war. Such are his positive checks.

In civilized communities it was found that equilibrium between population and food supply is maintained, not by the abnormal death rate, but rather by a reduced birth rate. But it was not until the second edition of his book that Malthus placed any considerable emphasis upon the preventive checks, and by so doing he toned down the rigor of his earlier argument which stressed the positive checks – misery and vice. In doing so, much of novelty was lost by joining of scientific accuracy. Yet, in all of the editions there is the haunting implication that the poverty of the poor is of their own making. The later editions were widely expanded by the inclusion of historical and contemporary facts, but some of the brutally frank and objectionable statements of the first edition were omitted. For example, the following famous words so frequently brought up against him appeared in the first edition only:

> . . . but there is one right, which man has generally been thought to possess, which I am confident he neither does, nor can, possess, a right to subsistence when his labour will not fairly purchase it. . . . A man who is born into a world already possessed, if he cannot get subsistence from his parents on whom he had a just demand, and if the society does not want his labour, has no claim of *right* to the smallest portion of food, and, in fact, has no business to be where he is. At

Nature's mighty feast there is no vacant cover for him. She tells him to be gone, . . .

From the preface of the *Essay on Population* (first edition), we have the reason for its publication in the words of Malthus himself:[1]

The following Essay owes its origin to a conversation with a friend, on the subject of Mr. Godwin's Essay, on avarice and profusion, in his Enquiry. The discussion started the general question of the future improvement of society; and the Author at first sat down with an intention of merely stating his thoughts to his friend, upon paper, in a clearer manner than he thought he could do, in conversation. But as the subject opened upon him, some ideas occurred, which he did not recollect to have met with before; and as he conceived, that every, the least light, on a topic so generally interesting, might be received with candor, he determined to put his thoughts in a form for publication.

Godwin's Optimism

William Godwin, in his *Enquiry Concerning Political Justice,* supported the possibility of an ideal form of government based on social and economic equality. Propositions about population advanced by Godwin were extremely optimistic. He contended that if and when in the far distant future the earth should refuse itself to a more extended population men would cease to propagate. The text proceeds as follows:[2]

Three fourths of the habitable globe is now uncultivated. The parts already cultivated are capable of immeasurable improvement. Myriads of centuries of still increasing population may probably pass away, and the earth still be found sufficient for the subsistence of its inhabitants. . . . It would be truly absurd for us to shrink from a scheme of essential benefit to mankind, lest they should be too happy, and by necessary consequence at some distant period too populous.

While Godwin looked toward the distant future with little concern, Malthus' view of even the near future was gloomy and sug-

[1] Thomas Robert Malthus, *Essay on Population,* 1st ed., Preface.

[2] William Godwin, *An Enquiry Concerning Political Justice and Its Influences on General Virtue and Happiness,* Book VIII, Chap. VII.

gestive of melancholy conclusions. To the latter the problem faced was immediate, not a myriad of centuries hence. His response is direct and completely contradictory:[3]

Through the animal and vegetable kingdoms, nature has scattered the seeds of life abroad with the most profuse and liberal hand. She has been comparatively sparing in the room, and the nourishment necessary, to rear them. The germs of existence contained in this spot of earth, with ample food, and ample room to expand in, would fill millions of worlds in the course of a few thousand years. Necessity, that imperious all pervading law of nature, restrains them within the prescribed bounds. The race of plants, and the race of animals shrink under the restrictive law. And the race of men cannot, by any efforts of reason, escape from it. Among plants and animals its effects are waste of seed, sickness, and premature death. Among mankind, misery and vice.

Counterpropositions to Godwin's Theory

Thus Malthus states the counterpropositions to Godwin's claim, and then, in enlarging the argument, he presents statistical and descriptive materials in support. In the course of the argument checks to population are introduced as follows:[4]

The immediate check may be stated to consist in all those customs and all those diseases, which seem to be generated by a scarcity of the means of subsistence; and all those causes, independent of this scarcity, whether of a moral or physical nature, which tend prematurely to weaken and destroy the human frame.

These checks to population, which are constantly operating with more or less force in every society, and keep down the number to the level of the means of subsistence, may be classed under two general heads – the preventive, and the positive checks.

The preventive check, as far as it is voluntary, is peculiar to man, and arises from the distinctive superiority in his reasoning faculties which enables him to calculate distant consequences. The checks to the indefinite increase of plants and irrational animals are all either positive, or, if preventive, involuntary. But man cannot look around

[3] Malthus, *op. cit.*, Chap. I.

[4] *Ibid.*, 6th ed., Book 1, Chap. II.

him and see the distress which frequently presses upon those who have large families; he cannot contemplate his present possessions or earnings, which he now nearly consumes himself, and calculate the amount of each share, when with very little addition they must be divided, perhaps, among seven or eight, without feeling a doubt whether, if he follow the bent of his inclinations, he may be able to support the offspring which he will probably bring into the world.

. . . . . .

The positive checks to population are extremely various, and include every cause, whether arising from vice or misery, which in any degree contributes to shorten the natural duration of human life. Under this head, therefore, may be enumerated all unwholesome occupations, severe labour and exposure to the seasons, extreme poverty, bad nursing of children, great towns, excesses of all kinds, the whole train of common diseases and epidemics, wars, plague, and famine.

Population Given a Major Place in Economics

Through the *Essay* population was raised to a major place in economic speculation, for the discussion stimulated was world-wide. Hot controversy was precipitated; adherents were enthusiastic, opponents violent. Mercantilist doctrine was reversed; instead of prosperity depending upon population, population was to depend upon prosperity. Although modern agriculture utilizes improvements earlier unforeseen and the food supply has kept ahead of a largely augmented population in the past century, the general truths of the Malthusian theory in its statement of broad tendencies seem to stand unrefuted.

An Economist of Note

Malthus must be remembered as an economist of note. He held the first established chair of political economy and was the author of a volume on the *Principles of Political Economy*. He wrote on various economic questions and made notable contributions to theory. In rent he anticipated in part the theory of Ricardo. His scientific approach, the tenor of his arguments, and the nature of his style are exemplified in the following selection from his ***Principles of Political Economy.***

Simplification Not Possible[5]

The principal cause of error, and of the differences which prevail at present among the scientific writers on political economy, appears to me to be, a precipitate attempt to simplify and generalize; and while their more practical opponents draw too hasty inferences from a frequent appeal to partial facts, these writers run into a contrary extreme, and do not sufficiently try their theories by a reference to that enlarged and comprehensive experience which, on so complicated a subject, can alone establish their truth and utility.

To minds of a certain cast there is nothing so captivating as simplification and generalization. It is indeed the desirable and legitimate object of genuine philosophy, whenever it can be effected consistently with truth; and for this very reason, the natural tendency towards it has, in almost every science with which we are acquainted, led to crude and premature theories.

In political economy the desire to simplify has occasioned an unwillingness to acknowledge the operation of more causes than one in the production of particular effects; and if one cause would account for a considerable portion of a certain class of phenomena, the whole has been ascribed to it without sufficient attention to the facts, which would not admit of being so solved.

. . . . . .

It is certain that we cannot too highly respect and venerate that admirable rule of Newton, not to admit more causes than are necessary to the solution of the phenomena we are considering; but the rule itself implies, that those which really are necessary must be admitted.

Classical Dogmatism

The classicists, after they had become the dominant school, were pointed to as possessing in high degree the characteristics of dogmatism and absolutism. This charge has been hurled at Malthus personally, and he stands in a measure convicted, but in him it must be attributed to deep-seated, unconscious emotions, for the scientific rules he lays down for himself and others to follow are truly logical. To wit:[6]

[5] Thomas Robert Malthus, *Principle of Political Economy,* Introduction.
[6] *Ibid.*

There are some eminent persons so strongly attached to the received general rules of political economy, that, though they are aware that in practice some exceptions to them may occasionally occur; yet they do not think it wise and politic to notice them, for fear of directing the public attention too much and too frequently to exceptions, and thus weakening the force and utility of the general rule.

It is for instance, one of the most general rules in political economy, governments should not interfere in the direction of capital and industry, but leave every person, so long as he obeys the laws of justice, to pursue his own interest in his own way, as the best security for the constant and equable supply of the national wants. Though to this rule they allow that exceptions may possibly occur; yet thinking that the danger from the officious meddling of governments is so much greater than any which could arise from the neglect of such exceptions, they would be inclined to make the rule universal.

In this, however, I cannot agree. Though I should most readily allow that altogether more evil is likely to arise from governing too much, than from a tendency to the other extreme; yet, still, if the consequences of not attending to these exceptions were of sufficient magnitude and frequency to be conspicuous to the public, I should be decidedly of opinion, that the cause of general principles was much more likely to lose than to gain by concealment. Nothing can tend so strongly to bring theories and general principles into discredit, as the occurrence of consequences, from particular measures, which have not been foreseen.

Popularity of Economics

Although it was in Malthus's later years that economics was moving toward its heyday as a popular subject, he himself did not share the views of those who held its principles simple and readily grasped. Very properly, professorships were established in Oxford (1825), in Cambridge (1828), and in Dublin and Edinburgh universities shortly afterward. It was with equal propriety that the government consulted economists concerning the drafting of new statutes, and that economists were appointed to royal commissions. Likewise, the attention given orthodox economics by pulpit, platform, and press helped to spread its doctrines, though unfortunately not always in the most salutary way. Advantage

was to be gained through pamphlets, small textbooks, and even works of fiction, but wherever oversimplification resulted the danger of error intruded. In popularization the ridiculous was reached, however, when enthusiastic devotees of the simple method asserted that the principles of economics were mere truisms and could readily be taught to children. It was an equally extravagant claim to assert that Charles Montague, Chancellor of the Exchequer under Charles I, and the Whig statesman, Robert Walpole, could have learned many lessons in finance from girls who had read Jane Marcet's little dialogues in political economy. Among popularized versions, Mrs. Marcet's *Conversations in Political Economy* (1816) and Harriet Martineau's *Illustrations of Political Economy* (1832) stood preeminent. They appeared in numerous editions, and hundreds of thousands of copies were read in their generation.

The True Function of Political Economy

Perhaps classical economists in general inclined too much toward the belief that economic truths were simple, and certainly the overemphasis of simplicity was carried to fantastic lengths in the titles mentioned in the preceding paragraph. Simplification prompted the statement of half truths, and these, in turn, led to unwarranted generalizations. Of these things Malthus was fully aware, and he has recorded his beliefs not only in the all-pervading influence of economic principles but also in their limits in application, to wit:[7]

> To trace distinctly the operations of that circle of causes and effects in political economy which are acting and re-acting on each other, so as to foresee their results, and lay down general rules accordingly, is, in many cases, a task of very great difficulty. But there is scarcely a single inquiry belonging to these subjects, however abstruse and remote it may at first appear, which in some point or other does not bear directly upon practice.
>
> . . . . . .
>
> In many cases, indeed, it may not be possible to predict results with certainty, on account of the complication of the causes in action, the different degrees of strength and efficacy with which they may operate,

[7] *Ibid.*

and the number of unforeseen circumstances which are likely to interfere; but it is surely knowledge of the highest importance, to be able to draw a line, with tolerable precision, between those cases where the expected results are certain, and those where they are doubtful; and further to be able satisfactorily to explain, in the latter case, the reasons of such uncertainty.

To know what can be done, and how to do it, is, beyond a doubt, the most valuable species of information. The next to it is, to know what cannot be done, and why we cannot do it. The first enables us to attain a positive good, to increase our powers, and augment our happiness: the second saves us from the evil of fruitless attempts, and the loss and misery occasioned by perpetual failure.

Problems of Legislation

Malthus, as were other economists of his day, was much concerned about the condition of the country and the legislation attendant thereto. The Napoleonic Wars were bringing about changes which were not advantageous to all classes. Landlords, manufacturers, merchants, and speculators prospered; wageworkers did not share in the gains. A marked rise in prices was not accompanied by an advance in wages of equal ratio so that those dependent upon labor for support fell into ever deeper poverty.

In 1800 Malthus published a pamphlet entitled *An Investigation of the Cause of the Present High Price of Provisions.* There followed in 1807 a pamphlet on the Poor Laws; in 1814, and again in 1815, *Observations on the Corn Laws.* Also in 1815 he published his *Inquiry in the Nature and Progress of Rent.* And again he returned to the discussion of poverty in a pamphlet published in 1817 entitled *The Poor Laws.*

An extract from the *Poor Laws,* as printed in the fifth chapter of the *Essay on Population* (sixth edition), indicates that the problem of the relief client as we know it is not new and that the apparent futility of assistance has been previously felt. In his argument Malthus proceeds on the basis of his theory of population and by inference accepts and applies the theory of diminishing returns in agriculture. The argument proceeds as follows:[8]

[8] Thomas Robert Malthus, *An Essay on the Principle of Population,* 6th ed., Book III, Chap. V.

To remedy the frequent distresses of the poor, laws to enforce their relief have been instituted; and in the establishment of a general system of this kind England has particularly distinguished herself. But it is to be feared that, though it may have alleviated a little the intensity of individual misfortune, it has spread the evil over a much larger surface.

It is a subject often started in conversation, and mentioned always as a matter of great surprise, that, notwithstanding the immense sum which is annually collected for the poor in this country, there is still so much distress among them. Some think that the money must be embezzled for private use; others, that the church-wardens and overseers consume the greatest part of it in feasting. All agree that somehow or other it must be very ill managed. In short, the fact that even before the late scarcities three millions were collected annually for the poor, and yet that their distresses were not removed, is the subject of continual astonishment. But a man who looks a little below the surface of things would be much more astonished if the fact were otherwise than it is observed to be; or even if a collection universally of eighteen shillings in the pound, instead of four, were materially to alter it.

. . . . . .

A collection from the rich of eighteen shillings in the pound, even if distributed in the most judicious manner, would have an effect, similar to that resulting from the supposition which I have just made (that an increase of alms instead of aiding the poor to live comfortably would merely raise the prices of food and not raise the quantity available in the country); and no possible sacrifices of the rich, particularly in money, could for any time prevent the recurrence of distress among the lower members of society, whoever they were. Great changes might indeed be made. The rich might become poor, and some of the poor rich: but while the present proportion between population and food continues, a part of the society must necessarily find it difficult to support a family, and this difficulty will naturally fall on the least fortunate members.

It may at first appear strange, but I believe it is true, that I cannot by means of money raise the condition of a poor man, and enable him to live much better than he did before, without proportionately depressing others in the same class. If I retrench the quantity of food consumed in my house, and give him what I have cut off, I then benefit him without depressing any but myself and family, who perhaps

may be well able to bear it. If I turn up a piece of uncultivated land, and give him the produce, I then benefit both him and all the members of society, because what he before consumed is thrown into the common stock, and probably some of the new produce with it. But if I only give him money, supposing the produce of the country to remain the same, I give him title to a larger share of that produce than formerly, which share he cannot receive without diminishing the shares of others.

. . . . . .

It seems in great measure to have escaped observation that the price of corn in a scarcity will depend much more upon the obstinacy with which the same degree of consumption is persevered in, than on the degree of the actual deficiency. A deficiency of one-half of a crop, if the people could immediately consent to consume only one-half of what they did before, would produce little or no effect on the price of corn. . . . The more is given in parish assistance, the more power is furnished of persevering in the same consumption; and, of course, the higher will the price rise before necessary diminution of consumption is affected.

. . . . . .

But the fact is, that high prices do ultimately diminish consumption; but, on account of the riches of the country, the unwillingness of the people to resort to substitutes, and the immense sums which are distributed by parishes, this object cannot be attained till the prices become excessive, and force even the middle classes of society, or, at least, those immediately above the poor, to save in the article of bread from the actual inability of purchasing it in the usual quantity. The poor who were assisted by their parishes had no reason whatever to complain of the high price of grain; because it was the excessiveness of this price, and this alone, which by enforcing such a saving left a greater quantity of corn for the consumption of the lowest classes, which corn the parish allowances enabled them to command. . . . This distribution, by giving to the poorer classes a command of food so much greater than that to which their degree of skill and industry entitle them, in the actual circumstances of the country, diminished exactly in the same proportion that command over the necessaries of life which the classes above them, by their superior skill and industry, would naturally possess; and it may be a question whether the degree of assistance which the poor received, and which prevented them from resorting to the use of those substitutes which, in every other

country on such occasions the great law of necessity teaches, was not more than overbalanced by the severity of the pressure on so large a body of the people from the extreme high prices, and the permanent evil which must result from forcing so many persons on the parish, who before thought themselves almost out of the reach of want.

Chapter 11. THE RICARDIAN THEORY OF DISTRIBUTION

Ricardo, following Adam Smith by fifty years, was acknowledged by his contemporaries as the leader in economic science. Although he attained the heights of eminence occupied by Smith, the paths followed, the methods applied, and their conceptions of the scope of the subject were far from identical.

Ricardo and Smith Compared

Smith had written for a wide audience, inclusive of all educated people; Ricardo wrote for a narrow audience, friends and fellow economists exclusively. Consequently, the manner of presentation differed. The writing of Smith possesses an irresistible charm; that of Ricardo is so condensed as to require the close attention of the reader. The latter's method is completely abstract, and his illustrations are imaginary and hypothetical. The deductive method, even to the extent of a mathematical cast, is applied, which sometimes renders the reasoning difficult to follow. Although his exposition is often obscure, there are numerous passages of penetrating thought expressed in the form of original logical reasoning. Neither does Ricardo's writing follow the pattern of Smith in the use of historical illustration to illumine exposition, nor is there the canny interspersion of philosophical discussion with which the older man delights the reader. Ricardo confines his interest and directs his discussion to the questions concerned with the distribution of wealth and the underlying principles. Smith does not so limit himself; in contrast, he makes a most successful attempt "at embracing within a single purview the infinite diversity of the economic world." Both, however, proceed with the idea of the dominance of the concept of

the economic man — a man always striving to arrive at the maximum advantage by the application of the principle of enlightened self-interest.

David Ricardo

Biographical Sketch. David Ricardo (1772–1823), writer on finance and political economy, next to Smith the most celebrated among economists, was born in London, the son of a Jewish stockbroker of Spanish descent. He received his elementary education in the city of his birth, but at the age of twelve he was sent to an uncle in Holland, where he acquired the rudiments of a commercial education. He entered his father's business at fourteen and soon became thoroughly familiar with the intricacies of banking and exchange.

On the occasion of his marriage he incurred the displeasure of his family because he renounced the Jewish religion and joined the Anglican Church. His wife was a Miss Wilkinson of the Quaker faith, an intelligent person and a charming hostess. In later years the Ricardo country house, Gatcomb Park, was renowned for hospitality, and distinguished men of the time were frequent visitors.

When Ricardo severed his business connection with his father, he received the backing of leading members of the Stock Exchange and operated independently. Before the age of twenty-six he amassed a large fortune. This, in a decade, he succeeded in expanding to huge proportions (estimated 2 million pounds). The accomplishment brought him wide reputation. Now in semiretirement, he proceeded to repair his neglected education. He entered upon the private study of mathematics and science with an enthusiasm characteristic of his nature. A laboratory was installed in his town house and memberships in learned societies were taken.

In 1799 Ricardo first read the *Wealth of Nations.* Its reading invited further attention to this particular social science, and though at the time his interest was primarily personal, he devoted earnest thought to its fundamental principles, the results of which were published in 1817 under the title *The Principles of Political Economy and Taxation.*

In 1819 Ricardo was elected to the House of Commons, where he was regarded an authority on economic questions. Although "elected to the House of Commons" is the properly used phrase, Ricardo actually bought his seat by the purchase of an Irish "rotten borough," a practice not uncommon in his period. His mode of entry notwithstanding, he became zealous in the cause of electoral reform. Though he was listened to with the greatest respect, he did not become an

accomplished speaker and he himself said, "I have no hope of conquering the alarm with which I am assailed the moment I hear the sound of my own voice."

In 1821 he founded the Political Economy Club, the first of many to be organized in Europe. Ricardo became a member of the laissez-faire school of economics and probably the most perfect representative of it. His training on the Stock Exchange, under the accurate working of competitive factors, gave him his concept of the general arena in which economic forces operate.

Gentleness was a characteristic of his nature. Handsome he was in appearance and charming in conversation. His generation esteemed him as a clearheaded and profound thinker. Of him, one of his biographers says: "In point of deep, clear, and comprehensive intellect, he had no superiors, and very few, if any, equals, either in Parliament or in the country." Gonner, one of his editors, says of him: "He was abstract, not doctrinaire; precise, not dogmatic; and always ready to discuss, and, if need were to remodel his opinions."

Miss Edgeworth gives glimpses of him in private life—in stature "undersized, . . . face handsome and manners delightful," so full of interest that he "starts perpetually new game in conversation." His last letter to Malthus, Ricardo closes thus: "And now my dear Malthus, I have done. Like other disputants, after much discussion we each retain our own opinions. These discussions, however, never influence our friendship; I should not like you more than I do if you agreed in opinion with me." Death at fifty-one terminated a career marked by exceptional success.

Distribution Declared the Principal Problem

In the preface to his book, published in 1817, Ricardo stated what he considered the central problem in political economy, to wit:[1]

The produce of the earth—all that is derived from its surface by the united application of labour, machinery, and capital, is divided among three classes of the community; namely, the proprietor of the land, the owner of the stock of capital necessary for its cultivation, and the labourers by whose industry it is cultivated.

But in different stages of society, the proportions of the whole produce of the earth which will be allotted to each of these classes, under

[1] David Ricardo, *The Principles of Political Economy and Taxation*, Preface, p. 1.

the names of rent, profit, and wages, will be essentially different; depending mainly on the actual fertility of the soil, on the accumulation of capital and population and on the skill, ingenuity, and instruments employed in agriculture.

To determine the laws which regulate this distribution is the principal problem in Political Economy: . . .

Ricardo's Theory of Distribution

Fundamental in Ricardo's economic system are the interests of landlords, laborers, and capitalists. Their interests are asserted to be in conflict. This, as it is explained, is due to the cost of agricultural production at the margin of cultivation. Changes in it affect the proportion between rent, wages, and profit. Rent, he states, arises, not by reason of the liberality of nature, but because of her niggardliness. Rent is not a creation of new wealth but a subtraction from the wealth of others. What landlords gain, others lose. The classes whose income rising rents can impair in a populous country are the wage earners and the capitalists.

Concisely put by Ricardo in his scheme of distribution: "Profits depend on high or low wages, wages on the price of necessaries, and the price of necessaries on the price of food." The apparent conflict between wage earners and capitalists is plainly stated, for profits appear to be the "leavings of wages."

According to the Ricardian theory, wages tend to correspond closely to the cost of commodities, but improvement in the production technique of manufactured articles tends to lower costs; consequently, the cost of the maintenance of laborers centers specifically in the cost of food. Accepting the Malthusian doctrine of population, and applying Ricardo's own principle that "when the progress of population calls into cultivation land of an inferior quality or less advantageously situated," the reader must agree that in a mature state wages will be low and tend toward the level of subsistence, since the cost of food is intimately related to the level of agricultural rents.

In a sense, the poverty of the masses is traceable to their own improvidence; yet, too, since wages tend to fall to an irreducible minimum — the level of subsistence — rising food costs are a charge upon the employer class. Consequently, the interests of employers and landlords clash. In a growing population, food

prices advance and money wages advance; high money wages decrease profits of employers while rent income of landlords advances. Though rent is not affected by wages, profits fall as wages rise and cannot rise except when wages fall.

Rent Theory Fully Explained

The most celebrated of the Ricardian theories is that of rent and it has become inseparably connected with his name. "Rent," he writes, "is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil."[2] It is not contended by anyone that Ricardo fills the role of a discoverer of his rent theory, for in Britain both Petty and Anderson anticipated him, but the Ricardian statement is both coherent and complete, as the following quotation testifies:[3]

> On the first settling of a country, in which there is an abundance of rich and fertile land, a very small proportion of which is required to be cultivated for the support of the actual population, or indeed can be cultivated with the capital which the population can command, there will be no rent; for no one would pay for the use of land when there was an abundant quantity not yet appropriated, and, therefore, at the disposal of whosoever might choose to cultivate it.
>
> On the common principles of supply and demand, no rent could be paid for such land, for the reason stated why nothing is given for the use of air and water, or for any other of the gifts of nature which exist in boundless quantity. With a given quantity of materials, and with the assistance of the pressure of the atmosphere, and the elasticity of steam, engines may perform work, and abridge human labour to a very great extent; but no charge is made for the use of these natural aids, because they are inexhaustible and at every man's disposal. In the same manner the brewer, the distiller, the dyer, make incessant use of air and water for the production of their commodities; but as their supply is boundless, they bear no price. If all land had the same properties, if it were unlimited in quantity, and uniform in quality, no charge could be made for its use, unless where it possessed peculiar advantages of situation. It is only, then, because land is not unlimited in quantity and uniform in quality, and because in the

[2] *Ibid.*, Chap. II, par. 24.
[3] *Ibid.*, par. 25.

progress in population, land of an inferior quality, or less advantageously situated, is called into cultivation, that rent is ever paid for the use of it. When in the progress of society, land of the second degree of fertility is taken into cultivation, rent immediately commences on that of the first quality, and the amount of that rent will depend on the difference in the quality of these two portions of land.

When land of the third quality is taken into cultivation, rent immediately commences on the second, and it is regulated as before, by the difference in their productive powers. At the same time, the rent of the first quality will rise, for that must always be above the rent of the second, by the difference between the produce which they yield with a given quantity of capital and labour. With every step in the progress of population, which shall oblige a country to have recourse to land of a worse quality, to enable it to raise its supply of food, rent, on all the more fertile land, will rise.

Such is the explanation of the Ricardian theory of differential rent, but the existence of absolute rent he denies. Land at the margin, though cultivated, produces no surplus above the costs of cultivation. On all lands above the margin a surplus will show. This surplus is an unearned increment and a highly proper income from which to support taxation. So said John Stuart Mill and others of his day.

Interests of Various Classes Not Identical

Since, as Ricardo said, "The rise of rent is always the effect of the increasing wealth of the country and of the difficulty of providing food for its augmented population," the interests of the various classes of the country are not identical. This idea is stated thus: "It follows, then, that the interest of the landlord is always opposed to the interest of every other class in the community. His situation is never so prosperous, as when food is scarce and dear: whereas, all other persons are greatly benefited by procuring food cheap."

On Wages

On wages, the quotation of a few paragraphs seems best for the explication of the Ricardian view. He says:[4]

[4] *Ibid.*, Chap. V, pars. 35–37.

Labour, like all other things which are purchased and sold, and which may be increased or diminished in quantity, has its natural and its market price. The natural price of labour is that price which is necessary to enable the labourers, one with another, to subsist and perpetuate their race, without either increase or diminution.

The power of the labourer to support himself, and the family which may be necessary to keep up the number of labourers, does not depend on the quantity of money which he may receive for wages, but on the quality of food, necessaries, and conveniences become essential to him from habit, which that money will purchase. The natural price of labour, therefore, depends on the price of the food, necessaries, and conveniences required for the support of the labourer and his family. With a rise in the price of food and necessaries, the natural price of labour will rise; with the fall in their price, the natural price of labour will fall.

With the progress of society the natural price of labour has always a tendency to rise because one of the principal commodities by which its natural price is regulated, has a tendency to become dearer, from the greater difficulty of producing it. As, however, the improvements in agriculture, the discovery of new markets, whence provisions may be imported, may for a time counteract the tendency to a rise in the price of necessaries, and may even occasion their natural price to fall, so will the same causes produce the correspondent effects on the natural price of labour.

The natural price of all commodities, excepting raw produce and labour, has a tendency to fall, in the progress of wealth and population; for though, on one hand, they are enhanced in real value, from the rise in the natural price of the raw material of which they are made, this is more than counterbalanced by the improvements in machinery, by the better division and distribution of labour, and by the increasing skill, both in science and art, of the producers.

The market price of labour is the price which is really paid for it, from the natural operation of the proportion of the supply to the demand; labour is dear when it is scarce, and cheap when it is plentiful. However much the market price of labour may deviate from its natural price, it has, like commodities, a tendency to conform to it.

It is when the market price of labour exceeds its natural price, that the condition of the labourer is flourishing and happy, that he has it in his power to command a greater proportion of the necessaries and enjoyments of life, and therefore to rear a healthy and numerous family. When, however, by the encouragement which high wages give to the

increase of population, the number of labourers is increased, wages again fall to their natural price, and indeed from a re-action sometimes fall below it.

When the market price of labour is below its natural price, the condition of the labourers is most wretched; then poverty deprives them of those comforts which custom renders absolute necessaries. It is only after their privations have reduced their number, or the demand for labour has increased, that the market price of labour will rise to its natural price, and that the labourer will have the moderate comforts which the natural rate of wages will afford.

An Unpleasing Prospect

On the whole it is not a pleasing prospect that stretches before workmen and their families. The Malthusian theory of population stalks them, and they are definitely told that their misery is directly traceable to their own improvidence. Nor can the Poor Laws have any other than evil effect, according to pessimistic theory. Though benevolently intended to amend the condition of the poor, they but deteriorate the condition of the rich and poor, so writes Ricardo. He goes on: " . . . instead of making the poor rich, they are calculated to make the rich poor, and whilst the present laws are in force, it is quite in the natural order of things that the fund for the maintenance of the poor should progressively increase, till it has absorbed all the net revenue of the country."

The only remedy which Ricardo is able to suggest, he states thus:[5]

> With a population pressing against the means of subsistence the only remedies are either a reduction of people, or a more rapid accumulation of capital. In rich countries, where all the fertile land is already cultivated, the latter remedy is neither very practicable nor very desirable, because its effect would be, if pushed very far, to render all classes equally poor. But in poor countries, where there are abundant means of production in store, from fertile land not yet brought into cultivation, it is the only safe and efficacious means of removing the evil, particularly as its effect would be to elevate all classes of the people.

[5] *Ibid.*, par. 38.

The Relation of Wages to Profits

The teaching of Ricardo relative to wages and profits is prophetic of the attention to be given the theory of their relationship in the time since the first quarter of the nineteenth century. According to the Ricardian formula, wages can rise only at the expense of profits, and wages do not affect rent, nor are they affected by rent. Truly, this is a statement fruitful of antagonism between laborer and capitalist. The fact that Ricardo deals in proportions only, not in quantities, does not help matters any; the ground for antagonism remains. The trend of profits is to fall to a minimum, and when that point is reached, population is at a standstill. Then it is that the Smith-proclaimed stationary state has come into being.

On profits Ricardo writes:[6]

> The natural tendency of profits then is to fall; for, in the progress of society and wealth, the additional quantity of food required is obtained by the sacrifice of more and more labour. This tendency, this gravitation as it were of profits, is happily checked at repeated intervals by the improvements in machinery, connected with the production of necessaries, as well as by discoveries in the science of agriculture which enable us to relinquish a portion of labour before required, and therefore to lower the price of the prime necessary of the labourer. The rise in the price of necessaries and in the wages of labour is however limited; for as soon as wages should be equal . . . to the whole receipts of the farmer, there must be an end of accumulation; for no capital can be demanded, and consequently population will have reached its highest point. Long indeed before this period, the very low rate of profits will have arrested accumulation, and almost the whole produce of the country, after paying the labourers, will be the property of the owners of land and the receivers of tithes and taxes.

His Theory of Value

Regarding his theory of value, Ricardo never was satisfied. In a letter to McCulloch, under date of December 18, 1819, he wrote: "I am not satisfied with the explanation which I have given of the principles which regulate value. I wish a more able pen would undertake it." In correspondence with Malthus, August 15, 1820,

[6] *Ibid.*, Chap. VI, par. 44.

in reference to his own theory of value and of McCulloch's appears the laconic statement, "Both of us have failed." Though it can be demonstrated from his writing that the attention he gave to labor as the foundation, the cause, and the measure of value indicated more than a passing interest, yet the importance which critics have ascribed to his theory of labor value can hardly be supported from his writings alone. The lack of satisfaction displayed by Ricardo in his own theory does not suggest that he would have been gratified by the idea that he himself prepared the way for the Marxian theory of surplus value – the foundation stone of contemporary socialism.

Ricardo a Free Trader

Ricardo is a free trader. In justification of his stand he presents a twofold argument. According to the Ricardian view, free trade will lower the price of corn (Ricardo's term for small grains), stop the upward progress of rent, and ultimately lower rent. Lower rents increase the portion of income to distribute as shares to labor and to capital; the lower price of corn reduces the cost of maintaining the laborer and so enhances profits. An additional advantage flowing from free trade is the territorial division of labor – a stimulus to industry, thereby using more efficiently the powers bestowed by nature and rewarding ingenuity. In the following paragraph, we see the principle of the law of comparative advantage in production enunciated:[7]

That great improvements have been made in agriculture, and that much capital has been expended on the land, it is not attempted to deny; but, with all those improvements, we have not overcome the natural impediments resulting from our increasing wealth and prosperity, which obliges us to cultivate at a disadvantage our poor lands if the importation of corn is restricted or prohibited. If we were left to ourselves, unfettered by legislative enactments, we should gradually withdraw our capital from the cultivation of such lands, and import the produce which is at present raised upon them. The capital withdrawn would be employed in the manufacture of such commodities as would be exported in return for the corn. Such a distribution of part of the

[7] David Ricardo, *An Essay on the Influence of a Low Price of Corn on the Profits of Stock.*

capital of the country would be more advantageous or it would not be adopted. This principle is one of the best established in the science of political economy, . . .

Ricardian Money Theory

No one has accused Ricardo of a lack of original and penetrating thought. Among his important achievements are the enumeration of the laws governing the movement of commodities in international trade, and the countermovement of money from place to place. When money is scarce, he says, its value rises and prices fall, and vice versa. The same principle applies to foreign bills of exchange, which are even more sensitive than money in balancing commerce to a position of equilibrium. The explanation rests upon the quantity theory of money, and although the theory is now questioned, the automatic regulation of the balance of trade through variation in the value of money has been a working hypothesis for a century. A quotation will best show the style of the argument:[8]

If in the progress toward wealth, one nation advanced more rapidly than the others, that nation would acquire and obtain a greater proportion of the money of the world. Its commerce, its commodities, and its payments would increase, and the general currency of the world would be divided according to the new proportions. All countries, therefore would contribute their share to this effectual demand.

In the same manner, if any nation wasted part of its wealth, or lost part of its trade, it could not retain the same quantity of circulating medium which it possessed. A part would be exported, and divided among the other nations till the usual proportions were re-established.

While the relative situation of countries continued unaltered, they might have abundant commerce with each other, but their exports and imports would on the whole be equal. England might possibly import more goods from, than she would export to, France, but she would in consequence export more to some other country, and France would import more from that country, so that the exports and imports of all countries would balance each other; bills of exchange would make the necessary payment, but no money would pass because it would have the same value in all countries.

[8] David Ricardo, *The High Price of Bullion, a Proof of the Depreciation of Bank Notes.*

If a mine of gold were discovered in either of these countries the currency of that country would be lowered in value in consequence of the increased quantity of the precious metals brought into circulation, and would therefore no longer be of the same value as that of other countries. Gold and silver, whether in coin or in bullion, obeying the law which regulates all other commodities, would immediately become articles of exportation; they would leave the country where they were cheap, for those countries where they were dear, and would continue to do so, as long as the mine should prove productive, and till the proportion existing between capital and money in each country before the discovery of the mine, were again established, and gold and silver restored everywhere to one value. In return for the gold exported, commodities would be imported; and though what is usually termed the balance of trade would be against the country exporting money or bullion, it would be evident that she was carrying on a most advantageous trade, exporting that which was no way useful to her, for commodities which might be employed in the extension of her manufactures, and the increase of her wealth.

. . . . . .

The exportation of the specie may at all times be safely left to the discretion of individuals; it will not be exported more than any other commodity, unless its exportation should be advantageous to the country. If it be advantageous to export it, no laws can effectually prevent its exportation. Happily, in this case, as well as in others in commerce, where there is free competition, the interests of the individual and that of the community are never at variance.

Error in Absolutist Theory

The statement that in commerce "Where there is free competition, the interests of the individual and that of the community are never at variance" is a beautiful saying looked at philosophically, for it squares with the doctrine of the harmony of interests; but, in practice, it has not been proved to be fully so, and consequently the application of laissez-faire principles has been almost completely abandoned. In this case, as in others, the insistence upon the application of the absolutist's theory fails. In like manner, the unhappy choice of words may lead to confusion, disputation, and controversial antagonism. For instance, instead of saying that the want of suitable land is the cause of rent, it would

have been better said that the want of suitable land supplies the occasion for the appearance of rent. Likewise, instead of saying that labor produces all value, it were better said that labor, when applied in production under favorable circumstances, *i.e.*, excellent natural conditions and highly suitable capital goods, is more productive than in less favorable cases. To the practical man, the contention that nature and capital are not productive is both a contradiction of fact and a cause for shock to the sensibilities.

Error in the Explanation of Exceptions

Moreover, the admission of Ricardo that some commodities must be classed as exceptions to his theory of value does not add to one's conviction of its validity. Among exceptions cited were timber and wines increasing in worth with advancing age, and pearls or diamonds rewarding the diver and miner otherwise than in exact proportion to the effort devoted to their task because of the participation of Lady Luck in their discovery. Nevertheless, the rent theory was highly celebrated and provided renown enough for one man's name and lifetime, for it led to the overthrow of the majesty of the natural order.

Appraisement

Never was the intellectual honesty of any man more searchingly explored than was Ricardo's in that, though one of the richest landowners of the time, he propounded a theory which implicated the landed class as a group with a paramount interest in retardation of the improvement in agriculture and the lowering of costs in transportation. Nor is that all; their very reputations were endangered because, under the theory, rents were exposed as not being a product of labor and so were brought into disrepute among the masses. The movement seemed to be direct and swift toward the stationary state. Within the purview of the pessimists there was but the one ascending spiral of progress. Successive spirals were not envisioned, even though Ricardo called attention to the salutary effects of improvement in agricultural science, mechanization, the extraction of nitrogen for fertilizer

from the atmosphere, and energies released by chemical or intermolecular action. Fear of famine pervaded all.

The march to fame was not a difficult road for Ricardo, for even obscurity of meaning in his writings conspired to enhance his reputation. Opponents and proponents alike read into his statements interpretations to suit the occasion. The century following his generation raised to eminence the name of an exceptional man.

Chapter 12. THE DIADOCHI[1]

Classical Tradition Fostered

The classical tradition, which was founded upon the doctrines formulated by Smith, Bentham, Malthus, and Ricardo, carried forward with hardly more attention than that which is related to the work of interpretation, elaboration, and systemization. Adherents to this tradition have been most prolific in their contribution to economic science, nor by any means were all of the writers natives of the British Isles. Economists from various parts of Europe helped to diffuse Smith's ideas. These assisted in making converts of prominent men and were instrumental in establishing an incontestable supremacy. Among the most influential was J. B. Say, who, after experiencing various ups and downs but final business success, wound up his life, not, as he hoped, the most eminent exponent of political economy of all time, but as the most celebrated French economist of his generation.

Jean Baptiste Say

Biographical Sketch. Jean Baptiste Say (1767–1832), founder of the French classical school and leading French economist, was born at Lyons. Though a most faithful disciple of Adam Smith, yet he recognized the faults of the *Wealth of Nations* (even grossly exaggerating them), rearranged its material in a more logical order, rewrote parts of it in style, and so taught much of the nineteenth century its economics. He first published his *Traité d'économie politique* in 1803. The book became popular both in the original French and in translations. For several decades it was widely used as a text in American colleges. A second French edition, though needed, did not appear until 1814 because of objections of the imperial police to some passages on governmental finance. Say refused to make suggested changes.

[1] "Diadochi" means immediate followers.

His refusal caused his dismissal by the First Consul (Napoleon) from the Tribunate, to which he had been appointed in 1799. Republication of the book was prohibited.

Disapproving of the new regime and having been dismissed, therefore, from political service, Say became manager of a cotton mill. Disposing of it in 1813, he returned to Paris. Say had a wide knowledge of life, having at one time or another engaged in the activities of journalist, soldier, politician, business man, and economist. His life spanned the periods of the French Revolution, the Napoleonic era, the Restoration, and the Revolution of 1830.

Five editions of the *Political Economy* were published during the author's lifetime. His *Catechism of Political Economy* was published in 1817, and *A Complete Course in Practical Political Economy* in six volumes came off the press in 1828–1829. During the last two years of his life he held the position of Professor of Political Economy in the Collège de France. Among Say's merits was that of popularizing the ideas of Smith on the Continent. His appraisal of the *Wealth of Nations* as "a chaotic collection of just ideas thrown indiscriminately among a number of positive truths" seems not to have hindered its popularity. Too, Say's more orderly arrangement of its material greatly enhanced its reputation by attracting to it the attention of enlightened public opinion.

Say's Refinement of Smith's Theories

Say, with a reputation reaching far beyond the boundaries of his native France, was the great popularizer of Smith's doctrines; but he was much more – he formulated novel phrases and ideas which still survive. For example, Smith recognized a special productiveness in land but denied productiveness to the natural forces of water, wind, electricity, and steam. Smith also asserted that doctors, lawyers, professional men generally, and all who rendered personal service were to be classed as unproductive. Say corrected all this by broadening the land concept and classing all personal services as immaterial products. That English economists did not count simple services as wealth was due to their unenduring character.

Say emphasized the fact that man does not create but merely transforms matter; that production is the creation of utilities; and

that all forces are productive whether they are expended in industry, in commerce, or in agriculture. Not in agriculture alone, then, as Smith had it, but everywhere "nature is forced to work along with man." Production is to be defined not as the creation of material products from which may be derived an increment of capital to be added to that already existing, but simply as the creation of utility.

On immaterial products consumed at the moment of production we are given the following:[2]

A physician goes to visit a sick person, observes the symptoms of disease, prescribes a remedy, and takes his leave without depositing any product, that the invalid or his family can transfer to a third person, or even keep for the consumption of a future day.

Has the industry of the physician been unproductive? Who can for a moment suppose so? The patient's life has been saved perhaps. Was this product incapable of becoming an object of barter? By no means; the physician's advice has been exchanged for his fee; but the want of this advice ceased the moment it was given. The act of giving was its production, of hearing its consumption; and the consumption and production were simultaneous.

This is what I call an immaterial product.

The industry of a musician or an actor yields a product of the same kind: it gives one an amusement, a pleasure one can not possibly retain or preserve for future consumption, or as the object of barter for other enjoyments. This pleasure has its price it is true: but it has no further existence, except perhaps in the memory, and no exchangeable value, after the instant of its production.

Say's Definition of Political Economy

For a definition of political economy, Say gives us the study of the laws which govern wealth, or the exposition of the production, distribution, and consumption of wealth. He looks upon the science as purely theoretical and descriptive. The role of the economist is merely "to observe, to analyse, and to describe," and not to give advice. For Say, political economy is not at all a practical art. The principles of the science are derived from nature –

[2] Jean Baptiste Say, *A Treatise of Political Economy*, Book I, Chap. XIII.

not established, therefore, but discovered and they may not be violated with impunity.

Value in Use Emphasized

Say attached much importance to the principle of utility and a theory of value basically psychological. It will be remembered that Smith dismissed value in use with a bare mention and concentrated his attention on value in exchange. Value in objects, Say remarks, originates in the use that can be made of them. In a significant paragraph we are told:[3]

> The value that mankind attach to objects originates in the use it can make of them. Some afford sustenance; others serve for clothing; some defend them from the inclemencies of the season, as houses; others gratify their taste, or, at all events, their vanity, both of which are species of wants: of this class are all mere ornaments and decorations. It is universally true, that, where men attribute value to any thing, it is in consideration of its useful properties: what is good for nothing they set no price upon. To this inherent fitness or capability of certain things to satisfy the various wants of mankind, I shall take leave to affix the name of utility. And I will go on to say, that, to create objects which have any kind of utility, is to create wealth; for the utility of things is the groundwork of their value, and their value constitutes wealth.

Say's Emphasis on Manufactures

In still another respect did the views of Smith and Say diverge. It will be recalled that the former gives agriculture the premier position, but Say lifts manufactures to a coordinate place with agriculture. Though Smith discusses machinery in but a short passage, Say, in the successive editions of his first book, emphasizes machinery more and more. Finally, when unemployment had become a serious problem because of the introduction of machinery, Say admitted that the government might set up works of social utility to relieve the unemployed but that in reality both rioting of the workers and governmental interference in industry involve interference with industrial property.

[3] *Ibid.*, Chap. I.

The Entrepreneur

Say isolates an individual in economic activity who has become highly important since the beginning of the nineteenth century. He names him the *entrepreneur.* Where mechanical production and the servicing of large markets have become the typical economic activities, the entrepreneur has replaced the capitalist and the landed proprietor in economic importance. Say remarks: "The power of industrial entrepreneurs exercises a most notable influence upon the distribution of wealth. In the same kind of industry one entrepreneur who is judicious, active, methodical, and willing makes his fortune, while another who is devoid of these qualities or who meets with very different circumstances would be ruined."

In Say's exposition, the entrepreneur has become one of the factors in economic production. It is he who combines men, capital, and labor in the productive services. By giving recognition to the fourth factor in production, Say clears the way for a new theory of distribution superior to both Smith's and Ricardo's. The enterpriser of the latter economists was commonly a capitalist and the profits allotted to him were a composite of net interest and profit, properly so called. Under Say's theory, these have become and have remained separate. Say's word picture of the entrepreneur follows:[4]

> It may be remembered, that the occupation of adventurer is comprised . . . of operations . . . necessary for the setting in motion of every class of industry whatever; that is to say, the application of acquired knowledge to the creation of a product for human consumption. It will likewise be recollected that such application is equally necessary in agricultural, manufacturing, and commercial industry; that the labour of the farmer or cultivator on his own account, of the master-manufacturer and of the merchant, all come under this description; they are the adventurers in each department of industry respectively.
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> . . . . . .
>
> It is commonly requisite for the adventurer himself to provide the necessary funds. Not that he must be already rich; for he may work upon borrowed capital; but he must at least be solvent, and have the reputation of intelligence, prudence, probity, and regularity; and must

[4] *Ibid.*, Book II, Chap. VII, sec. iii.

be able, by the nature of his connections, to procure the loan of capital he may happen himself not to possess. These requisites shut out a great many competitors.

In the second place, the kind of labour requires a combination of moral qualities, that are not often found together: judgment, perseverance, and a knowledge of the world, as well as of business. He is called upon to estimate, with tolerable accuracy, the importance of the specific product, the probable amount of the demand, and the means of its production: at one time he must employ a great number of hands, at another, buy or order the raw material, collect labourers, find consumers and give at all times a rigid attention to order and economy; in a word, he must possess the art of superintendence and administration. He must have a ready knack of calculation, to compare the charges of production with the probable value of the product when completed and brought to market. In the course of such complex operations, there are abundance of obstacles to be surmounted, or anxieties to be repressed, of misfortunes to be repaired, and of expedience to be devised. Those who are not possessed of a combination of these necessary qualities, are unsuccessful in their undertakings; their concerns soon fall to the ground, and their labour is quickly withdrawn from the stock in circulation; leaving such only, as is successfully, that is to say, skillfully directed. Thus, the requisite capacity and talent limits the number of competitors for the business of adventurers. Nor is this all: there is always a degree of risk attending such undertakings; however well they may be conducted, there is a chance of failure; the adventurer may, without any fault of his own, sink his fortune, and in some measure his character; which is another check to the number of competitors, that also tends to make their agency so much the dearer.

The Theory of Markets

Say's theory of markets (Say's law) has maintained a reputation beyond its true merit, whether the estimation of it is based on originality or on profundity. Both the physiocrats and Smith were fully acquainted with the fact that, in the final analysis, goods exchange for goods and money serves merely as the intermediary in the exchange. To say that goods, produced, create a demand for other goods, is to say, in effect, that commodities are purchasing power and that supply is a potential demand. Yet

from this position Say was able to proceed rightly to the conviction that general overproduction is impossible. Say marked as illogical the belief that a general oversupply or excess of all commodities, or a general congestion of markets, is possible. "The total supply of products and the total demand for them must of necessity be equal, for the total demand is nothing but the whole mass of commodities which have been produced: a general congestion would consequently be an absurdity." That there might be an excess of one product over another and that through an inefficient application of the means of production there might arise partial overproduction was all that Say would admit. The error lay, not in general overproduction, but in producing what was not exactly wanted. The remedy for maladjustments in production, he suggested, was to be found in producing all that the extension of industry would permit and counting on the price adjustment, at a lower level, to benefit all who were at first inconvenienced by disequilibrium.

Error in Insistence on Uniformity

The reading of Say's treatise impresses one with the author's evident lack of appreciation for the value of isolated facts and his absolute delight in uniformity. This tendency is carried even further in the *Elements of Political Economy,* published by James Mill in 1821. In this work there are a compactness of expression and a skill in the handling of materials which indicate thorough mastery of rhetoric. The text, however, represents an oversimplification which was based on the assumption, then widely prevalent, that economics could be reduced to the statement of but a few fundamental principles.

James Mill

Biographical Sketch. James Mill (1773–1836), historian, utilitarian philosopher, and economist, was the son of James Mill, a country shoemaker, and his wife, Isabel Fenton, daughter of a farmer. Though the Fentons occupied a cottage, they were supposed to have enjoyed a social position of more distinction earlier. The neighborhood was of the

opinion that Mrs. Mill was giving herself airs on the strength of her former position, and the accusation of snobbishness was added when she resolved to bring up her eldest son as a gentleman rather than to have him take up his father's trade.

The son, James, was allowed to devote himself to study in the parish school and in Montrose Academy in a nearby town. Through the patronage of friends he was enabled in 1790 to attend the University of Edinburgh instead of nearby Glasgow. After four years, he began studies in divinity in preparation for the ministry. He was licensed to preach in 1798 and delivered some sermons without much success.

He next accepted a position as tutor with a family in Aberdeen, but, either because of a fancied slight at dinner or because of failure to be appointed minister at Craig, he resigned his position and went to London in 1802. There he applied himself in literary employment, and soon became the editor of the *Literary Journal* and of the *St. James Chronicle.* This double editorship netted him £500 a year, which led him to the conclusion that he could now marry. In 1804 he became engaged to Harriet Burrow and was married the next year.

Shortly after, the editorships lost, he was reduced to but a meager living, obtained by writing articles for the reviews. Resolved to improve his position, he decided upon the preparation of a major work – the *History of India.* The history was begun in 1806, and not completed until 1818. When published, it met with success and Mill's affairs immediately improved.

He became acquainted with Bentham in 1808, and by 1813 had become a highly important lieutenant in furthering Benthamism in England. During this period Mill was in need of money, which he had to provide by journalistic writing, although at the same time continuing work on his history and serving as the sole tutor of his children, of whom the precocious John Stuart was the eldest. His *History of India* was well done and has become a classic. In 1819 he received a place in the India House in London and by 1830 had risen to the headship of his department in the London office.

Bentham being difficult of access – virtually a recluse – Mill became the recognized head of the philosophical radicals who were influential in bringing about political and social reforms. Mill's dearest friend was David Ricardo. Bentham boasted: "I am the spiritual father of Mill, and Mill the spiritual father of Ricardo." Be that as it may, Mill did persuade Ricardo to finish and publish his book, *Political Economy and Taxation,* and when the Political Economy Club was founded in 1821, following long-continued discussion meetings at Ricardo's house, Mill

drafted the rules of procedure and was also prominent in the debates.

In 1820 Mill published the *Elements of Political Economy*, the material of which was the rewritten substance of John Stuart's notes on the verbal instruction given by the father while on their daily walks. The article on "Government," written by Mill for the encyclopedia concerning Benthamite principles, was appraised as a masterpiece of political wisdom by the philosophical radicals.

Physically, Mill was possessed of a well-knit figure of middle height, a massive forehead, and an impressive face, and he was of a nervous temperament. His strong voice under full control was commanding and highly effective in animated conversation. Forceful of character and punctilious in the discharge of every duty, yet in his very virtues he appeared unamiable. A rigid disciplinarian with feelings habitually repressed, he taught his children thoroughly. In spite of his irritability, which made his children constantly ill at ease in his presence – according to the testimony of John Stuart – he retained their respect and deep gratitude.

Mill's Theory Explained

Before the publication of the *History of India* in 1818 James Mill had become established as an author of merit through carefully prepared economic essays in 1804 and 1807. Further, he was known as a contributor to the *Encyclopaedia Britannica* and as the writer of numerous articles for the *Edinburgh Review*. But for students of economic thought his *Elements of Political Economy* invites special attention. It had been described as "the last expression of unquestioning faith in the Ricardian school" and its author a writer of doctrinal certainty by whom the principles of political economy were poured into a definite mold. In fact the book was intended as an epitome of orthodox doctrine. It supported the wages-fund thesis and accepted the pessimistic interpretation of the Malthusian theory of population.

Dissertation on Population

James Mill's type of reasoning and his rhetorical style are well illustrated in the following passage on the relation of wages to capital and population:[5]

[5] James Mill, *Elements of Political Economy*, Chap. II.

It thus appears, that, if population increases without an increase of capital, wages fall; and that, if capital increases, without an increase of population, wages rise. It is evident, also, that if both increase, but one faster than the other, the effect will be the same as if the one had not increased at all, and the other had made an increase equal to the difference. Suppose, for example, that population has increased one-eighth, and capital one-eighth; this is the same thing as if they had stood still, with regard to the effect upon labour. But suppose that, in addition to the above stated one-eighth, population had increased another eighth, the effect, in that case, upon wages, would be the same as if the capital had not increased at all, and population had increased one-eighth.

Universally, then, we may affirm, that, other things remaining the same, if the ratio which capital and population bear to one another remains the same, wages will remain the same; if the ratio which capital bears to population increases, wages will rise; if the ratio which population bears to capital increases, wages will fall.

From this law, clearly understood, it is easy to trace the circumstances which, in any country, determine the condition of the great body of the people. If that condition is easy and comfortable, all that is necessary to keep it so, is to make capital increase as fast as population; or, on the other hand, to prevent population from increasing faster than capital. If that condition is not easy and comfortable, it can only be made so, by one of two methods; either by quickening the rate at which capital increases, or retarding the rate at which population increases; augmenting in short, the ratio which the means of employing the people bear to the number of people.

. . . . . .

That the population has a tendency to increase faster, than, in most places, capital has actually increased, is proved, incontestably by the condition of the population in most parts of the globe. In almost all countries, the condition of the great body of the people is poor and miserable. This would have been impossible, if capital had increased faster than population. In that case wages must have risen; and high wages would have placed the labourer above miseries of want.

This general misery of mankind is a fact, which can be accounted for, upon one only of two suppositions; either that there is a natural tendency in population to increase faster than capital, or that capital has, by some means, been prevented from increasing so fast as it has a tendency to increase. This, therefore, is an inquiry of the highest importance.

Scope of the Science

In the discussion as to the scope of the science of economics, Mill presents the view that it is "important to detach the science from all considerations not essential to it." Consequently, he has in mind merely "to ascertain the laws, according to which the production and consumption are regulated of those commodities, which the intervention of human labour is necessary to produce." He proceeds to set out the four inquiries which comprehend the science, to wit:[6]

1ST. What are the laws, which regulate the production of commodities?

2DLY. What are the laws, according to which the commodities, produced by labour of the community, are distributed?

3DLY. What are the laws according to which the commodities are exchanged for one another?

4THLY. What are the laws, which regulate consumption?

Mill and McCulloch Exemplify Classical Doctrines

Another writer, McCulloch, also without originality, is to be coupled with James Mill as representing the quintessence of English classicism. Completely dominated by his masters, Smith and Ricardo, he hesitated to reject any conclusion which seemed directly deducible from classical principles and restated their views in unqualified terms. The common criticism that his writings are without philosophic breadth and that their dogmatism is repelling is merited. Although he confined himself to vigorous defense of prevailing abstract classical doctrine, nevertheless as editor of the *Wealth of Nations* and Ricardo's *Principles of Political Economy,* he exerted a wide influence.

JOHN RAMSAY MCCULLOCH

BIOGRAPHICAL SKETCH. John Ramsay McCulloch (1789–1864), statistician and economist, born at Whithorn and left fatherless as a child, received the rudiments of education from his grandfather. After remarriage his mother removed to Kinross, where the boy John went to school for some years. Later he entered the University of Edinburgh,

[6] *Ibid.*, Introduction.

where he had the good fortune to attend classes under Sir John Leslie, who became his lifelong friend. Under another instructor, however, he acquired a distaste for metaphysics and so took no degree. He secured a position in the office of a writer to the signet but quit in disgust and devoted himself to the study of economics.

From 1817 to 1827 he wrote the economic articles for the *Scotsman* and served as editor of that review from 1818 to 1820. During the same decade he was also a regular contributor to the *Edinburgh Review.* During this period he lectured on political economy and formed classes for its discussion. In 1824 he was invited to deliver the Ricardo Memorial Lectures in London. These appeared subsequently in the form of an article in the *Encyclopaedia Britannica.* The expanded subject matter was included in McCulloch's *Principles of Political Economy,* published in Edinburgh in 1825. Subsequent editions of this work appeared at intervals until 1880. It has been said that through his lectures and classes he succeeded in making the "dismal science" temporarily fashionable. In 1828 he accepted the chair of political economy in the newly established University of London. The chair was unendowed; so McCulloch resigned from it in 1832.

McCulloch was an ardent exponent of the wages-fund theory, which, impregnable during his lifetime, was abandoned by the next generation without a struggle. The McCulloch edition of the *Wealth of Nations* at once superseded all others and was reprinted four times during the author's lifetime. His biography of Ricardo, statistical dictionaries, numerous essays, and monographs are also highly noteworthy. His place is among statisticians as well as among economists, because as a collector of statistical facts he did eminently useful work. His *Principles of Political Economy* (1825) has the merit of especial lucidity. It was translated into French, German, and Italian. Until superseded by the work of John Stuart Mill, it constituted a sort of manual of "politicoeconomic" orthodoxy.

He was a man of immense physical strength and of sturdy individuality. Despite long residence in London he retained his Scottish accent. A most remarkable trait of character was his steadfastness in adherence to economic and Whig political principles and his enduring preference for his native Whithorn, as well as the ancient national beverage, claret.

McCulloch Adopts Say's Utility Concept

Even though McCulloch was faithful to Adam Smith's general theory, he rejected his classification of productive and unproduc-

tive labor and adopted the view of Say, as is shown in the following quotation:[7]

The manufacturer is not a producer of matter but of utility only. And is it not obvious that the menial servant belongs to the same class, and is also a producer of utility? It is universally allowed that the husbandman who raises corn, beef, and other articles of provision, is a productive labourer; but if so, why is the cook or menial servant who prepares and dresses these articles, and fits them for use, to be set down as unproductive? It is clear that there is no difference whatever in the nature of their services – that they are either both productive, or both unproductive.

The Role of the Pioneer

Among the orthodox representatives of economic doctrine who followed Ricardo and preceded John Stuart Mill, most authorities concede the first place to Senior. His career marks the acme of classical economy. By acute and exact reasoning he not only helped to clarify established doctrine but also made distinct contributions of his own. The bulk of his doctrine was summed up in his *Outline of the Science of Political Economy,* which was prepared as an article to appear in the *Encyclopaedia Metropolitana* in 1836 and later was published separately. This small volume was the earliest manual of political economy. In it economics was reduced to a small number of unchangeable essential principles.

Nassau William Senior

Biographical Sketch. Nassau William Senior (1790–1864), an economist rated by many as the best representative of the classical school, was born in Berkshire, eldest of 10 children. His father was a vicar and his mother a daughter of the solicitor general of Barbados. The name is Spanish, but the grandfather, having emigrated from Spain, became a naturalized English citizen in 1723. The father of Senior entered Morton College, Oxford and took both the B.A. and M.A. degrees in 1788. Though a man of remarkable ability he was content to lead the life of a quiet country clergyman. The mother was a woman of great beauty and sweetness and strong practical sense.

Senior's early education was conducted by his father, who instilled a permanent love for classical literature. He entered Eton in 1803 and

[7] John R. McCulloch, *The Principles of Political Economy,* 4th ed., p. 585.

Magdalen College, Oxford, in 1807. Because his tutor held his position a sinecure, the student was left undirected. His reading became desultory, which led to failure at his first appearance in the examinations. Chagrined at the outcome, Senior resolved to take honors at his next appearance. He took his B.A. with honors in 1812, was appointed fellow in the same year and Vanerian scholar in 1813, and was awarded his M.A. in 1815. Legal studies were also begun in 1812, and the student was called to the bar in 1819.

A delicate throat and weak voice unfitted Senior for the duties of the legal profession except for conveyancing. His interest turned toward political economy, and a membership in the club started by Ricardo was granted him in 1823. When the chair of political economy, founded by Henry Drummond at Oxford in 1825 – the first in an English university – sought a thoroughly qualified scholar, Senior was chosen for the professorship. This position he retained for five years. He contributed to the reviews, served on numerous government commissions, and was master in chancery from 1836 to 1855.

In economics he belonged to the school of Ricardo, but his common sense and interest in practical applications of principles prevented him from stating economic doctrines in quite the absolute form of James Mill and McCulloch. Yet he applied the Malthusian theory of population with the utmost rigor to the English Poor Laws. This is the more astonishing since he disliked to dwell upon painful topics.

Senior was a man of strong affections, undemonstrative in utterance, but steadfastly attached to his many friends, among whom were included eminent and influential persons. He was possessed of a placid disposition and thoroughly enjoyed life. He was credited as a mature, comprehensive, and luminous thinker. Cossa, Italian scholar, placed him as unquestionably the ablest of English economists from Ricardo to John Stuart Mill.

Economics Stresses Wealth, Not Happiness

In the introduction of his *Outline of the Science of Political Economy,* Senior discusses the definition of the science and its proper scope. He concludes that the subjects rightly included in any discussion of political economy are strictly limited to those pertaining to wealth and do not of necessity embrace those comprehended in the consideration of happiness. Concerning this he holds positive convictions, which are stated as follows:[8]

[8] Nassau William Senior, *An Outline of the Science of Political Economy,* Introduction.

We believe that by confining our own and the reader's attention to the Nature, Production, and Distribution of Wealth, we shall produce a more clear, and complete, and instructive work than if we allowed ourselves to wander into the more interesting and more important, but far less definite, fields by which the comparatively narrow path of Political Economy is surrounded. The questions, To what extent and under what circumstances the possession of Wealth is, on the whole, beneficial or injurious to its possessor, or to the society of which he is a member? What distribution of Wealth is most desirable in each different state of society? And What are the means by which any given Country can facilitate such a distribution? — all these are questions of great interest and difficulty, but no more form part of the Science of Political Economy, in the sense in which we use that term, than Navigation forms part of the Science of Astronomy. . . . The writer who pursues such investigations is in fact engaged on the great Science of legislation; a Science which requires a knowledge of the general principles supplied by Political Economy, but differs from it essentially in its subject, its premises, and its conclusions. The subject of legislation is not Wealth, but human Welfare.

. . . . . .

On the other hand, the subject treated by the Political Economist, using the term in the limited sense in which we apply it, is not Happiness, but Wealth; his premises consist of a very few general propositions, the result of observation, or consciousness, and scarcely requiring proof, or even formal statement, which almost every man, as soon as he hears them, admits as familiar to his thoughts, or at least as included in his previous knowledge; and his inferences are nearly as general, and, if he has reasoned correctly, as certain, as his premises. Those which relate to the Nature and the Production of Wealth are universally true; and though those which relate to the Distribution of Wealth are liable to be affected by the peculiar institutions of particular Countries, in the cases for instance of slavery, legal monopolies, or poor laws, the natural state of things can be laid down as the general rule, and the anomalies produced by particular disturbing causes can be afterwards accounted for. But his conclusions, whatever be their generality and their truth, do not authorize him in adding a single syllable of advice. That privilege belongs to the writer or the statesman who has considered all the causes which may promote or impede the general welfare of those whom he addresses, not to the theorist who has considered only one, though among the most important, of those causes. The business of a Political Economist is neither to recommend nor to dissuade, but to state general principles, which it is fatal to neglect, but

neither advisable, nor perhaps practicable, to use as the sole, or even the principal, guides in the actual conduct of affairs.

A Writer's Duty

Besides pointing out the limits of the science, he distinguishes between inferences that are universally true and those "affected by the peculiar institutions of particular Countries"; the former, he declares, are those which relate to the nature and production of wealth and the latter, those which relate to distribution. In making this distinction he foreshadows John Stuart Mill. He is also very pointed in telling the political economist what is not his business; but with equal clarity he tells the individual writer his duty and why. His outline of this follows:[9]

> In the meantime the duty of each individual writer is clear. Employed as he is upon a Science in which error or even ignorance, may be productive of such intense and such extensive mischief, he is bound, like a juryman, to give deliverance true according to the evidence, and allow neither sympathy with indigence, nor disgust at profusion or at avarice — neither reverence for existing institutions, nor detestation of existing abuses — neither love of popularity, nor of paradox, nor of system, to deter him from stating what he believes to be the facts, or from drawing from those facts what appear to him to be the legitimate conclusions. To decide in each case how far those conclusions are to be acted upon, belongs to the art of government, an art to which Political Economy is only one of many subservient Sciences; which involves the consideration of motives, of which the desire for Wealth is only one among many, and aims at objects to which the possession of Wealth is only a subordinate means.
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> The confounding of Political Economy with the Sciences and Arts to which it is subservient, has been one of the principal obstacles to its improvement. It has acted thus in two different modes: — First, by exciting, in the public unfavorable prejudices. And, secondly, by misleading Economists, both with respect to the object of their Science and the means of attaining it.

Dissertation on the Use of Terms

Senior, as does Henry George in *Progress and Poverty,* finds the principal difficulty in the use of terms to provide an accurate

[9] *Ibid.*

nomenclature. Then, too, he says the science "depends more on reasoning than on observation." To present these arguments we quote a paragraph:[10]

If Economists had been aware that the Science depends more on reasoning than on observation, and that its principal difficulty consists not in the ascertainment of its facts, but in the use of its terms, we cannot doubt their principal efforts would have been directed to the selection and consistent use of an accurate nomenclature. So far is this from having been the case, that it is only within a very short period that serious attention has been given to its nomenclature. The *Wealth of Nations* contains scarcely a definition: most of the modern French writers, and some indeed of our own, have not only neglected definitions, but have expressly reprobated their use; and the English Work which has attracted the most attention during the present century, Mr. Ricardo's *Principles of Political Economy,* is deformed by a use of words so unexplained, yet so remote from ordinary usage, and from that of other writers on the same subject, and frequently so inconsistent, as to perplex every reader, and not unfrequently to have misled the writer himself. We do not complain of all his innovations in language: such innovations are, for scientific purposes, frequently indispensable, and we shall be forced to make many ourselves. What we do complain of is, that his innovations, such, for instance, as the substitution of the word *Value* for *Cost,* are frequently unnecessary, and are almost always made without any warning to his readers; and that the same words, such, for example, as the adjectives *high* and *low,* when applied to wages, are used by him sometimes in their popular sense, as expressing an amount, and sometimes in a technical sense of his own, as expressing a proportion.

Deduction from a Few Postulates

That the economist must confine himself to deductions from a few postulates is the earnest conviction of Senior. He also renames the factors of production — labor, land, and capital, as they were commonly designated at the time — making them read labor, natural agents, and abstinence. The first two he classifies as *primary* instruments and the third as *secondary.* Abstinence he defines as "the conduct of a person who either abstains from the unproductive use of what he can command, or designedly prefers

[10] *Ibid.*

the production of remote to that of immediate results." Labor he defines as "the voluntary exertion of bodily or mental faculties for the purpose of Production," and natural agents he defines as "every productive agent so far as it does not derive its powers from the act of man." The propositions on which the science of political economy rests he states as follows:[11]

1. That every man desires to obtain additional Wealth with as little sacrifice as possible.

2. That the Population of the world, or, in other words, the number of persons inhabiting it, is limited only by moral or physical evil, or by fear of deficiency of those articles of wealth which the habits of the individuals of each class of its inhabitants lead them to require.

3. That the powers of Labour, and of the other instruments which produce wealth, may be indefinitely increased by using their Products as the means of further production.

4. That, agricultural skill remaining the same, additional labour employed on the land within a given district produces in general a less proportionate return, or, in other words, that though, with every increase of the labour bestowed, the aggregate return is increased, the increase of the return is not in proportion to the increase of the labour.

The first of these Propositions is a matter of consciousness, the three others are matter of observation. As the first and second involve little use of the peculiar abstractions of Political Economy, except those implied in the term Wealth, and may therefore be explained with little recourse to its peculiar nomenclature, . . . They are, however, so nearly self-evident, that we will venture in the meantime to assume their truth. No one who reflects on the difference between the unassisted force of man, and the more than gigantic powers of capital and machinery, can doubt the former proposition; and, to convince ourselves of the other, it is necessary only to recollect that, if it were false, no land except the very best could ever be cultivated: since, if the return from a single farm were to increase in full proportion to any amount of increased labour bestowed on it, the produce of that one farm might feed the whole population of England.

Senior's Stand on Reforms

Thus we have the law of diminishing returns from land stated and belief expressed in the increasing returns from manufactures.

[11] *Ibid.*, "Statement of the Four Elementary Propositions."

Senior's abstinence theory explained the origin of capital but did not prove the cause of interest. When he announced that the proximate determination of wages depended on "the extent of the fund for the maintenance of labourers, compared with the number of labourers to be maintained," he suggested the wages-fund doctrine. This doctrine was in high favor in his generation, but Senior's observations on wages were not fortunate. He opposed the trade-union movement and held steadfastly to the belief that a reduction of working hours would wipe out profits. He placed absolute credence in the theory that the whole net profit is the result of the last hour of operation.

In his frequent service on royal commissions, he brought in reports which seem to show little sympathy with popular causes of his day. In these matters his vision was clouded by a self-imposed restriction that an economist must not project himself into the future. He championed governmental interference, however, for the improvement of health, housing, and education. Because of his interest in reform, he was better known to his contemporaries as a social reformer than as an economist. In this connection, it is noteworthy that Senior would not advise government officials to adopt in any of the forenamed measures the policy of nonintervention.

Senior's Reputation

In 1928 there were published two volumes, entitled, respectively, *Industrial Efficiency* and *Social Economy* from the original manuscript, recently discovered among materials in possession of the Senior family for years and with a value entirely unsuspected. The published volumes give additional proof of Senior's powers of critical analysis and have caused a rerating and ranking of classical economists to the end that some authorities place him even above the highly celebrated John Stuart Mill.

Say, James Mill, McCulloch, and Senior – these were the Diadochi, for they followed and carried on.

Chapter 13. GERMAN ADHERENTS

By the close of the first half of the nineteenth century, the classical doctrines of political economy were taught in all the leading countries. In England the theories of Smith were dominant for a century. In France and America, after a somewhat tardy beginning, preeminence was accorded them for an almost similar period. In Germany, though the first German version, that of Friedrich Schiller, was published (1776–1778) immediately upon the appearance of the *Wealth of Nations,* Frederick the Great of Prussia and Joseph II of Austria took little or no notice of it. The prevailing economic philosophy in their countries continued to be that of the cameralists with here and there a convert to physiocratic beliefs, as, for example, Karl Friedrich of Baden. But in the first decade of the nineteenth century, statesmen of both countries fell under its influence to a marked degree.

Reception of Classical Doctrines in Germany

The first good German translation of Smith's masterwork (that of Garve) was printed in 1784, and for fifty years thereafter, until the rise of the German historical school, English political economy was decidedly influential with the bureaucrats. Smith's doctrine was sponsored by men of illustrious German name. Leadership among them is accorded to Rau, Nebenius, Hermann, and von Thünen. While the earliest German writers after 1776 were mainly strict adherents of Smith, later writers, among them those named above, were followers who made free with independent criticism.

Karl Heinrich Rau

Biographical Sketch. Karl Heinrich Rau (1792–1870), German political economist, was born at Erlangen, where he studied at the uni-

versity and later served as professor. He removed to Heidelberg in 1822 to hold the chair of political economy and continued as teacher and in research for nearly fifty years. He took part also in public affairs as privy councilor and member of the Baden legislature. His *Lehrbuch der politischen Œkonomie* (1826–1837) is encyclopedic in economic information designed for the guidance of practical men. This book was long considered the standard German text. It follows the theories of Smith and Say, but in its advocacy it stresses the extension of economic functions of the state. Its three volumes treat (1) the theory of wealth, (2) administrative science, and (3) finance. The divisions indicate its close relation to the works of cameralistic writers. It has passed through many editions. Rau has the further distinction of having early given a separate analysis to the "wages of management" for entrepreneurial service.

Rau an Effective Expositor

Original contribution to economic theory is not Rau's claim to fame, but effective exposition and the organization of vast quantities of practical information afford abundant testimony to his solid merit. Because of the close connection between the German universities and the state, professors of law and finance counselors, being the chief political economists of the period, stress realism in their exposition. Rau draws the clear distinction between theory on the one hand and economic policy and art on the other. For Rau economic art varies with local conditions, and he recognized the existence of somewhat mechanical economic stages. As a sample of his style of writing, Rau's reasons for and against the alienation of domains are quoted. The quotation identifies him as one indebted to the *Wealth of Nations*. The arguments in favor of retention of domains, if not original, are drawn from unidentified sources. The two-sided discussion has become classical in German economic science. Rau's exposition proceeds as follows:[1]

At the present day the following are the principal reasons in favor of the alienation of domains:

1. A government is not well fitted to carry on an industry. Private owners, as a rule, make better use of a source of income because they

[1] Karl Heinrich Rau, *Finanz Wissenschaft*, 5th ed., secs. 94–98, 1864.

work with greater zeal, give more thought to the improvement of processes, and can manage any branch of industry with vigor, a thing especially important in intensive agriculture. Governments, on the other hand, must maintain an expensive body of lower and higher officials who are less energetic and economical than a proprietor, or are fettered by troublesome administrative regulations. Experience shows conclusively that domains in private hands yield a larger net income. . . .

2. The sale of domains is an easy method of paying off public debts; it is considered important to do this on a large scale, while the treasury profits thereby because the purchase price of land is usually so large that the interest on the debt retired exceeds the former income from the domains.

3. The possession of domains gives the government special interests of its own which make it disinclined to undertake many reforms of general benefit to society, such as the abolition of feudal burdens on landed property; or it may at least be unpopular on account of the conflict which arises with the interests of private citizens.

4. Experience shows that domains are in no way necessary to insure a revenue sufficient to meet public expenditure, and that in several states of western Europe in which the domains yield only a small amount, adequate revenue flows regularly into the treasury without pressing too heavily upon the citizens.

Upon the other hand, the retention of domains, even at the present day, may be defended upon other grounds:

1. From the standpoint of general statecraft, domains have been considered an important support of hereditary monarchy, which has sprung from the possession of large landed wealth and must always rest upon it. Income from domains is prized also because it does not depend upon the consent or grant of a parliamentary body, and can be relied upon in times of internal disturbance or social changes. . . .

2. The income from domains arouses no dissatisfaction or feeling of deprivation, because it flows from a business undertaking independently carried on by the government by means of public property which has long been withdrawn from private ownership.

. . . . . .

3. Even if experience shows that public lands in many cases yield a smaller income than private estates, it cannot be affirmed that this must invariably be the case. In this matter one must take into account the kind of land in question, and its quality; while it must be remembered that the methods of administering it may be improved. . . .

4. The increase from domains must increase in the course of time, because the rent of land rises as the prices of its product advance and the soil is better and more scientifically cultivated.

. . . . . .

5. Public loans can be more easily floated because the domains afford collateral security acceptable to creditors. This, however, is of little moment, especially in the larger countries with good credit, where well-managed finances and the proven good faith of the government make landed possessions unnecessary as a support for public credit. . . .

6. Domains may be useful because improved methods of cultivation can be introduced upon them, and then the knowledge of such things can be widely extended. . . .

Blend of Cameralistic and Classical Economics

Rau's books are packed with practical information and constitute a combination of cameralistic erudition and the classical economics of Adam Smith. There is abundant evidence that Rau's economic science is subordinated to political policy and that in his ethics he is influenced by expediency. Yet he does distinguish between private and technical economy on the one hand and public and political economy on the other. Reluctance to depart from the teaching of Smith is shown by Rau's retention of a narrow conception of the productivity of labor in holding personal services unproductive long after J. B. Say had brought about a general rejection of Smith's error.

Karl Friedrich Nebenius

Biographical Sketch. Karl Friedrich Nebenius (1785–1857), was born near Landau in the Rhenish Palatinate. He studied law at Tübingen and familiarized himself with Napoleonic administration as a volunteer assistant to the prefect of Besançon. He accepted a position as a private secretary to the Baden Ministry of Finance in 1807 and continued in the Grand Duchy's service until 1839. He held successively the offices of privy councilor of state, Minister of the Interior, and President of the Cabinet Council. After an interim of six years he again took office as Minister President of the Council. From this position he retired in 1849 because of the revolution in that year, after nearly forty years of service as leader in support of a liberal policy. His reforms were effected in many phases of administration, including

taxation and education. His efforts toward the establishment of the German Customs Union *(Zollverein)* were energetic and successful. Of it he has been declared intellectual founder. Among his economic writings are the celebrated *Der offentliche Kredit,* a monograph on public credit (1820), and *Der deutschen Zollverein* (1835).

Views on Public Credit and Currency

Nebenius's views on public credit were formulated from experience in the public service and from observation. They possess the sterling qualities of prudence and sagacity. He perceives that government credit rests upon the public conviction that the government can and will fulfill its obligations. He recognizes as the basis of credit both objective and subjective criteria. He favors borrowing for productive purposes even if the source is to be found in a foreign loan, which he envisions not as a national burden but as a means to enrich the country.

In his discussion of currency depreciation he shows a deep insight. Under some circumstances he advocates the use of all means to restore the currency to full value and again inaugurate the policy of cash circulation. However, he believes that, when depreciation has prevented the government from getting face value for its currency, justice does not demand full face redemption but merely the value at time of issue.

While the system of national loans is acknowledged as a benevolent means of lightening the burden of extraordinary governmental expenditures and, when properly administered, an indispensable service to industry, he is dubious as to the practical outcome because of the tendency toward public extravagance and unproductive expenditure. Public loans, too, he believes, have a disadvantageous influence on the distribution of wealth.

Friedrich Benedikt Wilhelm von Hermann

Biographical Sketch. Friedrich Benedikt Wilhelm von Hermann (1795–1868), German political economist, sometimes referred to as the German Ricardo, was born in Bavaria and studied in the Universities of Erlangen and Würzburg where his specialties were mathematics and political economy. Upon entering the teaching profession he held various positions before his selection as professor extraordinary at the University of Munich. In 1832 he published his *Staatswissenschaft-*

liche Untersuchungen, a highly important contribution to German economics. In 1835 Hermann was elected to the Bavarian Academy of Science.

He served the government in the capacity of inspector of technical instruction and as counselor to the Ministry of the Interior. In 1848 he sat for Munich in the National Assembly at Frankfort. Subsequently he was in charge of the Bureau of Statistics and became a councilor of state. He published many pamphlets on political, economic, and industrial subjects. His annual reports as chief statistician gave him rank as one of the founders of statistical science.

A Disciple of Smith

Hermann repeatedly identifies himself as a disciple of Smith. Almost invariably he opens the discussion of a topic by a statement from the classic founder and shows his accord with the philosophical and ethical system of the classicists. His lack of agreement in a few matters is based on a disapproval of Smith's logic. He does not believe that individual interest is always in harmony with the public advantage. Nor does he accept the common differentiation between land and capital as regards the nature of their remuneration. The income from each is found in the difference between receipts and costs and is designated rent. The market value of the factors producing the income he arrives at by means of rent capitalization.

Rejects Wages-Fund Theory

The classical wages-fund theory Hermann rejects. The demand for labor he sees in the consumer's demand for goods and not in the employer's enterprise. Hence, wages are not advanced from a capital fund in a manner and quantity determined by a proportion between the number of the workers and the size of the fund, but by what the consumer is willing to pay for the product.

The Entrepreneur Recognized

Hermann agrees with Rau and Say that the businessman performs distinctive functions, among which are the combination of the factors of production, supervision, and insuring the risk of

others – workers, capitalists, and landowners – associated with the entrepreneur in the enterprise. Consequently, Hermann distinguishes clearly between interest and profits in a way not common to the early classicists.

Johann Heinrich von Thünen

Biographical Sketch. Johann Heinrich von Thünen (1783–1850), German economist, was born at Oldenburg. After a thorough education in agriculture, he studied for a short while at Göttingen. In 1810 he bought an estate called Tellow in Mecklenburg-Schwerin which, through his skillful management, became a model farm. He is known now principally for the economic views expressed in his book *Der isolierte Staat*, published in three volumes (1826–1863).

An Abstract Deductionist

In the preparation of his book the author follows the abstract, deductive method. Many quantitative data are included which serve as material for mathematical computation of the arithmetical and algebraic sort. The complex conditions of economic life are simplified by the isolation process. An imaginary state is set up, in geographical form circular, with a solitary city at the center. The land is made hypothetically of equal fertility, laborers of equal productivity, and rural and urban communities tributary to each other. The purpose is to investigate the effect of varying distances from the central market upon land rent. While Ricardo emphasized the element of soil fertility in his rent theory, von Thünen's approach is from the standpoint of the important factor of situation.

Marginal Productivity of Labor and Capital

From his experimental investigations and through the logical exposition of facts discovered, von Thünen evolved the idea of marginal productivity of labor and capital. He demonstrates that, beyond a certain point in the development of an undertaking, additional workers taken on, one by one, yield ever smaller increments to the product; consequently, the marginal worker adds to

the product an amount which is but equal to the wage paid. Because of the operation of this principle, von Thünen declares the wages of all doing the same work tend to equal the productivity of the final worker who can be employed before diminishing total returns are experienced. The same principle is shown to apply to increments of capital added in a series; consequently, the yield of the last particle of capital determines the rate paid for borrowed capital. So originated an idea held in high repute by economists.

Doctrine of the Natural Wage

Another idea of von Thünen's, the doctrine of the natural wage, was considered by him as his most important contribution to economic theory. So highly did he think of it that he directed that its symbol be cut on his tombstone. The natural-wage concept is represented by the formula $X=\sqrt{ap}$. The symbol $\sqrt{ap}$, as defined, is the square root of the product of the quantities a and p whether expressed in kind or in money, the first letter representing the cost of the necessities of the laborer and the second, the value of the product of his labor. Basic in the formula is the belief that wages should vary with the amount and value of the product.

Von Thünen regarded wages as the laborer's means of subsistence and not merely as a cost to the employer. This benevolent attitude was reflected in the wage system established on his estate, where laborers participated in the profits of farming. The application of the profit-sharing principle in his agricultural enterprises was identified by critics as an acknowledgment of the impossibility of applying the wage formula, although he may have introduced it as an expedient in anticipation of the time when detailed data in sufficient number would be in hand to ensure an equitable division of the product between entrepreneur and laborer in accord with the formula.

An Advocate of Social Reform

In measures for social reform, von Thünen favored a considerable degree of state activity. He advocated universal education as essential to the economic progress of the working classes.

Though properly classed as a materialist, when his emphasis on self-interest motivation and his belief in economic harmony are fully considered, he can also be designated an idealist.

Validity in Both the Cosmopolitan and National Views

Normally a believer in free trade, von Thünen distinguishes between the cosmopolitan and the national points of view; the former he defends with Smith as essential to the highest economic well-being of the people, but the latter may have validity also under certain conditions to ensure the strength of a nation.

Appraisement

Von Thünen was admirably equipped to prepare a dissertation on the economics of agriculture, and his exposition in the field of distribution holds the distinction of originality. His theory of the productivity of capital is similar to that of the marginal economists and neoclassicists, whom he antedated by many years. His small influence in his lifetime notwithstanding, he is given recognition as one of the leading German economists of all time.

Chapter 14. THE NATIONALISTS

The viewpoint of the classical economists was individualistic and cosmopolitan. While considering man as producer and consumer, they ignored his citizenship. That individual and national interests might be at variance was a proposition uninvestigated. The error in this position was noted by some early economists and their dissent recorded, although in other respects they acknowledged a general conformity with classical theory. The nationalists harbored the conviction that important factors of national life were being neglected in the formulation of theoretical systems explanatory of economic phenomena. In their criticism and in their search for the prime consideration underlying economic motivation, attention was focused upon the welfare of the nation rather than individuals or classes.

Stress upon the National Viewpoint

Their departure from classical orthodoxy, with its insistent stress upon the national viewpoint, provides the basis for their classification as nationalists. As representatives of the group Lord Lauderdale, a Scotchman; Adam Müller, a German; Daniel Raymond, an American; John Rae, a Scotch-American; and Friedrich List, a German-American, illustrate the nature of the departure from the then dominant theory of individualism.

Adam Smith emphasized the gains in general social advantage to be derived from economic motivation based on the principle of unhampered and enlightened self-interest. This proposition was first challenged by Lord Lauderdale, who pointed out that there was a distinction between public wealth and private riches.

Lord Lauderdale

Biographical Sketch. James Maitland (1759–1838), eighth Earl of Lauderdale, was an eccentric, fluent-tongued, violent-tempered Scotch gentleman with a taste for political economy. He studied law at Glasgow and Edinburgh and was admitted to the Scottish bar. One of his teachers at Glasgow was Dugald Stewart, successor of Adam Smith. Lauderdale served in the House of Commons from 1780 until he succeeded to the earldom in 1789, whereupon he entered the House of Lords. His general reputation and prestige with the government are evidenced by his selection to serve the country on various missions abroad. His writings were mostly in the form of monographs. The most pretentious work, entitled *An Inquiry into the Nature and Origin of Public Wealth,* was published in 1804. It presents some novel ideas and expresses others in a manner to win its author a place among those who made important contributions to economic science.

Differentiation between Private and Public Wealth

Lauderdale charged Adam Smith with faulty reasoning in regard to wealth and the doctrine of saving. He did not accept the proposition that national wealth consisted of the sum total of the wealth of individuals. Lauderdale found a difference between economic value and economic welfare. Between private and public interests there may be antagonism instead of the harmony which Smith suggested. While scarcity of a commodity, affected by an inelastic demand, raises its exchange value and so augments private riches, this scarcity at the same time decreases public wealth and well-being. This idea is followed by the theory that parsimony or saving does not always result in an increase of public wealth; rather, it may result in an overproduction of capital and an underproduction of consumer commodities and thus effect a reduction in well-being. It is argued that the proper adjustment of capital to need is not brought about through saving merely, but rather by supplanting labor with capital through discovery and invention. Invention should be the chief source of capital formation, and the safer source, for capital gained through parsimony results in the reduction of consumer commodities, upon the abundance of which welfare depends.

Lord Lauderdale preceded Ricardo and levels his criticism at Smith and at his own immediate predecessors and contemporaries. Others among the nationalist group come later, and they are more drastic in their criticism. Adam Müller, in addition to sweeping criticism, presents opposing doctrines of wide scope.

Adam Heinrich Müller

Biographical Sketch. Adam Heinrich Müller (1770–1829), Prussian nobleman and scholar, was born in Berlin and educated at the University of Göttingen in law and theology. After his return to Berlin he was appointed to a government post. Later, he removed to Austria and held various offices under that government including treasury positions and that of counsel general at Leipzig.

In Müller's lectures and books he reacts against Smith's economic liberalism and his purely material conception of society. Müller retains a preference for the principles underlying the institutions of the Middle Ages and is classified as one of the German romanticists. He protests against a political economy which is hardly more than a theory of individual interests and private property, and substitutes for it an economic system in which the state plays an important part. The nation is an organism, according to Müller, not a mere aggregate of individual citizens. In contrast to Smith's atomistic individualism, Müller stresses the organic character of the state and its incorporation into the totality of national life.

The economic writings of Müller include a number of scholarly works. *Die Elemente der Staatskunst* (1809) is his principal work and proves his genius. In practical politics he was an ardent supporter of Metternich and the reactionary regime.

Real Wealth Found in National Economy

In Müller's system national solidarity and the continuity of history constitute an important part in the life of the people. That organization which concerns itself with higher tasks and aims is better than those which merely concern themselves with the transitory existence of individuals and the production of objects for their immediate exchange value. For Müller the real wealth of a nation does not lie solely in the sum of the private wealth of individuals, but in the moral and intellectual factors, too, which are predominant elements of national power.

According to Müller: "Man is not to be thought of outside of the State." The state and the national economy are looked upon as continuous with past and future generations. This idea he believes indispensable in considerations of state credit. The state itself is defined as "The totality of human affairs, their union into a larger whole."

Smith's individualistic point of view is definitely rejected as leading to the advocacy of *laissez faire* and of free trade. For Müller these concepts clash with the idea of nationality and the development of economic activities on the national basis. This thought carried him to the length of supporting a system of paper money as a substitute for metallic money since it would discourage international trade. He looked upon nations as individuals, thriving best when permitted a fully rounded independent life, and not as dependent parts of a chimerical universal empire.

Daniel Raymond

Biographical Sketch. Daniel Raymond (1786–1849), American lawyer, was born in New Haven and studied law under Topping Reese at Litchfield. He settled in Baltimore and was there admitted to the bar; however, he is known today not for his legal talent but for highly original writing on economic subjects.

He began to write a treatise on political economy for self-amusement and as a relief from continuous reading of law while he was establishing himself in practice. In 1820 he published *Thoughts on Political Economy.* He early advocated formal instruction in political economy in colleges and schools. Matthew Carey, noted Philadelphia publisher, offered to support a chair of political economy in the University of Maryland if Raymond were invited to occupy it. The offer was not accepted, but Raymond's interest in the subject continued, as is manifest in the publishing of three other editions of his book by 1840, each with changes and additions.

His reasoning, based on American economic environment, led him to break with foreign theories and the then dominant thought of Adam Smith. He opposed the philosophy of individualism; instead of it he favored governmental regulation and a protective system. In this position he was influenced by Alexander Hamilton and Matthew Carey. In turn, he influenced the thought of John Rae and Friedrich List. In some respects his criticism of classical theory is identical with that of

Lauderdale, but more of it is original, so much so in fact, that his work is still read.

Differences in the Opinions of Raymond and Lauderdale

Raymond and Lauderdale both stressed the distinction between private and public wealth. Lauderdale's distinction rests upon the degree of scarcity of goods. He gives the definition of public wealth as the sum total of "all that man desires as useful and delightful to him"; the definition of private wealth is given as the sum total of "all that man desires as useful or delightful to him which exists in a degree of scarcity." The goods listed are identical goods, whether listed as public or private, but an individual owner benefits through scarcity while national advantage is magnified through abundance. Of a different mind, Raymond turned the question on the twofold distinction, viz., difference between goods, private and public, and the capacity to produce them. Individuals are reputed wealthy, according to Raymond, when they possess property exchangeable for the needs and amenities of life. On the other hand, a nation is wealthy when it has the capacity to acquire through labor the wherewithal of support for all its citizens. The ability adequately to accomplish this end is dependent, as he says, upon a number of factors, such as climate and soil, extent of territory, denseness of population, distribution of property, state of cultivation, advancement in the arts and sciences, advantages in commerce, industry of the people, and the quality of government.

In Raymond's opinion, parsimony is not the means of opening the road to national prosperity first, because of the perishable nature of consumer's goods and, second, because of the national tendency of population to increase with the means of subsistence. It follows that the interests of the nation and of individuals are not always identical and that Adam Smith's failure to grasp this idea hindered his arriving at the true conception of the state. Raymond recognizes in the state a unity of rights, of interests, and of possessions in a manner similar to Müller. There follows the acknowledgment of the varied interests of different nations. Raymond was so strongly a nationalist that he advised nations to

consult their own interests exclusively and without regard for those of other nations.

Definition of Political Economy

"Political economy," we are told, "is a science which teaches the nature of public or national wealth," and consequently all that makes for wealth and happiness is properly incorporated in its study. Its immediate object is "to instruct governments how to legislate, and not individuals how to get rich."

Criticism of the Free-Trade Doctrine

The free-trade doctrine is criticized on the ground that individual self-interest will not necessarily guide the employment of capital into channels beneficial to the nation. The constant employment of national labor is best brought about through the monopoly of the home market, through the promotion of stability of demand, and through the development of skill in the arts. The dumping of low cost foreign goods can be prevented and the American standard of living raised by tariffs frequently and intelligently revised. Raymond advocated a low tariff on noncompetitive imports and a high tariff upon the type of goods the production of which by domestic industries employed the greatest number of people. Who pays the duty? We are told the producer and consumer share it between them.

JOHN RAE

BIOGRAPHICAL SKETCH. John Rae (1796–1872), American economist, was born in a suburb of Aberdeen, Scotland. His father was a builder and broker of means; so the son attended the University of Edinburgh. Apparently because of his unorthodox views, his education was interrupted just short of the time when he was to receive his degree in medicine. His expectation of a leisure-filled scholar's life was frustrated because of change of fortune and marriage; consequently, he emigrated first to Canada, where for a time he taught the children of Hudson Bay Company employees, and later to the United States, where he became headmaster of a grammar school. After the death of his wife, he sailed for California during the gold rush as ship's physi-

cian, and continued on to the Sandwich Islands (Hawaii), where he became medical agent and district justice of the island of Maui. After twenty years he returned to Staten Island, as guest of a former pupil, to lead a retired life. His book, *Statements of Some New Principles on the Subject of Political Economy,* published at Boston in 1834, is a work of originality, many-sided, but abstruse. It has the distinction of being quoted with approval by John Stuart Mill. In 1856 his book was translated into Italian.

Creation of Wealth, Not its Acquisition, Important

In common with the other writers in the nationalist group, Rae believes that individual and national interests are not identical, but he finds the distinction in the causes which give rise to individual and public wealth. The individual first *gains* his revenue out of which savings are made; but since his revenue depends in part upon his talents and capacities, it is in the last analysis to these qualities and not to saving propensities that capital accumulation has to be attributed. Furthermore, while individuals at times become rich by acquiring merely a portion of existing wealth, a nation cannot do so excepting by the production of new wealth. The two processes may be different since the one emphasizes acquisition and the other, creation.

According to Rae's theory, the creation of wealth is dependent upon invention. The inventive faculty becomes a central theme, and, for Rae, division of labor springs from invention, rather than invention from division of labor – a reversal of the generally accepted order. Consequently, since legislation may promote intelligence and stimulate invention, governmental interference is natural and logical.

Friedrich List

Biographical Sketch. Friedrich List (1789–1848) was born in the kingdom of Württemberg, a son of a tanner. The father was not to be followed in his business by the son, although he served as an apprentice in that work for a time. Friedrich's dislike of the work caused him to neglect it; the time thus gained was used in study. While still in his teens he was appointed to a clerkship in the government service. After promotion, he held a position in Tübingen which gave him the opportunity to attend lectures at the university.

In various governmental positions held subsequently, List acquired practical knowledge in administration which, together with his wide reading, eminently fitted him for a newly established professorship in administration and politics in the University of Tübingen. In this position he developed into a political liberal, blamed the legislature for its ineptness, and advocated the reduction of governmental administration to a science. Since political administration is in immediate contact with economic problems, List thoroughly informed himself concerning the theories expounded by economic writers. In his economic philosophy he opposed Smith's idea of cosmopolitanism on the ground that economic world citizenship is totally unnatural.

In addition to his university duties, List helped edit a liberal newspaper; through it, and through his lectures, he made himself unpopular with the reactionary ministry that had come into power. Reform activities finally lost him his post and caused his expulsion from the Württemberg Parliament, of which he had become a member. Following conviction for sedition, he served nine months in prison, where he tediously copied records. After his release he went into exile in the United States.

After landing in New York List soon joined Lafayette, whom he had first met in Paris, on a tour of the country. The American nationalists and protectionists found in List an ardent supporter of their economic views. Having settled first on a farm near Harrisburg and later in Reading, List obtained firsthand information concerning the protection movement which soon culminated in the Harrisburg and New York conventions. List was called upon to address the former. His letters in favor of American protectionism were first published in newspapers and afterward assembled and pamphletized (1827) under the title, *Outlines of American Political Economy.*

An anthracite coal mine which List discovered in the mountains near his home turned his interest to the problem of transport of the coal to market. The solution was found in a short railroad connecting the mine and the Schuylkill canal. List had now been in turn American farmer, Reading newspaper editor, mine owner, and industrialist. After accumulating a modest fortune and having perceived the true function of transportation in achieving economic unity, he decided to carry his idea to Germany for use in a plan of economic unification there. While at work on this project List traveled about and did literary work, culminating in his masterwork, *The National System of Political Economy,* published in 1841. The thesis which he defends

with great ardor is that, as a prelude to international free trade, national economic development must pass through a series of successive stages, of which one is that of national industrial protectionism.

Germany was too slow in responding to List's proposals to satisfy his impetuous enthusiasm; broken in health and despairing of recovery, he died of a self-inflicted gunshot wound. Recognition and honor have been bestowed, though tardily, by Germany and Austria to the end that Friedrich List has become the personification of Germany's national economic development.

List Not an Absolutist

Although List is remembered as an ardent protectionist, he was not one in the absolute sense, for he believed in the principle of relativity. The ultimate condition of the state, after passing through the primitive and intermediate to the mature stage, was that of free trade. But a state in which sufficient wealth has been accumulated by exploitation of its national resources had, in List's opinion, to adopt a policy appropriate for the creation of internal national power. He believed that a policy of protection to foster the development of manufactures in close harmony with the extractive industries would do it. The statement of List's, "If I had been an Englishman, I should have been a free trader," proves that he was not an absolutist in theory.

The Theory of Economic Evolution

In List's theory of economic evolution five stages are distinguished: (1) the savage, (2) the pastoral, (3) the agricultural, (4) the agricultural and manufacturing, (5) the agricultural, manufacturing, and commercial. In the first three, wherein agricultural activity is found, either in its incipient stage or as the chief reliance, the people lack initiative, inventiveness, and the habit of cooperation. Under such primitive economy a free exchange of raw materials is the appropriate policy, and hence free trade should prevail.

The time for the adoption of a protective policy arrives when to continue the policy of free trade would place a country under

economic subjection to more developed countries. That the time has arrived becomes evident when it is observed that the powers of a nation's people are not fully utilized. Specific evidences of lack of utilization of national potential may be seen in a people depressed, indolent, and uninstructed. This condition can be changed by fostering young industries. National potential power is converted into effective power by state direction. The people, under direction, become enterprising, inventive, industrious, cooperative, and wealthy with only a temporary restriction of foreign commerce. The good of the whole people demands the restrictive policy in order to escape from a provincial economic subjection to matured rivals with the hope of achieving world equality.

In the final stage of economic development a close association of manufactures, commerce, and industry is characteristic and allows for the free conduct of international trade on an equal basis with other fully developed countries; consequently artificial props to industry may be removed, tariffs canceled, and a free-trade policy established. Throughout List's exposition he moves consistently toward a fully developed state and free trade. Protection is a temporary device to serve as a means to a carefully planned ultimate end – an independent, powerful, and wealthy nation, to be arrived at neither by Smith's cosmopolitanism, nor by the rules of the mercantilist, but rather by a sociopolitical conception of political economy.

History and Theory Featured in the National System

In the first book of List's *National System,* entitled "History," he describes economic development as illustrated by history. He concludes:[1]

> History teaches us how nations which Nature has endowed with all resources necessary to attain the highest grade of wealth and power, may and must – without abandoning the end in view – modify their systems according to the measure of their own progress: in the first stage adopting free trade with more advanced nations as a means of raising themselves from a state of barbarism, and of making progress

[1] Friedrich List, *National System,* pp. 187–188, Philadelphia, 1836.

in agriculture; in the second stage fostering the growth of manufactures, fisheries, shipping and foreign trade by means of commercial restrictions; and in the last stage, when they have reached the highest level of wealth and power, gradually reverting to the principle of free trade and unrestricted competition in both home and foreign markets, so that their agriculturists, manufacturers, and merchants may be kept from indolence and stimulated to retain the supremacy they have won. In the first stage we see Spain, Portugal, and the Kingdom of Naples; in the second, Germany and the United States; France seems to be very near the last stage; but Great Britain is the only country which has actually reached it.

In the second book of the *National System,* entitled "Theory," List's doctrine of national economy and productive power is outlined and contrasted with Smith's cosmopolitan, or world economy. Classical economics is labeled as defective because of its cosmopolitan, materialist, gloomy, and individualistic features. It is pointed out that between the individual and the human race there is the nation, with highly important functions. Among national functions is the nurture of the individual who

> . . . acquires, chiefly by the aid of the nation and in the bosom of the nation, intellectual culture, productive power, security and well-being; human civilization can only be conceived as possible by means of the civilization and development of nations.
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> . . . . . .
>
> It is the mission of political institutions to civilize barbarian nationalities, to enlarge those which are small, to strengthen those which are weak, and above all, to secure their existence and duration. The mission of political economy is to furnish the economical education of the nation, and to prepare it to take its proper place in the universal association of the future.[2]

Articulation of Three Branches of Economic Activity

A strong plea is made for the harmonious development of agriculture, manufacturing, and commerce through the argument that the labor of a nation is most productive when all three branches of economic activity are in perfect articulation. List's

[2] *Ibid.,* p. 263.

criticism, on this as on other points, was not entirely just, being based in part on misconception. On the principle of coordination and articulation of industrial activities List wrote:[3]

The richest nation, being that which possesses the greatest productive power, will be, of course, that which, upon its own territory, has carried its manufactures of every kind to the highest degree of reproductiveness, and the agriculture of which furnishes its population of manufacturers with the chief part of the food and raw materials requisite for their wants and business. . . .

A nation pursuing only agriculture and a few of the more necessary mechanical arts, is without the first and principal division of labor among its citizens, and loses the most important half of its productive power; it even wants that division of labor which is so needful in the operations of special branches of agriculture. A nation with an industry so incomplete is less productive by half than one of well-arranged industry; with a territory of equal extent, or even much greater extent, with an equal, or even greater, population, its productive power will yield perhaps scarcely a fifth, or even a tenth part of the material wealth which a country of well adjusted industry can produce, and that for the same reason that in a complicated manufacture ten persons can produce not only ten times more, but perhaps thirty times more than one alone, just as the labor of a man who has but one arm will not merely be one-half less, but perhaps an hundredfold less than that of the man who has two arms.

[3] *Ibid.*, p. 234.

Chapter 15. EARLY AMERICAN PROTECTIONISTS

National economic advantage may demand a modification of the general principle that the interests of human society are best served by the full extension of free trade to world commerce. This statement expresses the belief of prominent persons in the United States early in our national history. Vigorous protests were made then against the mother country's mercantalistic measures as they were applied in the interest of the home merchants and industries.

Protectionist Arguments

The colonists, counting their experiences, had no doubt as to the effectiveness of properly planned restrictions; consequently, after having gained independence, ideas were formulated in the minds of a new set of mercantilists, more enlightened than the old. Steuart's doctrine of the "export of work" was understood by American leaders, but their aspiration to become industrial in greater measure, they were convinced, could not be achieved through application of the English economists' theory of buying in the cheapest market.

Although it was an accepted fact that America's abundant raw materials provided ample purchasing power for fabricated and refined foreign commodities, it was also understood that a continuance of the policy of importation of finished goods in exchange for products of the extractive industries retarded the industrial development characteristic of a progressive state. The conviction that advantages were to be gained in a close association of manufactures, agriculture, and commerce was strengthened by interruptions and retardation of supply incident to transport from remote sources in the foreign markets.

Hence, there grew a keen desire to enlarge the sphere of domestic commerce. That this could be done was obvious if goods for local supply were created close at hand. Diversification of industry was advocated as preferable to the utilization of whole regions in single economic pursuits. It had been observed that continuous production of staple crops exhausts the soil, and what is equally a bar to well-being had also been experienced, namely, a great dependence upon an uncertain and unstable foreign demand.

The conviction follows that the development of manufactures can confer great benefits and that protectionism can provide the necessary stimulus for industrialization. The conviction grew also that expediency prompted protectionism and that national security virtually demanded it. Hence a coordination of economic endeavor was the aim of early American statesmen, and among these Alexander Hamilton was the prime advocate.

Alexander Hamilton

Biographical Sketch. Alexander Hamilton (1757–1804), distinguished aide to General Washington, and subsequent statesman, was born on the island of Nevis in the British West Indies. His mother was Rachel Faucette, a beautiful and intelligent woman, who died young from a pulmonary ailment. His father was James Hamilton, a handsome Scottish trader of good birth, but lazy and unsuccessful in business enterprise.

Alexander was tutored by a Presbyterian clergyman, by name Hugh Knox, who recognized fully the extraordinary capacity of his pupil. At the age of twelve he took a position as clerk with a firm on the island of St. Croix. A remarkable talent for business was displayed, and when wide attention was attracted to the youth by his sensational account of a West Indian hurricane, his former tutor was able to raise a subscription to defray his expenses to the mainland for the purpose of advancing his education.

At the age of fifteen he landed in New York and sought to enter Princeton as an unclassified student with permission to pass through the classes toward graduation as rapidly as he could master the subjects of study. His plan was not acceptable to the university authorities, and his request was denied. Thereupon he asked a similar privilege at King's College, now Columbia University, and was admitted under the

special conditions proposed. His progress was phenomenal. Ability to write and speak were demonstrated in mass meetings, called in the excitement following new British restrictions and tax impositions, and through the publishing of pamphlets which were of such excellence as to be attributed to the authorship of the college head.

Hamilton, captain of an artillery company when the war started, joined General Washington's staff as aide in 1777 and served as personal secretary to the Commander in Chief. Hamilton attended to the bulk of the correspondence with Congress and the army generals, besides ordering the details of Washington's manifold duties. From the character of the work, a close friendship was formed which lasted throughout Washington's life. After resignation from this position in 1781, Hamilton was appointed colonel of a regiment which later captured the first British redoubt at Yorktown.

In 1780 he married Elizabeth, daughter of General Philip Schuyler, who was a Revolutionary soldier and senator from New York in the first Congress under the Constitution. After the war Hamilton studied law and was admitted to the bar. Convinced that government under the Articles of Confederation was proving completely ineffective, he urged in his correspondence with public men that measures be taken to strengthen the power of the central government in administration and finance.

At a convention held at Annapolis in 1786 to consider ways to improve trade between the states, he wrote a call for a Continental Convention to meet at Philadelphia in 1787. The call was adopted by resolution of the Annapolis delegates and transmitted to the states (it was sanctioned after some hesitation by the Congress then sitting in New York), whereupon in due time delegates assembled in Independence Hall, Philadelphia, to amend the Articles of Confederation. The fruit of the Convention of 1787 was the Constitution of the United States.

Although Hamilton preferred a stronger central government than the Constitution provided for, he worked unceasingly with pen and the spoken word through the media of *Federalist* essays and in the New York Convention for its ratification. His labor was highly essential, for the contest was close. Ratification by New York was indispensable because the state formed the geographical tie between New England and the states to the south. To the minority of the delegates assenting at the opening of the New York Convention, Hamilton, by persuasion and delay until auspicious reports were received from the Southern states, was able to add a sufficient number of adherents to make an affirmative majority – undeniably a great achievement.

Under the new government he was appointed the first Secretary of the Treasury, which was a most happy choice, for a great secretary he proved himself. He recognized that economic cohesion between the states was lacking; so he proceeded through political means to achieve economic ends. In close succession he laid plans before Congress to improve the public credit. He recommended the laying of indirect taxes. He advised the establishment of a national bank and a mint. He proposed the adoption of a bimetallic decimal monetary system and advocated a definite policy in the encouragement of manufactures.

The *Report on Manufactures* (1791) was a notable economic document, for in it were presented arguments in support of protective legislation as an encouragement to the establishment of industries in America. His was a bold stand since the arguments in the document rest upon a theory in conflict with that of *laissez faire* propounded in the *Wealth of Nations.* He held his point of view tenable as applied to American conditions and stressed the principle of relativity. Benefits from protection of manufactures would, he believed, be extended to other economic productive effort by diffusion.

The first Congress passed an act imposing import duties and approved the encouragement of industries as outlined in the Secretary of the Treasury's recommendations. Within a generation wide application of the principle was being made.

In public life, Hamilton was of unimpeachable integrity and unsurpassed as a constructive statesman. In private life, he was an eminent lawyer and an adept orator. As a controversial writer, he was supreme in his generation. Aaron Burr admitted this when he declared: "Any man who puts himself on paper with Hamilton is lost." Nevertheless, his full usefulness was impaired by an irritating egoism and a want of faith in the good sense of the masses. His patriotic devotion to his adopted country was unbounded, and the dramatic manner of his death in middle life on the field of honor at Weehawken helped place him among America's immortals.

The Report on Manufactures

Hamilton's opening paragraph in his *Report on Manufactures* is devoted to the discussion of expediency. He proceeds as follows:[1]

[1] Alexander Hamilton, "Report on Manufactures" (communicated to the House of Representatives, Dec. 5, 1791), *Hamilton's Works,* Lodge edition, Vol. III, pp. 294–295, New York, 1885.

The expediency of encouraging manufactures in the United States, which was not long since deemed very questionable, appears at this time to be pretty generally admitted. The embarrassments which have obstructed the progress of our external trade, have led to serious reflections on the necessity of enlarging the sphere of our domestic commerce. The restrictive regulations which, in foreign markets, abridge the vent of the increasing surplus of our agricultural produce, serve to beget an earnest desire that a more extensive demand for that surplus may be created at home; and the complete success which has rewarded manufacturing enterprise in some valuable branches, conspiring with the promising symptoms which attend some less mature essays in others, justify a hope that the obstacles to the growth of this species of industry are less formidable than they were apprehended to be, and that it is not difficult to find, in its further extension, a full indemnification for any external disadvantages, which are or may be experienced, as well as an accession of resourses, favorable to national independence and safety.

Hamilton next turns his attention to a consideration of the arguments presented in support of opinions held by those unfriendly to the encouragement of manufactures. These arguments all turn on the main proposition that "In every country agriculture is the most beneficial and productive object of human industry." America with its immense tracts of uninhabited fertile territory gave convincing proof of the economic advantage residing in the conversion of the extensive wilderness into cultivated farms. Furthermore, folly is noted in the endeavor to accelerate the growth of manufactures by artificial means and so turn the natural current of industry to a less remunerative channel. An especial detriment is seen in the scantiness of the population and the almost complete lack of capital, making the prospect of successful competition with well-established foreign manufactures exceedingly remote. Finally, to give a premature impetus to certain industries by duties, bounties, and other expedients actually sacrifices general interests to those of particular classes and so promotes monopolistic conditions. All things considered, it would be preferable to have labor engaged in the cultivation of the earth and in exchange for its produce acquire a supply of factory-made commodities.

Although Hamilton makes no objection to the premises and mode of reasoning of the foregoing paragraph, he does not grant their universal application, for he accepts the argument only as in accord with a general theory which admits of exceptions. He sees certain special considerations pleading in favor of manufacturing, and these weighty enough to recommend positive encouragement in certain cases under reasonable limitations. Hamilton proceeds:[2]

> It ought readily to be conceded that the cultivation of the earth as the primary and most certain source of national supply, as the immediate and chief source of subsistence to man, as the principal source of those materials which constitute the nutriment of other kinds of labor, as including a state most favorable to the freedom and independence of the human mind – one, perhaps, most conducive to the multiplication of the human species, has intrinsically a strong claim of pre-eminence over every other kind of industry.
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> But, that it has a title to anything like an exclusive predilection, in any country, ought to be admitted with great caution; that it is even more productive than every other branch of industry, requires more evidence than has yet been given in support of the position. That its real interests, precious and important as, without the help of exaggeration, they truly are, will be advanced, rather than injured, by the due encouragement of manufactures, may, it is believed, be satisfactorily demonstrated. And it is also believed that the expediency of such encouragement, in a general view, may be shown to be recommended by the most cogent and persuasive motives of national policy.

Hamilton calls one of the arguments made in support of the idea of agriculture's superiority "quaint and superficial." The argument referred to is: "That, in the production of the soil, nature cooperates with man; and that the effect of their joint labor must be greater that that of the labor of man alone." He counters by stating that the labor of man alone engaged in a work requiring great skill may be more productive of value than the labor combined with the natural power of the land. Furthermore, it is contended that, in the application of nature's power to mechanical devices, she (nature), even in manufactures, adds her power to the labor of man. For Hamilton, thoroughly convinced of the logic in his argument, the theory that only in agriculture natural

[2] *Ibid.*, pp. 297–298.

powers supplement those of man loses its plausibility. Hamilton continues by saying that exertions of ingenuity have greater possibility in manufactures than in agriculture and that, as a consequence, "More constant, more uniform, and more ingenious employment of labor in manufacture may show greater productivity in that productive endeavor."

It was not the design of Hamilton to prove manufacturing more highly productive than agriculture, but rather to show that the reverse of the proposition had not been ascertained. This being the case, he took the following position:[3]

> A supposition of the superior productiveness of tillage ought to be no obstacle to listening to any substantial inducements to the encouragement of manufactures, which may be otherwise perceived to exist, through an apprehension that they may have a tendency to divert labor from a more to a less profitable employment.

The stand taken by Hamilton was most remarkable in its boldness since he was not unfamiliar with what was written on the subject in the *Wealth of Nations.* That he was not overawed by this authority is evident, for he did not subscribe offhand to the propriety of governmental nonintervention. Rather, he prudently suggested that considerations based on supposition be set aside. Hamilton's full statement on this point reads:[4]

> It is extremely probable that, on a full and accurate development of the matter, on the ground of fact and calculation, it would be discovered that there is no material difference between the aggregate productiveness of the one and of the other kind of industry; and that the propriety of the encouragements which may, in any case, be proposed to be given to either, ought to be determined upon considerations irrelative to any comparison of that nature.

Satisfied that the way had been cleared by the preceding discussion, Hamilton enumerates various conditions which exert considerable influence upon the industrial effort in a community. Hamilton makes the assertion that, because of the existence of seven principal circumstances, manufactures " . . . not only occasion a positive augmentation of the produce and revenue of the

[3] *Ibid.*, pp. 305–306.
[4] *Ibid.*, p. 306.

society, but they contribute essentially to rendering them greater than they could possibly be without such establishments." These circumstances are:[5]

1. The division of labor.
2. An extension of the use of machinery.
3. Additional employment to classes of the community not ordinarily engaged in business.
4. The promoting of emigration from foreign countries.
5. The furnishing of greater scope for the diversity of talents and dispositions, which discriminate men from each other.
6. The affording of a more ample and various field for enterprise.
7. The creating, in some instances, of a new, and securing, in all, a more certain and steady demand for the surplus produce of the soil.

Moderate Protection Advocated

Hamilton clearly sensed that an economic problem could not be divorced from the circumstances of time, place, and condition. The American problem was not the universal problem, and so the policy advocated for adoption was one of moderate protectionism. He conceded that protection would bring benefits to particular industries and to particular sections of the country, but to counter this he insisted that all would soon be gainers, and farmers possibly most of all, through increased demand for farm products to feed the workers and for raw materials to provide the needs of manufacturing establishments.

Although Hamilton furnished the groundwork upon which the American system was built, it was not until a few decades later that the policy advocated was fully adopted. Further advocacy and guidance fell to the lot of such staunch followers of Hamilton as Matthew Carey and Hezekiah Niles.

Matthew Carey

Biographical Sketch. Matthew Carey (1760–1839), publisher and economist, was born in Dublin but, because of a train of circumstances, emigrated to America to become the first eminent expositor of Hamilton's economic theories. The misfortune of having been dropped ac-

[5] *Ibid.*, p. 310.

cidentally from his nurse's arms caused a lameness which may have been the reason for shyness and retardation as a schoolboy. He gained but the rudiments of a formal education; however, he read much and developed a remarkable aptitude for languages. Familiarity with Latin in particular is evident in all his writings.

Contrary to his father's wishes, Matthew decided to become a printer in fulfillment of a desire he had cherished from childhood. The father, who was a butcher, rendered no assistance in carrying out the plan; so the son became an apprentice of a self-found master. Like Benjamin Franklin he practiced writing. His first published article was on the subject of dueling, followed later by an anonymous pamphlet against the British government in resentment against wrongs suffered by Irish Catholics.

Soon he fell into disfavor with some of the Irish themselves and went to Paris. There he met both Lafayette and Franklin and for a time worked in the print shop operated by the latter on the outskirts of the city.

After his return to Ireland he became the editor of the *Volunteer's Journal,* the policy of which was definitely critical of the government. Soon he was arrested and tried for seditious utterances. He served a sentence in prison and, when released, knowing the government had additional charges against him, he contrived to escape disguised as a woman. Carey shipped to America and landed at Philadelphia in 1784. Although having but the equivalent of $60 in his purse, he nevertheless felt confident of his ability to get on, especially with the expected good offices of Franklin. He had no inkling of the further good fortune in store for him in the form of an unsolicited gift of $400 from Lafayette, who was then on a triumphal tour of America. The money was immediately put to good use in the purchase of a printing press.

Established in business as a printer, Carey soon expanded the enterprise into a publishing house. He launched the *Pennsylvania Herald* and shortly after, the *American Museum,* a magazine. These ventures put him in debt, but his marriage to Bridget Flahavan was fortunate. Together they toiled upward through poverty to affluence, for Carey became one of the leading American publishers.

Carey was a man of extraordinary civic spirit. He founded the Hibernian Society to help Irish immigrants, championed women employed in the sweated clothing trade, and gave generously to charity. Improvement in the well-being of the people was a consuming passion.

Popularizing the American System

Most noteworthy was the constructive service Carey performed in the interest of American industry through popularization of a protective tariff. An impetus to industrialization was caused by hazards to maritime commerce. The removal of hindrances to foreign trade after the Peace of 1815 put the newly developed economic enterprises in jeopardy, and the severe depression, when added, made the condition of business desperate. In pamphlets prepared by Carey the arguments for government intervention through protective tariffs were presented with telling force. Cleverness of wit and intensity of emotion were added to logic in his eloquent pleading for a government program to promote the close association of manufacturing, agriculture, and commerce.

Carey was a charter member of the Philadelphia Society for the Promotion of National Industry. Most of its addresses came from Carey's pen. These contain the classic American arguments in favor of the protective system. Carey's place as writer on economics will be chiefly remembered from these addresses. He did more than anyone else, except Hamilton, to found the American nationalist school of economic thought. His style was clear, vigorous, and often eloquent; but at times it tended to be abusive, for he seemed to find joy in vituperation.

A fully developed "American system" with publicly constructed internal improvements, fostered by a protective tariff, was the goal for which Carey strove. In this field his name can be coupled without disparagement with that of Henry Clay, the American statesman.

Hezekiah Niles

Biographical Sketch. Hezekiah Niles (1777–1839), editor and economist, was born at Jefferies' Ford, Chester County, Pennsylvania, whence his parents had gone for safety just before the battle of the Brandywine. His father was a Philadelphia plane maker. Both parents were of the Quaker faith. After attendance at a Friends school in Wilmington, Delaware, Hezekiah was apprenticed to Benjamin Johnson, a Philadelphia printer, with whom he remained for three years until released because of his master's lack of funds.

Niles first writing was done in Philadelphia where, in 1794, he published in newspapers several essays favoring protection. In 1796 he

took sides against the Jay Treaty with England and published his views. In 1797 he was in the business of job printing and assisted in the publication of an almanac. A partnership formed a few years later was dissolved because of losses incurred through the publication of the *Political Writings of John Dickinson.* In 1805, after the failure of a short-lived venture (the publication of the *Apollo,* a literary magazine), Niles removed to Baltimore to become editor of the *Evening Post.* This paper supported Jeffersonian policies in all political issues. After the sale of the paper in 1811, Niles entered upon his career as editor and publisher of the *Weekly Register* – later and better known as *Niles's Weekly Register.*

The latter publishing venture was highly successful. In seven years the *Register* had over 10,000 subscribers and was held in high repute throughout its period of publication. During the twenty-five years, 1812–1836, it was the stoutest and most constant advocate of union, internal improvements, and protection to industry in the country. The *Register* was devoted chiefly to the discussion of politics and is regarded as one of the most valuable sources for the study of American history of the period. It had such high repute that, years later, the demand for its back numbers was so great as to warrant the reprinting of the assembled volumes for the years 1812 to 1827.

Two towns, Niles, Ohio, and Niles, Michigan, have been named after Hezekiah. He was the intimate associate of Matthew Carey and Henry Clay and as influential as any among the nationalist economic school in support of the American system. He was the principal mover in the protectionist conventions at Harrisburg in 1827 and in New York in 1831. It was he who gave spirit and form to each. In his arguments for the protective tariff, he exerted himself with much ingenuity to win the agricultural interests to his side. His writing was characterized by vigor and decision. He supplied statistical evidence where others in his group were content with mere eloquence.

Men of Affairs Give Direction to Economic Progress

As is shown in this chapter on the Early American Protectionists, there is much evidence in support of the view that, while theorists influence the adoption of measures in the modification of a national economy, it is practical men of affairs who enter the lists to swing the forces that result in authoritative guides to conduct and the passage of formal rules of action by the legislature.

Besides the men whose work is described in the foregoing recital, the activity of others portrayed in this book serves as additional testimony. Among the noteworthy contributions are those made by Benjamin Franklin and Bastiat. The outstanding accomplishments of Richard Cobden and John Bright, through the Anti-Corn Law League, serve as additional examples.

Chapter 16. THE MANCHESTER SCHOOL

History of the Corn Laws

Notwithstanding the testimony of John Rae that Adam Smith "persuaded his own generation and governed the next," Smith's exposition of *laissez faire* continued a thwarted precept, particularly in so far as it applied to food importation. The English Corn Laws, the rates of which were made especially high in 1815, aimed to secure a home-market monopoly for grain to English agriculturists. Since the investment in land had become large as a result of the Napoleonic Wars, the prohibitory tariffs on food were clung to with the greatest tenacity by those protected. The early law forbade the importation of foreign wheat until the price of grain in England reached 10 shillings (about $2.50) per bushel. Subsequent modification was made in the hope of keeping the price at about $1.80 per bushel. The laws were ineffective when large domestic supplies forced the price down, but light harvests worked a hardship on the poor as the price of bread became inordinately high.

In 1816 poor harvests in England and western Europe forced food costs higher than ever known before in English history. Wages remained low, and the number of assisted poor was greatly increased. Individual members of the Parliament protested on the ground that restraint of trade was improper and iniquitous when applied to food, inasmuch as it resulted in a tax on the consumer to provide a bounty for the producer. It was a time of high protective tariffs upon imported articles generally, both of manufactured products and of food; so the movement toward a change of governmental policy gained no momentum. Notwithstanding the fact that by 1825 tariffs on raw materials had been substantially reduced with an effect stimulating to England's foreign commerce,

yet no corresponding action was taken with regard to food. It still remained for some champion to carry the fight for cheaper food so that the miserable lot of working people might be bettered.

During the half century preceding, England had been transformed from a country chiefly agricultural to one pre-eminently industrial. Under the changed conditions, the high tariff on grain served as a barrier to the free exchange of industrial goods for the surpluses of foreign grain-producing countries, a result which was by no means a part of the original intention of the Corn Law interventionists. Under the existing laws, therefore, a clash between the interests of manufacturer and agriculturist became inevitable. The factory workers, as well as the manufacturers, had an interest in low prices for food; consequently, this class, too, was ripe for agitation to change. The interrelation is seen in the Ricardian theory of distribution, which was then in high repute. As Ricardo stated it: "Profits depend on high or low wages, wages on the price of necessaries, and the price of necessaries chiefly on the price of food."

The Corn Laws, which kept the price of food high and only indirectly tended to increase wages, were definitely out of harmony with laissez-faire doctrines. This dominant political and economic philosophy supported unrestricted competition and opposed state intervention in the regulation of industry. Although Smith's individualism, so far as applied, was largely responsible for the prosperity of England, yet selfishness and a materialistic point of view fostered many evils, to the detriment of the working classes.

Anti-Corn Law Agitation

The Reform Bill of 1832 worked a political revolution in that the landlord class lost control to the newly enfranchised middle class. But in the substitution of the manufacturing capitalist and merchant for the landed aristocracy, the working classes, though hoping much, really gained little or nothing. Yet through the partial shift of power from the aristocracy to the middle classes further reforms became possible. These were not to be long delayed.

The day was hastened by the misery and discontent engendered by a series of bad harvests beginning in 1837. An Anti-Corn Law

Association was formed by a few men from the group of philosophical radicals of London in 1836, but they accomplished little except to provide the idea and pattern for a similar organization in Manchester in 1838. This new industrial city was the ideal center for anti-Corn Law agitation. New and marvelous machinery gave the manufacturers, who were most abundant in the newer cities, a virtual monopoly of the world markets. Consequently, self-interest fostered a keen desire for the complete abolition of protection. Bounties, tariffs, navigation laws, mandatory and prohibitive regulations and special duties were all to be cleared away. In the nineteenth century, merchants and manufacturers no longer believed that statutory direction was needful to best enrich themselves and scatter benefits among all classes of the people.

It was not so with the statesmen of the day, who were drawn almost exclusively from the landed aristocracy. The treatise of Adam Smith had made a deep impression upon the younger Pitt, but other statesmen of the time passed it by unheeded or gave no serious thought to the practical application of its ideas. The passage of the Reform Bill of 1832 prepared the way for a complete change of national policy, even though the land owners were entrenched in the House of Lords. The knowledge that this Tory stronghold could be successfully assailed by the threat of creating a sufficient number of Whig lords to count a majority gave assurance of victory to the liberal element in case of a legislative crisis.

The manufacturers shifted now from general agitation for the repeal of protective laws to a direct attack upon the Corn Laws specifically as a matter of expediency. It was sensed that an attack against the most vulnerable part of the restrictive system would weaken the whole if concessions could be won there. It was rightly considered easier to arouse feeling against the landlords than to popularize an abstract theory of political economy. It was felt that restricting the supply of food in an hour of scarcity was not an act based on an abstract theory of political economy, but an act of men motivated by a desire antagonistic to an idea of benevolence. The attack against the aristocracy was vigorous and direct, nor could it be otherwise when an appraisement of the situation is reached from the forcibly phrased sentences of Cobden: "Was there ever an aristocracy so richly endowed? They

have the colonies, the army, the navy, and the Church, and yet they condescend to contend for a slice from the poor man's loaf."

It took a combination of circumstances, however, to bring the movement to full fruition. Robert Peel, though of the landed aristocracy, could acknowledge validity on the other side of the case because his father had been in the dual position of landlord and industrialist. It followed that Peel at the Prime Minister's post, distress through famine brought on by excessive autumnal rains in 1845, famine in Ireland on account of the potato blight, the unremitting devotion of Richard Cobden and John Bright – all became contributing factors to the consummation of the great cause.

As Cobden had predicted, when time and circumstance arrived the Corn Laws would be abolished. His statement was: "They are going to repeal them – mark my words – at a season of distress. That distress may come; aye, three weeks of showery weather, when the wheat is in bloom or ripening, would repeal these Corn Laws." So it was that the victory of an abstract economic idea was actually won through the educational effort of practical men of affairs. It took the persuasive reasonableness and power of oratory of two men, both members of Parliament, to win against ingrained prejudice and vested interests. Dedicated to the same object, a mighty team they were, so inseparable that the thought of Richard Cobden at once calls to mind John Bright, for they were one in their lives and work.

Richard Cobden

Biographical Sketch. Richard Cobden (1804–1865), English economist and statesman, son of a small farmer, was born near Midhurst in Sussex. His father having died, Richard was sent by a well-meaning uncle to a Yorkshire boarding school typical of the day. But, aside from the rudiments of an education, all the boy acquired in this inept educational institution in five years was the recollection of many most unhappy experiences.

From this rough school, he entered the rougher one of life at the age of fifteen as the boy of all work in his kinsman's warehouse in Old 'Change, London. Shortly he became a clerk and, in his twenty-second year, a traveling salesman. He was a great reader, having a desire to know about the affairs of the world. Among his superior

qualities, upon which success in business is commonly built, were untiring energy, engaging manners, and convincing speech.

In 1828, when but twenty-four years of age, he joined with two friends in the organization of a London firm on a joint capital of £1,000 to sell Manchester cotton prints on commission. Three years later a factory was procured in Lancashire in which to manufacture their own calicoes. Because of the established reputation of Cobden cottons, famous for attractive pattern and good imprint, the business became highly prosperous, and Cobden removed to Manchester to give it close personal attention.

Having acquired a large fortune, he followed the example of other noted men by entering upon a quest for knowledge through self-directed study and travel. During the years 1835 to 1837 he indulged in extended tours of France, Switzerland, the Mediterranean countries, and America. Although Cobden ostensibly traveled for the purpose of expanding his trade territory, he grasped every occasion to study the economic and financial systems of the countries visited. After his return to England he was a candidate for the House of Commons but proved unsuccessful.

Richard Cobden was no ordinary political campaigner, however. One defeat in no wise weakened his determination, nor did it dull his enthusiasm. In 1838 he was made a member of the executive committee of the Manchester Anti-Corn Law Association, which had as its goal the obtaining "by all legal and constitutional means, such as the formation of local associations, the delivery of lectures, the distribution of tracts, and the presentation of petitions to Parliament, the total and immediate repeal of the Corn and Provision Laws." Of this organization Cobden became the guiding hand and the moving spirit. He was a truly inspired leader in converting the anti-Corn Law movement into a crusade. In a letter to his brother in 1838 he wrote: "It appears to me that a moral, and even a religious, spirit may be infused into that topic (the rallying of various groups agitating for reform), and if agitated in the same manner that the question of slavery has been, it will be irresistible." Accordingly this was done, and local societies sprang up everywhere in the manufacturing towns. These became affiliates of the Manchester organization and the city the headquarters of a far-reaching league.

It was felt that the battle had to be finally won in Parliament, and plans were laid accordingly. The organization to win seats was thorough and comprehensive. A newspaper was issued, tracts and leaflets were scattered broadcast, and a speaker's bureau maintained to reach

the people in the market place, town hall, and tavern. Election districts were so completely covered and with such good effect that Parliamentary seats were won and Cobden himself was chosen in 1841. In the same year Cobden gained the assistance of John Bright. The eloquent Bright, the rational Cobden, and thorough education prevailed in the end. After eight years of unceasing effort Cobden attained his objective, but at the expense of health and fortune. His faithful friends made up a purse of £80,000 sterling by popular subscription as a partial restitution for his ruined business, but his health he never regained.

The year 1846 brought the legislation which by 1849 was to end the "tax on bread" completely. The wheat price fell immediately, and so did the Peel Cabinet, for irreconcilable Tory protectionists joined the Whigs in turning Peel out of office. The Prime Minister disappeared permanently from official life, having, as Cobden said, "lost a party and won a nation."

Food on the Free List

As predicted by Cobden, the repeal of the Corn Laws accelerated the movement toward the abondonment of England's whole protective system. Under Gladstone, first as Chancellor of the Exchequer and later as Prime Minister, all protective duties were abolished. Food was entirely free except for revenue duties on tea, cocoa, and currants. Wines and a few additional articles other than food were likewise taxed.

Cobden's prediction that the whole European tariff system would follow the English pattern within five years was premature, though based on knowledge of the efforts of groups of proponents, such as Bastiat and his supporters in France. Some progress was made, however, as for example in the commercial treaty with France negotiated by Cobden himself in 1860. In England Cobden's victory was both decisive and enduring, for the policy of free trade was fully established for a period of two generations.

Cobden's Method

Public notice was first gained by Cobden through two remarkable pamphlets from his pen – *England, Ireland, and America*

(1835), and *Russia* (1836) – published under the name of "Manchester Manufacturer." These had been preceded by small articles in newspapers on economic subjects. The theme was free trade and nonintervention. Fluent, without being voluble, his discourse abounded in apt illustration, combined with the characteristic of earnestness. In his speeches Cobden won his converts by simplicity, earnestness, conviction, and facility of exposition. With these, knowledge and logic were intermingled. That Cobden was a master was evidenced when, after a most powerful speech in the House of Commons, Peel was urged to answer. Peel refrained and, after he crumpled the notes he had prepared, remarked: "Those may answer him who can." This is understandable when it is realized that Cobden's knowledge and conviction were such as to make the history of the Anti-Corn Law League virtually identical with Cobden's biography.

John Bright

Biographical Sketch. John Bright (1811–1889), English statesman and orator, was born in Lancashire, son of a Quaker cotton spinner and manufacturer. His schooling was of a fitful and elementary character; consequently, his later magnificent attainments must be ascribed to natural talent and tireless industry. At fifteen he entered his father's business, in which he showed shrewdness and energy. Even as a youth Bright took a great interest in public questions and trained himself diligently in public speaking at the debates of the Rochdale Literary and Philosophical Society. After traveling in Eastern Mediterranean countries and Palestine, Bright delivered a series of travel lectures in 1835, but his career as a notable platform speaker began with the free-trade movement a few years later.

Although Bright was a member of the Manchester Committee with Cobden in 1838, he did not begin his active work for the Anti-Corn Law League until Cobden's personal appeal in 1841. The appeal serves as an example of Cobden's success in personal solicitation. The occasion was a visit by Cobden to Bright's home, which he found plunged in sorrow because of the death of his wife. After appropriate words of condolence Cobden addressed Bright with great earnestness, saying: "John, there are thousands of houses in England at this moment where wives, mothers, and children are dying of hunger. Now when the first paroxysm of your grief is passed, I would advise

you to come with me and we will never rest until the Corn Law is repealed."

There followed five solid years of discussion (1841 to 1846) as to whether a family should have its whole loaf rather than a half. In this cause the conversion of the nation was never doubtful, for the public imagination was fired by two truly apostolic advocates. Their method, as well as the object of their pleading, touched and affected their hearers.

According to the biographer Morley, Bright "was carried along by vehement political anger, and deeper than that there glowed a wrath as stern as that of an ancient prophet. To cling to a mischievous error seemed to him to savor of moral depravity and corruption of heart. What he saw was the selfishness of the aristocracy and the landlords and he was too deeply moved by the hatred of this to care to deal very patiently with the bad reasoning which their own self-interest inclined his adversaries to mistake for good. His invective was not the expression of mere irritation, but a profound and menacing passion."

Bright laid a spell upon his audience with his clear, sonorous fullness of voice and his spirited, outspoken truthfulness. His English was idiomatic and racy, his diction – abounding in epithets – rich and lucid, his platform manner remarkable for ease and simplicity. His gift of oratory has been appraised as unequaled by that of any other English statesman in the nineteenth century.

It seems passing strange that (humanitarian though he was) his belief in and adherence to orthodox political economy should be so steadfast as to oppose the stamping out of the evils of child labor and the shortening of hours of labor for adults by legislation.

He served in Parliament almost continuously for forty-five years and held a place in Gladstone's Cabinet. He also assisted in the passage of electoral reforms and was largely responsible for bringing India under the direct control of the Crown. Bright proved that on occasion the power of eloquence is irresistible, particularly so when aided by the cogent reasoning of a Cobden.

Chapter 17. SISMONDIAN ECONOMIC REFORM

Maladjustment and Disequilibrium

Rapid changes in a country's economic organization induce maladjustment and protracted conditions of disequilibrium. During two decades before and after 1800, far-reaching economic transformations were effected in England and in parts of Europe by the Industrial Revolution and the Napoleonic Wars. The modification in the mode of economic life brought upon the laboring class an especially heavy burden through the prevalence of low wages and the consequent general misery of the unfortunate.

Since, through the establishment of "economic liberalism," free competition had become universal, interference with the organization of production and with the relations between masters and men was unwarranted. Except for the legal restrictions imposed to ensure freedom of operation to the law of supply and demand government was, in business matters, a passive onlooker, and state intervention for the purpose of relieving the distressed was for a time barred. Faith in the achievement of the greatest common good through the working of the laws of natural harmony was supreme. Freedom of individual contract was assured, but in spite of the theoretically unrestricted liberty new phenomena in industry emerged which beckoned for attention.

As time passed, conditions which could not be ignored were aggravated, and proponents of state intervention became clamorous. There was a concentration of large underprivileged groups of workers in the great centers of wealth, and a condition of apparent overproduction prevailed in industry. In the factories the working day was overlong, wages were inadequate, and conditions bad. Periodic crises brought riots and sabotage because of prevailing unemployment. In England, particularly, manufacturers were overstocked and the market paralyzed.

Misery among the laborers was widespread, and their plight invited proposals for the betterment of economic conditions many of which, proponents insisted, required state intervention in order to ensure an improvement in the workers' welfare. Classical economics was labeled the science of *chrematistics,* and the idea of the harmony between private and public interests was challenged. Poverty and economic crises were attributed to the imperfect working of industry under the principle of *laissez faire.* The classical concept of wealth as a volume of tangible goods possessing utility was held untenable, and it was redefined as the totality of the satisfactions enjoyed by the whole of the people.

Redefinition of Political Economy

Those interested in social reform insisted upon a redefinition of political economy. It could not stand as the science of wealth; it must be reconstituted as the art of augmenting national happiness. Among the reformers was one of "purely critical mind with a haunting catalogue of suffering and miseries resulting from free competition." By eminence and priority he made himself champion of the underprivileged workers, and unremittingly he employed himself in the effort to ameliorate their condition. The man was Jean Charles de Sismondi.

Sismondi's economic theory differs but little from that of Malthus, but, having observed the unhappy condition of the laboring class of his generation as a result of the development of the factory system, he concluded that the essential harmony between the interests of individuals and the interests of society was lacking. Hence, he criticized some of the doctrines of the *Wealth of Nations,* stressed the principle of well-being, and doubted that liberty and competition are truly beneficent forces. He enlarged the scope of political economy by including a study of social economics, but private property was not attacked by him; it was considered both legitimate and necessary.

Jean Charles de Sismondi

Biographical Sketch. Jean Charles Léonard Simonde de Sismondi (1773–1842) was a descendant of an aristocratic Pisan family which

later settled in Geneva. After a period of study in a Genevan college and employment with a business concern in Lyons, he removed to Italy and began his career as a writer, an activity in which he spent a lifetime. After visiting England in his youth, he published a treatise in 1803 under the title of *Commercial Wealth* which was virtually an exposition of the ideas of Adam Smith. His renown is that of a historian, based upon a 16-volume work on the Italian republics and a 29-volume history of the French people.

After sixteen years of historical and literary effort, he returned to the field of economics in 1819 with his *New Principles of Political Economy.* Though he did not entirely disavow the principles of classical economics, he decried a world accursed by the evil influence of machinery, with the attendant exploitation of laborers, low wages, and intolerable working conditions. He disagreed with the views of Smith and the system under which the rich were becoming richer and the poor, poorer. He insisted, further, that the abstract deductive method of the classicists had to be abandoned and a concrete historical method substituted. But, as is frequently the case, the method he denied to his opponents he himself adopted in propounding his theory of overproduction as the cause of crises.

He stands as the first critic of the classical school, and asks for the observation of facts as a substitute for the deductive process of reasoning and hasty generalizations. The outpouring of wealth from heavily capitalized industry he attests inharmonious with an expected, spontaneously resultant social well-being. His proposal for reunion of property and labor was that of the romanticist; he desired a return to the golden age of craftsmanship – that of the small farmer and the artisan. Never quite a socialist, yet he speaks of the exploitation of labor by capitalists. A leader among early welfare economists, he stands a social reformer insistent upon social security and remains steadfast as a confirmed advocate of social control over economic life, with limits determined by an ethical idea.

Wealth Subordinated to Welfare

The aim, method, and end of economics as set forth by the classical school were the matters attacked by Sismondi in his disagreement with them, rather than their theoretical principles. Whether classical economists confined themselves to "a description of the manner in which things take place in society," as ex-

plained by Say, or "to a consideration of riches, not well-being," as advocated by Senior, Sismondi was in complete dissent, for in his opinion the well-being of mankind is the goal and any other approach results in error, not truth. The separation of wealth phenomena from the consideration of human well-being overestimates the importance of wealth's increase and underestimates that of distribution. Failure to consider wealth in its relation to men leads to absurdity. This point he illustrates in his attack on the overuse of machinery.

Machinery Not an Unqualified Good

Though machinery is conceded to be beneficial in furnishing commodities at reduced prices, yet the immediate effect following the installation of machinery is to throw men out of employment and, through the increased competition for jobs, to bring about a fall in wages and a slackening in demand for products. Consequently machinery, instead of being beneficial always when it displaces men, can be advantageous to society only provided that the laborers displaced can obtain employment elsewhere.

The disadvantages of labor displacement by machinery under given circumstances is illustrated by Sismondi's celebrated winch argument:[1]

> Suppose that England suceeded in tilling her fields and doing all the work of her towns by means of steam power, so that her total products and revenue remain the same as they are today, though her population is only equal to that of the republic of Geneva. Is she to be regarded as being richer and more prosperous? Ricardo would reply in the affirmative. Wealth is everything, men nothing. Really, then, a single king, dwelling alone on the island, by merely turning a winch might conceivably automatically perform all the work done in England today.

Paradoxical as the statement appears, it emphasizes the necessity of an equilibrium between production and population. Which is better, an increasing population without increase in wealth, or a decreasing population rapidly increasing in wealth? There can be no preference, for both lead to annihilation. The ideal is an increasing or at least a stationary population with an

[1] Charles Gide and Charles Rist, *A History of Economic Doctrines*, p. 181.

augmentation of wealth in both absolute and relative amount, except that where population is pressing on subsistence a degree of reduction in population could advantageously take place.

Scope and Aim of Political Economy

Sismondi's theory as to the scope and aims of political economy is well defined in the following passage from his *Political Economy and the Philosophy of Government:*[2]

Let us not be reproached with lowering man to the level of the brutes by proposing, as the first object of his efforts, the direction of that labour which secures his subsistence, in calling the attention of society, before everything else, to advantages simply material: it will soon be seen that, more than any of our forerunners, we consider political economy in its relation with the soul, and with the intellect. But subsistence is necessary to life, and with life, to all the moral developments, all the intellectual developments, of which the human race is susceptible. Society, as well as individuals, must consider bodily health before anything else, must provide in the first place for its wants and its development; for without the vigor which this health supplies, without the leisure, which only begins when these wants are satisfied, the health of the mind is impossible. Facts present themselves on every side to convince us that the manner in which society provides for its subsistence, decides at the same time on the wretchedness or comfort of the greatest number; on the health, the beauty, the vigor of the race, or its degeneracy; on the feelings of sympathy or jealousy with which fellowmen look upon one another as brothers eager to assist one another, or as rivals furious to destroy one another; on that activity of mind, lastly, which is developed by a happy mixture of leisure, and which puts all on the way of progress in intelligence, imagination, and taste; or that enervating languor which luxury produces in some, and the brutishness which results to others from the abuse of physical strength and from fatigue.

Wherein True Wealth Is Found

Accordingly, wealth has for Sismondi an entirely new significance. It is regarded as an attribute which loses all sense if not

[2] Jean Charles L. Simonde de Sismondi, *Political Economy and the Philosophy of Government*, sec., "Introduction to Inquiries into Political Economy."

related to man and to society. It represents both moral and physical enjoyment – "For whom?" one asks. Upon the answer given depends whether "Man himself belongs to wealth, or wealth belongs to man."

Sismondi's formal definition and explanation of wealth follow:[3]

> Wealth is a modification of the state of man: it is only by referring to man that we can form a clear idea of it. Wealth is the abundance of things which the labor of man produces, and which the wants of man consume. A truly rich nation would be one in which this abundance would produce the most material enjoyment, to the poor on one side, to the rich on the other.
>
> . . . . . .
>
> The enjoyments of the poor are composed of the abundance, of the variety, and of the wholesomeness of their nourishment, of the sufficiency of clothes relative to the climate, and of their cleanliness; of the convenience and of the salubrity of their lodging, also as regards the climate and the quantity of fuel which it requires; lastly, of the certainty that the future will not be inferior to the present, and that a poor man can by the same labour obtain at least the same enjoyment. No nation can be considered as prosperous, if the condition of the poor, who form a part of it, is not secure under the four relations which we have just enumerated. Subsistence in this degree is the common right of man, and should be secured to all those who do what they can to forward common labour; and the nation is so much the more prosperous, the more every individual is assured of having a share in these comforts of the poor.

Sismondi Not a Socialist

Sismondi began his career as an ardent supporter of economic liberalism, and though he fell into some disagreement in a later period of his life with those advocating it, he did not reject the theoretical principles of the classical school to the extent of becoming a socialist, as some writers aver. True, he speaks of the exploitation of labor, but he distinguishes between the wages of labor and the revenues of proprietors, and the latter are granted the same degree of legitimacy as the former. He denies natural identity to individual and public interests, but, in his opinion, the

[3] *Ibid.*

contradiction is the result of the distribution of property among individuals in a manner which makes the strength of contracting parties unequal. He does not ask for the abolition of private property, nor does he ask the jettisoning of the rich; rather, he defends both private property and the wealthy as necessary to an approved economy. He strives to establish an equilibrium of moral and social effects. That there is a just value in the advantages of wealth both as regards the poor and the rich is appreciated, and its just distribution is that which seems most desirable for happiness and moral progress. The rich are pointed to as possessing two prerogatives advantageous to the whole society. These are the development of intellectual faculties and the bestowal of charity. A paragraph from Sismondi fully illustrates this:[4]

It is from these two prerogatives that rich men are necessary to the progress of every nation; whilst a nation which had no rich men, that is to say, no men who can dispose of their leisure and their superfluity, would rapidly fall into ignorance, barbarism, and selfishness. Let us not be deluded as to the necessarily stupefying consequences of bodily labour and fatigue. Were all the individuals of the nation called upon to exert their muscular force, it would soon be deprived not only of all progress in science and in the fine arts, but in intelligence, taste, mind, and grace. The human cattle might without doubt continually get fatter in their stables, but they would always approach nearer the brutes; they would continually get farther from celestial intelligences. Intellectual progress, however, gives rise to new wants among the rich, and opens a new employment for wealth. Intelligence, imagination, sensibility, require to be satisfied as well as the body, and the search for aesthetic beauty, or moral beauty, or intellectual beauty, attracts toward them a superfluity of human activity, as well as of the wealth which man has produced, and which would otherwise have been unemployed. Charity is another prerogative of wealth, still more important to society than to the poor themselves. It is charity which must repair the accidental disorders which disturb the regular distribution of wealth; but it is charity which, much more, must connect different ranks, substitute affection and gratitude for the contention of interests, spread knowledge with benefits, render all individuals equally participators in the moral superiority acquired by some; lastly, give to the

[4] *Ibid.*

nation that stability which she can only preserve by love among fellow citizens.

Emphasis upon Distribution

As Sismondi proceeds with his argument, in which he evaluates the influence of the enjoyments of the rich on national happiness, intensity of enjoyment and the number who participate in them are both given consideration. On the latter point he says:[5]

If we suppose that, after having provided for the necessaries of all, the superfluity of the nation is reserved to endow the rich, and if it be then asked in what proportion it is desirable to see them rise above the rest, it is easy to answer, in the first place, that it is better to make many happy than only one; that he who united ten shares sufficient to secure ease and leisure to ten families, will not himself be as happy as these ten families would have been; but it will soon be acknowledged also, that for the nation, for the social object of their pre-eminence, many moderately rich are worth more than one rich man in opulence. If the vocation of the rich man is especially to develop his intelligence for the good of all, it must not be forgotten that though labour brutifies, it is true, yet that luxury enervates, so that the beneficial influence of the rich on society diminishes not only with the diminution of their number, but with the increase of their wealth, when it goes beyond a certain point. If the second prerogative of wealth is to bind society together by charity, it will be equally felt that the more the number of rich men scattered over the country is diminished, the more distant their residences are by their patrimonies being increased, the more also will they be strangers to the poor whom they ought to assist; the more will the bonds of sympathy be broken by distance of place or of rank; so that even should we suppose that the charities of a *millionaire* would equal those of the ten or the hundred rich men whose patrimonies were united in one, still their moral effect, their social effect, would not be the same.

Chrematistics Condemned; Distributive Shares Approved

While Sismondi inveighs against a social organization in which chrematistic trends predominate, he does recognize the appropriateness of the existence of the three classes of persons – landed

[5] *Ibid.*

proprietors, capitalists, and day laborers – together with rent, profits, and wages as their shares in return for their employment. Each of these, he believes, endeavors to retain as much as he can of the total product, and their mutual struggle fixes the proportion of their income.

Capitalized Industry Approved

Sismondi acknowledges effectiveness in productivity of a highly capitalized industry. Concerning this he says:[6]

> What then is the end of human society? Is it to dazzle the eyes by the immense production of useful and elegant things; to astonish the understanding by the empire which man exercises over nature, and by the precision and rapidity with which inanimate machines execute human work? Is it to cover the sea with vessels, and the land with railways, distributing in every way the productions of an ever-increasing industrial activity? Is it to give to two or three individuals in a hundred thousand the power of disposing of an opulence which would give comfort to all these hundred thousand? In this case we have, without doubt, made immense progress, in comparison with our ancestors; we are rich in invention, rich in activity, rich in scientific power, rich especially in merchandise; for every nation has not only enough for itself, but for all its neighbors.

Concentration of Wealth Detrimental

But the condition of national material prosperity, through the great outpouring of goods which Sismondi acknowledges, does not satisfy, because the fruits are not spread with a beneficent hand throughout the community to derive the greatest benefit in the development of man, both physically and morally. He sees error in the accumulation of wealth through the greatest possible quantity of work at the cheapest rate when, at the same time, curtailment of wealth consumption is enforced by lack of power to buy. Where the aim is for each member of the community to enrich himself under the principal of *laissez faire* by endeavoring to increase what he produces and to diminish the expense of it, and where indefinite liberty of industry and trade prevails, there,

[6] *Ibid.*

through the excitement of universal rivalry and unrestricted competition, the most dire consequences may be expected to follow. His prediction is a sinking into pauperism. So, two generations before the time of Henry George, the relation between progress and poverty is drawn. Sismondi carries forward to the climax as follows:[7]

As by the power of great capital all independent trades have been attacked, and the man who was formerly a master in a trade has been forced to descend to the rank of a man who works by the day, . . . so also have been attacked the domestic labours of the inferior members of the family; and the chrematistic school has, by its arguments, seconded the power of money, and the seduction of cheapness. Why, it says, should the housewife spin, weave, and prepare all the linen of the family? All this work would be done infinitely cheaper at the manufactory; with much less money the housewife would have more stuffs, and of a finer quality. Why should she knead the bread? She cannot make it so light, she cannot bake it to such an exact point, she cannot make it so cheaply as the baker. Why should she make the pot boil? An establishment on a great scale, with supplies made beforehand, a considerable capital and a common inspection, would procure her better food with great saving of time and fuel. Omnibus kitchens might even every day bring her soup to her door.

. . . . . .

Manufacturers have . . . in those nations which are called the most prosperous, gained the advantage over domestic labours, as well as over independent trades. Their success has been announced as a prodigious conquest of industry, and publicists as well as the heads of the chrematistic school, rivalled one another in felicitations on the rapid increase of public wealth. But a frightful reality suddenly appeared disturbing all minds, and shaking all the principles which had been announced in so dogmatic a tone: it was the appearance of *pauperism*, its rapid and threatening increase, and the confession of the oracles of the science that they felt themselves powerless to remedy it. *Pauperism* is a calamity which began by making itself felt in England, and which has at present no other name but what the English have given it, though it begins to visit also other industrial countries. *Pauperism* is the state to which proletaries are necessarily reduced when work fails. It is the condition of men who must live by their labour, who can only work when capitalists employ them, and who, when they are idle,

[7] *Ibid.*

must become a burden on the community. . . . No community has believed that it could refuse this legal charity, but it is only very recently that experience and calculation have equally demonstrated that the community has not the power to support such a burden. The Poor Law increases the wretchedness of the poor, their dependence, and their vices, at the same time that it is capable of raising them from indigence only in proportion as it absorbs the clear net income of the richest nation.

Division into Rich and Poor

So it was, as Sismondi figured it, that society tended to divide into two classes — those who possess and those who work, the rich and the poor. Because of inability to withstand the competition of the great capitalists, the small proprietor, the master craftsman, the small manufacturer, and the village tradesman have been driven out by the great industries. "All property tends to be divorced from every kind of toil, and therein is the sign of danger." Pauperism and crises follow. Overproduction is the route to destruction.

The Causes of Crises

Overproduction, according to Sismondi, is the condition which finds a country with its year's output in excess of the preceding year's revenue. An insufficient revenue will provide an insufficient price to buy the annual production, and, consequently, a break in prices results. The price break brings on panic and crisis.

Impractical Remedies Suggested

Sismondi's explanation is not profound, nor is it correct, for the annual production is the annual revenue, and it is not successive years that are pitted against each other but rather the various products of the same year, or even a shorter period, that constitute a reciprocal demand. Nor is Sismondi's explanation of the overuse of machinery and the desirability of the retardation of invention scientific. He is equally confused when he urges state intervention for the purpose of maintaining income and of stand-

ardizing the interest rate. He did not realize that restrictions upon production might injure the well-being of those he was trying to help. In him was present the constant conflict of reason and sentiment. Nor did he feel competent to suggest a remedy whereby the evils of the new industrial regime could be eradicated while its obvious benefits were retained. This inability is expressed as follows:[8]

> I grant that, having indicated what in my opinion is the principle of justice in this matter, I do not feel myself equal to the task of showing how it can be realized. The present method of distributing the fruits of industry among those who have coöperated in its production appears to me to be curious. But a state of society absolutely different from that with which we are now acquainted appears to be beyond the wit of man to devise.

Appraisement

Sismondi, the first apostle of state interventionism, differed widely as to method and aim from the classicists, to whom he himself first attached the apt title "orthodox school." He forced upon them a reexamination of their creed because of doubt created as to the validity of their deductions, appropriateness of their method, and the finality of their conclusions.

In appraisement of Sismondi's accomplishments it must be acknowledged that his immediate influence was quite limited; yet in being the first to resist the conclusions of the dominant school he became, though not the founder, the precursor of dissentient schools; in his appeal to sentiment he stimulated the reaction of humanitarianism against rigid economic orthodoxy; and by his plea for state intervention he asserted his disbelief in the spontaneous harmony of interests and so pointed the way to salutary reforms for the workingman – the right of organization, shorter hours, workless Sundays, and limitations on child labor. He sensed the social consequences attendant upon economic transformations. Though dead these hundred years, Sismondi's ghost stalks us in countryside, town, and city. He stands as the great apostle against overproduction and depression.

[8] Jean Charles L. Simonde de Sismondi, *Nouveaux principes d'économie politique,* Vol. II, p. 364.

Chapter 18. SAINT-SIMONIAN COLLECTIVISM

Among the socialist pioneers some are customarily listed who were not truly socialists inasmuch as they did not condemn the institution of private property. Sismondi was one of these and Saint-Simon another.

Saint-Simon Not a Socialist

Saint-Simon, like Sismondi, was also an economic liberalist, departing but little from the basic teaching of Smith, but with a greater emphasis upon the principle of association. His approach to social reform was through philosophic speculation, and the objective was the "exploitation of the globe by association." His proposal was a new social order, based upon progressive industry directed by experts. His ideal was the abolition of class distinctions and the establishment of industrial equality. He advocated that each person benefit in proportion to his potential capacity translated into productive performance. Even the state organization was to be industrialized. Capacity was to replace power, and direction was to take the place of command. Politics was to be absorbed in the field of economics and economics identified as an apotheosis of industry.

Count Henri de Saint-Simon

Biographical Sketch. Count Henri de Saint-Simon (1760–1825) was born in Paris of a noble family which traced descent directly from Charlemagne. He entered the French Army and at the age of eighteen embarked with troops for America to take part in the War of Independence.

On his attempted return to France he was captured by the British and taken to the island of Jamaica as a prisoner. After his release he visited Mexico and there suggested to the Viceroy the construction of

an inter-oceanic canal through the Isthmus of Panama. Ferdinand de Lesseps, who actively undertook to execute the project years later, was an admirer of Saint-Simon, and it was from him that he drew his inspiration.

At the outbreak of the French Revolution he lost his fortune and renounced his claim to the title of count. He joined the Revolutionary party but, falling under the suspicion of the extremists, was imprisoned. In the solitude of the prison, he relates, he had a vision in which his ancestor Charlemagne appeared with a message of revelation. According to the story, Charlemagne disclosed that Saint-Simon was ordained to take up the study of philosophy, in which he was destined to be as successful as was Charlemagne in war and statesmanship.

After his release from prison he regarded himself as a kind of messiah with the mission to work for the perfecting of civilization. A new fortune, amassed by speculating in property confiscated by the government from the nobility and the clergy, was spent in social experiments, one of which was a marriage entered into chiefly to provide a hostess for his salon. It proved expensive and hastened financial disaster. He parted from his wife and spent the rest of his life in dire poverty, at one time filling a position as copyist at $4 a week. For a period he accepted money from a former servant, after whose death he received a small pension from the family and contributions from a few tradesmen. By 1823 his position had become so desperate that he attempted suicide by shooting. After the attempt at self-destruction he lived for an additional two years, though with badly disfigured features. When he died in 1825, his disciples, ardent though few, continued to promulgate his ideas. Among his immediate followers were Augustin Thierry, Auguste Comte, Enfantin, and Bazard.

Saint-Simon's System

Although Saint-Simon had written a great deal on scientific and political subjects earlier, his first book was published when he was fifty-seven. According to his notion the traditional functions of government were superficial, and society could well exist without it. The book contained a stinging satire against the ruling classes which provoked government prosecution and consequently gained much gratuitous advertising.

His theory set up a social hierarchy based on capacities and services. The function of society was to strive for the amelioration

of the condition of the poorest class and to organize in a manner best suited to attain that end. He opposed alike the forced equality of the Revolution, the militarism of the Napoleonic regime, and the feudalism of the Bourbon monarchy. Scientists and business executives were to replace the clergy and the nobility in the new order; the world he conceived was based on industry as the single cardinal feature.

Early in his career as a reformer, Saint-Simon became a dilettante student of the sciences and originated the idea of establishing a unity of them to serve as a system of positive morality for mankind, but in the last decade of his life he devoted himself to the exposition of his social and political ideas. These ideas provided for a minimum of governmental control. Peaceful industry assured by government would create a maximum of utilities, management being in the hands of the most competent persons.

Throughout his major works the same leading ideas are stressed. In the list of his books, in some of which his followers collaborated, are *l'Industrie* (1817–1818), *Le Système industriel* (1821–1822), *Catéchisme des industriels* (1823–1824), and *Le Nouveau Christianisme* (1825).

The Theory of Industrial Equality

In the new society Saint-Simon hoped to see established, the economic and professional classes were to be in control because on them depended the prosperity and well-being of all. Under the new regime class distinction was to be nonexistent. Nobles, bourgeois, and clergy were all to be wanting. In the new society all would be workers engaged in production according to their capacities as agriculturists, artisans, manufacturers, bankers, servants, artists, and manual workers. Industrial equality was assured to all in that each was to draw benefits proportionate to his stake in the state. The stake was to consist in potential capacity, applied by available means, including his capital. France was to be turned into a factory and the national organization modeled after a vast workshop. The government, he believed, had as its function the protection of workers from the unproductive idlers and the provision of security and freedom for the producer.

Saint-Simon's Parable

Belief that full development of industry, which Saint-Simon held the source of all wealth and prosperity, is dependent upon the men of genius in the arts, sciences, crafts, and manufactures is stated in what has become known as Saint-Simon's "parable." It reads as follows:[1]

> Let us suppose that France suddenly lost fifty of her first-class doctors, fifty first-class chemists, fifty first-class physiologists, fifty first-class bankers, two hundred of her best merchants, six hundred of her foremost agriculturists, five hundred of her most capable iron masters, etc. [enumerating the principal industries]. Seeing that these men are its most indispensable producers, makers of its most important products, the minute that it loses these the nation will degenerate into a mere soulless body and fall into a state of despicable weakness in the eyes of rival nations, and will remain in this subordinate position as long as the loss remains and their places are vacant. Let us take another supposition. Imagine that France retains all her men of genius, whether in the arts and sciences or in the crafts and industries, but has the misfortune to lose on the same day the king's brother, the Duke of Angoulême, and all the other members of the royal family; all the great officers of the crown; all members of State, whether at the head of a department or not; all the Privy Councillors; all the masters of requests; all the marshals, cardinals, archbishops, bishops, grand vicars and canons; all prefects and subprefects; all Government employees; all the judges; and on top of that a hundred thousand proprietors – the cream of the nobility. Such an overwhelming catastrophe would certainly aggrieve the French, for they are a kindly disposed nation. But the loss of a hundred and thirty thousand of the best reputed individuals in the State would give rise to sorrow of a purely sentimental kind. It would not cause the community the least inconvenience.

In most respects Saint-Simon is hardly more than an ardent liberalist and in all respects short of a collectivist. Scope for talent and *laissez faire* were maxims of liberalism; for these Saint-Simon had a deep regard. In his manufacturing regime the aim is to combine the interests of the entrepreneurs with those of both workers and consumers. He does not deny capitalists their revenues, but landed proprietors do not receive the same favor.

[1] Henri de Saint-Simon, *L'Organisateur*, Part I.

Saint-Simon does not advocate the abolition of private property. He wants it "reconstituted and established upon a foundation that might prove more favorable for production." He believes that possessors of property need proper stimuli in order to be induced to make the best possible use of it. Even in this idea reform is limited to landed property.

The Saint-Simonians

When Saint-Simon is classed among the socialists, it is because of his interest in the condition of the poor and his desire to reform the institution of private property; but on neither of these points does he merit the appellation. The doubt that applies to him does not fit his disciples, who named themselves Saint-Simonians. Their doctrine is clearly collectivistic. They criticize private property on the grounds of injustice in distribution and inefficiency in the production of wealth.

To better disseminate their doctrines the Saint-Simonians assumed the character of an organized sect in 1828. A moral code was drawn up, and churches were established in various parts of the country. Enthusiasts prepared themselves to serve as apostles in foreign lands for the propagation of the gospel of the new cult. The simple social doctrine of Saint-Simon was superseded by a philosophy of collectivism.

Inherent in private property the Saint-Simonians saw exploitation of workers the invariable concomitant; consequently, they attacked that institution in the interests both of social utility and of justice. Production and distribution both demanded its extinction.

The second objective of the attack of the Saint-Simonians was the law and custom of inheritance. Since normally each individual devotes his attention to his own immediate interest, there is no general view taken of production. Instruments of production in the hands of individuals ignorant of men's needs and of the best ways to satisfy them are seen as the cause of evil. This condition they believed to be perpetuated by inheritance; hence their desire to suppress it.

Under the system advocated, the state becomes the sole inheritor of all forms of wealth. The government, in possession of

all the instruments of production, distributes them through the means of a great central bank with numerous branches which holds the accumulated wealth of the whole country. Thus all parts of the kingdom are made productive and the necessaries of life become available to all. Citizens will work at tasks awarding the best results for their efforts. With the management of economic affairs in the hands of the most competent persons, production would rise to a maximum and equitable distribution would follow. Their motto was: "From each according to his ability and to each according to his contribution."

A résumé of the Saint-Simonians' program, prepared by them as an address to the President of the Chamber of Deputies, indicates that the equality sought is the equality of opportunity. Each was to be endowed (provided with capital in the form of the instruments of labor) according to his merits and rewarded according to his work. Everyone was to have a chance to start from the same point of vantage, but from there on the rule of the new society was: To every capacity according to the work accomplished. The address reads as follows:[2]

The Saint-Simonians do not advocate community of goods, for such community would be a manifest violation of the first moral law, which they have always been anxious to uphold, and which demands that in future every one shall occupy a situation becoming his capacity and be paid according to his labour.

In view of this law they demand the abolition of all privileges of birth without a single exception, together with the complete extinction of the right of inheritance, which is to-day the greatest of all privileges and includes every other. The sole effect of this system is to leave the distribution of social advantages to a chance few who are able to lay some pretence to it, and to condemn the numerically superior class to deprivation, ignorance, and misery.

They ask that all the instruments of production, all lands and capital, the funds now divided among individual proprietors, should be pooled so as to form one central social fund, which shall be employed by associations of persons, hierarchically arranged, so that each one's task shall be an expression of his capacity and his wealth a measure of his labour.

[2] Charles Gide and Charles Rist, *History of Economic Doctrines,* pp. 220–221.

The Saint-Simonians are opposed to the institution of private property simply because it inculcates habits of idleness and fosters a practice of living upon the labour of others.

Since Saint-Simon's works were scarcely ever read, the task of spreading his ideas devolved upon enthusiastic disciples both before and after his death. Bazard's popular lectures, delivered during the years 1828 to 1830, were listened to by many persons important in the later history of France. These lectures were published under the title of *Exposition de la doctrine de Saint-Simon.* The social doctrine expounded, according to Menger, forms one of the most important expositions of modern socialism. Enfantin wrote economic articles for various journals. The ideas were, for the most part, drawn from the writings of Sismondi. The originality of Enfantin lies in his vigorous, logical presentation of them. The introduction, however, of philosophical and mystical elements by this writer led to the downfall and dispersion of the school. Following judicial proceedings, the leaders were convicted of the charge of forming an illegal association and sentenced to a year's imprisonment.

Saint-Simon's influence has continued into the generations since. The slowness, awkwardness, and cruelty resident in the "wait for spontaneous action" to solve economic problems stimulated adherents to undertake to set up an artificially planned mechanism through which to coordinate economic forces. Their appeal was to the cultured classes, not to the masses; it was utopian therefore, but not unmixed with realism. Their idea of subordinating everything to maximum social utility is the foundation of modern socialism.

Chapter 19. THE ASSOCIATIONISTS

To have human beings aid their kind to the full extent of their capacities through noncompetitive association was the objective of the utopian socialists. Their means of reaching the goal of social reform was through voluntary association and education. By the elimination of competition for profits and wages, the associationists believed that individual liberty could be preserved and economic well-being advanced. Competition was looked upon as an evil and the forerunner of inevitable monopoly under the prevailing economic system. On the other hand, passive acceptance of the compulsion which is a feature of collectivism was as much decried. Cooperation is the catchword; proper environment – a salutary influence on human character – a feature; and the distribution of profits among the workers, the innovation. In Great Britain, Robert Owen was the leader of the movement, but of the four names presented, three – Fourier, Louis Blanc, and Proudhon – were natives of France.

Robert Owen

Biographical Sketch. Robert Owen (1771–1858), reformer and social theorist was born at Newtown, Montgomeryshire, North Wales. His father, a saddler and ironmonger, had a small business there and held a position of some distinction in the community, for he was also postmaster. The son left school at the age of nine but advanced his education by reading *Robinson Crusoe, Pilgrim's Progress, Paradise Lost,* other standard novels, and works of biography, history, and travel.

He first served a short apprenticeship in a neighboring mercantile business and afterward worked for a few years as a clerk in a draper's shop. After removing to Manchester to engage in cotton spinning, his advance was rapid. At the age of nineteen he set up as a master spinner on his own account with £100 of capital borrowed from his father and soon was employing 500 workers. He has the distinction

of being the first to use American sea-island cotton in an English factory. Endowed with native capacity and knowledge of the trade, he gained the reputation of being an extraordinarily expert cotton spinner.

His business prospered, and by his middle twenties he and his partners were operating extensive mills under the firm name of Chorlton Twist Company. Before he reached the age of thirty his firm purchased the New Lanark Mills situated near the falls of the Clyde. It was in these mills, employing 2,000 hands, that Owen made a name for himself by technical improvements in production, the construction of model dwellings, the introduction of a free educational system, and the elevation of the moral standards of the workers.

The transformation in factory and community was complete. Living conditions were improved; habits of order, of cleanliness, of sobriety, and of thrift were established. A company store, stocked with goods of sound quality and at low prices, was opened. Wages were raised and hours of work shortened. In addition, and of the utmost importance in the venture, the opposition of workers and of his investing partners was overcome.

In spite of the expense of Owen's innovations, the business was a conspicuous commercial success. But the fame of New Lanark as a model community was even more noteworthy. Visitors, among them distinguished people from foreign countries, found their way to the factory and community to inspect the marvel among industries. Owen had accomplished the impossible.

His methods – the reverse of those long established in factories – were studied with a view to imitation. He abolished fines for spoiled work and for other damage. Children under ten were denied employment and placed in free schools. Employed children, too, were regularly instructed. Recreational activities for both children and adults were conducted under expert and professional direction. Insurance funds were established, and, to cap it all, when in 1806 a depression closed the mills for a period of four months, full wages continued to be paid the workers. Truly happiness and prosperity reigned at New Lanark.

As the years passed, Owen became thoroughly confirmed in the idea that through environment the individual could best be changed. He became convinced that patronage and legislation were impotent as forces of social progress. His proposal was to recreate society by implementing social and economic progress through substitution of human association under appropriate environment. In the movement toward an ideal non-profit organization, he exhausted the patience of his

business partners when he insisted that they renounce all but 5 per cent gain on their profitable investment. The partnership was dissolved, and new associates were induced to join Owen in the enterprise. Among the newcomers in the business were distinguished men – notably Jeremy Bentham, Joseph Fox, and the well-known Quaker, William Allen.

The critical years after 1815 revealed serious defects in the economic order, so Owen believed, and consequently he laid his plans for communal experiments. In 1825 he established the New Harmony colony in Indiana and one at Orbiston, Scotland. Though they lasted but a few years, he squandered his entire fortune on them.

In 1832 he established in London the National Equitable Labor Exchange – an experiment in cooperative marketing. In the Exchange, labor notes acquired by depositing commodities were used as money. The price received for the goods was determined by the declared number of hours of work they had cost. The purchase of goods was through labor notes acquired in the sale of goods to the Exchange. The enterprise did not continue for long, though there were 840 members. Its failure has been attributed to the inflow of much goods really unsalable and the breakdown of the " 'pon my honor" valuation process.

The year 1834 began the third period, which he devoted to the propagation of the ideas contained in his monograph, *The New Moral World.* In 1841 he published his monograph, *What Is Socialism?* Although the word "socialism" was coined earlier, it is reputed to be the first time that it was used in a book title. Owen took an active part in the trade-union movement but gave little attention to the cooperative efforts of the "Rochdale pioneers," who began their venture in 1844, although they applied some of his pet ideas of association.

As an octogenarian, Owen became a firm believer in spiritualism. In a formal proclamation to the governments of the world he announced that many in America were in communion with departed spirits. He himself claimed privileged communication with Thomas Jefferson, Benjamin Franklin, and the Duke of Kent. Ostensibly the spirits, too, were interested in the Owenite millennium.

Owen stressed the influence of environment on character. He proclaimed that "Of all truths the most important is that the character of man is formed *for* and not *by* him." Although his social experiments failed and he left no sect, to him must be attributed the beginnings of factory legislation, the cooperative movement, and socialism in Britain.

The Influence of Environment

Adaptation of man to his environment and transformation of man by influencing his surroundings were the impelling forces in Owen's experiments. "Mould the environment and re-create society" was his slogan. Although he stresses environmental change, his insistence on the modification of social institutions indicates that altering natural surroundings only was far from the limit of his endeavors. New ideas and ideals were to follow automatically; a new outlook on life was to be engendered with happiness and well-being the boon. To persuade his fellow employers to agree to his innovations in the worker-management program, he argued as follows:[1]

> Experience must have taught you the difference between an efficiently equipped factory with its machinery always clean and in good working order and one in which the machinery is filthy and out of repair and working only with the greatest amount of friction. Now if the care which you bestow upon machinery can give you such excellent results, may you not expect equally good results from care spent upon human beings, with their infinitely superior structure? Is it not quite natural to conclude that these infinitely more delicate and complex mechanisms will also increase in force and efficiency and will be really much more economical if they are kept in good working condition and treated with a certain measure of kindness? Such kindness would do much to remove the mental friction and irritation which always result whenever the nourishment is insufficient to keep the body in full productive efficiency, as well as to arrest deterioration and to prevent premature death.

Employer's Profits Hinder Worker's Welfare

The welfare of the workers, it is Owen's belief, is hindered by the presence of employers' profits; hence, he conceives the idea of abolishing them. An injustice and a menace, the unhealthy desire for profits results first in overproduction and then in economic crises. Consequently, Owen wishes to devise a form of organization which will function without the profit system. Since gold is an intermediary in exchange, it appears that the objective is

[1] Charles Gide and Charles Rist, *History of Economic Doctrines*, footnote, p. 237.

money. So Owen wants to suppress money and replace it with labor notes. This concept he counts an original discovery and "more valuable than the mines of Mexico and Peru." In contrast with labor notes Owen declared, "Metallic money is the cause of a great deal of crime, injustice, and want, and it is one of the contributory causes which tend to destroy character and to make life a pandemonium."

The Profitless Cooperative

The business mechanism whose operation is substantially one in which profit is eliminated is found in the cooperative society. In the cooperative retail type of organization society puts producer and consumer in direct contact, but the nonprofit feature is acquired without the elimination of money. A money medium is used in the exchanges because neither the barter nor the labor-note system allows for essential definiteness of valuation. Hence a moneyless economy, which proved impractical in Owen's Labor Exchange, has not become a characteristic of the profitless cooperative organization.

Owen Influences Marxian Theories

The Irish Socialist, William Thompson (1783–1833), follows Owen in seeing in labor the sole source of value and in wishing to award the working class the whole labor product. Thompson became a full disciple of Owen and favored the cooperative system as the way to improve society. In talent the former was superior to the latter, but in the appraisal of history their measure of influence is the reverse. It was through Thompson, however, that Owen's ideas influenced Karl Marx. It was in Thompson's books, *An Inquiry into the Principles of the Distribution of Wealth Most Conducive to Human Happiness* (1824) and *Labour Rewarded* (1827), that the idea of surplus value and its appropriation by capitalists were first published. Later these served as basic ideas and were elaborated by Rodbertus and Marx.

While Owen reduced everyone to an equality by payment for work rather than by rewarding them for capacity, his contemporary in France declared that inequality of wealth and poverty were of divine ordination. Owen idealistically wanted to give to

each according to his needs; not so Fourier, who wanted the highest awards to go to those who performed the most unattractive tasks, with the way left open, however, to joint stock profits.

Charles Fourier

Biographical Sketch. François Charles Marie Fourier (1772–1837), French social reformer born at Besançon, studied in his native town and traveled in France, Germany, and Holland. He established a commodity business with inherited money but lost his fortune during the Revolution. His cotton bales were used as defensive breastworks, and the army seized the foodstuffs. It is said that to escape execution he enlisted but was discharged after two years because of ill health. Thereafter he was employed as a commercial traveler until he opened a small brokerage business at León. At forty, an inheritance from his mother gave him an income large enough to enable him to devote himself exclusively to writing. His chief publications are *Theory of the Four Movements* (1808), *Treatise on Domestic and Agricultural Association* (1822) and *The New Industrial World* (1829).

Fourier, a contemporary of Owen, was caustically critical of his ideas because of the advocacy of communal practices. Fourier's comment was that Owen's plan of a "community of goods is so pitiful that it is not worthy of repudiation." Despite Fourier's ridicule of Owen's intention to establish a utopia upon the associative basis, Fourier himself was not deterred from encouraging reform through the legislature. Of the two men Fourier, though of remarkable ingenuity, was surpassed by Owen in dynamic personality and original ideas.

Fourier's influence during his lifetime was but slight. His published offer to await a financier philanthropist at his home at high noon remained unaccepted, if not unnoticed, during a period of twelve years, although he awaited with abiding faith the donor of 1 million francs. Before his death he saw one experiment of his theory of association established, which failed however, after a few years, but the period immediately following his demise saw forty Fourierist communities started. Most of them were located in America.

American Experiments

Brook Farm, established near Boston in 1841, was the most famous of the Phalanxes[2] because of the prominent Americans

[2] "Phalanx" is the term used by Fourier to designate an individual communal establishment.

associated with it. Among those interested were Henry David Thoreau, Ralph Waldo Emerson, Nathaniel Hawthorne, James Russell Lowell, Charles Dana, Bronson Alcott, Margaret Fuller, and Horace Greeley. It failed after less than two years, following a devastating fire. The less famous North American Phalanx at Red Bank, New Jersey, lasted twelve years before succumbing.

After Cabet, the French novelist, published *Travels in Icaria*, in 1842, several other colonies were established in America, where land was cheap. These Icarian associations were somewhat similar in organization to the Fourier type. Noteworthy experiments were launched in Illinois in 1849 and in Texas in 1848, one of the latter continuing until 1898. The Icarian colonies leaned toward the communistic instead of communal type and in this respect were Owenite, rather than of the complete Fourier pattern, but Cabet counted himself a disciple of his French contemporary.

Capitalistic Financing Advocated by Fourier

Saint-Simonians and Owenites protested against the capitalistic institutions of private property and the right of inheritance, while in Fourier's system they were the chief attractions. The capital investment in the Phalanx was to be furnished by members of the joint stock company. It was expected that dividends on the shares of 30 to 36 per cent would induce virtually all members to become subscribers to the capital fund. Those who preferred had the opportunity to invest on a loan basis at a fixed interest of 8 per cent. This capital structure was neither socialistic nor communistic, but these characteristics appeared elsewhere in the Fourier scheme.

Phalanx Organization

The living quarters of the Phalanx were patterned in the form of a grand hotel – gigantic for those days – with accommodations for 1,600 persons, living in suites of varying size with a four-room maximum. The usual common rooms of modern grand hotels consisting of ballrooms, concert halls, lecture rooms, and dining and conference rooms were to be found in a profuse variety to

provide for all needs. From a common kitchen meals were served in dining rooms, or in the apartments privately, at varying prices to suit the needs of the five classes associated in the society, for all members did not enjoy the same measure of affluence. But there was service at a free table, too, because every member was assured support at the minimum standard for the Phalanx, which was set high above the subsistence level. In Fourier's scheme of community living lay the elements of communism.

Living under the same roof was to offer a maximum of comfort at a minimum of cost and to provide what Fourier considered of supreme importance – close association in a common life with an environment beautiful, stimulating, and otherwise suitable to effect the transformation of the character of man. In place of domestic production, collective services fully compatible with human dignity and independence were substituted for those customarily individual and industrial. Fourier's perspicacity made many of his pronouncements prophetic. Most of his group services are commonplace today in our economic order, though they are not on the communal basis.

In Fourier's opinion a first problem facing society was the necessity of transforming the wage earner into a cooperative owner. Through the transformation labor could be made attractive and highly productive, for in Fourier's theory "The sense of property is still the strongest lever in civilized society." The worker was to draw a share of the profits as capitalist and as one participating in management, as well as his income in return for labor. The respective shares were five-twelfths for labor, four-twelfths for capital, and three-twelfths for ability in direction and management. Fourier's solution to society's problem was the abolition of the wage earner and not the abolition of property. Property was to be held on the joint stock principle.

By means of what appears to be a complicated arrangement, the divergent interests of capitalists, workers, and consumers were to be brought into harmony. Each individual was assigned a share in the conflicting interests, for when united in the same person conflict ceases. Cooperation between capital, labor, and managing ability would, according to Fourier's conception, become complete.

Back to the Land

Fourier was an early "back to the land" advocate. He desired a dispersion of the population of the large cities to well-placed, moderate-sized villages accommodating 1,600 persons, or an estimated 400 families. These units were not merely to be consumers' associations; they were designed as productive enterprises, run so efficiently as to provide large profits and to be as nearly as possible self-sufficing. Extending outward from a hotel there was to be a sufficient acreage to provide for farm buildings and industrial establishments, and an outlying area for agricultural production. Agricultural work, however, was not thought of in the sense of old-fashioned, wearisome tillage; the emphasis rather was upon horticulture and arboriculture. Poultry raising was a highly favored occupation, too; he predicted in this single industry so prodigious a development as to allow for the retirement of the whole English national debt in six months by the sale of hens' eggs. His own fondness for this food is reflected, presumably, by his testimonial concerning poultry, to wit: "It is in order to render this industry general that God has made the chicken the most valuable, the most wholesome of edibles, and most generally preferred, whether for its flesh, or its eggs, and the numerous uses to which these are put."

Almost equally untenable was his attitude toward consumption in the locale of production in order to eliminate expenses of transportation and the shopkeeper's vocation. The middleman's services were to be completely dispensed with, for a superfluity of agents in society is waste. In France alone he estimated 1 million persons withdrawn from agriculture through employment of agents as a development of the competitive system. In milk delivery he calculated that 99 per cent of the delivery expense could be saved by the Phalanx over customary methods. According to Fourier, in modern civilization many persons are parasites. Among the members of the bar nineteen-twentieths were so classed. Soldiers, policemen, criminals, philosophers, and economists were declared entirely useless. The latter were especially scored because of their failure to discover the universal law of human attraction – the foundation of associative society.

Labor Made Attractive

In the new society, labor having lost its unattractiveness, men proceed to work for the mere love of it. Under the conditions Fourier describes, it was his belief that man's enthusiasm for work would rival that of modern youth in the pursuit of sport. Occupational organization within the Phalanx resolved itself into a series of differentiated employments. Each person was to choose voluntarily to associate himself with one of the series for his daily work. If, after an hour or two, the worker wearied of the task, he was to transfer to a second series and so flit from one occupation to another, thus to apply himself for brief periods to the work of his choice with undiminished enthusiasm. If an individual were inclined to lose his taste for employment in general, he had the additional spur in the realization that arduous effort for a period of ten years – ages eighteen to twenty-eight – would, because of the high productivity of the Phalanx organism, permit retirement for life with an ample competence.

The Fourier Pattern Not Followed by Blanc

The proposal of a social workshop, a cooperative producers' society, is a contribution to socialist literature by Louis Blanc. Others among the associationists wrote a lengthy single treatise or a number of volumes, spaced over intervals of time as their ideas developed and matured, but Blanc compressed his whole exposition into an article that first appeared in the *Revue du progrès* in 1839. The article was not exceptional for originality, but it served well as an exposition of the socialistic ideas prevalent at the time. The title of the brief book, published two years later and reprinted in several editions in rapid succession, was *Organisation du travail,* a phrase borrowed from the Saint-Simonians. In 1858, and for a long time thereafter, the book held the center of socialist interest, and its author was esteemed the best qualified to state the views of the proletariat.

Louis Blanc

Biographical Sketch. Jean Joseph Louis Blanc (1811–1882), French historian and politician, born in Madrid, and educated at Rhodes and

Paris, entered upon a career of journalism. As a socialist writer he condemned individual and competitive rivalry. His concept of society was that of a harmonious whole in which each member contributed according to his ability and was recompensed according to his needs.

At the outbreak of the Revolution of 1848, Blanc possessed a high personal reputation because of his activity on the platform and in the press; consequently, he was appointed a member of the provisional government and president of a commission for the discussion of labor questions.

He believed that individual liberty could be had only under a strong central government but that industry should be cooperative. Blanc was one of the first socialists to place the burden of reform upon the state, and consequently he is regarded as the father of state socialism. His was the plan of social workshops engaging in cooperative production. The workshops established by the provisional government in 1848 were not of the Blanc type, but rather national workshops set up as charity works for the employment of the idle and idlers. Blanc did not favor them but was compelled to acquiesce in their establishment. They were placed under the direction of Émile Thomas, an avowed opponent and antisocialist. The workers, numbering ultimately 100,000, were employed for the major part upon useless earthworks. The workshops became centers of political agitation and were soon abolished by governmental decree. Their failure was counted to the discredit of Blanc. Within the year he was accused of conspiracy but avoided arrest by escaping to England. In England he devoted himself to historical writing. After the fall of the Second Empire he returned to Paris and became a member of the National Assembly.

Competition, the Cause of Economic Ills

In Louis Blanc's conception, every economic evil was traceable for its cause to competition. He held it responsible for industrial crises, deep poverty, and moral degradation. He declared: "If you want to get rid of the terrible effects of competition, you must remove it root and branch and begin to build anew, with association as the foundation of your social life."

Blanc an Associationist of a Distinctive Type

The foregoing sentence classes Blanc as an associationist, but his associationism differs from that of Owen and Fourier. The

social workshops which Blanc hoped to establish were combinations of members of the same trade. These groups were to be employed in workshops of the common kind, except that they were to be organized on a democratic equality basis. The goods produced were to be sold in the market in the ordinary way, for consumption was not to be socialized. The plan was simple and easily understood. Its application was to large industry and was to serve as the beginning of an entirely collectivistic society. At the outset there was to be no complete break with the past. The future was to be approached in a practical fashion, and its exact nature, Blanc held, it would be vain to attempt to describe.

Associationists, in general, consider the state totally unnecessary; a sufficient impelling force is found in private initiative. Blanc was not in accord on this point, since he believed state intervention necessary to make a beginning of socialization and to guide its development. Capital, too, had to be furnished by it. For capital, whether from public or private sources, interest was to be paid. Aside from this expense, no one was to share in the proceeds except the workers, among whom the net profits were to be distributed. The entrepreneur was definitely out. State socialism was a temporary expedient with Blanc; with some later socialists it became an important economic doctrine.

In the matter of interest payments Blanc was completely at variance with his French contemporary, Proudhon. The latter held interest immoral and unjust. A further contrast between the two writers was shown in their regard for the position and importance of the state. The former supported strong government; the latter allowed the state no coercive function at all. In fact Proudhon believed the state would disappear; for him the ideal form of society naturally coincided with the absence of government — anarchy. Voluntary associations of independent workers, free from state interference, were advocated for the large industries, and, when integrated with small producers and artisans, the most efficient economic organization could be effected. Labor and not capital was productive; credit, which was the form capital assumed, must be free. That free credit, with which workers were to buy the means of production, would lead to the disappearance of classes in society and the evils attendant thereto was the conviction of Proudhon.

Pierre Joseph Proudhon

Biographical Sketch. Pierre Joseph Proudhon (1809–1865), philosophical anarchist and publicist, was the son of a small brewer who lived in an environment of small peasant proprietors. The family means did not warrant the son's going to college, but intellectual promise and the habit of incessant study brought him the privilege of gratuitous instruction at the college in his native town of Besançon. He entered a printer's office at the age of nineteen and afterward became a press reader, which, with his thirst for learning, afforded him the opportunity to continue the improvement of his mind. In 1837 he became a partner in developing a new typographical process, all the while continuing his private study. Political economy became his chief interest.

At the age of thirty-one Proudhon published his most important book, *What Is Property?* (1840). To his own query he gave the answer on the first page of the treatise, "It is theft." His goal of liberty and justice denies any individual any property right except that of possession. He condemns rent, interest, and profits, but he condemns communism also. Individuals are to hold possessive rights in property in order to give to each the means of utilizing his own labor; control is not to extend so far as permission to use or to dispose of property in such a way as to derive an income from another's use of it.

In 1848 Proudhon began his career as an agitator. He became the editor of a paper which was critical of the government and championed the cause of the people. He was elected representative of the Constituent Assembly and there saw plans for social reform fail, among them one of his own – the Exchange Bank – by a vote of 691 to 2. Shortly afterward his paper was suppressed, and he himself was imprisoned for three years. After his release he continued his agitation with voice and pen. In conflict with the government once more and fearing imprisonment again, he fled to Belgium for a two-year period of exile. In 1860 he was granted amnesty and returned to Paris to live a quieter life and to die in 1865.

Liberty and Equality Promised through the Exchange Bank

Proudhon taught that coercive authority is oppression and that the proper organization of society is free association. Since the existence of social inequalities arising from the institution of private property makes government necessary, and since government

prevents liberty of action, both private property and government should be destroyed. As a device to ensure full liberty and equality, Proudhon advocated the establishment of the Exchange Bank.

The Exchange Bank plan consisted in (1) a note-issuing institution founded without capital; (2) the substitution of exchange notes, payable at sight, for bank notes; (3) the free issue of exchange notes by the bank for the promissory notes of individuals in need of capital; (4) the payment of the promissory notes held by the bank with exchange notes when the productive operations for which they were issued were completed; (5) the cancellation or reissue of the notes on the next round of productive enterprise.

In January, 1849, Proudhon set up the People's Bank to demonstrate the practicability of free credit. Of necessity this private institution differed in its actual organization from the plan of the proposed Exchange Bank. The latter was to have the exclusive banking privilege in the country, issue free credit, and operate without capital, while the former was to have capital by stock subscription and make loans at 2 per cent interest, which was gradually to fall as low as one-fourth of 1 per cent.

The stock subscription to the People's Bank project amounted to but 18,000 francs in three months. When Proudhon was imprisoned for publishing seditious articles, one an attack on Louis Bonaparte himself, the bank experiment came to an end. From then on Proudhon placed emphasis upon political and social issues in his writings. He appears to have lost faith in the certainty of a bank being able by indirect means to provide for a reorganization of society. Too, he was no longer so certain that free provision of capital would stimulate the employment of human energy in accordance with individual liberty. Full realization that the problems of production and distribution could not be so easily solved as he had surmised sobered his thought.

Chapter 20. SCIENTIFIC SOCIALISM

Impatience, awkwardness, and haste are said to have been the characteristics which produced the ridiculous experiments tried during the European revolutions of 1848, following the attempts of the utopian socialists to transform their theories into realities. Fourier's formula of "the right to work" had become extremely popular in France during the reign of Louis Philippe (1830–1848); consequently, the reaction of workmen that the first duty of the provisional government was to provide work for the unemployed was normal for the times. In response to the workers' demand a decree was issued, announcing that the government "undertakes to guarantee the existence of every worker by means of his labor. It further undertakes to give work to all of its citizens."

Economic Experiments in France

National workshops were immediately established, and the unemployed were put to work after the mere formality of registering at one of the municipal offices. By the end of April, after three months of operation, 99,400 were registered – a larger number than could be employed – which was accounted for by the unexpected influx of workingmen from outlying districts. The pay was 2 francs a day while at work and 1 when no work could be assigned. A majority of them were employed on earthworks of little or no value. Other projects were of ridiculous nature, causing discontent and humiliation among the workers. After the workshops became centers of political agitation, they were abolished.

The failure of the work projects was unfairly charged to a lack of soundness in Blanc's theories when, in fact, the experiments were entirely unlike the "social workshops" which he advocated.

His projects were to be cooperative enterprises engaged in the production of useful commodities for the market.

The national workshops which failed were, in reality, charity works for the employment of the idle and idlers. Their management was under an avowed opponent who directed them in a manner to please the antisocialist majority in the government. Workingmen's associations, organized through Blanc's leadership, received some government support but failed of success because of the stringent rules imposed. Consumer cooperatives which had been established in the largest cities, were also shortly dissolved. All the reforms fell into discredit, partly from political causes and partly from the lack of experience by the sponsors of the movements. In this atmosphere there developed a new kind of socialism which, in contrast with utopian socialism – then fully discredited – was named "scientific socialism." The country in which the theory had its rise was Germany, and its proponents were Rodbertus and Marx.

Johann Karl Rodbertus

Biographical Sketch. Johann Karl Rodbertus (1805–1875), philosopher and socialist, son of a German university law professor, was educated for the legal profession at the Universities of Göttingen and Berlin. After practicing law for a few years and traveling in Europe, he settled on a landed estate named Jagetzau, which he purchased in 1834. Aristocratic and conservative, something of a Fabian, he held an economic theory springing from two main ideas, viz., (1) a productivity labor theory, according to which labor produces all economic goods directly or indirectly through tools and machinery, other goods being natural, not economic; (2) a subsistence theory of wages. As Rodbertus declared, labor was shut out from a part of the product which it created and, as a consequence, it was denied a just measure of culture and well-being. This condition induced him to ponder the problem of distributive justice.

Rodbertus drew his ideas to a large extent from French sources, especially from the writings of Sismondi, Saint-Simon, and Proudhon. Although honored by his government through appointment to important political positions, most of his years were spent in retirement, which he enlivened by scholarly endeavor. Enlightened self-direction brought a rich reward, for he became one of the most learned men of his day. Although his theories involved a major change in the social

order, the goal being that of distributive justice, he was the antithesis of an agitator and had a horror of revolution.

Improvement of Society through State Direction

Rodbertus looked upon society as created by division of labor. He favored its improvement through state direction, rather than by leaving it to the vicissitudes of natural liberty. Contrary to the teaching of Adam Smith, who wanted natural laws to have free play because of their beneficial effects, Rodbertus wrote: "No State is sufficiently lucky, or perhaps unfortunate enough, to have the natural needs of the community satisfied by natural law without any conscious effort on the part of anyone. . . . The organs of the State do not grow up spontaneously. They must be fostered, strengthened, and controlled by the State." So, because of his plan to substitute state direction for the system of natural liberty, Rodbertus becomes a noted advocate of state socialism.

The Existing Order Unfavorable to Labor

As early as 1837 Rodbertus conceived the idea that, though the national income might increase, the proportion of it received by labor continually decreased. The condition, as he explained, arose from the fact that the share taken for rent and interest constituted an increasing percentage of the aggregate income of society. The share to labor might increase absolutely, but relatively it would be falling. The theory rests upon the idea that labor for its service in production gets enough to cover cost, no more. This is a subsistence theory of wages.

Rent – both land and capital – arises, according to Rodbertus, (1) because laborers produce a surplus over their subsistence and (2) because the control over private property and capital enables the owners to exploit labor and capture the surplus. Consequently, the poverty of the masses is traceable to their exploitation.

Causes of Crises and a Suggested Remedy

To the evils of capitalistic exploitation Rodbertus also attributes the recurrence of crises. Since the mass of wage earners have a

diminishing purchasing power, consumer demand does not keep pace with production. Consequently, in the adjustment of production to demand, unemployment results in a further decrease of purchasing power, and so on down the devastating, descending spiral.

Rodbertus proposed a solution of crises through the socialization of property by evolutionary process. His conclusion was reached by the study of history. Three stages in evolution were identified. The earliest is that of ancient antiquity, when human beings were owned and their labor appropriated by their exploiters. The second stage, named the Christian-Germanic, typified Rodbertus's period and the private ownership of capital and property, for the use of which workers are charged an unearned rent. The third and future stage is the one in which land and capital are nationalized; this stage to be fully developed in five or six centuries, he named Christian-Social.

Remedies for the Temporary Improvement of Society

To improve current conditions while awaiting the gradual evolution of society to the final stage, Rodbertus proposed practical remedies. Labor's share of the national income was to be increased, and the normal length of the working day was to be fixed by legal process. Average daily production was to serve as a standard of value; prices were to be fixed and measured in labor currency. Transition to the third stage would be hastened by the giving of direction through the above and similar devices. Ultimately, political power would be attained by the masses and ownership of the means of production acquired by the state. In state socialism complete distributive justice was to flower.

Varying Approaches to Socialism

Utopian socialists found in sentiment sufficient support for their efforts in the field of social reconstruction. Through an act of parliament an ideal commonwealth might be constructed, or an appeal to justice and right might move the hearts of men so as to promote voluntary association through which to transform society. It was left to scientific socialism and Karl Marx to

base the coming of the new society upon an economic argument and an economic interpretation of history. Furthermore, the new limits envisioned were not those of state socialism, but socialism — international, revolutionary, and inevitable.

Karl Marx

Biographical Sketch. Karl Heinrich Marx (1818–1883), social philosopher and revolutionary leader, son of middle-class Jewish parents, was born at Treves, near Coblenz in southeastern Germany. His father was a lawyer and son of a German rabbi; his mother was a descendant of a Dutch rabbi's family. When Karl was a small boy, the family changed from the Jewish faith and adopted Christianity.

Karl attended the town elementary school, the gymnasium (high school), and the Universities of Bonn and Berlin. His original plan was to prepare for the law, but through the influence of fellow students he became interested in philosophy, a field in which he wrote his doctrinal thesis. Marx, having become a dissenter from the views of the dominant school of Prussian philosophy, did not apply at the University of Berlin for his diploma but preferred to submit his thesis, with greater assurance of success, at the smaller University of Jena. He was awarded the doctor of philosophy degree in 1841.

His hope for a teaching position in the University of Bonn proved futile on account of the conservatism of the new minister of education; so Marx turned to journalism for a vocation. He soon was made editor of the *Rhenish Times,* a daily newspaper which championed the cause of the working class. The paper's policy, being against press censorship, led to a "cease publication" order from the government. Without a position, but with the promise of one in Paris as an assistant editor of a new radical magazine, he decided to marry his old playmate, Jenny von Westphalen, to whom he had been engaged for seven years.

While in Paris he met prominent socialists, among them Proudhon and Cabet. With the former he held lengthy discussions, not infrequently lasting the night through. During this period of time he studied the writings of Saint-Simon and Fourier thoroughly and began to formulate his own theory of the relation of history to the alterations in methods of getting a living.

Unwelcome as a resident in his native country, Marx found himself an equally unwelcome alien in France, for the Prussian government secured his expulsion from Paris together with the whole journal staff. Marx removed to Belgium with his wife and daughter Jenny, where, with his friend Friedrich Engels as collaborator, he wrote the *Com-*

munist Manifesto, the Socialist party platform for the Revolution of 1848.

After a short interval Marx turned to journalism again and became editor of a Rhenish paper with an antigovernmental policy. Within the year it failed financially, and Marx burdened himself with its debts because of his feeling of personal obligation. Financial failure of his journalistic ventures restricted Marx's later efforts in this field to writing for journals (European mostly); he also served, however, as European correspondent of the *New York Tribune.*

After Marx became convinced that socialism would be consummated through the evolutionary changes in social processes, he spent some time in the study of local economic phenomena and the remainder of his time in perusing books and ransacking libraries for evidence in support of his theories. It is reported that for a period of ten years he studied incessantly from opening to closing time in the British Museum. Most of the energy of his later life was dedicated to research in order to provide material in support of the philosophical doctrine which he had sketchily formulated as a student and defended in his disputations as a member of the Graduates Club at the university.

For one so diligently engaged in venturesome and nonremunerative employment, sufficient income for tolerable living became a harassing problem. So it was that poverty stalked the Marx family constantly. That hunger might be appeased, visits to the pawnshops were not infrequent. It is recorded that once Marx pawned his only coat to purchase paper to finish a manuscript on which he was working. For years on end while *Das Kapital* was in the process of composition Engels, who was in better circumstances, provided the Marx family with an annual stipend. The pressure of poverty was further relieved in the last years in England through a legacy left by a friend who thought well of his work. The life of the Marx family is mute evidence that a mentally endowed and faithful worker may not receive a compensating reward.

Marx was of average height and strong physique and with bushy black hair and beard. For recreation he played in neighborhood parks with his own and other people's children. He was of gentle disposition, and his nature suited well his belief that not violent, but peaceful, gradual economic change could bring a new social order. He was not a conspirator planning violent destruction, and the movements of such men he resisted determinedly. This positive stand was a constant cause of friction with others differently disposed. With him certainty of outcome could endure waiting.

The Communist Manifesto

As a revolutionist, Marx did not succeed in creating any lasting organization. Though he favored the organized revolutionary movements and lent them his assistance, he himself never became the spearhead of any active revolutionary agency. Wherever Marx resided he made contact with workingmen's associations, many of the members of which were fellow exiles from Germany. Among these groups, which maintained a loose international organization, the idea gained credence that Marx, by application of his comprehensive knowledge and literary genius, could formulate a ringing statement to serve as the workingmen's program and rallying cry. The request being made, Marx in collaboration with Friedrich Engels prepared the *Communist Manifesto,* which in twoscore pages, published the views and aims of socialists of the Marxian scientific or revolutionary type.

In its ideas and methods of procedure the league for which the *Manifesto* was written was at full variance with utopian and social reformist groups. To clearly differentiate socialists who adhered to the league from those of other types, it adopted as its official title League of Communists, but the term "communist," as used then, had the general meaning of socialist today.

The First International

In 1864 Marx was chosen as the London delegate to represent German workingmen at an international conference held in the British capital. At the conference was organized the International Workingmen's Association, or the First International, as it is commonly called. Marx made addresses before the International and became its executive head. Though devoted in application to his duties, Marx could not avoid friction with other leaders because of his insistence that evolution was the means leading inevitably to the new socialist order. Others insisted that through violence the socialists' objective could be more surely and more quickly reached. Marx was as completely convinced that violent methods would retard the socialist movement. This belief was in harmony with his basic philosophy of an evolutionary movement of the

capitalistic system toward disintegration and socialistic reorganization. The faith of others was not so strong as his, quarreling ensued, and the International was dissolved in 1876.

Although Marx wanted the workers of all countries to unite with the expectation that through their political power the means of production could be transferred to the state, he himself could not hold other leaders in line and his refusal to submit to domination by the anarchistic wing led to division, enervation, and extinction of the organized movement that had appeared so promising for a decade.

Das Kapital

Das Kapital, a master's creation, more than anything else accounts for the enduring influence of Marx. Historical in its basis and analytical in its method, it provides an exposition of capitalism and places an especial emphasis on the effect of the system upon the workers. Poor health and the press of other duties prevented the completion of the projected three volumes during the author's lifetime. The first and best of the volumes was published in 1867; the second and third, edited by Engels, appeared in 1885 and 1894 respectively.

The first volume of the book, printed numerous times in many languages, has been read by millions of persons and has vitally influenced many millions more. Though not accepted in its entirety by all, many believe that the cue for the development of the future lies in the doctrine of Marx.

Marx accepted the Hegelian trilogy of thesis, antithesis, and synthesis as his basic philosophy. He was convinced that, from the historical study of the root and stem of the institutions of the past, fundamental forces were discoverable from which might be deduced the social principles underlying the present and the trends in the growth of future society. Inherent in human institutions he saw germs of decay and revitalized cells developing through growth into the durable elements of the future. Social institutions were identified as enduring organisms with characteristics similar to those of a biological nature. He envisioned omnipresent evolutionary change and eventual progressive advance,

both of which gave assurance of an optimistic outcome. Although he evolved a materialistic conception of history, he did not view the future with foreboding, but rather with an enthusiastic optimism. His vision of the new birth was to become, according to his belief, a dynamic socialist fact in his own generation. While the utopians appealed to sentiment to prove their case, Marx, by economic reasoning, pointed out the inevitableness of eventual socialistic organization.

The Class Struggle

The study of history and its economic interpretation was used in support of Marx's thesis. The materialistic conception of history reveals an unremitting class struggle. In the past, "freeman and slave, patrician and plebeian, lord and serf, guild-master and journeyman" were in opposition to each other in a fight to common ruin and reconstitution of society; in his day the large capitalist seemed to be devouring the smaller, and society was torn by the consequences of repeated commercial crises. All would end in the expropriation of the capitalists by the victimized proletariat. A word picture of the struggle, as recorded in the *Communist Manifesto,* reads in part:[1]

> The history of all existing society is the history of class struggles.
>
> Freeman and slave, patrician and plebeian, lord and serf, guild-master and journeyman, in a word, oppressor and oppressed, stood in constant opposition to one another, carried on uninterrupted, now hidden, now open fight, a fight that each time ended, either in a revolutionary reconstitution of society at large, or in the common ruin of the contending classes.
>
> In the earlier epochs of history we find almost everywhere a complicated arrangement of society into various orders, a manifold gradation of social rank. In ancient Rome we have patricians, knights, plebeians, slaves; in the Middle Ages, feudal lords, vassals, guild-masters, journeymen, apprentices, serfs; in almost all of these classes, again subordinate gradations.
>
> The modern bourgeois society that has sprouted from the ruins of feudal society has not done away with class antagonisms. It has but

[1] Karl Marx and Friedrich Engels, *Communist Manifesto,* Part I.

established new classes, new conditions of oppression, new forms of struggle in place of the old ones.

One epoch, the epoch of the bourgeoisie, possesses, however, this distinctive feature; it has simplified the class antagonisms. Society as a whole is more and more splitting up into great hostile camps, into two great classes directly facing each other; Bourgeosie and Proletariat.

The full account, of which the foregoing is a part, presents the Marxian case for socialism. It contains the leading ideas which are elaborated at length in *Das Kapital.* The history of class struggle, the exploitation of the worker, the separation of society into two classes, and the imminent destruction of the *bourgeoisie* — all are explained. Concerning the materialistic conception of history Marx says, in the preface to the *Critique of Political Economy,* that "The mode of production in material life determines the general character of the social, political and spiritual processes of life. It is not the consciousness of men that determines their existence, but on the contrary, their social existence determines their consciousness."

Marxian Theory of Value

The Marxian theory of value is an embodied labor theory, but, unlike Ricardo and others, Marx does not allow for modifications but substitutes *socially necessary* labor for the amount of labor actually expended. Thus allowance is made by Marx for improvement in skill, organization, and technique. Wealth is described as an immense accumulation of commodities. These commodities have use value and exchange value. Things of equal exchange value, we are told, have the common characteristics of being created by labor and of having congealed in them the same amount of human labor. In the elucidation of this point Marx says:[2]

> It is the expenditure of simple labour power, such as, on the average, the ordinary man, without any special development of faculty, is equipped with in his bodily organism. Simple average labour doubtless varies in character as between one country and another, and as between one cultural epoch and another; but in any given community it is a constant. Skilled labour counts only as intensified, or rather

[2] Karl Marx, *Das Kapital,* Vol. I, Part I, Chap. 1, sec. 2.

multiplied, simple labour, so that a smaller quantity of skilled labour is equal to a larger quantity of simple labour. Experience shows that skilled labour can always be reduced in this way to the terms of simple labour. No matter that a commodity be the product of the most highly skilled labour, its value can be equated with that of the product of simple labour, so that it represents merely a definite amount of simple labour. The varying ratios in accordance with which different kinds of labour are reduced to simple labour as their standard, are determined by a social process which goes on behind the backs of the producers, and to them, therefore, seems to be established by custom.

The earliest system of exchange is the barter system, of which the characteristic is direct exchange of commodities and for which the formula given by Marx is C – C. Next comes money exchange in which the formula is given as C – M – C; commodities exchange for money and money for commodities. The object seen by Marx in this type of exchange is the securing, by the exchangers, of commodities, which are better adapted to their needs. Further evolution in the process of time, however, develops into exchanges for a different purpose, viz., the obtaining of more money. The formula given to illustrate this action is M – C – M. Money is exchanged for commodities and the commodities, in turn, for money again. Since at the beginning and at the end of the latter series of exchanges the possessor holds money, which is an identical good, the exchange cannot be said to have been for the purpose of acquiring use values better adapted to the satisfaction of wants. Obviously the end sought in this process of exchange is the obtaining of more money. Consequently, when the two M's represent different amounts and the second M is larger than the first, the difference in their value is not that of use value but a value that Marx designates *surplus value*.

When society in its evolution has reached the stage where the M – C – M type of exchange predominates, the capitalistic stage of economy has been reached. Since under the Marxian theory all value is created by labor, in a condition of affairs where labor receives less in wages than the full value of the commodities produced by labor, surplus value appears. Surplus value is identified as a result of the exploitation of the proletariat by capitalists. The prevalence of this condition is evidence of the preparation of

society to enter upon the final stage in economic evolution – that of the socialistic organization of industry and the expropriation of the capitalist class. Upon the consummation of the objective, surplus value will have disappeared, and the total product of labor will have come into the possession of the laborers producing it. Rent, profits, and interest – the surplus value of the capitalist regime – will have disappeared when the evolutionary processes have completed the transformation of economic society. To hasten the day, the *Communist Manifesto* concludes:[3]

In short, the Communists everywhere support every revolutionary movement against the existing social and political order of things.

In all these movements they bring to the front, as the leading question in each, the property question, no matter what its degree of development at the time.

Finally, they labor everywhere for the union and agreement of the democratic parties of all countries.

The Communists disdain to conceal their views and aims. They openly declare that their ends can be attained only by the forcible overthrow of all existing social conditions. Let the ruling classes tremble at a Communistic revolution. The proletarians have nothing to lose but their chains. They have a world to win.

Working men of all countries, unite!

[3] Marx and Engels, *op. cit.* Part IV.

Chapter 21. THE OPTIMISTS

Reaction against Pessimistic Economic Beliefs

Classical political economy tended toward pessimistic conclusions, primarily because of its teachings on rent, diminishing returns, and the principle of population. In the evolution of the state, the prospect of an increasing proportion of society's income gravitating toward a decreasing minority was disconcerting, and, as a consequence, reaction against the classical economists spurred the formulation of interventional and socialistic theories of political economy.

Somber prophecies undermined belief in the efficacy to be found in the spontaneous organization of society. As a substitute for the laws of the natural order, consideration was being given to state-sponsored projects which ranged all the way from legislated economic freedom to a broad protectionism. The reaction among the economists known as the "optimistic liberals" brought to the fore the parts of the *Wealth of Nations* setting forth the principles of liberalism and natural optimism. The height of their popularity ran through the two decades preceding 1850.

The optimistic liberals were insistent that the evils in the economic system were a result of the imperfect realization of liberty and that the defects could be remedied by the institution of a more perfect freedom. Individual liberty was extolled by them and as Bastiat put it: "If everyone could only follow his own interest he would unwittingly find he was advancing the interests of all."

The best exponents of the optimistic liberals' doctrines were Bastiat and Henry Carey, a Frenchman and an American. Bastiat's book, *Les Harmonies économiques* (1850), proclaimed that economic liberty could secure for society the maximum of well-

being. Carey announced "a perfect harmony of real and true interest among the various classes of mankind." Of the two, Carey was the first to publish. He wrote voluminously over a period of four decades, but Bastiat's period of literary activity was compressed into the short period of six years.

Henry Charles Carey

Biographical Sketch. Henry Charles Carey (1793–1879), eldest son of Matthew Carey, publisher and protectionist, was born in Philadelphia. Like John Stuart Mill, he was a precocious child, and, in similar manner, his early instruction in political economy was received from his father while on walks in and about the home city. His formal education did not extend beyond the local schools, but the family business of publishing and bookselling facilitated reading. He learned the printing trade and became the junior partner in his father's firm at the age of twenty-four. The Carey, Lea, and Carey Publishing Company became one of the largest and most successful in the country; it had the American contracts for the works of Thomas Carlyle, Washington Irving, and Sir Walter Scott.

At the age of forty-two, like Franklin, Carey retired from business to devote himself to study and writing in the field of social science. In his economic theory he gave complete assent to the principle of *laissez faire* and repeatedly expressed his admiration for Adam Smith. In optimism, however, he went far beyond any classical writer, for he held stoutly to the conviction that natural laws work spontaneously toward a universal harmony of interests.

Capital and invention, he contends, fully compensate for the inferiority of poorer soils, and he holds fast to the conviction that food actually increases faster than population. Distress in society, he taught, is the result of human ineptitude. Hence he advances the idea of continuous progress and makes association a fundamental need of man. He uses historical investigation and the inductive method of reasoning but becomes guilty of allowing environmental influences to lead him into the error of drawing conclusions from special data, which he applies in an arbitrary manner.

Although his father, Matthew Carey, was an ardent protectionist, the son remained a steadfast free trader until shortly before the publishing of his book, *The Past, the Present, and the Future* (1848). At the time, free trade was in full effect in England, and the American tariff was in process of reduction. Carey, changing his earlier belief,

became an advocate of protection and, with the coming of the War between the States the theory gained ground. His most extended work was the *Principles of Social Science* (1858–1859).

Carey's writings received greater attention in Europe than in America. His works were translated into seven continental languages and the Japanese. He popularized his teachings by speaking before clubs and at meetings in his home, which were commonly known as "Carey's vespers." In appearance, he was strikingly handsome, possessed of a dominating personality and a good mind. He stands out as the leader in opposition to the pessimism of the classical school and also to the socialist reaction engendered by it. Carey's significance and fame have both waned. The present student generation has difficulty in appreciating him as "the first American economist."

Carey's Discovery

In the preface to the book, *The Past, the Present, and the Future,* Carey announces:[1]

> The volume now offered to the public is designed to demonstrate the existence of a simple and beautiful law of nature, governing man in all his efforts for the maintenance and improvement of his condition, a law so powerful and universal that escape from it is impossible, but which, nevertheless, has heretofore remained unnoticed.

At this point, his thesis is that the laws of physical science are also those of social science since the law of nature governs both mind and matter. Carey proclaims "a perfect harmony of real and true interest among the various classes of mankind," dependent only upon the application of the "principle of association." We are told how, by the intermingling of the gratuitous forces of nature and the intelligent application of labor, the aboriginal Robinson Crusoe advanced from a low estate to wealth, prosperity, and happiness.

A Complete Harmony of Interests

A Carey is rare among economists. In them exuberant optimism is an uncommon characteristic. Living at a time of phenomenal prosperity in our country, Carey, the offspring of parents who ad-

[1] Henry C. Carey, *The Past, the Present, and the Future,* Preface, p. 5.

vanced from dire poverty to a position of wealth and affluence, gained a conception of man as a ready conqueror in the struggle with nature. He but reflected a process of reasoning ordered by his environment. He denied the law of diminishing returns; he ridiculed the Ricardian theory of rent; he scorned the Malthusian principle of population. The Ricardian theory of distribution, with its clash of interests among the classes of society, Carey dismissed as unnatural and fantastic, substituting therefor his own theory of a complete harmony of interests. According to him, as society progressed, the income received by landlords, capitalists, and wage earners increased in the aggregate for each class while wages, representative of the income of the majority class, increased both absolutely and relatively as compared with rent and profits.

How man advanced from a primitive state to wealth and affluence Carey presents in an interesting pen picture in the first chapter of his book, *The Past, the Present, and the Future,* as follows:[2]

> The first cultivator, the Robinson Crusoe of his day, provided however with a wife, has neither an axe nor spade. He works alone. Population being small, land is, of course, abundant. He may select for himself, without fear of his title being disputed. He is surrounded by soils possessed, in the highest possible degree, of the qualities that fit them for yielding large returns to labour. They are, however, covered with immense trees that he cannot fell, or they are swamps that he cannot drain. To pass through them even is attended with no small difficulty. The first is a mass of roots, stumps, decaying logs, and shrubs, while into the other he sinks half leg deep at every step. The atmosphere, too, is impure. Fogs settle upon the low lands, and the dense foliage of the wood prevents the circulation of the air. He has no axe, but if he had, he would not venture there, for to do so, would be attended with certain loss of health and great risk of life. Vegetation, too, is so luxuriant, that before he could, with the imperfect machinery at his command, clear a single acre, a portion of it would be again so overgrown that he would have to recommence his labour, which would be almost, if not quite, that of Sisyphus. The higher lands, comparatively bare of timber, are ill calculated to yield a return to his labour. Nevertheless, there are spots on the hill where

[2] *Ibid.,* pp. 9–10.

the thin soil has prevented the growth of trees and shrubs, or there are spaces among the trees, that can be cultivated while they still remain standing and when he pulls up by the roots the few shrubs scattered over the surface, he feels no apprehension of their being speedily replaced. With his hands he may even succeed in barking the trees, or by the aid of fire, he may so far destroy them that time alone is needed to give him a few cleared acres, upon which he may plant his grain, with little fear of weeds. To attempt these things upon the richer lands would be loss of labour. In some places the ground is always wet. In others, the trees are too large to be seriously injured by fire, and its only effect would be to stimulate growth of weeds and brush. He, therefore, commences the work of cultivation far up the hill, where, making with his stick holes in the light soil that drains itself, he drops the grain an inch or two below the surface, and in due season obtains a return of double the amount of his seeds. He pounds this between stones, and obtains bread. His condition is improved. He has succeeded in making the earth labour for him, while himself engaged in trapping rabbits or squirrels, and in gathering fruits. In process of time, he succeeds in sharpening a stone, and thus obtains a hatchet by aid of which he is enabled to proceed more rapidly in girdling the trees, and in removing the sprouts and their roots, which is nevertheless a very slow and laborious operation.

The narrative progresses by describing successive steps in the improvement of the imaginary Robinson Crusoe. In each of the stages in the onward movement there is available a better ax. In the second stage a better ax is made out of metal derived from newly discovered copper ore, and a spade has come into use. At the beginning of the next stage zinc has been found and combined with copper to make brass. Light machines come into use, and man proceeds more rapidly in the progress march. His children have grown to an age where their assistance is a material aid. At the next forward step our man has acquired a real ax and spade made of iron, and the heavy timber of the river bottom can be cleared. The sons have grown up, and their cooperation releases the father to work in iron and invent tools – first the hoe, then the plow. The ox is tamed and harnessed. The family grows; wealth increases at the expense of less severe exertion. Food increases rapidly, and so does the power of accumulation. All danger of famine passes, even though more time is taken from direct

production to drain lowlands, to enclose farms, and to build better houses and barns. Among domestic animals, to the hog are added beef cattle and sheep. Now the third and later generations profit by the wealth accumulated. Labor, applied with increasing advantage, brings constantly increasing returns, an increasing power of accumulation, and a decreasing severity of application. Water and air are utilized by waterwheel and windmill; charcoal is used in making an abundance of iron. All is well, for nature is fully cooperative in her response to man's controlling mind and energy. Carey continues:[3]

Population spreads itself along the faces of the hills and down into the lower lands, becoming more and more dense at the seat of the original settlement, and with every step we find increasing tendency to combination of action for the production of foods, the manufacture of clothing and household utensils, the construction of houses, and the preparation of machinery for aiding in all these operations. The heaviest timber: that growing on the most fertile land: now disappears, and the deepest marshes are now drained. Roads are next made to facilitate the intercourse between the old settlement and the newer ones that have been formed around it, and to enable the grower of corn to exchange his product for improved spades and ploughs, and for clothing and furniture. Population again increases, and wealth still further increases, and therewith man acquires more leisure for reflection on the results furnished by the experience of himself and his predecessors. His mind becomes more and more stimulated into action. The sand in the neighborhood is found to be underlaid with marl, and by the aid of the improved machinery now in use, the two are brought into combination, thereby producing a soil of power far exceeding that of those heretofore cultivated. The return to labour increases, and all are better fed, and clothed, and housed, and all are incited to new exertions, while improved health and the power of working indoors and out-of-doors, according to the season, enable them to apply their labour more steadily and regularly. Thus far, however, they have found it difficult to gather their crops in season. The harvest time is short, and the whole strength of the community has been found insufficient to prevent much of the grain remaining on the ground, until overripe it was shaken out by the wind, or in the attempt to gather it: and not unfrequently it has been totally ruined by changes of weather after it was fit to be harvested. The progress of

[3] *Ibid.*, pp. 15–17.

cultivation has thereby been arrested, and labour has been superabundant during the year, while harvest produced a demand for it that could not be supplied. The reaping-hook takes the place of the hand, and the scythe enables the farmer to cut his hay. The cradle and the horserake follow, and all tend to increase the facility of accumulation, and thus to increase the power of applying labour to new soils, deeper or more distant, more heavily burdened with timber, or more liable to be flooded, and thus requiring embankment as well as drainage. New combinations, too, are formed. The clay is found to be underlaid with the soil called lime, which latter, like the iron soil, requires preparation to fit it for the task of combination. The road, the wagon, and the horse facilitate the work, by enabling the farmer readily to obtain supplies of the carbon yielding soil, called coal, and he now obtains, by burning the lime and combining it with the clay, a better soil than at any former period: one that will yield more corn, and that requires far less severe labour from himself, his oxen, or his horses. Population and wealth again increase, and the steam-engine facilitates the work of drainage, while the railroad and the engine facilitate the transportation to market of his products. His cattle are now fattened at home, and a large portion of the produce of his rich meadow-land is left at home, in the form of manure, to be applied to other soils, yet found incapable of yielding a return to labour. Instead of sending food to fatten them *at* market, he now obtains *from* market their refuse in the form of bones, and the productiveness of labour is greatly increased. Passing thus, at every step, from the poor to the better soils, the supply of food, and of all other of the necessaries of life increases daily, and men consume more, while accumulating wealth with constantly increasing rapidity. The danger of famine and disease passes away. Increased returns to labour and daily improving condition render labour pleasant, and man applies himself more steadily as his work becomes less severe. Population increases, and the rapidity of its increase is seen to be greater with each successive generation; and, with each is seen an increase of the power of living in connection with each other, by reason of the power of obtaining constantly increasing supplies from the same surface: with each is seen an increase in the tendency to combination of action, by which their labours are rendered more productive – their wants increased – the desire and the facilities of commerce augmented: tending to produce harmony and peace, and security of person and property among themselves, and with the world: accompanied by constant increase of numbers, wealth, prosperity and happiness.

Rejection of the Ricardian Rent Theory

The above description serves as Carey's background, from which he emerges with the design to sweep away the fantasy of the Ricardian rent theory. Carey declares time and again that first settlers are always found established on barren soil, a statement which is the direct opposite of the Ricardian theory that the best soils alone are cultivated first. With meticulous care and tedious length Carey demonstrates that history contradicts Ricardo's assumption and that, since the theory rests on a false premise, the theory itself is false.

Man Dominant over Nature

Repeatedly Carey chides Ricardo for claiming a simplicity and universality for his theory which it does not possess. Repeatedly, also, Carey tells us the earth is preserved to serve the purposes of man and that the important difference between man and animals is that the latter are bound to continue forever the slaves of nature, while man alone is "gifted with faculties required for enabling him to become her master, and make her do his work." The harmonious laws of nature, combined with man's instincts, which induce association with his fellows, bring none but happy results: "Population and wealth tend to increase, and cultivation tends toward the more fertile soils, when man is allowed to obey those instincts of his nature which prompt him to seek association with his follow-men."[4] Ricardo's doctrine is pictured as one of increasing dispersion and weakness, whereas the real laws of nature are described as tending "towards a constant increase of that power of association and combination to which alone man is indebted for the ability to subjugate the more productive soils."[5]

The Malthusian Doctrine Absurd

Carey points to the Malthusian law of population, too, as inconsistent with fact in its contention that matter in the lowest forms tends to augment in arithmetical ratio only but that matter in the

[4] *Ibid.*, Vol. I, Chap. V, p. 139.
[5] *Ibid.*, Chap. IV, p. 138.

highest form, as exemplified in the human species, tends to multiply in a geometrical ratio. This differentiation Carey declares contrary to fact. The Malthusian doctrine is pronounced absurd inasmuch as nature does not corroborate the theory that the highest forms of life perpetually outstrip the lower ones. As Carey expresses it:[6]

> Were such things asserted in regard to anything else than man, they would be deemed in the highest degree absurd, and those by whom they were asserted, would be required to explain why it was, that an universal law had here been set aside. Everywhere else, the increase in number is in the inverse ratio of development. The little coral insects are required by thousands of billions, to build up islands for men that count by thousands, or by millions. Of the *clio borealis*, thousands are required to furnish a mouthful for the mighty whale. The progeny of a pair of carp would, in the third year, as we are told, amount to thousands of billions. The countless ferns prepare the soil for the single oak; and the progeny of a pair of rabbits would, in twenty years, count by millions — whereas, that of a pair of elephants, would not amount to dozens. When, however, we reach the highest condition of which matter is capable, we hear of the existence of a new and greater law, in virtue of which man increases in a geometrical ratio, while the herrings, the rabbits, the oysters, the potatoes, the turnips, and all other commodities required for his use can increase in an arithmetical one only!

How Man Gains the Mastery

In the chapter setting forth the principles of food and population, Carey explains that increase in the food supply and mankind's growth in numbers serve in relation to each other as both cause and effect. To increase the supply of food, mankind must grow in numbers; and to have population increase, the food supply must be augmented. It is by "the growing power of association and combination, that man is enabled to control and direct the earth's forces, and to pass from the condition of nature's slave, to that of nature's master."

Crusoe is pictured as at first entirely dependent upon his powers of appropriation. In the shepherd state the growing reproductive

[6] Henry C. Carey, *Principles of Social Science*, Vol. I, Chap. III, p. 92.

force of tamed animals assists man, in that food has become more plentiful, more varied, and less costly. At the next step in progress implements and machinery aid man in gaining from the earth food which need not be first converted into meat before consumption. Consequently, a single acre appropriated to the production of food suitable for direct use in man's support provides more nutriment than a half-dozen acres sequestered for the support of the "middleman" ox. Under the more productive cultivation when the soil is sown to peas, beans, cabbage, and turnips, each half acre yields by the ton, and the number of persons who can draw support from a given surface is much increased. In all this the beneficent hand of the Creator is credited with the proportioning of the supply of food to the demands of a constantly growing population.

The substitution of plant for animal food is given the highest significance, for the more direct the action of man upon nature, the less the friction and the greater the power to appease the appetite. The greater the power to subdue the richer soils to cultivation and the more diversified the capacities of the man engaged in making himself master of nature, the greater the progress in civilization. Advancing civilization, it is declared, is evidenced also by substitution of plant for animal products in general use: cotton for wool; flax and cotton for the silkworm; vegetable oil for that of the whale or the hog; gutta-percha and muslin for bookbinder's leather; rubber for hides and wool; paper for parchment. From the mineral kingdom, the steel pen substitutes for the goose quill; mineral manures for animal; and the engine serves in place of the muscle, bone, and sinew of the draft animal. Power, obtained through the development of mineral treasures in the earth, and facility, obtained through improved machinery, tend to advancement of society.

Adaptivity of Nature[7]

Look, therefore, where we may, we find, throughout nature, a constant tendency towards the perfect adaptation of the earth to the wants of a growing population — each and every increase in the power of association and combination being accompanied by ***diminution in the***

[7] *Ibid.*, Vol. III, Chap. XLVII, p. 319.

quantity of raw material required for the maintenance of human life, and *increase in that which may be obtained* in return to any given amount of labor. Man grows in value with every stage of progress in this direction, and with each, the value of commodities as regularly declines. With each there is increase of competition for the purchase of the laborer's services – labor then acquiring power over capital, and man himself becoming more happy and more free.

With increase in the numbers of mankind, the lower animals tend to diminish in their numbers, and gradually to disappear – vegetable products tending, as steadily, to increase in quantity. Were it otherwise, the earth would become less and less fitted for man's residence – carbonic acid being more and more produced, and the air declining in its powers for the maintenance of human life. Increase of vegetable life tends, on the contrary, to promote the decomposition of that acid – thereby increasing the supply of the oxygen required for maintenance of animal life, while diminution in the consumption of animal food is attended by decrease in the quantity of oxygen required for human purposes.

The Carbonic Acid Argument

The argument, which is based upon the natural balance of carbonic acid for the maintenance of an adequate plant food supply, rests upon a curiously rash hypothesis. In this connection Carey says the extension of cultivation is indispensable in an advancing society and that it involves "a gradual extirpation of animal races that now consume so largely of the products of the earth; and were they not to be replaced by men, the production of carbonic acid would speedily diminish, with corresponding diminution in the reproductive powers of the vegetable world. The more numerous the men and women, the greater is the store of force required for the production of vegetable matter, the more rapid is the circulation, the greater is the production of carbonic acid, and the greater the power for vegetable reproduction." [8]

Nature's Control over Population

Nature exercises a direct control over population quantities too, we are told, by a full cooperation with man, in that, as vital

[8] *Ibid.*

force increases in man, it tends toward strengthening the reasoning powers and less in the direction of procreation. In Carey's words:[9]

. . . every stage of progress towards real civilization, is attended with increase in the power to demand supplies of food—while diminishing the proportion borne by the demand for food to the mouths that are to be fed, and slowly, but certainly, diminishing the tendency towards increase in the number of mouths themselves — the ultimate effect exhibiting itself in large increase in the proportion borne by food to population.

Carey's Method

Carey presents a unique method, in that it is a mixture of all methods, intermingled with not a few inconsistencies and forced analogies. He criticizes the too wide use of the deductive method by others, oblivious of the fact that he is tarred with the same stick. He bemoans the fact that political economists do not use the modern scientific method and, in their failure to do so, identify the science too closely with the metaphysical stage of knowledge. Yet he points to intuition and inspiration as effective aids to economic improvements.

Intuition and inspiration — the essence of the metaphysical and theological stages of knowledge — are held highly trustworthy while the systems in which they are used are declared obsolete. Carey's naïve inconsistency can be well illustrated. For example, in writing about the Malthusian doctrine of population, Carey leaves much to the Creator's beneficence. To quote:[10]

The time may arrive when the world will be so fully occupied that there will not be even standing room, but we may safely leave that distant future to the benevolent care of the Deity. We know well that there is now, and always has been, an abundance of unoccupied land; and the question to be settled is: What are the phenomena which in time past have attended the increase of mankind up to the present point with a view to determine what are those which may be expected to mark the further progress of our race towards the occupation of that

[9] *Ibid.*, p. 326.

[10] Henry C. Carey, *The Past, the Present, and the Future*, pp. 77–78.

almost infinite extent of soil capable of yielding food, which in both old and new countries yet remains unoccupied and unproductive.

In another passage in which the same subject is under discussion, Carey writes:[11]

> At times, after periods of war or pestilence, human fertility is much increased, and the question at once arises, as to which is the cause and which the effect. Is war required to correct an error of the Creator, or has the Creator himself supplied the corrective required for removing the effects of human error?

Value Defined

Carey tells us that "The great object of MAN, in this world, is to acquire dominion over NATURE – compelling her to do his work; and with every step in that direction labor becomes less severe – while increasing in its reward."[12] Value is defined as *our estimate of the resistance to be overcome, before we can enter upon the possession of the thing desired.* Since, according to Carey's theory, resistance diminishes with the increase of man's power over nature, in advancing communities there is a steady increase in the value of labor when measured in commodities and a decline in the value of goods when measured by labor. Likewise, previously accumulated machinery (capital) diminishes in value with the falling *cost of reproduction* resulting from man's increasing power over nature. In the Robinson Crusoe stage of economy, labor is the cause and the measure of value, but when capital comes into use, while labor is the cause of value, still the measure of value is not an article's labor cost of production, but the labor cost involved in its reproduction.

Land Identified with Capital

Carey identifies land with capital; in his belief rent is interest arising from the capital invested in land through labor employed in its appropriation and improvement. In Carey's words:[13]

[11] Henry C. Carey, *Principles of Social Science,* Vol. III, Chap. XLVI, p. 270.

[12] *Ibid.,* Vol. I, Chap. VI, p. 158.

[13] *Ibid.,* pp. 175–176.

The value of land is a consequence of the improvement which labor has effected upon it, and it constitutes an important item of wealth. Wealth tends to augment with population, and the power of accumulation increases with constantly accelerating pace as new soils are brought into cultivation – each yielding in succession a larger return to labor. Rent tends, therefore, to increase in amount, and to diminish in its proportion, with the growth of wealth and population. The former is greatest in England, the wealthiest country of Europe. Diminishing as we pass thence to the poorer countries of France, Germany, Italy, and Spain, it at length disappears totally among the Rocky Mountains and the islands of the Pacific, where land is valueless.

In opening his chapter on distribution, Carey writes:[14]

Capital – the instrument by means of which man acquires power to direct the forces of nature to his service – is a result of the accumulated mental and physical efforts of the past.

. . . . . .

Past accumulations tend steadily to decline in value – labor rising not less steadily when compared with them. The first stone-knife was the fruit of far more effort than was afterwards required for making one of bronze – the latter proving, however, a far more efficient instrument. The stone-axe ceases now to have any value whatsoever; and yet, in the earlier periods, its services had been held as equal to three-fourths of those of the man who used it. The axe of iron and steel now coming into use, and proving still more efficient, the bronze axe, in turn, declines in value. The more useful instrument being obtained, too, in return for far less effort than had before been given for the inferior one – the decline in the value of earlier ones is thus again increased. Mind having obtained command over matter, the great natural forces become centered in man, who now discards the earlier instruments – preserving specimens, only as curious evidences of the inferiority of his predecessors, who had wrought with their hands alone.

By means of the ax symbolism, Carey demonstrates that the interest allotted to capital is greatest for the use of the earliest but poorest ax in the series, owing to its having cost an enormous amount of labor to fashion, while the latest and best ax, having cost least, yields but small interest to capital even though it is the most efficient aid in use. With each ax, the cost of reproduction having diminished, a new distribution is effected. In each in-

[14] *Ibid.*, Vol. III, Chap. XLI, pp. 109–111.

stance the proportion assigned to labor is increased as compared with that assigned to capital. As Carey sums it up:[15]

The laborer's share has increased; and – the total product having largely increased – the augmentation of his quantity is very great. That of the capitalist has diminished in proportion: but – the product having so much increased – this reduction of proportion has been accompanied by a large increase of quantity. Both thus profit greatly by the improvements that have been effected. With every further movement in the same direction, the same results continue to be obtained – the proportion of the laborer increasing with every increase in the productiveness of effort – the proportion of the capitalist as steadily diminishing, with constant increase of quantity, and equally constant tendency towards equality among the various portions of which society is composed. The more rapid the progress, the greater is the tendency of mind to acquire power over matter – the value of man rising as compared with capital, and that of capital declining as compared with man. In the natural course of things, the laborers of the present tend, therefore, to acquire power at the cost of the accumulations of the past – that tendency existing, everywhere, in the direct ratio of the rapidity of the circulation, and consequent growth of the power of accumulation.

Carey was truly an optimist. He, like a Don Quixote, ventured forth to annihilate economic doctrines not in accord with his own theory of complete harmony between the forces in nature and in man, but his weapons were unequal to the task. Though untrained in the natural sciences, Carey did not hesitate to seek in every field of knowledge proof of the broad validity of his discovery – the "Universal Law of Nature." In his quest he was taken far afield, and many an argument of his bears the earmarks of a strained analogy and proof of his dilettantism.

Frédéric Bastiat

Biographical Sketch. Frédéric Bastiat (1801–1850), French economist and publicist, was born near Bayonne, member of a family of fairly wealthy merchants. At the age of nine, his father having died, Frédéric became the ward of his aunt, who directed his education. After finishing school, he entered his uncle's business as a merchant, but at the age of twenty-four he inherited a landed estate from his grandfather and

[15] *Ibid.*, p. 113.

for two decades thereafter lived the life of a gentleman farmer. Mastery of English, Italian, and Spanish afforded ready means of obtaining information regarding economic and social affairs in foreign countries, particularly in England.

His reading in the works of the classical economists made him an economic individualist, and the writings of Say inclined him toward optimism. In his conception the general laws of the social world are in harmony, and his doctrine implies belief in a providential order. Basically, in his system, "God has placed within each individual an irresistible impulse towards the good, and a never failing light which enables him to discern it."

Bastiat became fascinated by the efforts of Cobden and others of the Manchester school in their struggle for the repeal of the Corn Laws and the establishment of *laissez faire.* He conceived that anything short of complete liberty of business enterprise interfered with nature's harmonies. Consequently, he used his facile pen and persuasive speech to refute the arguments of protectionists and socialists alike. Scornfully he points out their inconsistencies.

By the brilliant use of satire and fable he makes state interventionism appear futile and silly. He could see no justification in the substitution of a duty for a tax, since a tax is levied upon the individual for the benefit of all, while a duty is imposed upon all for the benefit of the few. Though not a profound economist, he was a great popularizer of many orthodox theories underlying current economic problems.

He was familiar with *Poor Richard's Almanac,* and its type of composition had a great influence upon his writings. Enthusiasm for Franklin's works carried over into imitation of his manners and dress — long hair, umbrella, and all, like a rustic come to town. As an example of witty sayings we have, "Government is the great fiction, by means of which everybody contrives to live at the expense of everybody else."

The Manchester movement squared with his convictions; so he set himself the task of popularizing it in France. He assumed the role of active propagandist and established himself in Paris. A commission was organized of which he was secretary, and a weekly journal was founded as a publicity organ. Bastiat conducted a school of instruction, made addresses in the principal cities, wrote innumerable letters, and printed articles. Illness from an incurable malady having made speeches impossible, his writing became still more incessant.

Though his expression on paper is so happy as to appear effortless, it drained his energy and he died at Rome, where he had gone in the

hope of improving his health. Much writing was crowded into the last six years of his life, but his chief work, of which the first volume, *Economic Harmonies,* was published posthumously in 1850, was left unfinished. Other writings of his were collected and published under the titles of *Economic Sophisms* and *Essays on Political Economy.*

The Subject of Political Economy Is Man

Bastiat sets forth the propositions that "The subject of Political Economy Is Man," and that "Every effort, capable of satisfying, on condition of a return, the wants of a person other than the man who makes the effort, and consequently the wants and satisfactions relative to this species of effort, constitute the domain of Political Economy."[16] It is further explained that economics may be defined as the theory of exchange and that "Value is the ratio between two exchanged services."

Labor Saved, a Valuable Service

In Carey's labor theory of value, emphasis is placed upon the value of the labor saved rather than that of the labor expended; Bastiat pushes a step further in translating the value of the labor saved into a valuable service. Service becomes the essence of value, and so Bastiat solves Adam Smith's paradox — the diamond is more valuable than the glass of water because of the difference in the service value. Likewise, a pearl accidentally discovered has the same value as one found after much effort in the depths of the sea because the services rendered the possessors, after the exchange, are identical. Wants stimulating to effort, in turn converted into utility, command satisfaction.

Bastiat divides the two regions of the economic world into those of natural cooperation found in the bounty of God, and the work of man; the former is gratuitous, the latter onerous. Man is constantly engaged in substituting gratuitous for onerous utility. A multitude of satisfactions is derived from the source of gratuitous utility. In the substitution of gratuitous for onerous utility lies the principle of economic progress. The augmentation of the proportion which the former bears to the latter makes disposable a part

[16] Frédéric Bastiat, *Economic Harmonies,* Chap. II.

of human effort; the individual wins the option of indulging in longer repose or of directing the saved effort to the satisfaction of new desires.

Laws of Nature Providential

We are told that the germs of the social harmonies are included in the principles of liberty and property. Through these two principles there is a constant approximation of all men toward an always rising level. Improvement and equalization develop harmony. Bastiat concludes:[17]

> Such is the definitive result of the arrangements of Providence – of the great laws of nature – when they act without impediment, when we regard them as they are in themselves, and apart from any disturbance of their action by error and violence. On beholding this Harmony, the Economist may well exclaim, like the astronomer who regards the planetary movements, or the physiologist who contemplates the structure and arrangement of the human organs – Digitus Dei est hic!

Social dissonances are pointed to as antagonistic to liberty and property and reside in spoliation and oppression. In monopoly when bound by restrictions, mutuality of services disappears. The law of the harmonies dissolves this evil. "Harmony consists, not in absolute absence of evil, but in its gradual diminution. The social body, like the human body, is provided with a curative force, a *Vis medicatrix,* the laws and infallible power of which it is impossible to study without again exclaiming, *Digitus Dei est hic.*"[18]

Bastiat's Theory of Distribution

According to Bastiat's theory of distribution, interest on capital diminishes as the volume of it increases; however, aggregate interest increases absolutely, or else the part would be worth more than the whole. The rent of land is a return for past service, but since the value of similar service in the present is less, rent de-

[17] *Ibid.*, Chap. II, Concluding Observations.
[18] *Ibid.*

clines. Under the conditions cited wage earners are well satisfied with their lot, for since production becomes continually easier, yet more abundant, they receive an always larger share. As a consequence, though the transition from workman to employer becomes easier, owing to the constant rise in wages the change of class status grows continually less desirable.

Effectiveness of Bastiat's Style

The effectiveness and style of Bastiat's writings can best be shown by offering a few excerpts from the essay, "The Seen and the Unseen," published in the volume, *Essays on Political Economy*. Phenomena "seen" and "unseen" are contrasted:[19]

In the department of economy, an act, a habit, an institution, a law, gives birth not only to an effect, but to a series of effects. Of these effects the first one is immediate; it manifests itself simultaneously with its cause — *it is seen.* The others unfold in succession — *they are not seen;* it is well for us if they are foreseen. Between a good and a bad economist this constitutes the whole difference — the one takes account of the *visible* effect; the other takes account both of the effects which are seen, and also of those which it is necessary to *foresee.* Now this difference is enormous, for it almost always happens that when the immediate consequence is favorable the ultimate consequences are fatal, *and the converse.* Hence it follows that the bad economist pursues a small present good which will be followed by a great evil to come, while the true economist pursues a great good to come at the risk of a small present evil.

. . . . . .

When, therefore, a man, absorbed in the effect which *is seen,* has not yet learned to discern those which are *not seen,* he gives way to fatal habits, not only by inclination, but by calculation.

This explains the fatally grievous condition of mankind. Ignorance surrounds its cradle; then its actions are determined by their first consequences, the only ones which, in its first stage, it can see. It is only in the long run that it learns to take account of the others. It has to learn this lesson from two very different masters — experience and foresight. Experience teaches effectually, but brutally. It makes us

[19] Frédéric Bastiat, *Essays on Political Economy,* "The Seen and the Unseen."

acquainted with all the effects of an action by causing us to feel them; and we cannot fail to finish by knowing that fire burns if we have burned ourselves. For this rough teacher, I should like, if possible, to substitute a more gentle one. I mean foresight. For this purpose I shall examine the consequences of certain economical phenomena, by placing in opposition to each other those *which are seen,* and those *which are not seen.*

The Broken Window

Have you ever witnessed the anger of the good shopkeeper, James B., when his careless son happened to break a square of glass? If you have been present at such a scene you will most assuredly bear witness to the fact that every one of the spectators, were there even thirty of them, by common consent apparently, offered the unfortunate owner this invariable consolation: "It is an ill wind that blows nobody good. Everybody must live, and what would become of the glaziers if panes of glass were never broken?"

Now this form of condolence contains en entire theory, which it will be well to show up in this simple case, seeing that it is precisely the same as that which, unhappily, regulates the greater part of our economical institutions.

Suppose it cost six francs to repair the damage, and you say that the accident brings six francs to the glazier's trade – that it encourages that trade to the amount of six francs – I grant it; I have not a word to say against it; you reason justly. The glazier comes, performs his task, receives his six francs, rubs his hands, and, in his heart, blesses the careless child. All this is *that which is seen.*

But if, on the other hand, you come to the conclusion, as is too often the case, that it is a good thing to break windows, that it causes money to circulate, and that the encouragement of industry in general will be the result of it, you will oblige me to call out, "Stop there! your theory is confined to that *which is seen;* it takes no account of that *which is not seen.*"

It is not seen that as our shopkeeper has spent six francs upon one thing he cannot spend them upon another. *It is not seen* that if he had not had a window to replace, he would, perhaps, have replaced his old shoes, or added another book to his library. In short, he would have employed his six francs in some way which this accident has prevented.

. . . . . .

Public Works

Nothing is more natural than that a nation, after having assured itself that an enterprise will benefit a community, should have it executed by means of a general assessment. But I lose patience, I confess, when I hear this economic blunder advanced in support of such a project — "Besides it will be a means of creating labor for the workmen."

The State opens a road, builds a palace, straightens a street, cuts a canal; and so gives work to certain workmen — *this is what is seen;* but it deprives certain other workmen of work, and this is what *is not seen.*

. . . . . .

The sophism which this work is intended to refute is the more dangerous when applied to public works, inasmuch as it serves to justify the most wanton enterprises and extravagance. When a railroad or a bridge are of real utility, it is sufficient to mention this utility. But if it does not exist, what do they do? Recourse is had to this mystification, "We must find work for the workmen."

. . . . . .

But after having called them together, if you force them to make roads which no one will pass through, palaces which no one will inhabit, and this under the pretext of finding them work, it would be absurd, and they would have a right to argue, "With this labor we will having nothing to do; we prefer working on our own account."

. . . . . .

There is an article in our constitution which says: "Society favors and encourages the development of labor — by the establishment of public works, by the State, the departments, and the parishes, as a means of employing persons who are in want of work."

As a temporary measure, on any emergency, during a hard winter, this interference with the taxpayers may have its use. It acts in the same way as securities. It adds nothing either to labor or to wages, but it takes labor and wages from ordinary times to give them, at a loss it is true, to times of difficulty.

As a permanent, general, systematic measure, it is nothing else than a ruinous mystification, an impossibility which shows a little excited labor *which is seen,* and hides a great deal of prevented labor *which is not seen.*

Petition of the Candlemakers

From a series of pamphlets written in support of free trade by Bastiat, the *Petition of the Candlemakers against Competition*

by the Sun, serves best as a sample of the writer's strategy and style. It was addressed to the Chamber of Deputies and reads:[20]

GENTLEMEN — You are in the right way: you reject abstract theories; abundance, cheapness, concerns you little. You are entirely occupied with the interest of the producer, whom you are anxious to free from foreign competition. In a word, you wish to secure the *national market to national labor.*

We come now to offer you an admirable opportunity for the application of your — what shall we say? your theory? no, nothing is more deceiving than theory — your doctrine? your system? your principle? But you do not like doctrines; you hold systems in horror; and, as for principles, you declare that there are no such things in political economy. We will say then, your practice; your practice without theory, and without principle.

We are subjected to the intolerable competition of a foreign rival, who enjoys, it would seem, such superior facilities for the production of light, that he is enabled to *inundate* our *national market* at so exceedingly reduced a price, that, the moment he makes his appearance, he draws off all custom from us; and thus an important branch of French industry, with all its innumerable ramifications, is suddenly reduced to a state of complete stagnation. This rival, who is no other than the sun, carries on so bitter a war against us, that we have every reason to believe that he has been excited to this course by our perfidious neighbor England. (Good diplomacy this, for the present time!) In this belief we are confirmed by the fact that in all his transactions with that proud island, he is much more moderate and careful than with us.

Our petition is, that it would please your honorable body to pass a law whereby shall be directed the shutting up of windows, dormers, skylights, shutters, curtains, *vasistas, oeil-de-boeufs,* in a word, all openings, holes, chinks, and fissures, through which the light of the sun is used to penetrate into our dwellings, to the prejudice of the profitable manufactures which we flatter ourselves we have been enabled to bestow upon the country; which country cannot, therefore, without ingratitude, leave us now to struggle unprotected through so unequal a contest.

We pray your honorable body not to mistake our petition for a satire; nor to repulse us without at least hearing the reasons which we have to advance in its favor.

[20] Frédéric Bastiat, *Economic Sophisms,* "Petition from the Manufacturers of Candles, etc."

And first, if by shutting out as much as possible all access to natural light, you thus create the necessity for artificial light, is there in France an industrial pursuit which will not, through some connection with this important object, be benefited by it?

If more tallow be consumed, there will arise a necessity for an increase of cattle and sheep. Thus artificial meadows must be in greater demand; and meat, wool, leather, and above all, manure, this basis of agricultural riches, must become more abundant.

. . . . . .

Gentlemen, if you will be pleased to reflect, you cannot fail to be convinced that there is perhaps not one Frenchman, from the opulent stockholder of Anzin down to the poorest vendor of matches, who is not interested in the success of our petition.

. . . . . .

You have no longer any right to cite the interest of the consumer. For whenever this has been found to compete with that of the producer, you have invariably sacrificed the first. You have done this to *encourage labor,* to *increase the demand for labor.* The same reason should now induce you to act in the same manner.

. . . . . .

Will you say that the light of the sun is a gratuitous gift, and that to repulse gratuitous gifts is to repulse riches under pretense of encouraging the means of obtaining them?

. . . . . .

Again, when any article, as coal, iron, cheese, or cloth, comes to us from foreign countries with less labor than if we produced it ourselves, the difference in price is a *gratuitous gift* conferred upon us; and the gift is more or less considerable, according as the difference is greater or less. It is the quarter, the half, or the three quarters of the value of the produce, in proportion as the foreign merchant requires the three quarters, the half, or the quarter of the price. It is as complete as possible when the producer offers, as the sun does with light, the whole in free gift. The question is, and we put it formally, whether you wish for France the benefit of gratuitous consumption, or the supposed advantages of laborious production. Choose, but be consistent. And does it not argue the greatest inconsistency to check as you do the importation of coal, iron, cheese, and goods of foreign manufacture, merely because and even in proportion as their price approaches *zero,* while at the same time you freely admit, and without limitation, the light of the sun, whose price is during the whole day at *zero*?

Chapter 22. MILL'S RESTATEMENT

Basis for Restatement

Society is dynamic, not static; consequently, its institutions must be reinvestigated and reappraised periodically. New experiences make things appear in a different light, and truths accepted earlier as valid may later be looked upon askance. Because of the lesser relative weight of some factors, conclusions which may now be clearly drawn were not apparent previously. Futhermore, results arrived at by predecessors in a special science need incorporation in any new work which aims to restate principles in relation to the newest conceptions. Some books written in response to this need appear final for a period, while others fill other roles; viz., they point out tendencies to new opinions or they open up new vistas and, while perhaps not establishing a trend, yet prepare for and facilitate transitions. John Stuart Mill is an eminent author of a book of the latter type.

John Stuart Mill

Biographical Sketch. John Stuart Mill (1806–1873), eldest son of James Mill and a singularly precocious child, was educated entirely by his father under a system of severe training that can be described only by the term "extraordinary." This experiment in education would have failed but for the unusual intellectual capacity of the student. In his autobiography he wrote that he began the study of Greek at the age of three and that at the age of eight he had read many of the Greek authors. At the latter age he began the study of Latin and was assigned the responsibility of teaching his younger brothers and sisters. Interspersed with his tutorial duties, John Stuart found time to study arithmetic and to read many books on history and literature, reports on which he gave his father as he accompanied him on early morning walks. To perfect his English style his father had him write verse.

During 1817, at the age of eleven, he read the proof sheets of his father's *History of India.* Two years later he studied a complete course in political economy, using the masterpieces of Adam Smith and Ricardo as texts. From day to day a summary was prepared and from these notes extemporaneous accounts were given by the son to the father while on their walks together, the latter, by searching questions and explanations, making clear the more obscure precepts and principles. In this manner the substance of James Mill's *Political Economy* was worked over; the series of discussions culminated in the published work, the bulk of the labor on it having been performed by the son.

Now came a year in France, where, by means of a systematic study program of nine hours a day, John Stuart became a thorough French scholar. Upon his return to England he devoted himself to the study of law until 1823, when he accepted a junior clerkship in the office of the Examiner of Correspondence of the East India Company. He applied himself with diligence and advanced to the post of assistant director by 1828 and ultimately to the head of the office in 1856. He remained in the employ of the East India Company until it lost its charter in 1858 and then retired on an annual pension of £1,500. Thereafter he had no other occupation than research and writing.

In 1830 Mill met Mrs. Taylor, a confirmed invalid and his junior by two years. A friendship was formed which profoundly affected Mill's life. Mrs. Taylor's influence upon his intellectual and moral development is incalculable. Mill himself declared that her excellence of mind and heart were "unparalleled in any human being he had known or read of." No doubt, her influence was upon his attitude toward questions involving woman's rights, liberty, and social progress, rather than on his logical and scientific theories. He persisted in attributing to her the best in his writings and thought especially well of his book on *Liberty,* holding the firm conviction that it would live longer than any other writing of his because of Mrs. Taylor's collaboration. In this estimate posterity does not concur.

Inductive Logic, the first of Mill's publications other than articles in journals and monographs, was completed in 1843. Its success was immediate, and it is evaluated as one of the most important works on the subject ever written. Work was begun on his famous *Principles of Political Economy* in 1845 and completed in the incredibly short time of two years. The manuscript is somewhat longer than the *Wealth of Nations* and contains passages of incomparably fine writing. The book, which was published in 1848, is described as admirable, and it raised its author to the pinnacle of fame.

Mill enjoyed a reputation in his generation superior even to that attained by Adam Smith in his century. He was elected to Parliament in 1865 and served until 1868. His speeches in debate raised the tone of discussion and enhanced his general reputation even above its previous immense proportion. Yet a nervous manner, rapidity of utterance, and a weak voice were unfavorable to oratorical success.

For a person who had never engaged in athletic sports or taken any form of exercise other than walking, Mill had a remarkably fine constitution, which, however, was overstrained by incessant overwork. An illness in 1836, due to extraordinary mental labor begun in early life, left Mill with "an almost ceaseless spasmodic twiching over one eye." Unswerving purpose, endurance, and drive were in Mill united with superior mental capacity to make an efficient thinker devoted to the advancement of knowledge and the improvement of society.

The Transition Period in Classical Theory

The work of John Stuart Mill heralds the end of one and the beginning of another epoch in the development of classical economic science. His masterwork is transitional. It sums up what has gone before and sets things in order for the developments to come. In the preface to his *Principles of Political Economy,* he describes both the purpose and the goal as follows:[1]

> The appearance of a treatise like the present, on a subject on which so many works of merit already exist, may be thought to require some explanation.
>
> It might perhaps be sufficient to say, that no existing treatise on Political Economy contains the latest developments which have been made in the theory of the subject. Many new ideas, and new applications of ideas, have been elicited by the discussions of the last few years, especially those on Currency, on Foreign Trade, and on the important topics connected more or less intimately with Colonization: and there seems reason that the field of Political Economy should be re-surveyed in its whole extent, if only for the purpose of incorporating the results of these speculations, and bringing them into harmony with the principles previously laid down by the best thinkers on the subject.
>
> To supply, however, these deficiencies in former treatises bearing a similar title, is not the sole, or even the principal object which the Author has in view. The design of the book is different from that of

[1] John Stuart Mill, *Principles of Political Economy,* Preface.

any treatise on Political Economy which has been produced in England since the work of Adam Smith.

. . . . . .

It appears to the present writer, that a work similar in its object and general conception to that of Adam Smith, but adapted to the more extended knowledge and improved ideas of the present age, is the kind of contribution which Political Economy at present requires. The *Wealth of Nations* is in many parts obsolete, and in all, imperfect. Political Economy, properly so-called, has grown up almost from infancy since the time of Adam Smith: and the philosophy of society, from which practically that eminent thinker never separated his more peculiar theme, though still in a very early stage of its progress, has advanced many steps beyond the point at which he left it. No attempt, however, has yet been made to combine his practical mode of treating his subject with the increased knowledge since acquired of its theory, or to exhibit the economical phenomena of society in the relation in which they stand to the best social ideas of the present time, as he did, with such admirable success, in reference to the philosophy of his century.

Such was the task set for himself by Mill. It was an ambitious program, and that he did not succeed in fulfilling every part of it is not to his discredit. He did embrace a wider scope and covered the various aspects of the subject more completely than any previous writer. He filled in many gaps on matters previously neglected and organized the contents in a practical way.

Further Explanation of Mill's Plan

In his *Principles*, Mill described political economy as a science and then explained it as an art. Though he did not succeed in establishing himself as a "modern Adam Smith," he prepared, according to a contemporary, "an admirably lucid and even elegant exposition of the Ricardian economics." The pattern set by Mill has been imitated by writers since. The association of the principles with their applications and the inclusion of considerations broader than those afforded by pure political economy provide procedures which meet present-day approval fully. Although there are but few traces of originality in the *Principles*, consisting

as it does in a virtual restatement of the economic ideas of Malthus, Ricardo, and James Mill, its comprehensive point of view and the high moral tone in the survey of economic behavior establish its author as the premier authority for half a century.

The arrangement of the subdivisions of the *Principles* is that common in our modern textbooks, viz., Production, Distribution, Exchange, Influence of the Progress of Society on Production and Distribution, and the Influence of Government. However, it is conspicuous that the topic of consumption is not assigned a distinct book but is subordinated to the general divisions.

Mill's Subject: Wealth, Its Nature and Its Laws

It is pointed out that writers on political economy have for their subject, wealth: the investigation of its nature, and the laws of its production and distribution. Included, too, is the operation of all the causes by which society is made prosperous or the reverse. Mill continues:[2]

> All know that it is one thing to be rich, another thing to be enlightened, brave, or humane; that the questions how a nation is made wealthy, and how it is made free, or virtuous, or eminent in literature, in the fine arts, in arms, or in polity, are totally distinct enquiries. Those things, indeed, are all indirectly connected, and react upon one another. A people has sometimes become free, because it had first grown wealthy; or wealthy because it had first become free. The creed and laws of a people act powerfully upon their economical condition; and this again, by its influence on their mental development and social relations, reacts upon their creed and laws. But though the subjects are in very close contact, they are essentially different and have never been supposed to be otherwise.

The point of view here stated is reflected in the complete title of Mill's treatise. Instead of the customary brief modern title Mill adds the significant words "with some of their applications to social philosophy." This was done because, for Mill, political economy was a part of something larger. While classical absolutists refrained from giving even a word of advice, Mill, like Bentham, was a social reformer. For him the science of economics

[2] *Ibid.*, Preliminary Remarks.

becomes virtually subservient to practical applications. This point of view led Mill to make his famous distinction between the nature of the laws of production and that of the laws of distribution. The former he described as "partaking of the character of physical truths," while the latter are said to reside in the realm of "human institutions solely." The enlargement of these ideas follows:[3]

> The production of wealth; the extraction of the instruments of human subsistence and enjoyment from the materials of the globe, is evidently not an arbitrary thing. It has its necessary conditions. Of these some are physical, depending on the properties of matter, or rather on the amount of knowledge of those properties possessed at the particular place and time. These Political Economy does not investigate, but assumes, referring for the grounds, to physical science or common experience.
>
> . . . . . .
>
> Unlike the laws of Production, those of Distribution are partly of human institution: since the manner in which wealth is distributed in any given society, depends on the statutes or usages therein obtaining. But though governments or nations have the power of deciding what institutions shall exist, they cannot arbitrarily determine how those institutions shall work.

The Requisites of Production

The requisites of production are classified as labor and natural objects. Labor is defined as either bodily or mental, either muscular or nervous application, employed in a particular occupation. Appropriate natural objects are described as those which "exist or grow up spontaneously, of a kind suited to the supply of human wants." Nature supplies materials, and she also supplies powers. In production labor and nature join: "Labor . . . is always and solely employed in putting objects in motion; the properties of matter, the laws of nature do the rest." It is pointed out that human skill and ingenuity are exercised in the discovery of practicable movements applicable in bringing about desired effects. These movements are not necessarily confined to the human muscular type, for substitution is possible, to wit:[4]

[3] *Ibid.*

[4] *Ibid.*, Book I, Chap. I, sec. 2.

The first and most obvious substitute is the muscular action of cattle; by degrees the powers of inanimate nature are made to aid in this too, as by making the wind, or water, things already in motion, to communicate a part of their motion to the wheels, which before that invention were made to revolve by muscular force.

In Production, Labor and Nature Join

Since in production both labor and natural objects are indispensable, they are the primary instruments employed in all types of occupations. The various productive endeavors cannot be singled out on the ground that, in one, labor does most and, in another, nature; so in this regard there is no distinction between agriculture, manufacture, or any other occupation. However, the labor which terminates in the production of an article of usable quality may in many instances be of indirect rather than of direct application; that is, labor may not come in contact with a substance altered in the various processes employed in bringing it to its final state.

Mill sets up the following classifications in which labor is indirectly instrumental in production: (1) labor employed in extractive industry; (2) labor employed in the making of tools or implements; (3) labor employed for the protection of industry; (4) labor employed in making things already in existence accessible to those desiring their use; (5) labor of the inventors of industrial processes (here even the labor of the speculative thinker is included).

Utilities Created by Labor Classified

Utilities produced by labor are classed as of three kinds:[5]

First, utilities fixed and embodied in outward objects; by labour employed in investing external material things with properties which render them serviceable to human beings.

Secondly, utilities fixed and embodied in human beings; the labour being in this case employed in conferring on human beings, qualities which render them serviceable to themselves and others.

. . . . . .

Thirdly and lastly, utilities not fixed or embodied in any object, but consisting in a mere service rendered; a pleasure given, an incon-

[5] *Ibid.*, Chap. III, sec. 2.

venience or a pain averted, during a longer or shorter time, but without leaving a permanent acquisition in the improved qualities of any person or thing; the labour being employed in producing an utility directly, not (as in the two former cases) in fitting some other thing to afford an utility.

The first, being the common case, is said to require no illustration. To the second class belongs the labor of all concerned in education – the teachers of trades, of sciences, and of the arts; the labor of moralists, of clergymen, and of physicians. To the third class belongs the labor of those rendering stark services merely – "a pleasure given, an inconvenience or a pain averted" – for example, the labor of the musical performer, of the actor, of the showman, of the army and navy, of the legislator and other agents of government. The labor of carriers, merchants, and dealers is classified, not under the third class, but under the first. In considering which of the classes should be accounted productive of wealth Mill states: "Utilities of the third class, consisting in pleasures which only exist while being enjoyed, and services which only exist while being performed, cannot be spoken of as wealth, except by an acknowledged metaphor." The reason given follows:[6]

It is essential to the idea of wealth to be susceptible of accumulation: things which cannot, after being produced, be kept for some time before being used, are never, I think, regarded as wealth, since however much of them may be produced and enjoyed, the person benefited by them is no richer, is nowise improved in circumstances. But there is not so distinct and positive a violation of usage in considering as wealth any product which is both useful and susceptible of accumulation. The skill, and the energy and perseverance, of the artisans of a country, are reckoned part of its wealth, no less than their tools and machinery. According to this definition, we should regard all labour as productive which is employed in creating permanent utilities, whether embodied in human beings, or in any other animate or inanimate objects.

. . . . . .

But in applying the term wealth to the industrial capacities of human beings, there seems always, in popular apprehension, to be a tacit reference to material products. The skill of an artisan is ac-

[6] *Ibid.*, sec. 3.

counted wealth, only as being the means of acquiring wealth in a material sense; and any qualities not tending visibly to that object are scarcely so regarded at all. A country would hardly be said to be richer, except by a metaphor, however precious a possession it might have in the genius, the virtues, or the accomplishments of its inhabitants; unless indeed they were looked upon as marketable articles, by which it could attract the material wealth of other countries, as the Greeks of old, and several modern nations have done.

"Unproductive Labor" Explained

While it is made plain that Mill retained traditional distinctions, he included under productive labor more occupations and professions than Smith did, classifying under this head work which effects an increase of material products as its *ultimate consequence,* as well as by *direct result.* While the plowman and cotton spinner are productive as a direct result of labor, officers of the government are indirectly or mediately productive in affording the protection which is indispensable to the prosperity of industry. Unproductive labor, though it may be as useful as productive labor or even more useful, may, on the other hand, consist only in pleasurable sensation which leaves no trace or may prove an absolute waste. It follows:[7]

> In any case society or mankind grow no richer by it, but poorer. All material products consumed by any one while he produces nothing, are so much subtracted, for the time, from the material products which society would otherwise have possessed. But though society grow no richer by unproductive labour, the individual may. An unproductive labourer may receive for his labour; from those who derive pleasure or benefit from it a remuneration which may be to him a considerable source of wealth; but his gain is balanced by their loss; they may have received a full equivalent for their expenditure, but they are so much poorer by it.

"Unproductive Consumption"

The qualifying terms "productive" and "unproductive," Mill applies to consumption also. While all the members of a com-

[7] *Ibid.,* sec. 4.

munity are not laborers, all are consumers. "Whoever contributes nothing directly or indirectly to production, is an unproductive consumer." Even all the consumption of productive laborers is not productive consumption, for only what is consumed "in keeping up or improving their health, strength, and capacities of work, or in rearing other productive labourers to succeed them is productive, but what is consumed in pleasure or luxury, whether by the idle or the industrious, is unproductive consumption." Mill declares:[8]

> It would be a great error to regret the large proportion of the annual produce, which in an opulent country goes to supply unproductive consumption. It would be to lament that the community has so much to spare from its necessities, for its pleasures and for all higher uses. This portion of the produce is the fund from which all the wants of the community, other than that of mere living, are provided for; the measure of its means of enjoyment, and of its power of accomplishing all purposes not productive. That so great a surplus should be available for such purposes, and that it should be applied to them, can only be a subject of congratulation. The things to be regretted, and which are not incapable of being remedied, are the prodigious inequality with which this surplus is distributed, the little worth of the objects to which the greater part of it is devoted, and the large share which falls to the lot of persons who render no equivalent service in return.

The Uses of Capital: Four Fundamental Propositions

Besides the primary requisites of production – labor and natural agents – the accumulated stock resulting from industry is recognized as a further requisite to all but "the rude and scanty beginnings of primitive industry." This accumulation Mill designates capital, and he defines it as wealth appropriated to reproductive employment. What capital does for production is to afford the shelter, protection, tools, and materials which the work requires and to feed and otherwise maintain the laborers during the process.

Next, four fundamental propositions are advanced concerning capital. The first of these is that industry is limited by capital but does not at all times approach this limit and that every increase of capital gives additional employment to industry – a feature

[8] *Ibid.*, sec. 6.

which is without assignable limit. The second fundamental theorem is that capital is the result of saving; the third, that capital, although the result of saving, is saved for the purpose of being consumed – consumed in productive consumption. The fourth theorem is that capital which is expended in setting productive labor to work is what supports and employs it. To purchase produce is not to employ labor, as "The demand for labour is constituted by the wages which precede the production, and not by the demand which may exist for the commodities resulting from the production."

Paradoxical as it may seem, according to Mill's theory, not only what is said to be spent but also what is saved is consumed. Productive capital was, in large part, produced within the preceding twelvemonth, and but little of the entire aggregate of capital had existence ten years ago. Perpetual consumption and reproduction of capital afford the explanation of the rapidity with which countries recover following their devastation. Under favorable conditions, a breach made in the capital of a country may be speedily made up, though repaired, perhaps, through the privations or misery of the laboring class.

Capital Goods Need Renewal

Part of the wealth applied in industry requires occasional or perodic renewal; another part employed in the production of a commodity, after being once used, exists no longer in a form such as to make it usable in the same service. Capital which performs the whole of its service in production by a single use is named *circulating capital;* that which persists in durable form and permits of successive use over a period of some duration is named *fixed capital.* To obtain remuneration from the employment of circulating capital, its product from a single use must result in a reproduction of a product in amount equivalent for a full replacement and a profit besides, while fixed capital need not be fully replaced from the product of any single use. Consequently, it follows that, when fixed capital increases rapidly in quantity, it may do so at the expense of circulating capital, a fact which may be prejudicial, temporarily only perhaps, to the interest of laborers.

So it is that machinery may appear injurious to the laboring class; however, the cheapening of production increases demand for the commodity and stimulates investment in the industry to the point where employment is increased rather than curtailed. But if the enlarged capital is procured by withdrawal from other capital uses rather than saved from general profits of industry, labor receives no benefits. To argue that the laboring class may not, as a collective body, sustain detriment temporarily by the introduction of machinery or the investing of capital in permanent improvements is to argue fallaciously. Mill expresses himself as clearly of the opinion that the employment of capital in disproportionate ratios in the two capital categories is not likely to happen as matters are actually transacted.

Causes of Productive Efficiency

The degree of productive efficiency of labor, capital, and the materials and motive forces of nature is ascribed to various causes. Among the principal causes, the first named is that of natural resources. These include, besides soil and climate, mineral production in convenient situations, which is hardly less important in an industrial age; natural water power in mountain and hill districts; a maritime situation with good harbors; and internal navigable streams – all of which add measurably to the other natural advantages.

The second of the causes of superior productiveness is ascribed to energy of labor. Businesslike application to the matter in hand is praised as a highly valuable quality, but Mill believed that mankind has failed to strike the desirable median, a standard according to which "when they do labour, to do it with all their might, and especially with all their mind; but to devote to labour, for mere pecuniary gain, fewer hours in the day, fewer days in the year, and fewer years of life."

The skill and knowledge of laborers and of those whose function is to direct them is a third element which determines the degree of productiveness of a community. Manual dexterity, intelligence, and knowledge of natural powers and of properties of objects can all be turned advantageously to purposes of industry. Superiority in the factors indicated allows for invention of tools and

machinery and their effective use. Labor so saved becomes disposable for other employment. Moral trustworthiness is another indispensable factor in efficient industrial organization.

Cooperation, as it is manifest in the principle of the division of labor, is the condition either when several persons help each other in the same employment or when they help each other in different employments. The first is illustrated by two greyhounds hunting while running together; the second, by wool production from the breeding of sheep through the various occupations to that of the tailor making the coat. When separation of occupations is thoroughly established, the productive power of labor is increased by breaking down the processes of industry into the number of parts which will allow each laborer to confine himself to a small number of simple operations. The increased efficiency due to division of employments is attributed by Mill to the same causes advanced by Adam Smith, (1) increase in dexterity of the workman through practice, (2) the time saved which is usually lost in changing the type of work, and (3) invention of machines which enable one man to do the work of many.

Mill continues with an exposition of the causes enumerated, and many of his sentences have become familiar by adoption into common usage. For example, "What can be done easily has at least a better chance of being done well, and is sure to be done more expeditiously"; again, "Among bodily acts, dancing, gymnastic exercises, ease and brilliancy of execution on a musical instrument, are examples of the rapidity and facility acquired by repetition."

Women More Versatile than Men

To women Mill attributes far greater versatility than to men. We are told that "There are few women who would not reject the idea that work is made vigorous by being protracted, and is inefficient for some time after changing to a new thing," and Mill adds, "The habit of passing rapidly from one occupation to another may be acquired, like other habits, by early cultivation." He continues, "It is true, however, that change of occupation may be too frequent even for the most versatile. Incessant variety is even more fatiguing than perpetual sameness."

Economical Distribution of Labor

Next to the dexterity of the workman, the greatest advantage derived from the division of labor is attributed to the more economical distribution of labor by assigning workers to tasks according to their capacities. Quoting Mill:[9]

> Different parts of the same series of operations require unequal degrees of skill and bodily strength; and those who have skill enough for the most difficult, or strength enough for the hardest parts of the labour, are made much more useful by being employed solely in them; the operations which everybody is capable of, being left to those who are fit for no others. Production is most efficient when the precise quantity of skill and strength which is required for each part of the process, is employed in it, and no more.

Division of Labor Related to the Extent of the Market

The minuteness to which division of labor may be carried efficiently is dependent upon the extent of the market and, in many cases, upon the nature of the employment. Concerning limits set by the market, Mill said:[10]

> The extent of the market may be limited by several causes: too small a population; the population too scattered and distant to be easily accessible; deficiency of roads and water carriage; or, finally, the population too poor, that is, their collective labour too little effective, to admit of their being large consumers. Indolence, want of skill, and want of combination of labour, among those who would otherwise be buyers of a commodity, limit, therefore, the practicable amount of combination of labour among its producers. In an early stage of civilization, when the demand of any particular locality was necessarily small, industry only flourished among those who by their command of the sea-coast or of a navigable river, could have the whole world, or all that part of it which lay on coasts or navigable rivers, as a market for their productions. The increase of the general riches of the world, when accompanied with freedom of commercial intercourse, improvements in navigation, and inland communication by roads, canals, or railways, tends to give increased productiveness to the labour of every nation in particular, by enabling each locality to supply with its special

[9] *Ibid.*, Chap. VIII, sec. 5.
[10] *Ibid.*, sec. 6.

products so much larger a market, that a great extension of the division of labour in their production is an ordinary consequence.

Principles Underlying Increase of Labor, Capital, and Land

Since the increase of labor is dependent upon the increase of population, it is the law of population which is at the center of the discussion when labor, the first requisite of production, is considered. Here Mill accepts the Malthusian doctrine; consequently, he finds no obstacle to an increase of production in the labor factor. Capital, although susceptible to indefinite increase, offers retarding influences to expansion of production through the necessity of replenishing capital from a surplus fund of wealth. Excess of production, above immediate physical necessities, is a conspicuous element in the determination of the amount of saving, and the disposition of the one who might save is also an important element, for "Accumulation involves the sacrifice of a present, for the sake of a future good." There is an adverse disposition to saving in the different portions of the race because of various intellectual and moral causes. In some countries, usually progressive countries, there is a peculiar force to the accumulating propensity, and, in the main, there is no tendency for capital to become deficient.

Land differs from the other requisites of production in that it is not susceptible to indefinite increase:[11]

> Its extent is limited, and the extent of the more productive kinds of it more limited still. It is also evident that the quantity of produce capable of being raised on any given piece of land is not indefinite. This limited quantity of land, and limited productiveness of it, are the real limits to the increase of production.
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> The limitation to production from the properties of the soil, is not like the obstacle opposed by a wall, which stands immovable in one particular spot, and offers no hindrance to motion short of stopping it entirely. We may rather compare it to a highly elastic and extensible band, which is hardly ever so violently stretched that it could not possibly be stretched any more, yet the pressure of which is felt long before the final limit is reached, and felt more severely the nearer that limit is approached.

[11] *Ibid.*, Chap. XII, sec. 1.

The conclusion reached is that natural agents, which are limited in quantity, are also limited in their ultimate productive power and so constituted that heavy demand upon them, prior to use at the ultimate limit, brings response on progressively harder terms. Fortunately, however, any partial conquest or extension of power over nature may advance the limit of productive power, especially by an addition to knowledge of the characteristics of natural agents. To conclude, when the limit to the increase of production has been reached, the cause is traceable to a deficiency of capital or of land.

Summary of the Principles of Production

Mill's summary of the principles of production is couched in language often quoted:[12]

> The laws and conditions of the production of wealth, partake of the character of physical truths. There is nothing optional or arbitrary in them. Whatever mankind produce, must be produced in the modes, and under the conditions, imposed by the constitution of external things, and by the inherent properties of their own bodily and mental structure. Whether they like it or not, their productions will be limited by the amount of their previous accumulation, and, that being given, it will be proportional to their energy, their skill, the perfection of their machinery, and their judicious use of the advantages of combined labour. Whether they like it or not, a double quantity of labour will not raise, on the same land, a double quantity of food, unless some improvement takes place in the process of cultivation. Whether they like it or not, the unproductive expenditure of individuals will *pro tanto* tend to impoverish the community, and only their productive expenditure will enrich it. . . . We cannot alter the ultimate properties either of matter or mind, but can only employ those properties more or less successfully, to bring about the events in which we are interested.

The Principles of Distribution

Thus Mill arrives at his second book, in which he delineates the principles of distribution. These laws, unlike those of pro-

[12] *Ibid.*, Book II, Chap I, sec. 1.

duction, he describes as subject to modification. The point of view expressed here is pointed to as the chief merit of his treatise and the reason why its author should not be classed with the common run of economists. Here he places himself among the optimists. Although he no longer agrees with the orthodox economists that an attempt to interfere with the ordinary course of events could not improve conditions but rather would make them worse, he does not shake off their influence entirely. This is shown by the fact that the Malthusian doctrine continues to stalk him and the *wages-fund* persists a grim reality in his thinking for a score of years longer.

After setting forth the principles of *production*, Mill stresses the fact that those of *distribution* are to be distinguished from them because of differences in their nature, the former being immutable. He proceeds:[13]

> It is not so with the Distribution of Wealth. That is a matter of human institution solely. The things once there, mankind, individually or collectively, can do with them as they like. They can place them at the disposal of whomsoever they please, and on whatever terms. Further, in the social state, in every state except total solitude, any disposal whatever of them can only take place by the consent of society, or rather of those who dispose of its active force. Even what a person has produced by his individual toil, unaided by any one, he cannot keep, unless by the permission of society. Not only can society take it from him, but individuals could and would take it from him, if society only remained passive; if it did not interfere *en masse*, or employ and pay people for the purpose of preventing him from being disturbed in the possession. The distribution of wealth, therefore, depends on the laws and customs of society. The rules by which it is determined, are what the opinions and feelings of the ruling portion of the community make them, and are very different in different ages and countries; and might be still more different if mankind so chose.

Expediency Determines the Right to Property in Land

There is a question in Mill's mind whether private property should extend to the raw material of the earth inasmuch as it

[13] *Ibid.*

is not the produce of labor. But if land is not, most of its valuable qualities are the produce of industry. Consequently, since the fruits of the industry cannot be gathered in a short period, property in land is justified. The whole question, however, is circumscribed by expediency, and where private property in land is not expedient, it is declared unjust.

The Distributive Shares

The produce of an industrial community is divided into shares distributed among landlords, capitalists, and productive laborers. The remainder of the community is supported by these groups, giving in return for their support unproductive services if an equivalent return is rendered. The two determining agents of competition and custom influence the division of the produce of industry and the former of these has received almost exclusive stress from economists to the neglect of the latter.

Wages

Wages are regulated either by competition or by custom but depend mainly upon the demand and supply of labor, or, stated in another way, upon the proportion between population and capital. Mill makes his statement on the wages-fund theory as follows:[14]

> Wages, then, depend mainly upon the demand and supply of labour; or, as it is often expressed, on the proportion between population and capital. By population is here meant the number only of the labouring class, or rather of those who work for hire; and by capital, only circulating capital, and not even the whole of that, but the part which is expended in the direct purchase of labour. To this, however, must be added all funds which, without forming a part of capital, are paid in exchange for labour, such as the wages of soldiers, domestic servants, and all other unproductive labourers. There is unfortunately no mode of expressing by one familiar term, the aggregate of what may be called the wages-fund of a country: and as the wages of productive labour form nearly the whole of that fund, it is usual to overlook the

[14] *Ibid.*, Chap. XI, sec. 1.

smaller and less important part, and to say that wages depend on population and capital. It will be convenient to employ this expression, remembering, however, to consider it as elliptical, and not as a literal statement of entire truth.

With these limitations of the terms, wages not only depend upon the relative amount of capital and population, but cannot under the rule of competition, be affected by anything else. Wages (meaning, of course, the general rate) cannot rise, but by an increase of the aggregate funds employed in hiring labourers, or a diminution in the number of the competitors for hire; nor fall, except either by a diminution of the funds devoted to paying labour, or by an increase in the number of labourers to be paid.

In the late 1860's writers, among whom were Longe and Thornton, questioned the validity of the wages-fund theory, and Mill, professing conversion, issued his famous recantation in the *Fortnightly Review* (1869). However, he did not remain steadfast, for in the last edition of his *Principles on Political Economy* the passage continues unchanged, with only a footnote calling attention to Thornton's criticism. The wages-fund doctrine, which has become peculiarly associated with Mill because of his recantation, was not original with him. Concise statements regarding it had been made by a number of his predecessors.

Concerning the common notion that high prices make high wages, Mill declares:[15]

> But high prices, in themselves, can only raise wages if the dealers, receiving more, are induced to save more, and make an addition to their capital, or at least to their purchases of labour. This is indeed likely to be the case; and if the high prices came direct from heaven, or even from abroad, the labouring class might be benefited, not by the high prices themselves, but by the increase of capital occasioned by them. The same effect, however, is often attributed to a high price which is the result of restrictive laws, or which is in some way or other to be paid by the remaining members of the community; they having no greater means than before to pay with. High prices of this sort, if they benefit one class of labourers, can only do so at the expense of others; since if the dealers by receiving high prices are enabled to make greater savings, or otherwise increase their purchases of labour, all other people by paying those high prices have their means of saving,

[15] *Ibid.*, sec. 2.

or of purchasing labour, reduced in an equal degree; and it is a matter of accident whether the one alteration or the other will have the greatest effect on the labour market.

Profits

We are told by Mill that the profits of the capitalists are "the remuneration of abstinence." They are the gains bestowed as a reward. Quoting Mill's statement:[16]

> They are what he gains by forbearing to consume his capital for his own uses, and allowing it to be consumed by productive labourers for their uses. For this forbearance he requires a recompense. Very often in personal enjoyment he would be a gainer by squandering his capital, the capital amounting to more than the sum of the profits which he will yield during the years he can expect to live. But while he retains it undiminished, he has always the power of consuming it if he wishes or needs; he can bestow it upon others at his death; and in the meantime he derives from it an income, which he can without impoverishment apply to the satisfaction of his own wants or inclination.

Mill's view is that, of the gains which the possession of capital enables a person to make, only a part is compensation for the use of capital itself. This part is an equivalent for abstaining from immediate consumption and is measured by the current rate of interest on the best security. If a capitalist lends on excellent security he runs little risk, but if he launches a business there is danger of loss; consequently, there must be a prospect of compensation for the assumption of the risk of partial or complete loss. Again, when the owner of capital becomes the entrepreneur, compensation for his time and labor must be forthcoming, else he will not embark on the undertaking. Efficient control requires diligence and more than ordinary skill, and here, also, provision of them must be rewarded. It follows that the gross profit from capital "must afford a sufficient equivalent for abstinence, indemnity for risk, and remuneration for the labour and skill required for superintendence." Abstinence, risk, and exertion require a three-way division of gross profits; the respective parts are interest, insurance, and wages of superintendence.

[16] *Ibid.*, Chap. XV, sec. 1.

Mill perceives two elements upon which the gains of the capitalist depend – these are the magnitude of the produce and the proportion of it required to support the laborers engaged in the enterprise. Thus the rate of profits depends upon wages. This is the Ricardian doctrine, but in it Mill suggests a material alteration, viz., the substitution of the phrase *cost of labor* for the word *wages*. The substitution is considered necessary for accuracy's sake, inasmuch as "high" or "low" wage means two distinct things when viewed by the receivers on the one hand and the payers on the other. The ambiguity disappears when the thought is directed to the cost of labor rather than wages. The confusion rests on the proposition that cost of labor may be high when wages are low, and vice versa. The cost of food also enters as a disturbing factor, for low wages may buy much food, or the laborer may be wretchedly off, even though money wages may be high. In conclusion, Mill recites the circumstances which determine the rate of profit:[17]

> If labour generally became more efficient, without being more highly rewarded; if, without its becoming less efficient, its remuneration fell, no increase taking place in the cost of the articles composing that remuneration; or if those articles became less costly, without the labourer's obtaining more of them; in any one of these three cases, profits would rise. If, on the contrary, labour became less efficient (as it might do from diminished bodily vigor in the people, destruction of fixed capital, or deteriorated education); or if the labourer obtained a higher remuneration, without any increased cheapness in the things composing it; or if, without his obtaining more, that which he did obtain became more costly; profits, in all these cases, would suffer a diminution. And there is no other combination of circumstances, in which the general rate of profit of a country, in all employments indifferently, can either fall or rise.

Rent

Next is considered the position of landed proprietors, who, by the arrangements of society, possess power over and claim a share in the produce of the natural agent, land. The share in distribution is rent, which arises through a natural monopoly,

[17] *Ibid.*, sec. 7.

there being many who want land – a commodity limited in quantity. Because of the limitation in the quantity of land, the insufficiency of superior land to feed the population presents the necessity of cultivating inferior land. It follows that the real expenses of production are those incurred on the worst land required in use (the same principle holds for capital employed under the least favorable circumstances). This type of land or capital pays no rent; it pays only the expenses incurred in use. The principle of rent in its relation to the price of agricultural products Mill explains as follows:[18]

The worst land which can be cultivated as an investment for capital, is that which, after replacing the seed, not only feeds the agricultural labourers and their secondaries (those supplying tools and remaining necessaries), but affords them the current rate of wages, which may extend to much more than mere necessaries; and leaves for those who have advanced the wages of these two classes of labourers, a surplus equal to the profit they could have expected from any other employment of their capital. Whether any given land can do more than this, is not merely a physical question, but depends partly on the market value of agricultural produce. What the land can do for the labourers and for the capitalist, beyond feeding all whom it directly or indirectly employs, of course depends upon what the remainder of the produce can be sold for. The higher the market value of produce, the lower are the soils to which cultivation can descend, consistently, with affording to the capital employed, the ordinary rate of profit.

As, however, differences of fertility slide into one another by insensible gradations; and differences of accessibility, that is, of distance from markets do the same; and since there is land so barren that it could not pay for its cultivation at any price; it is evident that, whatever the price may be, there must in any extensive region be some land which at that price will just pay the wages of the cultivators, and yield to the capital employed the ordinary profit, and no more. Until, therefore, the price rises higher, or until some improvement raises that particular land to a higher place in the scale of fertility, it cannot pay any rent. It is evident, however, that the community needs the produce of this quality of land; since if the lands more fertile or better situated than it, could have sufficed to supply the wants of society, the price would not have risen so high as to render its cultivation profitable. This land, therefore, will be cultivated; and we can lay it

[18] *Ibid.*, Chap. XVI, sec. 2.

down as a principle, that so long as any land of a country which is fit for cultivation, and not withheld from it by legal or other factitious obstacles, is not cultivated, the worst land in actual cultivation (in point of fertility and situation together) pays no rent.

Mill's Ideas on Value

Value is a subject both important and conspicuous in the science of political economy. For some writers, in fact, economics becomes the "science of values." Mill, however, does not raise it to so high a position. Some ambiguity attaches to the term because it signifies both usefulness and the power of purchasing. This double meaning leads to confusion in that it can mean the extreme limit of value in exchange while the actual value may fall short of the estimate of its value in use, but it can never exceed it. Price and value are also distinguished the one from the other. Price is the exchange value of a commodity expressed in terms of money; exchange value is the measure of the utility which a commodity can command in the market, that is, the power of purchasing.

It is passing strange that one so broadly informed, so profound in his knowledge of political economy, should fall into the curious error of making an out-and-out statement that there remained nothing more for a writer to clear up regarding the laws of value. It was not long after he had written his famous passage that the whole subject of value was reopened, and it is far from a closed issue even now. On this topic we quote Mill:[19]

> In a state of society, however, in which the industrial system is entirely founded on purchase and sale, each individual, for the most part, living not on things in the production of which he himself bears a part, but on things obtained by a double exchange, a sale followed by a purchase – the question of Value is fundamental. Almost every speculation respecting the economical interests of a society thus constituted, implies some theory of Value: the smallest error on that subject infects with corresponding error all our other conclusions; and anything vague or misty in our conception of it, creates confusion and uncertainty in everything else. Happily, there is nothing in the laws of Value which remains for the present or any future writer to clear

[19] *Ibid.*, Book III, Chap. I, sec. 1.

up; the theory of the subject is complete: the only difficulty to be overcome is that of so stating it as to solve by anticipation the chief perplexities which occur in applying it: and to do this, some minuteness of exposition, and considerable demands on the patience of the reader, are unavoidable. He will be amply repaid, however, (if a stranger to these inquiries) by the ease and rapidity with which a thorough understanding of this subject will enable him to fathom most of the remaining questions of political economy.

The Dynamics of Economics

In the first three books of his treatise on political economy Mill treats of the economic laws of an unchanging society — the theory of equilibrium, as he calls it. In Books IV and V he considers mankind as undergoing progressive changes. The latter study he names the *dynamics* of the science; the former is the *statics*.

A commonly recognized change in civilized society is an advancement in material prosperity — a progress in wealth through an increase in production and in population. A prominent feature associated with the progress of the nations is the growth of man's power over nature. Increasing physical knowledge is, through invention, ingeniously converted into physical power, which is applied to practical uses. When to the power of invention are added the peace and security provided by stable government and the cooperation of individuals, business capacity and wealth increase.

Mill's Optimism

In the progressive state of wealth described by Mill, the increase of population must be of appropriate ratio in comparison with the indefinite increase of capital and production. We quote:[20]

That the growth of population will overpass the increase of production, there is not much reason to apprehend; and that it should ever keep pace with it, is inconsistent with the supposition of any real improvement in the poorest classes of the people. It is, however, quite

[20] *Ibid.*, Book IV, Chap. I, sec. 2.

possible that there might be a great progress in industrial improvement, and in the signs of what is commonly called national prosperity; a great increase of aggregate wealth, and even, in some respects, a better distribution of it; that not only the rich might grow richer but many of the poor might grow rich, that the intermediate classes might become more numerous and powerful, and the means of enjoyable existence be more and more largely diffused, while yet the great class at the base of the whole might increase in number only and not in comfort nor in cultivation.

Industrial progress has an effect upon value and prices. The former, a relative term, is directly affected by the specific costs of production of respective commodities which enter into exchange; the latter are under the same and an additional influence — the ratio of the quantity of money in circulation to the volume of commodities awaiting exchange through the service of the money medium. The influence of improvements in production is augmented by the circumstance of increased commerce between parts of the world. With tariffs abolished and security established, productive capabilities will be utilized everywhere in a way to make costs of production lower, even when the expenses of commerce are added.

Major Benefits to Landlords

After considering, seriatim, the effects of population and capital on well-being as influenced by the various cases with dynamic characteristics — namely, first, an increasing population and stationary capital; second, an increasing capital and stationary population; third, a population and capital increasing at the same ratio — the conclusion reached is that the progress of a society constituted of landlords, capitalists, and laborers tends toward the same results. The results pointed to by Mill are the progressive enrichment of the landlord class, increased cost of the laborer's subsistence, and a falling rate of profits. It is conceded that agricultural improvements may counteract the last two effects temporarily, but the increase of population tends to swell the benefits unequally by complete transfer to the landlords alone.

Movement toward the Stationary State

Mill was of the firm conviction that progressing civilization, which is characteristic of the advancing state, is accompanied by the tendency of profits to fall and that the general movement is toward the stationary state. In the stationary state, the volume of capital and of other productive agents has arrived at an equilibrium which is not disturbed, because the effective desire for accumulation and the degree of risk involved in the employment of capital are in the condition which allows but for the replacement, and not for the increase, of capital. Mill points out that political economists of two generations looked upon the coming of the stationary state as "an unpleasing and discouraging prospect" and that for them everything desirable was associated with the progressive state, in which the test of prosperity is high profits. There followed as a consequence the theory that the increase of wealth tended toward lower profits and the extinction of prosperity. This pessimistic view Mill rejects. He himself does not hold the stationary state in like aversion but inclines toward the belief that, on the whole, it is "a very considerable improvement on our present condition."

Mill's Optimism in the Face of the Malthusian Doctrine

Although Mill accepts the principle of the Malthusian doctrine, he manifests an optimism uncommon in classical writers, as the following passage shows:[21]

> Even in a progressive state of capital, in old countries, a conscientious or prudential restraint on population is indispensable, to prevent the increase of numbers from outstripping the increase of capital, and the condition of the classes who are at the bottom of society from being deteriorated. . . . The same determination would be equally effectual to keep up their condition in the stationary state, and would be quite as likely to exist. . . . If it were evident that a new hand could not obtain employment but by displacing, or suceeeding to, one already employed, the combined influences of prudence and public opinion might in some measure be relied on for restricting the coming generation within the numbers necessary for replacing the present.

. . . . . .

[21] *Ibid.*, Chap. VI, secs. 1–2.

It is scarcely necessary to remark that a stationary condition of capital and population implies no stationary state of human improvement. There would be as much scope as ever for all kinds of mental culture, and moral and social progress; as much room for improving the Art of Living, and much more likelihood of its being improved, when minds ceased to be engrossed by the art of getting on. Even the industrial arts might be as earnestly and as successfully cultivated, with the sole difference, that instead of serving no purpose but the increase of wealth, industrial improvements would produce their legitimate effect, that of abridging labour. Hitherto it is questionable if all the mechanical inventions yet made have lightened the day's toil of any human being. They have enabled a greater population to live the same life of drudgery and imprisonment, and an increased number of manufacturers and others to make fortunes. They have increased the comforts of the middle classes. But they have not yet begun to effect those great changes in human destiny, which it is in their nature and in their futurity to accomplish. Only when, in addition to just institutions, the increase of mankind shall be under the deliberate guidance of judicious foresight, can the conquests made from the powers of nature by the intellect and energy of scientific discoverers, become the common property of the species, and the means of improving and elevating the universal lot.

Well-being of the Laboring Classes

In discussing the probable future of the laboring classes, Mill brings forward the argument that the inordinate importance attached by economists to a mere increase of production must be corrected. He insists the emphasis must be placed upon a better distribution to the end that labor shall receive a large remuneration. The important desideratum is not the absolute increase of aggregate production but an increase relative to the number of those who share in it, a principle which is held to apply whether wealth is stationary or increasing at a rapid rate. Of the two conflicting theories respecting the social position of laborers, the one advocating self-dependence is worthy, while that which advocates dependence upon the protection from a superior class is unworthy and untenable. The collective interests of the poor must be regulated by themselves, not for them by

others. The well-being of the laboring people Mill commends to the care of their own destiny.

Mill a Socialist?

Whether Mill was a socialist has been a moot question and one on which he himself has an opinion. He holds with the socialists only in the practical portion of their aims but remains steadfast in the firm conviction that they have "very confused and erroneous notions" of the actual working of industrial society. Concerning his beliefs he writes:[22]

> I agree, then, with the Socialist writers in their conception of the form which industrial operations tend to assume in the advance of improvement; and I entirely share their opinion that the time is ripe for commencing this transformation and that it should by all just and effectual means be aided and encouraged. But while I agree and sympathize with Socialists in this practical portion of their aims, I utterly dissent from the most conspicuous and vehement part of their teaching, their declamations against competition. With moral conceptions in many respects far ahead of the existing arrangements of society, they have in general very confused and erroneous notions of its actual working; and one of their greatest errors, as I conceive, is to charge upon competition all the economical evils which at present exist. They forget that whenever competition is not, monopoly is; and that monopoly, in all its forms, is the taxation of the industrious for the support of indolence, if not of plunder. They forget, too, that with the exception of competition among labourers, all other competition is for the benefit of the labourers, by cheapening the articles they consume; . . .
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> What is now required is not to bolster up old customs, whereby limited classes of labouring people obtain partial gains which interest them in keeping up the present organization of society, but to introduce new general practices beneficial to all; and there is reason to rejoice at whatever makes the privileged classes of skilled artisans feel, that they have the same interests, and depend for their remuneration on the same general causes, and must resort for the improvement of their condition to the same remedies, as the less fortunately circumstanced and comparatively helpless multitude.

[22] *Ibid.*, Chap. VII, sec. 7.

The Function of Government

Concerning the province of government Mill held views more liberal than those of his orthodox-economist predecessors. He acknowledges changes in government and legislation as a means of improving the condition of mankind. Consequently, the discussion of the proper limits of the functions and agency of government is taken up in the first chapter of the fifth book. It is explained that there are some functions "inseparable from the idea of government"; others that "are exercised habitually and without objection"; and still others that present uncertainty as to whether government should exercise them or not. For expository purposes functions of government are classified as necessary and optional. Concerning the optional Mill says:[23]

> By the term optional it is not meant to imply, that it can ever be a matter of indifference, or of arbitrary choice, whether the government should or should not take upon itself the functions in question; but only that the expediency of its exercising them does not amount to necessity, and is a subject on which diversity of opinion does or may exist.

Mill ascribes legitimacy to the agencies of government (whether they possess the characteristics of the necessary or the optional categories) provided that they fall among those which afford protection against force and fraud; those which repress violence or treachery; those which preserve evidence of facts in authentic form; those which provide for the care of dependents; and many others of an administrative nature.

The Apogee of Classical Economics

With John Stuart Mill classical economics reached its apogee. Shortly following the publication of the *Principles,* its decay began. Mill accordingly stood a dramatic figure; linked by paternal ties to the utilitarian school, his last score of years found him gazing toward the new horizon which beckoned him to incline toward socialism. His masterwork expounds the fundamental laws of classical doctrine, modified only by state intervention

[23] *Ibid.*, Book V, Chap. 1, sec. 1.

where expediency clearly dictates. The law of self-interest, the law of free competition, the law of population, the law of demand and supply, the law of wages, the law of rent, and the law of international exchange are all found in place. Moving steadfastly to fulfill the mission for which his education had definitely prepared him, Mill recorded the classical theories in their final crystalline form, but evidences show his drift toward a social point of view in the deflection from extreme individualism. Although he retains the harmony theory of utilitarianism and belief in the superiority of competitive capitalism, he not only acknowledges the principle of advantage in state intervention but goes further in presenting proposals for reform, viz., (1) the abolition of the wage system and the substitution of a cooperative association of producers; (2) the socialization of rent by means of a tax on land; (3) the lessening of the inequalities of wealth by restrictions on the rights of inheritance.

Mill pioneered in the human-element approach to economics. Admiration is due him for his open-mindedness, intellectual honesty, and enthusiasm for new ideas. His influence was universal, even though there were no disciples and he founded no school. The classical adherents did not follow his socialistic lead. Likewise, subjective-utility economists and members of the historical school held dissenting views. Yet he set a pattern still followed in works uniting abstraction and ideals. Mill's emphasis on the importance of the human element in economics has virtually transformed the science.

Chapter 23. THE LAST DEFENDERS

Three Postulates

The waning classical school was not left without defenders after Mill's defection. A particularly able champion was Cairnes, professor of political economy successively in three colleges. The controversy over the classical doctrines, rife in the middle third of the nineteenth century, Cairnes attributed to misconceptions regarding the subject matter of the science. In his own conception, wealth, and wealth only, constitutes the subject matter, and the broader ideas, sociological in nature, must be excluded. He advanced three postulates: (1) that the method of the hypothetical approach is valid; (2) that the issues in political economy need not be resolvable into absolute certainties; (3) that classification as a science cannot be denied political economy on the ground that some of its principles are stated in the form of tendencies.

John Elliott Cairnes

Biographical Sketch. John Elliott Cairnes (1824–1875), political economist of the classical school, was born at Castle Bellingham and educated at Trinity College, Dublin. He studied law and was called to the Irish bar, but lacking taste for the practice of law he turned to political economy and entered the profession of teaching. His father's business was that of a brewer.

John Elliott, at the age of eight, was sent to a boarding school at Kingstown; when fourteen or fifteen, he was placed under a clergyman at Chester for instruction in preparation for college. He proved himself but an indifferent scholar. Being adjudged by his tutor a dull boy, he was returned to his father's house in disappointment. There he remained for three years, dabbling in chemistry, and assisting in a small way in his father's business.

During these formative years, through the influence of a young man named La Bart, Cairnes turned toward Calvinism. Now inspired by a high degree of religious fervor, he developed intellectual tastes. He read many books, including Gibbon, and acquired a keen desire to go to college. Although there had arisen a coolness in relations with his father, nevertheless he was given a small allowance on which he could live a scholar's life. The bachelor of arts degree was conferred in 1848 and the master of arts in 1854.

After finishing his college studies, he led an aimless life for a time, studying chemistry occasionally, and once entering an engineer's office at Galway. There he became acquainted with Professor Nesbitt of Queen's College, who turned his attention to the study of political economy and advised him to enter the competition for the Whately professorship at Dublin. He won in the competition and received the appointment. In 1859, as required by the Whately foundation, his first set of lectures was published under the title, *The Character and Logical Method of Political Economy.* At the end of his term (five years) as professor at Dublin, he obtained a similar position at Queen's College, Galway, and subsequently filled the chair of political economy at University College, London.

His reputation was fully established upon the publication in 1862 of his celebrated work on *Slave Power,* which defended the cause of the North in the War Between the States. The remarkable capacity for rigidly logical deduction with which Cairnes was endowed enabled him to restate Mill's *Principles* in a more tenable form, but he cannot be called his real disciple. He was the most important of the later classicists but was not a true follower of Mill in that he decried his recantation of the wages-fund theory, and also rejected his appeal for practical application of economic principles in the work of social reform.

Cairnes identified himself definitely as an economist of the theoretical school and insisted that political economy was a distinct science and not a subordinate part of social philosophy. He opposed all innovations as those of Jevons, for example, in the latter's efforts to express economic facts in quantitative formulas and, except for Henry Fawcett, is reputed as making the last stand of the classicists. His noteworthy original contribution to political economy is his theory of "noncompeting groups."

Socially, he was a man of singular charm in conversation. Sweetness of disposition and a courageous fortitude under adverse conditions

were characteristic qualities. An accident in 1860 while hunting caused a serious injury to his knee from which he never recovered. Helpless invalidism stalked him, health cures and major operations notwithstanding; ultimately, after years of suffering during which he nevertheless did some of his best writing, he died at the age of fifty-two.

Cairnes a Staunch Defender of Classicism

As a staunch defender of the classical economic traditions, Cairnes was a rigid deductionist, an exponent of a narrow scope in the field of science, and an insistent advocate of the elimination of practices and materials which give the least semblance to the claim that political economy is an art as well as a science. In the preface to *Political Economy, Its Character and Logical Method,* he specifically disclaims "all pretense to the enunciation of any new method of conducting economic inquiries." He continues:[1]

> My aim, on the contrary, has been to bring back the discussions of Political Economy to those tests and standards which were formerly considered the ultimate criteria of economic doctrine, but which have been completely lost sight of in many modern publications. With a view to this, I have endeavored to ascertain and clearly to state the character of Political Economy, as this science appears to have been conceived by that succession of writers of which Smith, Malthus, Ricardo, and Mill are the most distinguished names; and from the character thus ascertained to deduce the logical method appropriate thereto; while I have sought further to fortify the conclusions to which I have been led by the analogy of the method which in the physical sciences has been fruitful of such remarkable results.

Wealth Exclusively the Subject Matter of Economics

Wealth is declared the exclusive subject matter by Cairnes. He takes for granted that a knowledge of the laws of production and distribution is a useful acquisition – useful for the twofold purpose of education and practical application. In his conception of the science, a knowledge of it may be acquired more certainly by systematic inquiry than from the testimony of practical men

[1] John Elliott Cairnes, *Political Economy, Its Character and Logical Method,* Preface to First Edition, pp. vii–viii.

("crude guesses of unmethodized experience," Cairnes calls the latter). Economic knowledge, he writes, has its legitimate use in recommending some, and discrediting other policies. We are told:[2]

It pronounces no judgment on the worthiness or desirableness of the ends aimed at in such systems. It tells us what their effects will be as regards a specific class of facts, thus contributing *data* toward the formation of a sound opinion respecting them. But here its function ends. The data thus furnished may indeed go far to determine our judgment, but they do not necessarily, and should not in practice always do so. For there are few practical problems which do not present other aspects than the purely economical – political, moral, educational, artistic aspects – and these may involve consequences so weighty as to turn the scale against purely economic solutions. On the relative importance of such conflicting considerations Political Economy offers no opinion, pronounces no judgment – thus, as I said, standing neutral between competing social schemes; neutral, as the science of Mechanics stands neutral between competing plans of railway construction, in which expense, for instance, as well as mechanical efficiency, is to be considered; neutral, as Chemistry stands neutral between competing plans of sanitary improvement; as Physiology stands neutral between opposing systems of medicine. It supplies the means, or, more correctly, a portion of the means for estimating all; it refuses to identify itself with any.

Phenomena Paramount in Deducing Economic Laws

Cairnes defines political economy as "The science which investigates the laws of the production and distribution of wealth, which result from the principles of human nature as they operate under the actual circumstances of the external world." These mental principles and physical conditions taken by political economists as ultimate facts, we are told, serve as the premises of their reasoning. The phenomena of paramount importance in deducing the laws of the science of political economy Cairnes sets down as:[3] "First, the desire for physical well-being implanted in man,

[2] *Ibid.*, Lect. I, sec. 3, pp. 37–38.

[3] *Ibid.*, Lect. III, sec. 1, p. 73.

and for wealth as the means of obtaining it, and, as a consequence of this in conjunction with other mental attributes, the desire to obtain wealth at the least possible sacrifice; secondly, the principles of population as derived from the physiological character of man and his mental propensities; and, thirdly, the physical qualities of the natural agents, more especially land, on which human industry is exercised."

Methods of Economic Study

The next step in Cairnes's study is the search for the means whereby the discovery of the laws of the production and distribution of wealth may be most effectually promoted. Here he examines the probable effectiveness of the inductive method of inquiry. He finds the expression "inductive method" given much latitude in meaning by writers on inductive logic. In the broad sense, it is described as including not only how to ascertain the laws of nature but also how to follow them, when ascertained, to their results. This view Cairnes rejects as illogical in that it describes a method which is a mixture of inductive and deductive reasoning and not, therefore, purely inductive. The procedure Cairnes christens the "metaphysical method." In its more restricted meaning, and the one which Cairnes accepts as the correct one, the definition of induction from Mill's *System of Logic* is construed as follows:[4]

> That operation of the mind by which we infer that what we know to be true in a particular case or cases will be true in all cases which resemble the former in certain assignable respects. In other words, induction is the process by which we conclude that what is true of certain individuals of a class is true of the whole class, or that what is true at certain times will be true in similar circumstances at all times.

The logical method to use in economic inquiry, Cairnes states, is the ascertainment of "the place, order, and importance which induction (in the narrower meaning of the term), deduction, veri-

[4] *Ibid.*, p. 74; quoted from John Stuart Mill's *System of Logic*, Book III, Chap. II, sec. 1.

fication, observation, and experiment ought to hold in economic inquiry."[5]

In his next step Cairnes examines the measure of validity in the claim of writers that the true path of economic inquiry lies in induction combined with observation and experiment. He declares this type of inquiry impotent and therefore completely futile, inasmuch as the phenomena of wealth are most complicated, to wit:[6]

> They are the result of a great variety of influences, all operating simultaneously, reinforcing, counteracting, and in various ways modifying each other. . . . Now, when this high degree of complexity characterizes phenomena; when they are liable to be influenced by a multiplicity of causes all in action at the same time; in order to establish inductively – that is to say, by arguing upward from particular facts – the connection of such phenomena with their causes and laws, one condition is entirely indispensable: there must be the power of experimentation in the rigorously scientific sense of that word. But this is a resource from which the student of social and economic problems is absolutely debarred. If any one doubt this, he has only to consider what an experiment, such as would in physical science be accounted a sufficient ground for a sound induction, really implies; that it implies the possibility of finding or producing a set of known conditions as the medium in which the experiment is performed, and which shall remain constant during its performance.
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> . . . . . .
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> But from any thing in the least tantamount or comparable to this, the political economist is, I need scarcely say, necessarily excluded. The subject matter of his inquiries is human beings and their interests, and with these he has no power to deal after the arbitrary fashion permissible in the other case. He must take economic phenomena as they are presented to him in the world without in all of their complexity and ever-changing variety; but from facts as thus presented, if he decline to avail himself of any other path than that of strict induction, he may reason till the crack of doom without arriving at any conclusion of the slightest value. Beyond the merest empirical generalizations, advance from such data is plainly impossible. No economic or social truth, meriting the name of scientific, ever has been discovered by such means, and it may be safely asserted none ever will be.

[5] *Ibid.*, p. 76.
[6] *Ibid.*, pp. 77–79.

Misconception as to the Part Induction Plays

Following the "till the crack of doom" declaration, Cairnes proceeds to point out that there is some misconception as to the part induction plays in economic reasoning; that many important conclusions, arrived at presumably by induction, are, in the strict sense of that expression, not reached by pure induction. This he explains as follows:[7]

> What leads people to imagine the contrary is that in their reasoning on social and political facts they are constantly in the habit of combining with their knowledge of phenomena motives and principles of conduct so familiar that their use of them as premises in their argument escapes their notice: they employ, that is to say, quite unconsciously to themselves, their knowledge of human nature, or of physical or political conditions, as a guide in their interpretation of the facts supplied to them by the statistician, and by this means, no doubt, conclusions more or less important are sometimes arrived at; but, then, this is not to reason inductively in the strict sense of that expression, but, so far as such reasoning admits of logical analysis, to combine the two processes of induction and deduction. It so happens, however, that the deductive portion of the operation, resting as it does on familiar assumptions of which no proof is given or needed, escapes notice, while the inductive, which generally has to deal with new and perhaps striking facts, strongly arrests attention; and the opinion thus gains ground that purely inductive reasoning suffices for the establishment of truths which are really reached by a very different path.

The Place of Experiment

Since the employment of experiment under conditions necessary to give cogency to induction is impossible, according to Cairnes's reasoning, the political economist appears at a disadvantage as compared with those engaged in physical research. Because the economist can reason from generalizations thoroughly established through induction by the physical scientist and according to positive laws, the former enjoys peculiar advantages too, for the economist is said by Cairnes to start with a knowledge of ultimate causes and from these to proceed deductively to valid

[7] *Ibid.*, p. 79.

conclusions. An additional instrument at the disposal of the economist is the employment of hypothetical causes framed for purposes of economic inquiry. Although the conclusions are hypothetical only, yet in the absence of disturbing causes they would express a true law. This procedure Cairnes characterizes as "in the nature of an experiment conducted mentally." The place assigned statistics is the verification of the accuracy of reasoning from fundamental assumptions.

Noncompeting Groups

A notable original contribution made by Cairnes to the science of political economy was his discovery of "noncompeting groups." In analyzing the classical doctrine that costs of production determine the measure of natural or normal value, he arrives at the conclusion that costs of production determine normal value only in cases where competition operates perfectly. Perfect competition cannot prevail, he avers, when there are obstacles to the free movement of capital and labor from points of lower to higher returns. Cairnes finds obstacles to free movement in both international and domestic trade. In domestic trade the obstacles arise from the practical isolation of groups of laborers from effective competition. Contrary to earlier accepted theory, the movement of labor from grade to grade is not free, either from natural causes or because of existing social conditions. For some men it is difficult, for many others it is impossible to move into a more favored economic group. The following quotation fully describes Cairnes's position:[8]

> But of the disposable labor each element – that is to say, each individual laborer – can only choose his employment within certain tolerably well-defined limits. These limits are the limits set by the qualifications required for each branch of trade and the amount of preparation necessary for their acquisition. Take an individual workman whose occupation is still undetermined, he will, according to circumstances, have a narrower or wider field of choice; but in no case will this be co-extensive with the entire range of domestic industry. If

[8] John Elliott Cairnes, *Some Leading Principles of Political Economy, Newly Expounded*, Part I, Chap. III, sec. 5, pp. 65–68.

he belongs to the class of agricultural laborers, all forms of mere unskilled labor are open to him, but beyond this he is practically shut out from competition. The barrier is his social position and circumstances, which render his education defective, while his means are too narrow to allow of his repairing the defect, or of deferring the return upon his industry till he has qualified himself for a skilled occupation. Mounting a step higher in the industrial scale – to the artisan class, including with them the class . . . whose pecuniary position is much upon a par with artisans, here also within certain limits there is complete freedom of choice, but beyond a certain range practical exclusion. The man who is brought up to be an ordinary carpenter, mason, or smith, may go to any of these callings, or a hundred more, according as his taste prompts, or the prospect of remunerations attracts him; but practically he has no power to compete in those higher departments of skilled labor for which a more elaborate education and larger training are necessary, for example, mechanical engineering. Ascend a step higher still, and we find ourselves again in presence of similar limitations; we encounter persons competent to take part in any of the higher skilled industries, but practically excluded from the professions. It is true, indeed, that in none of these cases is the exclusion absolute. The limits imposed are not such as may not be overcome by extraordinary energy, self-denial, and enterprise; and by virtue of these qualities individuals in all classes are escaping every day from the bounds of their original position, and forcing their way into the ranks of those who stand above them. All this, no doubt, is true. But such exceptional phenomena do not affect the substantial truth of our position. What we find, in effect, is, not a whole population competing indiscriminately for all occupations, but a series of industrial layers, superposed on one another, within each of which the various candidates for employment possess a real and effective power of selection, while those occupying the several strata are, for all purposes of effective competition, practically isolated from each other.

. . . . . .

No doubt the various ranks and classes fade into each other by imperceptible gradations, and individuals from all classes are constantly passing up or dropping down; but while this is so, it is nevertheless true that the average workman, from whatever rank he be taken, finds his power of competition limited for practical purposes to a certain range of occupations, so that, however high the rates of remuneration in those which lie beyond may rise, he is excluded from sharing them. We are thus compelled to recognize the existence of

non-competing industrial groups as a feature of our social economy; and this is the fact which I desire here to insist upon. It remains to be considered how this organization of industry is calculated to modify the action of the principle of cost of production.

It follows from the operation of the principle just described that normal costs of production will, in the process of exchange, govern only within the same industrial group or competing circle. Commodities produced by laborers belonging to different groups will not be governed by the principle of costs of production. The result is as follows:[9] "The principle of cost of production controls exchange value in the transactions taking place within certain limited industrial areas; while, in the reciprocal dealings of those several areas with one another, its operation fails."

The Equation of International Demand

The principle which Mill described as the *Equation of International Demand* was found by Cairnes to be operative in domestic trade because of the presence of noncompeting groups. It is pointed out that international values are governed by the reciprocal demand of commercial countries and not by relative costs of production. The presence of domestic noncompeting groups furnishes an analogous situation — "the demand of each group for the products of all other groups compared with the demand of all other groups for what this group produces." Changes in demand for the products of other countries affect relative prices of the respective countries, unfavorably for the country whose demand is increased; likewise, internally, the products of noncompeting groups show similar effects. Cairnes's summary is stated thus:[10]

The relative position, commercially considered, of each group may thus be affected either by an increase or diminution of its own products not consumed within the group, or by an increase or diminution of the products of other groups, so far as those products are disposable for the purchase of the products of the group in question. Such is the nature of "reciprocal demand," and of its mode of action as between

[9] *Ibid.*, p. 69.

[10] *Ibid.*, sec. 7, p. 91.

the non-competing groups of domestic industry. As the reader will observe, it is simply "supply and demand" taken twice over, first in the sale and then in the purchase, or, rather, we may describe it as Supply and Demand contemplated at once from both sides of a completed exchange.

Cost Means Sacrifice

Throughout the classical economists' expositions, the dominant place is taken by costs considered objectively. Cairnes departs from the orthodox procedure by insisting that "Cost means sacrifice, and cannot without risk of hopelessly confusing ideas, be identified with anything that is not sacrifice." Cairnes continues:[11]

> It represents what man parts with in the barter between him and nature, which must be kept eternally distinct from the return made by nature on that payment. This is the essential nature of cost; and the problem of cost of production as bearing on the theory of value is to ascertain how far and in what way the payment thus made by man to nature in productive industry determines or otherwise influences the exchange value of the products which result.

Although Cairnes adopts a subjective approach in the determination of normal value, he criticizes the view of Jevons that exchange value depends entirely on utility. It appears that he did not comprehend Jevons's idea of final utility and so saw no good in it. Foresight or discretion would have dictated a more discerning attitude.

Views on the Wages-Fund

Classical economists conceived of capital and labor as in a state of complete liquidity. From this conception they proceeded to evolve the wages-fund doctrine, which in the generation following evoked tremendous controversy. As flatly stated by McCulloch, the wages-fund doctrine taught that "The rate of wages in all countries and at all periods depends on the ratio between the portion of their capital allotted to paying wages, and the number of their laborers." In 1848 John Stuart Mill wrote: "Wages not only depend upon the relative amount of capital and

[11] *Ibid.*, sec. 5, p. 57.

population, but cannot be affected by anything else." Fawcett, a follower of Mill said: "The circulating capital of a country is its wage-fund. Hence, if we desire to calculate the average money wages received by each laborer, we have simply to divide the amount of capital by the number of the labouring population." Such was the statement of the law of wages as written in the classicists' code.

Complacency due to universal acceptance was broken in upon by the appearance in 1866 of a pamphlet entitled *A Refutation of the Wages-Fund Theory,* written by Francis D. Longe. Longe's argument was couched in three propositions: Firstly, that there is no such thing as a wage-fund distinct from the general wealth of the country, nor of a fund earmarked for the purchase of labor; secondly, that the laboring population does not constitute a body of laborers among whom distribution of the wage-fund could be effected through competition; thirdly, that to suppose the whole wage-fund would be distributed among the laborers of the country by competition between buyers and sellers of labor, vitiates the demand and supply principle.

In 1869 W. T. Thornton published his book, *On Labour,* in which he argued that the amount of the employers' resources was not fixed, but a matter of decision. He agreed that no one would deny that some amount would be disbursed as wages in a given period, but he insisted the amount was indeterminate, therefore not subject to division by the number of laborers so as to provide a quotient indicating an average rate of wages.

John Stuart Mill followed the controversial discussion with interest, and, professing at least partial conversion, he formally recanted from the wages-fund doctrine in an article published in the *Fortnightly Review* for May, 1869. In spite of Mill's recantation, Cairnes continued steadfast in his advocacy of the doctrine. He entered upon a lengthy refutation of both Longe and Thornton, satisfied that he had shattered their arguments.

Power of Trade-unions over Wages

The correct answer to the wages-fund controversy holds deep interest for the trade-unions. If the amount to be spent in wages

at any given time is confined within limits, the action of workmen looking toward an improvement in wages is doomed to failure; however, if there is no fixed limit to the fund available for wages, then trade-unions may serve as a prime agency in improving the condition of workmen. On this vital issue Cairnes stated his own position clearly as follows:[12]

As the reader has seen, the utmost power which I am disposed to concede to Trades-Unions over wages, where they seek their ends by compelling a positive increase of investment, is that of accelerating an advance, already, so to speak, in the air, and which would come in the end without their intervention. Where strikes have been permanently successful, where they have not merely gained to-day what has been lost tomorrow, but have issued in a permanently improved condition of the workmen, I believe the explanation of their success will always be found in a state of trade exceptionally prosperous which would in any case before long have attracted an increase of capital, and resulted in an enlarged demand for labor.

Deduction in Its Best Tradition

In method Cairnes was on the whole strictly deductive; as to normal value he was a cost-of-production theorist when the mobility of capital and labor was fluid, and otherwise he advanced the principle of reciprocal demand; and in considerations involving the wages-fund doctrine he frowned down all antagonists. Except for Fawcett, Cairnes was the last of the classicists; by his logical method he demonstrated the uses of deduction in accord with the best tradition.

Fawcett, a contemporary of both Mill and Cairnes, outlived both by a decade. He brought to a full close the classical tradition. In economic theory Fawcett was a lineal descendant of Adam Smith, Ricardo, and John Stuart Mill; in academic position he was the predecessor of the neoclassicist, Alfred Marshall.

Henry Fawcett

Biographical Sketch. Henry Fawcett (1833–1884), English statesman and economist, was born at Salisbury, son of a successful business-

[12] *Ibid.*, Part II, Chap. III, sec. 5, p. 231.

man. He was educated at Cambridge and elected a fellow. He studied at the Middle Temple for a time but soon renounced the law. In 1858, while partridge shooting, he was the victim of an accident when a few lead pellets entered his eyes following a poorly aimed shot from a gun in the hands of his father. After a year of hopeful treatment he became totally blind.

From boyhood he had held the ambition to enter Parliament, a career which now seemed denied him. Though deeply depressed, he rallied upon receipt of an inspiring letter from his old college tutor which restored his spirits; thereafter, despite his affliction, he entered into the activities of normal life. He continued to fish, row, skate, walk, and ride.

Though a remarkable athlete during his student days, he did not allow the exhilaration of sports to interfere with the high scholarship which promised him a career. He concentrated his attention on economic studies, and, in 1863, having overcome prejudice against his selection because of his blindness, he was elected to the chair of political economy at his alma mater, a position held for two decades with distinguished success. Nor did he have to forego his desire for a political career.

In 1865 Fawcett stood for Brighton and, in spite of his handicap, acquitted himself admirably in the election debates through his unrivaled power as a popularizer. He was elected and continued as a member of Parliament, first for Brighton and later for Hackney, throughout two decades, continuing all the while in his professorship at Cambridge. In 1863 he published his *Manual of Political Economy,* of which in twenty years 20,000 copies were sold. The book was widely used as a text in both England and America.

His wife, Millicent Garrett Fawcett, shared his economic studies and was of great assistance to him in preparing for his public and university duties. Independently, she published an abridgement of the *Manual of Political Economy* under the title *Political Economy for Beginners.*

In politics, Fawcett was a Liberal, yet a severe critic of the Liberal administration. Nevertheless, when Gladstone became Prime Minister the second time, Fawcett was appointed postmaster general (1880). In this office he brought about many reforms.

The kindliness displayed in his public life was carried over into the circle of private friendship. He was a most genial companion, at ease with men of all ranks, and especially attached to friends of his youth. He was deeply conscientious and unsparing in his application to the tasks of his position, helpful, staunch, and frank toward all, and sincerely devoted to his family.

Fawcett Affected by Liberalism

The published works of Fawcett were written in the pattern of the classical economic style, which features the deductive method. He discovered no new principle and no novel procedures of consequence. In fact, his works have been described as little more than a compendium of Mill's economics. As is indicated by the title of his second book, *Lectures on the Economic Position of the British Laborer*, he thought of his economics as an art as well as a science; furthermore, he was constant in advocating reform from his vantage point – membership in Parliament.

Fawcett's approach to public questions partook of the optimism of Mill. Ideas held by Mill and practical measures suggested by him were adopted by Fawcett and advocated in Parliamentary circles. Although he remained steadfast in his advocacy of the individualistic economic doctrine, and stoutly opposed socialism, he was a most earnest supporter of cooperation.

On the question of foreign commerce he held the position of a staunch free trader. He took an advanced position in the matter of woman's rights, strenuously advocating political and social equality. Again, though generally favorable to the laissez-faire principle in workmen's affairs, lest interference should weaken their independence or energy, he disavowed it in the case of the Factory Acts, when he held that interference could protect without enervating. He was an indefatigable champion of the workingman, animated as he was by the desire to improve the condition of the poor.

In the use of concrete example Fawcett was unrivaled as a teacher. His success as a popularizer of issues may be attributed in part to his blindness, a handicap developing the gift of imagery. So lovable was the character of the last of the classicists, and so laudable his efforts in the field of reform, that the "dismal science," as translated by him into proposed practical legislation, lost some of its repelling character and lent itself to the transformation given it by Fawcett's successor at Cambridge, the exponent of neoclassicism, Alfred Marshall.

Chapter 24. THE MATHEMATICAL SCHOOL

Service of Mathematics to Economic Science

Goods are intended for use; so the assertion that they have value in proportion as they yield satisfaction is a logical deduction, and that mathematics should perform a useful service to the science of economics in the presentation of the variations of value is a ready inference. Therefore it must be considered only natural that some economists of the classical persuasion, strongly addicted to the use of deduction in their procedure, would make use of algebraic formulas and other mathematical notations in their exposition.

By their method, based upon the fact that every exchange may be represented by an equation expressing the relation between goods exchanged, it was demonstrated that quantities exchanged bear a relationship in harmony with the mathematical law of functions. Since every exchange may be shown in mathematical notation as an equation, like $a = b$, the demand for one of the commodities can be stated quantitatively in the form of its price. When d is taken to represent demand and p price, the simple equation $d = p$ expresses the relationship. If the intensity of demand rises or falls, the changing value of d can be shown in its effect on p by the term $f(p)$. Consequently, the general equation showing the continuing relationship between the two quantities is $d = f(p)$. The mathematical expression is read: Demand is a function of price. In use the equation becomes a mathematical formula. Changes in the variable quantity d are shown in their effect upon the constant quantity p by the multiplier f. Doubling the intensity of demand raises the value of f from unity to 2; a reduction of demand by 50 per cent reduces the value of f to one-half of 1. When the formula is applied to money and its

supply, the basic notation is provided which the advocates of the "quantity theory of money" utilize in their computation.

Gossen, who by sheer accident escaped oblivion and thus averted great loss to economic science, stated in the opening sentence of his book that "Man wants to enjoy life and makes it his chief aim to maximize happiness." In this statement lies hidden the incentive of the mathematical economist in the development of his art. Theoretical price equilibria are shown through the interaction of supply-and-demand factors; differences in the elasticity of commodity demand are indicated by lines of varying slopes drawn in the plane of the coordinates, and thus the principles of final and total utility are given a graphic form.

The Mathematical Method

In its method the mathematical school makes little use of numbers but rather confines itself largely to algebraic notation and geometric figures representative of abstract quantities. Furthermore, *their* objective in the demonstration of their equilibrium and final utility theories is not to justify an economic regime but merely to explain it. Also, in attempting to set forth the greatest good of the greatest number in a free market, the term "good" is stripped of all ethical meaning and construed in a purely hedonistic sense.

Economic science is made by the mathematical school into a sort of mechanism of exchange. Their theory rests upon the principle that in the same market there can be only one price for the same class of goods; that the price must be such that the quantity of goods offered and the quantity demanded coincide; and that, at the price established, maximum satisfaction is given to the maximum number of buyers and sellers.

Although the method used in exposition is the mechanism of the market, the scope of the science is not confined to exchange; it is extended to consumption, production, and distribution as well. As *they* describe it, consumption implies exchanging, too — that is, a sacrifice of something for the *good* which provides the satisfaction. Production also is an exchange — raw material and

labor for consumables. Rent, wages, and interest are the prices of the services rendered by land, labor, and capital which are paid by the entrepreneur for the benefits he derives from the use of the respective productive agents.

The technique of the mathematicians extends to treatment of the value of complimentary goods — viz., the discovery of the exact proportions in which the productive factors combine in enterprise to yield maximum utility. It is readily demonstrated that there is a limit to the expansion of industry, for as soon as a factor runs short, the other factors are affected adversely and the undertaking drops to a lower potential of serviceableness. In the case of complementary goods value varies, not independently by single units, but by pairs, as in the case of gloves, stockings, or shoes, or in combination, as in the case of automobiles, gasoline, and engine oil. In production goods and in by-products similar dependency of relation exists, *e.g.*, the value of coke as related to gas, and the value of copper as related to silver.

Results Attained by Mathematical Process

Although the mathematicians lay no claim to having made discoveries, they have turned into certainties truths but tentatively accepted before. Convictions arrived at through deduction by the older classical economists, though not readily demonstrable by their method, have been appropriately shown by the mathematical process to have validity. The *homo economicus* of the orthodox school, scoffed at by nonbelievers as a shadowy, artificial creation, is raised to legitimacy as a device of real assistance in the development of economic science. In fact, the whole mathematical method is in harmony with the neoclassicist procedure, providing mechanistic processes to afford a fuller demonstration of their theories.

The claims of the mathematical economists attest that they have provided proof for a number of postulates, among which are: (1) that unhampered operation of supply and demand leads to best results in a productive system; (2) that the amount of satisfaction derived from the utilization of a good diminishes progressively to the point of satiety; (3) that the maximum enjoyment is

derived when the point of indifference in consumption has been reached.

However notable the results claimed by proponents, the real services rendered economic science are somewhat restricted, according to the testimony of Alfred Marshall, who was skillful in the use of the method. He wrote: "The most useful applications of mathematics to economics are those which are short and simple and which employ few symbols; and which aim at throwing a bright light on some small part of the great economic movement rather than at presenting its endless complexities."

Among the celebrated proponents of the mathematical discipline were Cournot, Gossen, Jevons, Pareto, Walras, and Marshall. Since they worked independently, their researches were not linked one with the other to the degree that they constituted a true school, for they were in accord only in the method of their procedure; they did not have a common program.

Antoine Augustin Cournot

Biographical Sketch. Antoine Augustin Cournot (1801–1877), French mathematician and economist, served as a professor of mathematics at Lyons and subsequently as a school inspector. He is remembered today as the author of a now celebrated work which, however, passed entirely unnoticed at the time of publication in 1838. For several years not a single copy of the book was sold. In making a further bid for the public interest the book title, *Recherches sur les principes mathématiques de la théorie des richesses,* was shortened to *Principes de la théorie des richesses* (1863). Under the new title the author simplified the book by omitting the algebraic formulas. It was put into still more elementary form in 1876 under the title *Revue sommaire des doctrines économiques,* again without attaining the objective – the stimulation of interest. It was left for Stanley Jevons to call attention to its merits in a glowing tribute, which kind office saved Cournot from an unmerited oblivion.

The Founder of Mathematical Economics

Although Cournot was not the first to use mathematical computation in connection with the science, he is recognized as the founder of mathematical economics. He applied the mathemati-

cal method to market phenomena, basing the procedure upon the assumption that actions of individuals are governed by the urge of prospective gain.

Cournot was a proponent of classical economics, criticizing but few of the principles held, and these in mild manner. For example, though he looked upon liberty as an axiom of practical wisdom, he was not an absolutist in his support of free trade, holding rather that state intervention could properly be applied where the aim is clearly defined and the efficiency of the proposed method clearly demonstrable. He favored the passing of judgment upon issues and the making of choices, even though he was not a believer in the ability of economists to define the absolute best in the projects for social amelioration. The state is given a legitimate sphere of economic action. Yet he attacked some of the optimistic notions of French contemporaries.

Application of Mathematics to Supply-and-Demand Theory

By his criticism of the classical supply-and-demand theory, Cournot anticipated John Stuart Mill. He set up formulas indicating that, while supply and demand determine price, it is also demonstrable that price in turn influences both supply and demand. Thus demand and supply are given a new significance. None of the three can move without affecting the other two. Supply and demand are shown to be functions of price, demand falling when prices rise and rising when prices fall; supply rises and falls with price. Two-dimensional graphs are used to express the relationships, and the graphic device is used to show visually influences hampering normal elasticity of demand and supply. The lack of harmony between monopolistic tendencies and the general interest is clearly demonstrable.

Hermann Heinrich Gossen

Biographical Sketch. Hermann Heinrich Gossen (1810–1858), German economist, was born near Aachen and spent his boyhood in Cologne. His inclination toward the study of mathematics was not supported by his father; so he prepared himself for the law and entered government service. While in the university he became

interested in economic problems and fell under the influence of Bentham's writings.

After the death of his father in 1847, Gossen resigned his government position to devote himself entirely to economic studies. Ideas developed from them if put in book form, would, he believed, gain him the fame of a Copernicus. The book failed to arouse public interest. It is said that not a single copy was sold, and the author, in acute disappointment, withdrew the entire edition and ordered it destroyed. By strange good fortune one copy, a gift perhaps, made its way to England, where it came to the notice of Professor Adamson of Manchester while browsing in the British Museum. The book had been published at Brunswick in 1854 under the title, *Die Entwickelung der Gesetze des menschlichen Verkehrs.* Jevons made the discovery public in his preface to the second edition of his *Theory of Political Economy* in 1879. The book has been reprinted but is seldom read.

The Marginal-utility Concept

Gossen's contribution to economic science is the formulation of the marginal-utility principle and its applications to problems of value and price. In his work Gossen's method is the utilization of simple algebraic formulas and two-dimensional diagrams. It is shown that men should distribute their efforts so as to make the value of the quantity of each good produced by a unit of effort equal to the pain of the last unit of effort expended.

Gossen demonstrates that the amount of satisfaction derived from the utilization of a good declines progressively to the point of satiety, and that maximum satisfaction is derived when the point of indifference has been reached. At this point intensity of enjoyment of different goods is the same.

His theory of value is based upon the principle of diminishing satisfaction in the successive portions of a good consumed. For purposes of valuation goods are divided into three classes. Consumption goods constitute the first class, complimentary goods the second, and production goods the third. The value of goods of the second and third classes is, in the last analysis, determined by satisfactions derived from related goods in their final consumption.

Gossen's theories are deducible from basic principles which were formulated by him and consequently are known as the "three laws of Gossen," to wit:

1st. The amount of satisfaction derived from consumption decreases with each additional unit of the same commodity until it reaches zero or the point of satiety.

2nd. If it is impossible to gratify all wants to the point of satiety, it is necessary, in order to obtain maximum satisfaction, to discontinue the satisfaction of different wants at the points at which their intensity has become equal.

3rd. Subjective value attaches only to goods the available quantity of which is smaller than the quantity wanted, and even for such goods the subjective value of additional units declines until it reaches the zero point.

William Stanley Jevons

Biographical Sketch. William Stanley Jevons (1835–1882), English logician, economist, and statistician, was the son of an iron merchant. He was brought up in Liverpool and sent to University College, London, for his education, where in his first college years he studied chemistry, mathematics, Latin, and Greek. Before finishing the course of study for his degree, Jevons took a position as an assayer in the mint in Sydney, Australia. While there he began the reading of works on political economy, and, after five years, he returned to London to complete the work for his B.A. and M.A. degrees in the fields of logic and political economy. He developed the mathematical theory of economics, independently, along the lines of Cournot and Gossen. In an acknowledgment of Gossen's work he stated that his own had been anticipated by that of Gossen.

In 1866 Jevons was elected Cobden professor of political economy in Owens College, Manchester, but his duties included instructing in logic and in mental and moral philosophy as well. For reasons of health he exchanged the professorship at Owens, which involved multiple duties, for the professorship in political economy in his alma mater in London. He resigned in 1880 because he found the position irksome and interfering with the completion of his projected comprehensive work on political economy, which, unfortunately, he did not finish because of his accidental death by drowning while bathing in the surf at Hastings in 1882.

His belief that political economy is essentially a mathematical science took definite form in a paper published in 1862 under the title, *A General Mathematical Theory of Political Economy.* The treatises *A Serious Fall in the Value of Gold* (1863) and *The Coal Question* (1865) placed Jevons in the front rank of writers on economics and statistics. He is credited also with brilliant constructive work in logic.

New Theories

Investigations in currency and finance contain Jevons's speculations on the probable connection between commercial crises and sunspots. He has, however, been erroneously represented as contending that sunspots are the cause of crises. He pointed out that close correspondence in the occurrence of sunspots, crises, and India's famine periods gave ground for the assumption that variations in solar radiation affect harvests in tropical and semi-tropical countries, which, in turn, influence demand for British goods. He adopted the philosophy of the utilitarians and was a supporter of unqualified free trade. He rejected the theory that wages could be raised through trade-unions but was favorably disposed toward schemes of workers' copartnership.

Value Depends Entirely upon Utility

That exchange value is caused by labor or costs of production is a tenet unacceptable to Jevons, who substitutes for it the proposition that "Value in exchange is defined by the terminal utility." Utility, however, is not an inherent quality of a commodity; rather, Jevons called it "*a circumstance of things* arising out of their relation to man's requirements." Thus Jevons departs from Mill in his value theory, and the latter's statement that the final word had been spoken on the theory of value is definitely rejected. Adherence to the principle that "Value depends entirely upon utility" marks an innovation in economic thought.

Léon Walras

Biographical Sketch. Léon Walras (1834–1910), a French economist, abandoned training for the profession of engineering to become a

free-lance journalist and a champion of reform. In his position as professor of political economy in the University of Lausanne, acquired in 1870, his theories were formulated. He was influenced by the previous work of his father, Antoine Auguste Walras (1801–1866), and his fellow countryman Cournot. He was the first to apply mathematical analysis to the study of general economic equilibrium in a regime of private property under conditions of absolutely free competition.

Land Associated with Social Reform

Land nationalization was for Léon Walras the beginning of social reform. The idea was formulated by his father, who, in his book on the theory of social wealth, distinguished between equitable principles underlying private and public forms of ownership. Walras, Sr., had pointed out that some objects of property lend themselves to either form of ownership, others to private or public ownership only. Land was classified as belonging to the latter category. This concept was held by Walras years before Henry George presented it as the basic principle in *Progress and Poverty.* Walras, Jr., accepted his father's proposition as to land by differentiating between natural wealth and human faculties. The former, of which land forms the paramount portion, was allocated to the state.

Rareté

Walras, Jr., also takes over from his father's coining the term *rareté,* which stresses the concept that value is commensurate with the measure of the least important satisfaction yielded by any unit of supply. Where Jevons used the phrase "final degree of utility" and Gossen "value of the last atom," both Auguste and Léon Walras used the term *rareté.* In their system exchange values are proportional to *raretés.* Of two commodities, if the utility and the quantity of one varies in the estimation of exchangers so that the *rareté* varies, then the value or the price of it in relation to the other will vary too. *Rareté* is subjective in all its implications, not objective.

The Founder of the Mathematical School

In Léon Walras's *Eléments d'économie politique pure* (1874), mathematical analysis of economic phenomena takes the form of a quite complete system, and the true concept of a mathematical school is customarily dated from it. Others who preceded are normally classed as individual forerunners. Followers include Marshall, Edgeworth, Irving Fisher, Cassel, and Pareto.

Vilfredo Pareto

Biographical Sketch. Vilfredo Pareto (1848–1923), Italian economist and sociologist, came into the social science field after twenty years of professional practice as an engineer. He became interested in the economic implications of political questions and the application of mathematics in the formulation of economic theory. His work in this field attracted the attention of Léon Walras, who was influential in getting Pareto appointed to the professorship of political economy at the University of Lausanne upon his own retirement in 1893. Pareto continued the work of Walras at Lausanne and, because of the extension of the Walras influence, stimulated the development of a "Lausanne school."

Mechanistic Theory of Social Equilibrium

In his book *Cours d'économie politique* (1896–1897), the mathematical notation of general equilibrium is formulated. Assumptions of monopoly, collectivism, and competition are all covered. The laws of production and of distribution, reduced to systematized statement, show enough of the author's individual characteristics to cause them to be designated "Pareto's laws." After he had published the *Manual of Political Economy* in 1906, Pareto widened his interest to include the study of broader social forces than those of economics alone to the extent that in 1916 he published a *Treatise of General Sociology*. It is an intellectual achievement of the first order. The contents of the four volumes justify his being called the herald of the Fascist movement.

Pareto glorifies force. Although, in his conception, pure economics affords no decisive criteria upon which to choose a social

order, be it private property or socialism, yet his theory of social equilibrium serves well a regime of state control. The delineation of the character of his doctrine by an American authority reads:[1]

His general idea throughout . . . is one of equilibrium – an equilibrium between (1) desires and (2) obstacles to desire gratification, including the wants of others. Thus he attempts to build a mechanistic theory of social equilibrium which, in its conception of human thought and action as largely nonlogical, readily lends itself to a Machiavellian sort of control by the state.

[1] Lewis H. Haney, *History of Economic Thought*, 3d. ed., p. 682.

Chapter 25. THE GERMAN HISTORICAL SCHOOL

Reaction in Germany

A reaction against classical economics developed in Germany as a result of emphasis there upon realistic research in the social sciences. The method pursued in the new studies was comparative and historical in contrast with the rationalistic method followed in the eighteenth century. Classical economists were prone to adhere rigidly to abstraction; history and observation, when used, served purposes of illustration merely. The judgments arrived at through deductive logic, which they used in setting forth how human beings tend to act under the influence of natural laws, suggested a universality and absolutism which were contradictory to the actual facts of economic life. The historical school, in contrast, endeavored to use history and observation as implements in the reconstruction of economic science.

In their procedure the adherents of the historical school placed a new emphasis upon dynamic elements, also in contrast with the classicists, who devoted their attention primarily to the statics of economic society. The method of orthodox economists was based on unreality, for their so-called completely "static" human society is subject to internal change and fluctuation; the rigidity of frozen institutions exists only in one's imagination. Historical economists believed change to be inherent in all social institutions.

Although the German historical school is commonly assigned the year 1843 as the date of its inception, developments for more than a generation preceding prepared the way. Among the circumstances which facilitated a sympathetic reception to the historical approach in economics, and perhaps a stimulus for its adoption, were the Hegelian philosophy and the Savigny formula for the investigation of the character of law.

In the Hegelian philosophy the universe is a process of thought moving in its cycle from the abstract to the concrete. Hegel's conception of the state contains an idea of evolution – "An expression of the spirit realizing itself in the conscience of the world." It exalts the personality of the national state and makes it superior to its individual members. The individual has no reality except as a member of the state and actually exists for the sake of the state. Hegel felt that the doctrines of natural rights and individualism have no place in Hegelian philosophy. The ideal in statecraft was found in the Prussian state.

Friedrich Karl von Savigny, professor of Roman law at Berlin, 1810–1842, in founding a historical school of jurisprudence supplied a pattern for the parallel science of economics. According to his theory, the law is a spontaneous growth of the entire life of the nation, the real character of which can be revealed only by historical and comparative studies. Students who came under Hegel's influence devoted themselves to research in this field in a manner so noteworthy as to affect other fields of study also, for it was seen that the same method was applicable. Exponents of the historical approach substituted the idea of relativity for the absolute attitude of the cosmopolite, who gave ready acceptance to the theory that a given economic system is applicable to every stage of social development. The origin of the school is in Wilhelm Roscher.

Wilhelm Roscher

Biographical Sketch. Wilhelm Roscher (1817–1894), founder of the historical school, was educated at the University of Göttingen. After taking his degree, he filled the position of lecturer in history and political science in his alma mater. Advancing through the various academic ranks, he became a professor in 1848. Shortly thereafter he was called to the University of Leipzig, where he served for almost fifty years. He is the author of learned works, including one on the history of economic thought. The small book, *Outline of Lectures on Political Science According to the Historical Method* (1843), is notable because it stated the principles of the historical method and stressed the need for the infusion of the historical spirit into economic investigation.

Emphasis upon Realistic Studies

Since Roscher regarded historical empiricism as abstract, general deductions were denied the validity of absolute truth. His emphasis was upon national rather than upon cosmopolitan economics. It was his aim to round out current economic theory by embellishment with contemporary facts and opinion. History, he believed, could serve to illustrate theory and to supply rules for the guidance of the practical statesman.

The classical method of abstract argument from given assumptions was rejected by Roscher in favor of realistic studies. Matters to be found within the domain of reality are the proper materials to study in attempting to describe man's economic nature and economic wants. The history of all the nations that can be made use of for purposes of comparison must be studied both for their differences and for their resemblances. From the resemblances, rules may be deduced on the basis of which the differences may be considered as exceptions in the endeavor to explain them.

Roscher's Theses

Roscher's proposed program, as announced in the preface to *Outline of Lectures on Political Science According to the Historical Method* (1843), contained four propositions, to wit:

1. Political economy is a science which can be explained only in relation to other social sciences.

2. Since a people is more than the mass of existing individuals, economic investigation cannot be confined to observation of current economic relations.

3. As many people as possible should be compared for the purpose of deriving laws from the mass of phenomena. Similarities between old and new civilizations are especially significant.

4. The historical method will be slow to acclaim or to condemn economic institutions, for few have been entirely good or completely bad for all peoples.

BRUNO HILDEBRAND

BIOGRAPHICAL SKETCH. Bruno Hildebrand (1812–1878), student of philosophy and history in the University of Breslau, held successive

professorships over a period of almost four decades in the universities at Marburg, Zurich, Berne, and Jena. In 1863 he founded the *Jahrbücher für National Okonomie und Statistik* and continued its sole editor for a decade. It was a highly respected publication issued later under other editorship. Of his promised extended work on the *National Economy of the Present and Future,* only the first volume was ever published (1848). In the published volume he differentiates three phases of economic development as follows: the period of natural economy, the period of money economy, and the period of credit.

Rejection of Cosmopolitan Economic Theory

Like Roscher before him, Hildebrand was a disbeliever in the cosmopolitan character of economic laws. He also rejected the classical atomistic nature of society, which made the individual the end of society. His full purpose was to break the way for the historical method in economics. He hoped to assist in making economics the science of national development.

In criticism of Adam Smith and the classical school, he pointed to the invalidity resident in the attempt to draw, from facts concerning individual people and particular periods, generalizations universally applicable. Man as a social being and a product of history has changing needs, opinions, and relations to other men; so cosmopolitanism is not a characteristic of his economic institutions. Hildebrand also criticizes the materialistic tendencies of the classicists on the ground that political economy must concern itself with the moral good of a people and the welfare of the state.

Karl Knies

Biographical Sketch. Karl Knies (1821–1898), the third of the trio of German scholars who constitute the old historical school, was born at Marburg and prepared himself for the teaching profession. His professional career was begun at Marburg, continued at Freiburg, and completed at Heidelberg University after a span of more than three decades. In 1853 he published a bulky treatise under the title *Political Economy from the Standpoint of the Historical Method,* which failed to win its way until it was popularized by the leader of the new historical school, Gustav Schmoller.

No Economic System Final

Of the trio of confreres, Knies is the most determined critic of the classical school. He claims that historical studies are the only legitimate basis of economics and that the economic system passes through a series of phases dependent upon the stages of civilization. No economic system can be looked upon as final, nor can any previous economic organization of society be regarded otherwise than as a phase in continuous historical evolution. Relativity in economic theory is stressed; cosmopolitanism and perpetualism are rejected. In fact, Knies goes so far as to deny the existence of economic laws.

Knies, according to Schmoller, demanded the concreteness of reality, as against generalizations based on abstractions. The full interdependence of all phases of social life in its material, moral, and spiritual aspects was recognized. Any materialistic, mechanical view was classed as inadequate.

Younger Members of the School

Although each of the three founders criticized the classical method, they failed to agree as to the aim and scope of the science. The attempt to accomplish this was left to a new group, which also took up the task of applying widely the principles of the historical method. Schmoller and his associates began this work in 1870. It was the opinion of the younger group, according to Schmoller, that the older historical political economy had "desired too quickly to draw conclusions from the facts of universal history." Many more studies were required, in his opinion, to provide the material adequate for valid generalizations.

In their zeal to tear down the faulty abstract-deductive methods under the hegemony of the classicists, the economists of the older school insufficiently developed their substitute theory of method. They were too largely negative in their approach although they did not deny the existence of economic laws altogether. It was left for the historical method to be applied in a

thoroughgoing manner by a younger and more positive group. The new group was not only critical of the classicists, but of the older historical-method group also.

For Schmoller and his followers economic history and statistics form the basis of a concrete theory of political economy, but the deductive approach is not excluded from his method. Natural environment, ethnology, and psychology are investigated as an aid to historical observation. In method, a proper combination is made of induction and deduction – deduction from the known properties of human nature, and induction from historical and statistical observation. In an oft-quoted sentence Schmoller wrote: "Induction and deduction are both necessary for the science, just as the right and left foot are needed for walking."

Gustav Schmoller

Biographical Sketch. Gustav Schmoller (1838–1917), one of Germany's leading economists, held professorships successively at the University of Halle, Strasbourg, and Berlin. He is the author of the most outstanding treatise of the historical school, *Outline of General Economic Theory* (1900–1904), published in two volumes. It contains a huge mass of information on a large variety of topics. In it psychology is introduced to explain motives, and climate and geological structure are recognized as placing limitations. Schmoller set in motion an intensified movement of historical research. As essential techniques of science he recognized the necessity of "(1) correct observation, (2) good definition and classification, and (3) the finding of typical forms and causal explanations."

Schmoller was a diligent student of English classical economics and of the writings of the older German historical school. It became his ambition to develop economic science through historical, descriptive, and factual material in order to relate it fully to the other social sciences. His objectives were to find facts and methods and to infuse justice into the economic system, this to be realized through a paternalistic policy of social response set in motion by the state or other social groups. To set up an empirical basis for the work of reform, multitudinous historical monographs were prepared which added greatly to the knowledge of economic history. By throwing light upon the past, new life was fused into the study of economics and interest renewed in bringing it into touch with contemporary life.

Realism Schmoller's Keynote

Schmoller believed in the existence of economic laws and devoted years of his time to their discovery. In the field of method he used hypothesis and deduction as well as induction. What he opposed was the narrowing of economic science to deductions from a small number of simple premises, which was characteristic of some of the classical economists. In his own work he made deductions from the characteristics of human nature and from generalizations based on historical facts indiscriminately, nor did he hesitate to enlist the supporting aids of environment, ethnology, and psychology. He resolved to avoid deductions from premises based on the theoretical activity of a fictitious "economic man"; his man was the actual man as revealed by observation, history, and the analyses of scientists. Realism was Schmoller's keynote. Nationalism was set over against individualism, non-economic motives were brought into focus, and relativity of economic theory established. The historical method made a lasting contribution to the science of economics, but the tenets of the historical school have been superseded as knowledge of the science has progressed.

Chapter 26. THE ENGLISH HISTORICAL SCHOOL

Defection in the Home of the Orthodox

English economists themselves, though in the home of the classical tradition, began to recognize the necessity of the reformation in the old economic precepts by the latter half of the nineteenth century. Frank opponents, partial dissenters, and constructive critics added their bit in sapping the foundation of the "orthodox doctrines." Many influences contributed to this end and foretokened the establishment of new principles.

Auguste Comte

The philosophy of Auguste Comte injected into the thought of the classicists a disturbing influence in postulating a dynamic as well as a static theory of society. His philosophy eliminated the absolute of imagined fixity and substituted for it the conception of ordered change. The principal method used by him was that of historical comparison. Social duty and moral ideas were stressed. The laws of social coexistence and social development were differentiated as social statics and social dynamics, respectively. In the study of the latter, in particular, several stages of society must be compared in the search for the laws of sequence and the stem of origin of characteristic features. The field of study was history and contemporary fact; the principal method, the historical.

The general principles outlined are made applicable by Comte to economic speculation as a branch of social studies; consequently, in his system, "The economic structure of society and its mode of development cannot be deductively foreseen, but must be ascertained by direct historical investigation." The idea of an absolute system with universal validity is abandoned, and a series

of systems, in succession not arbitrary but regulated by law, is substituted. John Stuart Mill, under the influence of Comte, included a section on "Economic Dynamics" in his *Political Economy;* but, further than this, a distaste for the system of "orthodox" economics was growing in England which was manifest in a mode of thinking and a species of research in harmony with the conceptions of the historical economists.

Look-and-see Method

Richard Jones was the earliest critic insisting upon inductive procedure. He set forth the "look-and-see" method as the only possible way to arrive at valid generalizations.

Richard Jones

Biographical Sketch. Richard Jones (1790–1855), English economist, was born at Tunbridge Wells, educated at Cambridge, and after taking orders, held curacies in Sussex and Kent. From the professorship in political science at King's College, London, he was called as successor to Thomas Malthus in the East India Company college at Haileybury. In his *Essay on the Distribution of Wealth and on the Sources of Taxation* (1831), he attacked the abstract assumptions of the Ricardian rent doctrine, showing that they did not describe the actual rent system of England of the past or of his own time. His classification as one of the English historical school rests on his purpose and method as revealed in his own words:[1] "If we wish to make ourselves acquainted with the economy and arrangements by which the different nations of the earth produce or distribute their revenues, I really know of but one way to obtain our object, and that is to look and see."

Cliffe Leslie

Biographical Sketch. Thomas Edward Cliffe Leslie (1825–1882), Irish economist, was born in county Wexford, Ireland. After a brilliant career as a student at Trinity College, Dublin, he was called to the bar, then in 1853 to the professorship of political economy at Queen's College, Belfast. He was reputed the first British economist to make a systematic statement descriptive of the historical method. Like others among the early members of the historical school, his work was chiefly critical. Had he not had the misfortune to lose his most

[1] Introductory lecture at King's College, London, 1833.

important manuscript by an unfortunate accident, this appraisement might be different, for, in the work that was lost, he had contrived a new system of political economy. We may assume that the historical method was followed and that the design of his work was creative and positive, as well as critical and negative. He survived the loss of his manuscript by but a few months. Shock and worry hastened his death.

Leslie Exposes Economic Fallacies

Pure deduction by the Ricardians became the pitfall of "enormous fallacies," from which Adam Smith escaped only because of his use of an element of induction, so Leslie contended. In the interpretation of Smith's doctrines, class interest had perverted his rule of the "progress of opulence" to the extent that the "prejudices of particular orders of men" changed economics from a science *of* wealth to a science *for* wealth. Hedonistic utilitarianism Leslie rejected, too, because, in his opinion, happiness cannot be the only test of desirableness; "the progressive improvement of living creatures" is a better objective. The deductive method was not denied a place in his logical procedure, but assumptions from deductions, he asserted, must be verified by reference to fundamental laws obtained by careful induction.

John Kells Ingram

Biographical Sketch. John Kells Ingram (1824–1907), Irish scholar and sociologist, born in county Donegal, Ireland, was educated at Trinity College, Dublin. Following graduation he was, in turn, fellow, professor of oratory and English literature, professor of Greek, and librarian. His remarkable versatility is proved by the reputation he gained in science, literature, philosophy, and political economy. As a follower of the philosophy of Comte he treated economics merely as a part of sociology.

Orthodox economics he considered at fault because wealth was studied in isolation from other social phenomena. Abstract and inhumane, deductive and unhistorical, it appeared to him. He worked at the formulation of laws of changing development rather than static equilibrium. His article on economics for the ninth edition of the ***Encyclopaedia Britannica*** was the first comprehensive, authoritative

history of economic doctrine. It was translated into most of the European languages and brought him lasting fame.

Ingram's Grounds of Criticism

In an address before the British Association for the Advancement of Science in 1878, Ingram stated four grounds for criticism of classical economics, which a hundred years after the publication of the *Wealth of Nations,* had fallen into a low state of repute. The first was the tendency of economists to isolate special phenomena and consider material – apart from moral, intellectual, and political – aspects, thus constituting it an independent science of a narrow nature. The second was the strictly abstract way in which conceptions of the classicists were presented. Abstractions in matters of human life, he declared, when carried far enough lose all hold on realities and present things in a manner other than they are, arriving at conclusions useless for any practical purpose. The third prevailing error he pointed out as exaggeration in the use of deduction in respect to economic investigation. According to Ingram, the legitimate employment of deduction was "the verification from fact of the conclusions of theory." We are told that this procedure is too often entirely overlooked. The fourth error Ingram sees is the too absolute character of the theoretical conclusions of political economists. By their unhistoric method, conclusions purport to apply to all society. Since the economic structure of society is undergoing continuous modification in relation to other elements of human condition, a social development results which is characteristic of a dynamic society.

Walter Bagehot

Biographical Sketch. Walter Bagehot (1826–1877), English social scientist and literary critic, served as editor of the *Economist* for nearly two decades following 1860. He was born at Longport, Somerset, graduated from London University in 1848, and admitted to the bar in 1852. The practice of law was foregone in favor of his father's profession of banking; journalism, however, claimed some of his attention. Operating through a proxy, Bagehot became an underwriter at Lloyd's, and while actively editing the *Economist,* he served as the London representative of his father's bank in lending surplus funds on

Lombard Street. His business activities led to intimate friendships with the president and directors of the Bank of England and with leaders in politics. Possessing a facile pen, Bagehot devoted some of his time to the writing of essays on social science subjects. In economics his essays are of the descriptive type, of which his *Lombard Street* is the most notable production.

To picture his position as a member of the English historical school his *Economic Studies* holds most significance. As might be expected, because of identity of profession Bagehot was influenced by Ricardo, but not to the extent of imitating the abstract and absolute character of his writing. Bagehot stressed the importance of social institutions and directed his effort toward the reconcilement of political economy and sociology. Altogether, Bagehot was a versatile and practical man and a most interesting and fluent writer.

Reasons for the Unpopularity of Political Economy

In discussing the political economy of his time, Bagehot remarked that there was not the same interest in it as formerly and that it did not command the same confidence. In searching for the reasons underlying the condition of the science, he found that the English free-trade practices were unpopular abroad because of underselling by English traders and because of the policy of nonintervention at home, which denied the government the function of an attempted cure of the evils of mankind.

Bagehot, in addition, found the unpopularity of political economy in its special characteristic of simplification. He defined it as the science of business, meaning by business large productive and trading organisms. In the main it assumes that man is actuated only by motive of business, that the businessman is concerned only with making most and spending least. Although this is not actually so in his opinion, it has become the popular impression. Few people have a very distinct idea of the characteristics of an abstract science. Consequently, as Bagehot tells it:[2]

> More competent persons, indeed, have understood that English Political Economists 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

[2] Walter Bagehot, *Economic Studies*, "The Postulates of English Political Economy."

to suppose they are. But even they often do not understand that the world which our Political Economists treat of, is a very limited and peculiar world also. They often imagine that what they read is applicable to all states of society, and to all equally, whereas it is only true of — and only proved as to — states of society in which commerce has largely developed, and where it has taken the form of development, or something near the form, which it has taken in England.

. . . . . .

And this brings out too the inherent difficulty of the subject — a difficulty which no other science, I think, presents in equal magnitude. Years ago, I heard Mr. Cobden say at a league meeting that "Political Economy was the highest study of the human mind, for that the physical sciences required by no means so hard an effort." An orator cannot be expected to be exactly precise, and of course Political Economy is in no sense the highest study of the mind — there are others which are much higher, for they are concerned with things much nobler than wealth or money; nor is it true that the effort of mind which Political Economy requires is nearly as great as that required for the abstruser theories of physical science, for the theory of gravitation, or the theory of natural selection; but, nevertheless, what Mr. Cobden meant had — as was usual with his first-hand mind — a great fund of truth. He meant that Political Economy — effectual Political Economy which in complex problems succeeds — is a very difficult thing; something altogether more abstruse and difficult, as well as more conclusive, than that which many of those who rush in upon it have a notion of. It is an abstract science which labours under a special hardship. Those who are conversant with its abstractions are usually without a true contact with its facts; those who are in contact with its facts have usually little sympathy with and little cognisance of its abstractions. Literary men who write about it are constantly using what a great teacher calls "unreal words" — that is, they are using expressions with which they have no complete vivid picture to correspond. They are like physiologists who have never dissected; like astronomers who have never seen the stars; and, in consequence, just when they seem to be reasoning at their best, their knowledge of facts falls short. Their primitive picture fails them, and their deduction altogether misses the mark — sometimes, indeed, goes astray so far that those who live and move among the facts boldly say that they cannot comprehend "how any one can talk such nonsense." Yet on the other hand, these people who live and move among the facts often, or mostly, cannot of themselves put together any precise reasonings about

them. Men of business have a solid judgment – a wonderful guessing power of what is going to happen – each in his own trade; but they have never practiced themselves in reasoning out their judgments and in supporting their guesses by argument; probably if they did so some of the finer and corrector parts of their anticipations would vanish. They are like the sensible lady to whom Coleridge said: "Madam, I accept your conclusion, but you must let me find the logic for it." Men of business can no more put into words much of what guides their life than they could tell another person how to speak their language. And so the "theory of business" leads a life of obstruction, because theorists do not see the business and the men of business will not reason out the theories. Far from wondering that such a science is not completely perfect, we should rather wonder that it exists at all.

Three Defects in Treatment

Bagehot listed three defects in the mode of treatment of political economy in England which, in his opinion, prevented an appraisal of its worth and even an undertaking of it by most persons.

The first listed is the application of a single set of abstract propositions to an explanation of the conditions found in all societies. The causes set up in the propositions of the English economists, he said, fit well only "a society of grown-up competitive commerce." Since every society does not have the "grown-up" characteristic, it is an error to treat all states of society as though they were alike. Consequently, it should be determined where the political economy of the classicists is established and where not, in order that "its sovereignty should be upheld, but its frontiers marked."

Secondly, the English economists, in failing to conceive of the lack of appropriateness in the universal application of their principles, have been far more abstract and dry than they need have been if they had held steadfastly to the concept "that they were dealing only with the causes of wealth in a single set of societies" and had "effectively pointed their doctrines with facts from those societies." Their vision of a universal theory caused them to shrink from particular illustrations.

Thirdly, English economists have been remiss in failing to provide descriptive data as instances in verification of their con-

clusions. They have been too content with their abstract ideas, shrinking, as it seemed, from concrete ideas even though an abundance of material was at hand for verification, to the end that confidence in the science was lost by many people.

Deductive Method Not Discarded by Bagehot

His suggestions for the modification of method are tantamount to constructive criticism, for he was fully convinced of the real value in the deductive method when properly used and appropriately applied. His treatment of the method and scope of political economy was clearly justified by the facts of the case.

Arnold Toynbee

Biographical Sketch. Arnold Toynbee (1853–1883), economist and social reformer, enjoyed a short but useful life, death coming to him from a pulmonary disorder at the age of thirty-one. Born in London, son of a distinguished surgeon, he intended to enter the army, but ill health and a love of books prompted him to take a university course. After graduating from Oxford he served as tutor to students preparing for the Indian service. He continued devoted to his studies and turned earnest attention to economics and economic history. Lecturing on economic topics and social reform, he made a special study of the labor problem and poverty.

While criticizing the overuse of deduction, he recognized that it could be used in conjunction with historical and statistical investigations. He made noteworthy studies in the field of economic history and was the originator of the term, "the Industrial Revolution." He was also a pioneer in settlement work. Recognition of this is evidenced in the establishment of the Toynbee Hall social settlement in the Whitechapel district of London.

Intellectual power, zeal for the public good, love of truth, and strength of character were the attributes recognized by his contemporaries. His numerous speeches overtaxed his strength, and one of these, an address delivered in 1883, directed against the doctrines of Henry George, caused a complete breakdown which he did not long survive. The successor to his Oxford University chair of political economy was Alfred Marshall, who utilized Toynbee's original ideas in his newly devised neoclassical system.

Toynbee's Program

Toynbee is classified as an important member of the historical school. He had a twofold aim: first, to show that each writer was influenced by his own environment and that a school of thought grew out of its particular setting; second, he strove to supplement theory with fact and through statistics to test the validity of deductive principles. His reliance was not upon deductive logic but upon the accumulation of facts and the testimony of history. He recognized the inequities of economic inequality and held to the firm conviction that poverty could be mitigated without disturbing the institution of private property through complete or partial confiscation. In his efforts in behalf of labor reform he ruled out all methods of violence.

He taught that there was a double advantage in combining the two studies of political economy and history. On the one hand, abstract economic propositions would be seen in a new light when studied in relation to facts and so would be less likely to mislead; on the other hand, history could be better understood when studied in relation to the principles of political economy, because many phenomena disclosed by history become more intelligible to a mind trained through practice in careful deductive reasoning and the power to subordinate detail.

William James Ashley

Biographical Sketch. William James Ashley (1860–1927), English economist, was born in London, studied at Oxford, and was at one time a fellow at Lincoln College. He held successively the professorship of political economy in the University of Toronto, Canada, the professorship of economic history (the first chair under this title ever to be established anywhere) in Harvard University, the professorship in commerce and finance in the University of Birmingham, and the deanship of the faculty of commerce in the latter institution.

He made important contributions to the history of English industry. His *Introduction to English Economic History and Theory* (1888–1893) is the standard work on the subject. He published a work under the title of *The Tariff Problem* in 1903 and an enlarged edition of it in 1920. On the tariff issue he was the foremost of the economists who supported Joseph Chamberlain in his campaign for protection to English industry a generation ago.

Historical Studies Related to Evolution

It was Ashley's judgment that economic science had been modified by two influences, historical studies and the idea of evolution. In the preface to his book on *English Economic History,* Ashley wrote in substance as follows: Political economy consists of a number of theories and generalizations having more or less value, but without the validity which would constitute them a body of absolutely true doctrine. Each age reconstitutes its doctrines, just as each age develops its institutions. History, he taught, reveals that great institutions have their relative justification; similarly, a great body of economic doctrines, current over an extended period, possesses truth and value as related to contemporary circumstances. Consequently, he concludes that modern economic theory is not universally true, for it fits neither past nor future, since the conditions it postulates did not and will not exist. Changing conditions have ever modified institutions, and these influences have changed man's conception of the nature of the science. The same influences have also produced differences of opinion regarding the methods best adapted to proceed effectively in the investigation of economic phenomena.

Chapter 27. LATE AMERICAN ECONOMISTS

Dissentient America

Environmental conditions have induced distinctive tendencies in American economic thought throughout our history. Because of boundless resources and the absence of any earmarks of the *stationary state* of the classical economist, the American point of view has generally been optimistic. There has been an inclination to question the validity of the law of diminishing returns and to reject the principle of the Malthusian doctrine on the ground that they are not in harmony with the known elements of the *advancing state,* of which America is the outstanding example. Idealism, fostered by favorable environment, readily became a notable characteristic of a population recruited largely from individuals enticed from their unacceptable preemigrant surroundings.

Besides the optimistic approach to economic questions generally, there is an inclination among American economists to allow it to color their thought through the influence of better local conditions. A prominent factor is that of comparative isolation from the old centers of industry abroad. Scarcity of labor and capital and the changes in their relative quantity impressed upon Americans the idea of the normality of progress and the importance of enterprise and management.

Equally effective was the scarcity of labor in its stimulation of invention and the rationalization of the productivity theory of wages. Subsistence wages have never been common in America, and the continuous presence of high-quality, no-rent land has made apparent the full value return to free labor for effort expended. With labor independent, wages-fund theorists did not

find in America the conditions conducive to the support of their doctrine.

In the eighteenth century a practical naturalism was the dominant philosophy as exemplified by Franklin. In the early days under the Constitution, the protectionist theory expounded by Hamilton gained adherents, and its practical expression gave birth to the idea of the "American system." In this period Henry Carey, buoyant in his optimism, was looked upon as the great American economist.

In the period following the War Between the States the tariff question and money problems stimulated economic study and writing. Among the writers who gained prominence in this period were four especially noteworthy economists. Henry George created a great furor with the publication of his *Progress and Poverty*. Francis A. Walker with his theory of profits, with the explication of the work of the entrepreneur, and with his refutation of the wages-fund theory gained international recognition. John Bates Clark contributed to the volume of thought on subjective utility by his marginal-productivity analysis in static distribution. His treatment of society as a unit organism in the processes of wealth distribution brought him distinction as America's greatest constructive theorist. Simon Patten, dissentient economist, who, reflecting the changing life of the Middle West, advocated governmental intervention, a nationalistic policy, and a spending economy, was among the first Americans to sense the approach of a period of surplus and to recognize the utility in social planning. Of the four, Henry George is the most spectacular and the most effective, for his message possessed the fervor of propaganda.

Henry George

Biographical Sketch. Henry George (1839–1897), social philosopher and political economist, was born in Philadelphia but a short distance from Independence Hall. His father was for a time publisher of materials of a religious nature but later held a position in the customhouse; his mother, a former schoolteacher, was a woman fervently pious and of fine sensibility. Henry did not do well at school; so he got himself a job as errand boy and clerk when not yet fourteen.

When sixteen he shipped before the mast and roved the seas for two years. Upon his return to Philadelphia he apprenticed himself to a printer but lost the place after a quarrel with the foreman. During all this time he was an inveterate reader of books borrowed from free libraries. He read good literature and was especially fond of poetry.

At nineteen he decided to try his luck in California. For transportation he obtained a berth on a government lighthouse tender sailing for San Francisco. The lure of gold had overpopulated the region and work as a printer was impossible to find; so George tried to make his way in the placer mines on the Frazer River in British Columbia but soon drifted back to San Francisco. He now found work as a typesetter, but with work becoming slack he took a turn at gold mining a second time. Once more he returned from the mines to become a printer on a San Francisco newspaper. His connection with the paper was fortunate since it afforded him rapid advancement through the positions of reporter, contributor, editor – all providing the opportunity to exercise his facile pen.

Conditions following the gold boom of 1849 brought business reverses and made George penniless. Strong in self-reliance and undeterred by the depression, he married Annie Fox, a young, inexperienced, convent-educated schoolgirl. There followed some years of bitter poverty, during which he eked out an existence by intermittent work as a typesetter and printer. To add small amounts to his income, he solicited newspaper subscriptions and sold clothes wringers and carriage brakes.

During intervals of enforced leisure he assiduously practiced the art of English composition. In this endeavor he proved highly successful. A letter of his on the "Chinese question," printed by the *New York Tribune,* brought him the commendation of John Stuart Mill. Some of his essays were accepted, and a career as a journalist seemed assured. He became one of the founders of the *San Francisco Post* in 1867, but the panic of 1873 brought disaster to this promising business.

The grinding poverty experienced by him and that observed in different periods of his life in Calcutta, New York City, and California made a deep impression. A question began to haunt him, "Why is advancing wealth accompanied by advancing poverty?" He relates how an answer to the question flashed into his mind when in casual conversation with a Californian. Further study of the problem brought the conviction that the expropriation of the masses, resulting from rapidly rising land values, was the cause of poverty. In California this was

exemplified during the period in which the transcontinental railroad neared completion. The remainder of his life was spent in developing and popularizing the thesis that the appropriation of land as private property resulted in a detriment to society.

For a solution to the scourge of poverty George proposed a tax upon land values to meet all the expenses of government. On this subject he first published a pamphlet entitled *Our Land and Land Policy* (1871). This was expanded a few years later when, after appointment to a political position by his friend, Governor Irving, the necessary leisure for writing was acquired. The manuscript, *Progress and Poverty,* was completed in 1879. In it is announced the thesis that the economic rent of land belongs to the community and, as a consequence, land should be nationalized. Economic rent, being socially created, should be distributed to the community. It was not his plan to redistribute land, but to accomplish the same object by distributing the rent of land through a tax. His manuscript went the rounds, begging for a publisher. Finally a printer friend made plates of the book, which were sold outright to a publishing firm in New York for a small sum. The book became a sensation; many editions have been brought out and millions of copies sold.

George was a profound thinker on economic questions, an ardent social reformer, and a talented public speaker. As a practical way to advance his theories, he entered the political arena as the candidate of the Labor party for the mayoralty of New York City in 1886. He waged an unsuccessful campaign in the three-cornered contest, but polled a large vote. The other unsuccessful candidate was the nominee of the Republican party, Theodore Roosevelt. George was a candidate again for the same office in 1897, but died suddenly in the heat of the campaign.

Besides *Progress and Poverty,* which brought him enduring fame, he wrote numerous other books and essays, among which are *Social Problems* (1883), *Protection and Free Trade* (1886), and *The Science of Political Economy* (1898). The last was left an unfinished manuscript to be completed and published by his son.

A distrust of academic learning induced George to set his son to work on the *Brooklyn Eagle* rather than send him to Harvard for his education. Having learned to write the hard way, he gave his son four rules for writing successfully. These were: (1) make short sentences; (2) use small words; (3) avoid adjectives; (4) shun "fine writing." The application of these rules in his own writing accounts for his simple

and lucid style. No economist excelled him in logical presentation and persuasiveness. He was the only American who founded an economic theory which gained a world-wide following.

Henry George was of sturdy build, about middle height, rather careless about his appearance, and possessed of a high-strung temperament. He never lost the influence of his early home training, for throughout his writings are reflected religious fervor and moral rectitude. *Progress and Poverty,* a literary classic and an extraordinary and impelling book, reveals much concerning the character of its author.

Political Economy Properly Applied, a Practical Study

Henry George attributed to political economy the utmost practical importance for, according to his description:[1]

> It is the science which treats of the nature of wealth and the laws of its production and distribution; that is to say, of matters which absorb the larger part of the thought and effort of the vast majority of us – the getting of a living. . . . It is the science to which must belong the solving of problems that at the close of a century of the greatest material and scientific development the world has yet seen, are in all civilized countries clouding the horizon of the future – the only science that can enable our civilization to escape already threatening catastrophe.

The Enigma

According to George, the enigma of his time was that economic progress was not only unable to abolish poverty but that it actually bred misery. Although his century provided a prodigious increase in wealth production through machinery, specialization, and the greater effectiveness of labor, it seemed that want and misery were spreading and that progress, instead of curing poverty, bred poverty. This seemed the more inexplicable to him because "It was natural to expect and it was expected, that labor-saving inventions would lighten the toil and improve the conditions of the laborer; that the enormous increase in the power of producing wealth would make real poverty a thing of the past."[2]

[1] Henry George, *The Science of Political Economy,* "General Introduction."

[2] Henry George, *Progress and Poverty,* "Introductory: The Problem."

The Case Stated

To George's way of thinking, from bounteous, material conditions, one would have good reason to expect as a necessary consequence:[8]

> Moral conditions realizing the golden age of which mankind have always dreamed. Youth no longer stunted and starved; age no longer harried by avarice; the child at play with the tiger; the man with the muck-rake drinking in the glory of the stars!
>
> Foul things fled, fierce things tame; discord turned to harmony! For how could there be greed where all had enough? How could the vice, the crime, the ignorance, the brutality, that spring from poverty and the fear of poverty, exist where poverty had vanished? Who should crouch where all were freemen? Who oppress where all were peers?
>
> More or less vague or clear, these have been the hopes, these the dreams born of the improvements which give this wonderful century its pre-eminence. They have sunk so deep into the popular mind as to radically change the currents of thought, to recast creeds and displace the most fundamental conceptions.
>
> . . . . . .
>
> Now, however, we are coming into collision with facts which there can be no mistaking. From all parts of the civilized world come complaints of industrial depression; of labor condemned to involuntary idleness; of capital massed and wasting; of pecuniary distress among business men; of want and suffering and anxiety among the working classes. All the dull, deadening pain, all the keen, maddening anguish, that to great masses of men are involved in the words "hard times," afflict the world today. This state of things, common to communities differing so widely in situation, in political institutions, in fiscal and financial systems, in density of population, and in social organization, can hardly be accounted for by local causes.
>
> . . . . . .
>
> That there is a common cause, and that it is either what we call material progress or something closely connected with material progress, becomes more than an inference when it is noted that the phenomena we class together and speak of as industrial depression, are but intensifications of phenomena which always accompany material progress, and which show themselves more clearly and strongly as material

[8] *Ibid.*

progress goes on. Where the conditions to which material progress everywhere tends are most fully realized – that is to say, where population is densest, wealth greatest, and the machinery of production and exchange most highly developed – we find the deepest poverty, the sharpest struggle for existence, and the most enforced idleness.

It is to the newer countries – that is, to the countries where material progress is yet in its earlier stages – that labourers emigrate in search of higher wages, and capital flows in search of higher interest. It is in the older countries – that is to say, the countries where material progress has reached later stages – that widespread destitution is found in the midst of the greatest abundance. Go into one of the new communities where Anglo-Saxon vigor is just beginning the race of progress; where the machinery of production and exchange is yet rude and inefficient; where the increment of wealth is not yet great enough to enable any class to live in ease and luxury; where the best house is but a cabin of logs or a cloth and paper shanty, and the richest man is forced to daily work – and though you will find an absence of wealth in all its concomitants, you will find no beggars. There is no luxury, but there is no destitution. No one makes an easy living, nor a very good living; but every one *can* make a living, and no one able and willing to work is oppressed by the fear of want.

But just as such a community realizes the conditions which all civilized communities are striving for, and advances in the scale of material progress – just as closer settlement and a more intimate connection with the rest of the world, and a greater utilization of labor-saving machinery, make possible greater economies in production and exchange, and wealth in consequence increases, not merely in the aggregate, but in proportion to population – so does poverty take a darker aspect. Some get an infinitely better and easier living, but others find it hard to get a living at all. The "tramp" comes with the locomotive, and almshouses and prisons are as surely the marks of "material progress" as are costly dwellings, rich warehouses, and magnificent churches. Upon streets lighted with gas and patrolled by uniformed policemen, beggars wait for the passer-by. . . .

This fact – the great fact that poverty and all its concomitants show themselves in communities just as they develop into the conditions towards which material progress tends – proves that the social difficulties existing wherever a certain stage of progress has been reached, do not arise from local circumstances, but are, in some way or another, engendered by progress itself.

. . . . . .

This association of poverty with progress is the great enigma of our time. It is the central fact from which spring industrial, social, and political difficulties that perplex the world, and with which statesmanship and philanthropy and education grapple in vain. From it come the clouds that overhang the future of the most progressive and self-reliant nations. It is the riddle which the Sphinx of Fate puts to our civilization, and which not to answer is to be destroyed. So long as all the increased wealth which modern progress brings goes but to build up great fortunes, to increase luxury and make sharper the contrast between the House of Have and House of Want, progress is not real and cannot be permanent. The reaction must come. The tower leans from its foundations, and every new story but hastens the final catastrophe. To educate men who must be condemned to poverty, is but to make them restive; to base on a state of most glaring social inequality political institutions under which men are theoretically equal, is to stand a pyramid on its apex.

The Answer to the Problem

Thus, in fervent words, the problem is stated: for the answer, Henry George seeks within the province of political economy. He sees in its principles deductions made from universal truths and in the application of its accepted axioms the "metaphysical expression of the physical law that motion seeks the line of least resistance – viz., that men seek to gratify their desires with the least exertion." By the methods of political economy – "processes, which consist simply in identification and separation" – George attempts to solve the problem he set for himself: the explanation of the persistence of poverty amid advancing wealth. The logic of his procedure he outlines as follows:[4]

I propose to seek the law which associates poverty with progress, and increases want with advancing wealth; and I believe that in the explanation of this paradox we shall find the explanation of those recurring seasons of industrial and commercial paralysis which, viewed independently of their relations to more general phenomena, seem so inexplicable. Properly commenced and carefully pursued, such an investigation must yield a conclusion that will stand every test, and as truth will correlate with all other truth. For in the sequence of

[4] *Ibid.*

phenomena there is no accident. Every effect has a cause, and every fact implies a preceding fact.

. . . I propose in this inquiry to take nothing for granted, but to bring even accepted theories to the test of first principles, and should they not stand the test, to freshly interrogate facts in the endeavor to discover their law.

I propose to beg no question, to shrink from no conclusion, but to follow truth wherever it may lead. Upon us is the responsibility of seeking the law, for in the very heart of our civilization today women faint and little children moan. But what that law may prove to be is not our affair. If the conclusions that we reach run counter to our prejudices, let us not flinch; if they challenge institutions that have long been deemed wise and natural, let us not turn back.

The Cause of Poverty

Henry George believed he had found the cause which produces poverty in the midst of advancing wealth in the economic principle of "wages to a minimum." In spite of increasing productive power, wages tend to give but a bare living because wages are fixed, according to the prevailing economic belief, by the ratio between the number of laborers and the amount of capital devoted to the employment of labor. This principle Henry George rejected because it did not seem to him to tally with obvious facts. He arrived at his conclusion deductively in the following manner: According to the wages-fund theory, a relative abundance of capital betokens a high level of wages; relative scarcity of capital forecasts a low wage. This is found not to be the case, however, notably so in America. Under that theory, high wages should be accompanied by a low interest rate and low wages by a high interest rate, whereas the opposite is true. George points out that "When laborers cannot find employment and wages drop, there is always an accumulation of capital seeking investment at low rates." He finds high interest coincident with high wages and low interest with low wages. He concludes that the theory that wages are determined by the ratio between labor and capital is inconsistent with the known facts and that the relation between wages and interest is one of conjunction and not of opposition.

Wages Not Paid out of Capital

The apparent contradiction between the prevailing theory and fact George traced to a deduction from a previously assumed theory, and therefore to a fault in the premises. So he took upon himself the task of showing that wages, instead of being drawn from capital, were in reality paid from the product of the labor itself. By drawing upon obvious facts from a simple state of society, it is shown that, when labor is exchanged for commodities, production precedes enjoyment and wages are the earnings of labor, not the advances of capital. In like manner a worker in a more complex society is paid his wages from the wealth he produces, even though his work results in an unfinished product. George concludes that wages are in no wise advances from capital and that a laborer, whether he works for himself or is employed by someone else, receives his pay from his own product. The money mechanism merely conceals the reward of labor in the commodities produced; it alters nothing fundamentally, and, in considering advances, it should be observed that the worker advances his labor too – whether it results in completely or partly finished products – just as much so as the entrepreneur advances capital. The fact that wages are paid in money is misleading merely, as is also the fact that labor is paid before the completion of the product. The productive process is continuous, and money wages are installments of the wealth actually being created in the periods for which the wages are due.

Attack on the Malthusian Theory

The second classical theory attacked by George is the Malthusian theory of population. His refutation rests on the fact that the materials from which man draws his subsistence – vegetable and animal – have rates of increase above that of population. Even though human multiplication forces a resort to poorer soils, productive power is at the same time increased in higher ratio because of the power resident in human association. In the laws of association George finds a compensating force. Population need not press upon the food supply, for the increase in the ratio of

production, properly ordered, is in excess of the ratio of increase in population. Hence, whenever poverty is found, the misery of it can be overcome automatically by correcting the condition of underpopulation. However, it is not denied that human multiplication has been a cause of misery, but this is attributed to an intermediate cause – that of an inequitable distribution of wealth which has been newly created. It is inequitable distribution which explains the correlation between minimum wages and maximum production. A like correlation exists between progress and poverty; the greater the progress, the greater the poverty.

Solution of the Poverty Problem

By the manner of reasoning described, George prepares for the solution he proposes. Since wealth is the result of the commingling of labor and land in the productive process – the first an active, the other a passive force – capital which comes from wealth is derived from the two first-named factors of production. In new countries, where land is plentiful, labor is applied to superior land, and productivity will accordingly be high. Since wages are determined at the margin of cultivation, wages in new lands are high; in old lands where the margin of cultivation is on poorer soils, wages are low. Interest rates which move up and down with labor, rather than contrariwise, are high also in new countries and low in the old.

The explanation of the phenomena given by George is that rent absorbs relatively more of the social income as countries progress because of the heightened degree of land monopoly. However, while Ricardo held landowners blameless because prevailing high prices made rents high, George, while acknowledging the Ricardian tenet, saw disharmony in private ownership of land and social disintegration as the cause of high prices. Consequently, George arrived at his solution of the commandeering of economic rent through the simple process of land nationalization.

The elementary fact that land is a gift of nature and not a product of man's labor is advanced by Henry George as the basis for his conviction that private ownership in land cannot be justified. To allow private property in land is to foster a plutocratic

aristocracy which collects unearned rents from the rest of society. New inventions and progress in the art of production, while adding to the total product of industry, serve only to enrich the proprietors because of the downward press of the margin of cultivation, which results in lower wages and interest. This is something to be avoided if at all possible. Henry George's idea for the prevention of it was to take away the rent of land from its private holders and turn it over to the community. Rental value created by the community should be appropriated for the common good.

The Single Tax

To bring about the reform it was not proposed to dispossess the owners of land, but to confiscate the full annual rental value of their land by the imposition of a tax. Landowners would retain their titles, but speculation in land would cease because the unearned increment would belong to the state. Thus, by removing the original source of exploitation, inequality would be removed and poverty eliminated.

The device for the accomplishment of the reform was the "single tax." It being solely on the rent of land, it could not be shifted. The tax would be easy to collect. Furthermore, the total income of the community would be greatly increased through the encouragement of production. Unemployment would disappear, and depressions would never occur. The revenue derived by the state would be augmented beyond the needs for governmental expenses. Out of the abundant revenue, services to enhance well-being would be financed. George declared:[5]

> We could establish public baths, museums, libraries, gardens, lecture rooms, music and dancing halls, theatres, universities, technical schools, shooting galleries, playgrounds, gymnasiums, etc. Heat, light, and motive power as well as water might be conducted through our streets at public expense; our roads be lined with fruit trees; discoverers and inventors rewarded; scientific investigations supported; and in a thousand ways the public revenue made to foster efforts for the public benefit.

[5] *Ibid.*, Book IX, Chap. IV.

The operation of the single tax, it was argued, would force all vacant land into use, and the improvements thereon would earn an income for the owner which would not have to be shared with the state, for improvements pay no taxes. Inequalities in the distribution of wealth would tend to disappear, and the promised millennium would approach.

Objections of Economists

Academic economists did not rally to the support of George's plan. They objected to the logic of the argument and found flaws in the theory. Incomes from land rents, they pointed out, are not the only unearned increments of income, nor would the governmental income be sufficient under all conditions to defray public expenses. Furthermore, injustice to landowners by the confiscation of their investment does not provide a just basis for a reform. Not the original owners would be penalized but present owners who have acquired their claims by purchase.

The Procedure to Follow

The procedure George wished to follow was to devise a more general distribution of land and to develop small landholdings. He rejected public action, cooperative action, and collective action as inadequate measures for the accomplishment of his program. He remained an individualist. In his opinion, through the socialization of rent, harmony would be established, for with the recognition of the notion of social duty individual right could be maintained.

The Program Never Fully Adopted

Although George's complete program has nowhere been adopted, many economists favor the unearned-increment tax, which appropriates future increases of land value but leaves undisturbed the vested interests of present landowners. On the other hand, economists are generally agreed that land taxes should not be made the sole source of public revenue, for, from a social point of view, other taxes are equally desirable. Henry George, in his great enthusiasm for agrarian economy, wrote:

On the land we are born, from it we live, to it we return again, children of the soil as truly as is the blade of grass or the flower of the field. Take away from man all that belongs to land, and he is but a disembodied spirit.

The author of this fervid expression made such a stir in the world with his *Progress and Poverty* as this generation hardly realizes. He performed distinguished service in focusing attention upon the issue of justice in distribution; nevertheless, but few would accord the high place to his chief work which he himself claimed for it when he wrote:[6]

Progress and Poverty has been, in short, the most successful economic work ever published. Its reasoning has never been successfully assailed, and on three continents it has given birth to movements whose practical success is only a question of time.

Further Criticism of Absolutism

A contemporary of Henry George, who gained his reputation not as an exponent of general social philosophy but as a constructive critic of the narrow and absolute doctrines of other American economists, was General Francis A. Walker. Americans had hardly advanced beyond the stage when: "Although desirable that the instructor should be familiar with the subject himself, it is by no means indispensable," as Amasa Walker, the father of General Walker, declared. In his opinion, with a well-arranged textbook in hand, a student could master the subject matter of political economy without the aid of much special teaching. General Walker's contribution to the science included a brilliant refutation of the wages-fund theory, the isolation of the entrepreneurial function, and the formulation of a rent-theory of profits. In these matters he had a distinct influence upon the thought of economists, including those of England.

Francis A. Walker

Biographical Sketch. General Francis A. Walker (1840–1897), educator, statistician, and economist, was born in Boston and graduated from Amherst College in 1860. He studied law for a year and then

[6] Henry George, *The Science of Political Economy*, Book II, Chap. VII.

enlisted in the United States Army. He was wounded in battle, confined in Libby Prison, and finally mustered out of service with the rank of brigadier general.

In civil life Walker served the government as chief of the Bureau of Statistics and superintendent of the census of 1870 and of 1880. He also served for a time as Commissioner of Indian Affairs. In the academic field General Walker held the chair of political economy in the Sheffield Scientific School at Yale University and, from 1881 on, the presidency of the Massachusetts Institute of Technology. Academic honors were granted him in the vice-presidency of the National Academy of Science, the presidency of the American Economic Association continuously for seven years after it was first inaugurated; and the presidency of the American Statistical Association for fifteen years.

His books placed him in the first rank of contemporary American writers on economic and political issues. The earliest were on *The Wages Question* (1876) and on *Land and Its Rent* (1883). His discussion of profits and the role of the entrepreneur is distinctly American. The quality of his constructive work, fully expanded in his *Political Economy* (1883, 1887, 1888), was influential in bringing the study of economics in American universities to a position of respectability by inducing the abandonment of a narrow and absolute interpretation of doctrine. Vision and social conscience combined to make General Walker a leader in both economics and education.

Focus on American Experience

Topics discussed by Walker with sufficient originality to be credited as noteworthy contributions included the quantity theory of money, the wages-fund, interest, profits and the entrepreneur. These topics were approached from the standpoint of American experience. The status was that of an expanding agricultural and industrial production at the time of a large influx of immigrant labor.

Wages Paid out of Product

Wages, Walker contended, are paid out of product, not capital, even when advanced out of capital — an infrequent, not a universal circumstance as once supposed. Whether labor is employed at all and what wages shall be paid are dependent upon the pros-

pect of profit in production. The anticipated value of the product is the lure which induces the employment of labor, and the measure of wages paid is influenced likewise, and not by the ratio between capital and labor. His refutation of the wages-fund theory Walker follows up with his own doctrine of the "residual-claimant theory of wages." According to it, the part of the annual income of production not required for rent, interest, and profits belongs to the workers. When profits and rent are determined in accordance with the differential principle of rent expounded by Ricardo, and when interest is determined by the rate necessary to induce saving for productive purposes, the workers get the residue which, in an advancing state, is an increasing quantity. Under his theory the reward of labor is unlimited while rent, interest, and profits are determined and limited by natural law.

Profits and the Entrepreneur

For American students the biographies of captains of industry have an especial appeal because in a peculiar way these builders of a continent seem indigenous to our soil. Consequently, Walker's discussion of profits and the entrepreneur is typically American. In his opinion profits bear a strong resemblance to rent; so, unlike interest, they do not form a part of the price of products, a characteristic which is a feature of agricultural rent. The successful conduct of business is attributed in the major part to exceptional abilities of enterprisers rather than to exceptional opportunities. Walker's argument in support of this statement and of the noncost characteristic of profits follows:[7]

To justify this assertion it will be enough to refer to the well-known fact that a great majority of all business houses which have achieved notable success have been founded by men who owed almost nothing to opportunity. On the other hand, nothing is more familiar than the spectacle of great houses, deeply founded, which have enjoyed high prestige, wide connections and large accumulated capital, dwindling away little by little, if not brought abruptly to their downfall, under the successors of the original founder, simply because the management which had been strong and brave and wise, became commonplace,

[7] Francis A. Walker, *Political Economy*, 3d ed. pars. 307–309.

purposeless, timid and weak. All this is so familiar that I do not fear that any American, at least, will question the assertion that exceptional abilities have far more to do with the successful conduct of business, than exceptional opportunities.

. . . . . .

If (1) the number of men of exceptional abilities were sufficient or more than sufficient to do all the business that required to be done, of all sorts and in all places; if (2) these men, however, much surpassing all other members of the industrial society, were among themselves equal in all respects which concern the conduct of business; and if (3) this class, so constituted and so endowed, were distinguished from all not of their class so clearly and conspicuously that no one having these exceptional abilities should fail to be recognized, and no one lacking such abilities in the full measure should esteem himself capable of conducting business, or be so esteemed, for the purpose of obtaining credit, we should have a situation closely analogous to that which we described in the case of a commodity near which was found an amount of good land, of uniform quality, adequate, or more than adequate, to raise all produce required for the support of the community.

The result would be, either that this class would, by forming a combination and scrupulously adhering to its terms and its spirit, create and maintain a monopoly price for their services in conducting the business requiring to be done, which is so improbable as to be altogether out of our contemplation, or they would, by competing among themselves for the amount of business, bring down its rate to so low a point that the remuneration of each and every one of this class would be practically equal to what he would receive if employed by another. This, which we might call the "no-profits" stage of industrial society, corresponds closely to the "no-rent" stage in the cultivation of the soil. The persons remaining in the conduct of business would earn their necessary subsistence, but no more. Economically it would make no difference to them whether they did this, as employers or employed.

Walker points out, however, that equal qualifications and ability in the conduct of business are not possessed by all men. First there is the truly gifted person with the Midas touch whose business dealings are magical in their insight. Second is the much larger class of businessmen, talented but without real genius, who are successful because of natural mastery and sagacity. Third he names the men of average or moderate ability who by diligence, care, and frugality eventually win success.

The fourth and lowest class sometimes does well but more often suffers loss or bankruptcy; probably they are in business merely because of a mistaken idea of their abilities. It is in this lowest rank that Walker finds a "no-profits" class of employers. In his words:[8]

> . . . Notwithstanding all the magnificent premiums of business success, the men of real business power are not so many but that no small part of the posts of industry and trade are filled by men inadequately qualified, and who, consequently, have a very checkered career and realize for themselves, taking their whole lives together, a meager compensation, so meager that, for purpose of scientific reasoning, we may treat it as constituting no profits at all. Live they do, partly by legitimate toll upon the business that passes through their hands, partly at the cost of their creditors, with whom they make frequent compositions, partly at the expense of friends, or by sacrifice of inherited means. This bare subsistence, obtained through so much of hard work, of anxiety, and often of humiliation, we regard as that minimum which, in economics, we can treat as *nil.* From this low point upwards, we measure profits.

Profits Not a Part of the Price of Manufactured Goods

Walker continues the exposition by showing that profits do not form a part of the price of manufactured goods any more than rent forms a part of the cost of agricultural products. The price rather is determined by the cost of producing that portion of the supply needed for the market but produced under conditions of the greatest disadvantage, for the greatest cost of the supply determines the price of all, since there is but one price in the same market.

Nor are profits drawn from wages, for no-profits employers must pay the same wages as employers of the higher industrial grades, and the work done is of the same quality. But while the employer at the margin of efficiency makes no profit, the superior man, while selling at the same price, obtains a clear surplus above expenses. In explanation we are told:[9]

> This is effected by his careful study of the sources of his materials, by his comprehension of the demands of the market; by his steadiness and

[8] *Ibid.*, par. 310.
[9] *Ibid.*, par. 312.

self-control in the presence of temptations to extravagance or wild ventures; by his organizing force and administrative ability; by his energy, economy and prudence.

According to Walker, failure to discern the true relation of profits to wages has aroused a false sympathy for the unsuccessful man and excited a jealousy toward the successful employer. The proportion of incompetent employers, he believes, is larger than it should be because of shilly-shally insolvency laws, bad money, and protection. These causes, we are told, enable employers to escape the consequences of incompetency, but at great cost to the community and society at large.

John Bates Clark

Biographical Sketch. John Bates Clark (1874–1938), rated by many authorities as the most distinguished American economist, was educated at Brown and Amherst in America, and at Heidelberg under Karl Knies in Germany. Upon his return to the United States, he held positions successively at Carleton, Smith, Amherst and finally, from 1895 until his retirement in 1923, at Columbia University.

His approach to the study of economics was along the avenue of philosophy. In his system a moral basis is sought, and his economics bears a close relationship to social ethics. Ethical considerations are given an impressive position by the Aristotelian approach.

The first of his important books, *The Philosophy of Wealth,* was published in 1885, but his reputation rests chiefly upon his second book, *The Distribution of Wealth* (1899). In the *Essentials of Economic Theory* (1907), the theory of "social economic dynamics" is carried forward beyond the point reached in his previous publications, which primarily stress "static economics." Though not without interest in current social problems, Clark, by natural bent and purposeful direction, confines himself to investigation in the realm of theory.

Clark's Theory of Distribution

Clark's solution of the problem of distribution is a reflection of his optimism. The answer to the problem he found in the natural law that factors of production in a static state would receive a share of social income proportionate to their contribution in the creation of the income.

Marginal Theories of Value and Wages

Clark was an exponent of the marginal-utility theory of value and advanced the marginal-productivity theory of wages as a definite economic law. His system is one of economic harmony akin to that of Bastiat; his method is the deduction of Ricardo. He makes a clear division between statics and dynamics. With but few exceptions he falls into the line of the orthodox economists.

The State an Organism

In addition to the common postulates which economists generally held in his generation – private property the basic institution; individual freedom assumed; governmental intervention a police power only – Clark conceived of society as an organism. He also assumed that static and dynamic forces can be isolated and that natural economic laws are valid so long as approved by the moral sense of mankind.

Economic Dynamics

As compared with the static condition of economics, in the dynamic spheres five types of change are important: (1) population increasing; (2) capital increasing; (3) technology of industry improving; (4) labor and capital organized with increasing efficiency; (5) the wants of mankind multiplying and refining. The conclusions reached by Clark in appraising the results derived from the economy of healthy dynamic type are optimistic. Population will increase less rapidly than capital because of the desire to maintain a pleasant social status and to ensure a rising standard of living; benefits will come to the wage-earning classes in quantities sufficient to satisfy higher wants.

To Ensure Competition Intervention Is Justified

In Clark's economics competition plays a major role. Where the natural forces of the *laissez faire* are insufficiently operative, governmental intervention is invoked to *enforce* competition.

Simon N. Patten

Biographical Sketch. Simon N. Patten (1852–1922), American economist and social philosopher of Scotch-Irish ancestry, received his early education in the schools of the United States and his university training in the University of Halle, Germany.

After an unpromising beginning, the cause of much discouragement, the publication of a small book on economics for text use brought him the professorship in the University of Pennsylvania which he held from 1888 to 1917.

A master of classical and current economics and particularly a student of John Stuart Mill, yet Patten was primarily a dissenter and critic. His writings covered a wide range but did not include a systematic treatise. His main concept was that man, through the conquest of nature, was in the midst of a surplus, not a deficit, economy. Consequently, he stressed consumption.

His thought reflected the changing life of the American Middle West. Improving conditions make abstinence and hardship less necessary, thrift and capital accumulation a diminishing virtue, and governmental intervention desirable wherever a more complete life could by such means be attained. Patten stressed protectionism and nationalism. Under the influence of Henry Carey, he was in complete dissent on some issues with both the classicists and the neoclassicists.

Many of his ideas were original and suggestive of future development. Acuteness of observation, fearlessness in criticism, and power of inspiration in controversial discussion were noteworthy characteristics of his nature. He was an American economist in the sense that the term implies: in environment, in optimism, in practicality, in the theory of spending. American economic phenomena remained indelible in his mind.

A Pragmatist

Patten was a pragmatist, uninterested in static theory because of its lack of realism. Social change being everywhere evident, he, in the role of reformer and in protest against some principles of orthodox theory, stressed the future. He attacked classical tradition, held the Ricardian law of rent and the law of diminishing returns invalid, and emphasized the desirability of social planning. Society, he declared, was advancing from the stage of undiversified consumption to the diversified, which allowed for rotation of

crops and geographical specialization. The attendant result, in a progressing state, would be reduction of real costs of production to the minimum and the raising of the progress of society to the maximum. Although some of his predictions based on untested assumptions remained unfulfilled, many of America's problems were brilliantly interpreted by him and later facts reveal his predictions short of prophecy but not beyond reasonable anticipation.

Chapter 28. THE AUSTRIAN SCHOOL

Importance of the Value Concept

In a society founded on an exchange economy, barter, because of its double-coincidence requirements, cannot serve satisfactorily on a wide front; consequently, value and price inevitably become highly important. So important has the subject of value become that it is looked upon by many as the essence of economics. Under the circumstances, both the cause of value and the measure of value are matters of the highest concern. Whether value arises because of inherent properties in goods, because of their cost of production, or because of human desires has been a subject of much discussion. Plato regarded value as inherent in a commodity; Aristotle attributed it to a commodity's utility. In discussing the standard of value Aristotle stated: "In the truest and most real sense this standard lies in wants."

Views of Cantillon and Smith

Cantillon and Adam Smith advanced a cost-of-production theory in explanation of value. *Intrinsic value* is the term Cantillon uses and he defines it as "the measure of the amount of Land and of Labour entering into its production, having regard to the quality or produce of the Land and to the quality of the Labour." Adam Smith uses the term *natural price* in place of Cantillon's intrinsic value and describes it as "the central price, to which the prices of all commodities are continually gravitating." But Smith sets up labor as the ultimate standard of value. He regards the labor basis of value, however, as applicable only to conditions in a primitive society. In the contemporary type of economic organization he considers it difficult to discover the proportion between two different quantities of labor because the time spent

in two different sorts of work does not always determine this proportion. Degrees of hardship endured and ingenuity exercised must be taken into account. "There may be more labour in an hour's hard work, than in two hours' easy business; or an hour's application to a trade which it cost ten years' labour to learn, than in a month's industry, at an ordinary and obvious employment."

Ricardo's Explanation Not Applicable to All Goods

Ricardo, who confined himself to competitive conditions in his attempt to expound a tenable value theory, arrived at the conclusion that "The value of a commodity, or the quantity of any other commodity, for which it will exchange, depends on the relative quantity of labour which is necesary for its production." The labor taken into consideration included the labor which was bestowed upon implements, buildings, and other accessories with which labor is assisted. Goods not produced under competitive conditions and those not reproducible were excluded from consideration in the search for the law of value on the ground that they were something exceptional and, in fact, constituted but a small part of the mass of commodities daily exchanged in the market.

The Marxian Theory

Karl Marx based his theory of value on the "labour-time socially necessary" in the production of goods. *Labor time socially necessary* is defined as the amount of labor "required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time." In the exposition given by Marx, capital used in production is past labor incorporated in the instruments of production, which tallies with the Ricardian explanation. All grades of labor are equated into the value of the product of simple unskilled labor. In Marx's language we are told: "Skilled labour counts only as simple labour intensified, or rather, as multiplied simple labour, a given quantity of skilled being considered equal to a greater quantity of simple labour."

Objective and Subjective Approaches Appear to Clash

The classicists and the socialists, in general, held to an objective theory of value which members of the Austrian school dispute. They offered in substitution for it a subjective value theory based on the measure of a good's utility. However, the suggestions made by the Austrian school on value theory were not completely original with them inasmuch as essential points in their theory were previously expressed, rather incidentally perhaps, and without a complete understanding of their implications. The Austrians must be given credit, however, for bringing to culmination the development of the idea of the "margin" as an economic tool.

Subjective Value Mentioned by Whately, Walras, and Others

More than a hundred years ago Whately gave recognition to the part subjective value plays in the valuation of scarce articles when he remarked that pearls were not valuable because men dived for them, but rather that men dived for them because they were valuable. Moreover, in the seventeenth century Condillac maintained that the value of things diminishes with abundance and increases with scarcity. Excess of quantity, it was observed, might make the value fall to nothing. In a lecture published in 1833 under the title *The Notion of Value,* Professor Lloyd of Oxford wrote of the influence of scarcity on value as follows: "While he is scantily supplied with food, he held a given portion of it in great esteem – in other words, he sets a great value on it; when his supply is increased, his esteem for a given quantity is lessened, or, in other words, he sets a less value on it."

Auguste Walras (1801–1866) presented the view that wealth has its origin in the limitation of goods. Rarity, in the sense of an insufficient supply to meet all demands, was given by Walras as the cause of value. His idea of disproportion between goods and need for goods reacting on value was an aspect of Austrian theory. Others – Gossen, Jevons, Léon Walras – provided elements fully developed by the Austrians later.

The Austrian Approach

The leaders of the Austrian group were Menger, von Wieser, and Böhm-Bawerk. Their attempts to reconstruct economic science in some of its principles differed in important respects from the ideas propounded by the classicists. Through their work the utility theory of value rose to such importance as to gain a wide recognition. Demand and utility were given places of high importance, in contrast with the classical economists, who stressed production and supply. The consumer was assigned the center of interest. The Austrians advanced the idea that value determines cost of production rather than, as the classicists have it, that the cost of production determines value. The first in point of time among the members of the Austrian school was Karl Menger.

Karl Menger

Biographical Sketch. Karl Menger (1840–1921), founder and leader of the Austrian School, was born in Galicia and educated in Vienna and Prague. He served for a time in the Austrian Civil Service but accepted the professorship of economics at the University of Vienna in 1873. This post he held continuously until 1903, except for a few years during which he served as private tutor to Prince Rudolph of Austria.

Menger gained a wide reputation as both teacher and scholar. His fame spread over the seas, drawing throngs of students into his classroom. In popularity he equaled the early members of the historical school of the German universities. His book, *Foundations of Economic Theory,* treated some of the basic economic concepts in an original manner by relating them to the law of cause and effect. Utility in useful services as well as in material commodities was stressed, thus broadening the term "goods" into *want-satisfying things.*

In 1900 Menger was appointed a life member of the Austrian House of Peers, and in 1903 he retired from active work in the University of Vienna to devote himself to research.

Criticism of the Historical Method

At the time Menger's first published works appeared, the historical school of economists was dominant in Germany. With

these he was not in agreement as to the extent to which the use of the historical method could be put in economic studies. Menger criticized the too nearly exclusive use of historical studies advocated by contemporary German scholars and their virtual rejection of deduction as a valid procedure. He switched the emphasis to the deductive procedure of the classicists with some modifications. The historical method was declared appropriate in dealing with individual phenomena, but the deductive had to replace the inductive method in dealing with general phenomena. In the controversy with Schmoller known as the *Methodenstreit*, substantial agreement was reached on the issue. The position taken was that not only historical and statistical studies (induction) but also abstract methods of study (deduction) have their place in economic science and are necessary for its development.

The Interaction of Supply and Demand

The elements of economic theory deal with human wants. Nature does not satisfy wants gratuitously in many instances; consequently, the amount of the supply of goods and the intensity of the demand for goods hold great significance. The economic importance or value of a commodity varies directly with the importance of the want and indirectly with the supply of the good which satisfies the want. A diminishing quantity of satisfaction attaches to successive units of a good under a static condition of demand; an increasing measure of value attaches to any unit of a good under static conditions of supply in the face of an intensification of demand.

Menger's Analysis

In Menger's analysis goods are divided into those limited in quantity (economic goods) and others not so limited (noneconomic goods). The demarcation lines are not permanently fixed, for goods can, under the fulfillment of the essential conditions, shift from one classification to the other. Of the economic goods, some are classed as consumers' goods, or goods of the first order; the remainder are producers' goods, or goods of a higher order. The value of goods of the first order is determined by the measure

of satisfaction which must be sacrificed through the curtailment of supply. Goods of a higher order acquire a value, the amount of which is determined by imputation (Weiser's *Zurechnung*). In Menger's words: "The value of goods of a higher order is always, and without exception, conditioned by the value of goods of a lower order towards the production of which they are subservient." In the Austrian theory the value is reflected backward. From the value of the consumer's goods, the value of the producers' goods utilized in their production is determined, while in the classical cost-of-production doctrine the cost of producers' goods plus the cost of labor determines the value of consumers' goods.

As a description of goods of the different orders, bread is mentioned as of the first order, flour of the second order, wheat of the third order, the land and plow of the fourth order, and so on, as far back as one may wish to carry the analysis. Bread, which satisfies hunger, has a direct value. The value of any portion of it is represented by the least important use to which it is applied. Furthermore, value is a judgment of the mind; it is not inherent in a commodity. To have value goods must stand in a causal relationship in the satisfaction of man's needs.

Complementary Goods

In producing goods of the lower order many other goods must be called into use. These are named "complementary" goods. Concerning these Menger propounded two propositions: first, that goods of the higher order have a value only if the corresponding complementary goods can be disposed of for a price; second, goods of a higher order are economic goods only if the goods whose production they serve retain the quality of goods. As an example of the first instance, we have a match to light a cigarette, but the match would be of no value if we lack the "makings." As an example of the second instance, machinery to make ping-pong balls loses all value if the game should go out of fashion and be played no longer.

In the matter of determining how much value goods of a higher order derive from the value of the final product, it must be conceded that it is neither a simple nor a precise process, for the

difficulties presented are many. Not all the goods used in the cooperative productive process are equally essential, and the lack of one can be made up wholly or in part by substitution of another. Analysis reveals the presence of other puzzling questions.

Methodenstreit

The *Methodenstreit* waged by Menger and Schmoller as chief contestants consumed much of their time for a number of years. Schmoller emphasized historical and statistical studies as the sources of materials with which theorists work. He considered the work of the classical economists faulty because of the dearth of historical materials with which to work, claiming general observation and common experiences insufficiently valid to substitute for the factual matter upon which he insists. Menger acknowledges that the historical sciences supply aids to the theorist, but contends that the historical and statistical economist is also provided guides by the theoretical scientist. Menger is a theoretical scientist supporting substantially the classical economists' doctrines and their abstract method, which he calls the exact method, substituting only the subjective-value theory in price establishment for their objective cost-of-production doctrine of valuation. Wieser takes up the work of refinement of Menger's theories.

Friedrich von Wieser

Biographical Sketch. Friedrich von Wieser (1851–1926), of aristocratic lineage, educated at the University of Vienna, son-in-law and successor of Menger in his university professorship, was the second economist in the Austrian succession. He held a post in the Civil Service for a brief period and served in the Austrian Cabinet as Minister of Commerce in the period of the First World War. His best known books are those on *Natural Value* (1899) and the *Theory of Social Economics* (1914).

The Work of Elaboration

Wieser's work is an elaboration of Menger's theories. Beginning with Gossen's concept of diminishing satisfaction, Wieser

presents a precise statement of the doctrine of marginal utility (*Grenznutzen* is his word for the theory). In this discussion of value, he begins with Menger's theory that production goods derive their value from their consumers'-goods products, but he goes on to say that their value is derived from the least valuable unit of the lower order goods produced. In von Wieser's exposition the value of consumption goods, or goods of the first rank, is determined by their marginal utility. By imputation *(Zurechnung)*, the value of all goods of a higher order is determined. Here, too, imputation follows the marginal law – it is from the value of the least important unit of the product that value is reflected.

Eugen von Böhm-Bawerk

Biographical Sketch. Eugen von Böhm-Bawerk (1851–1914), economist and government official, born in Moravia and educated at Vienna, was the third of the great Austrians constituting the Austrian school of economists. After the completion of his law course he served Austria-Hungary for a time in a governmental position in the Department of Finance, a post to which he was recalled in 1889. After fifteen years in governmental offices he withdrew permanently in 1904. As professor of economics he first served at the University of Innsbruck and later held a like position twice at the University of Vienna.

Theories on Capital and Interest

Böhm-Bawerk's chief writings are on capital and interest, concerning which he published his matured ideas in two companion volumes entitled *History and Critique of Theories of Interest* (1884) and *The Positive Theory of Capital* (1889). The first volume contains a criticism of theories of interest; the second contains his own theory of capital and interest. One of his incentives in the preparation of the latter book was his desire to destroy the influence of the socialistic theory of Karl Marx, which was gaining ground at the time in Europe. In the theory of value Böhm-Bawerk continued the subjective approach advanced by Menger but presented on his own the theory of the "marginal pairs" in price determination and the most complete early description of the method of capitalistic or roundabout production.

Marginal Pairs

Böhm-Bawerk begins his description of price determination with the case of an isolated exchange – the simple case of one buyer and one seller. The buyer will not give more than he thinks the object is worth, and the seller will not let it go for less than his estimate of its worth, with the outcome that the price will fall between these two limits, the exact point being dependent upon the relative bargaining ability of the two in the exchange. Advancing next to one-sided competition among buyers, Böhm-Bawerk illustrates that the one among the competitors who is willing to go furthest will be the purchaser at a price just above the valuation set by his nearest unsuccessful competitor. However, it is in two-sided competition – that of a group of potential buyers in the market with a group of potential sellers – that the idea of the "marginal pairs" emerges. Each buyer and each seller comes to the market with the idea of acquiring (the buyer group) or of parting with (the seller group) identical goods. But each comes with a different valuation of the goods to be acquired or disposed of. Under the circumstances, when full competition prevails, the limits within which the price may range will be determined by two pairs of persons, viz., by the potential buyer and seller who just fail to do business on the one hand, and by the buyer and seller who last succeed in getting together. When the activity described is phrased in general terms, we have price determined within the limits set by the subjective valuations of marginal pairs.

Drei Grunde

Böhm-Bawerk explains the reason for interest on three grounds *(drei Grunde)*. Two of the grounds presented are psychological; the third is of a technical character. First, we are so constituted that the future is estimated to show greater promise than the present; hence a sum of money today will have a higher marginal value for us than the same sum, in our hopeful expectancy, will possess in our more affluent condition in a more promising future. Most of us hold steadfastly to the hope that escape from our pres-

ent embarrassments is certain and that our just desserts will meet with recognition soon; hence, we are prone to discount the future. Anticipation springs eternal. Second, we have a tendency to underestimate our future wants. This, like the reason preceding, is also an error of optimism. Our imagination is insufficiently vivid to construct our exact condition in the future, with the result that, with the *more* we are hopeful of having later, we think we can readily meet the requirements of the *less* with which we expect to be confronted in the future.

The third reason advanced for the emergence of interest resides in the superior technology of capitalistic production. This consists in the introduction of intermediate stages in the production of consumption goods. Direct production is foregone in the interest of a larger ultimate product by the introduction of roundabout methods. The roundabout methods of capitalistic production require present investments, which command a premium because of the promise of future increased output at reduced costs. From this approach interest appears a natural phenomenon, hence justified. ✓

Chapter 29. NEOCLASSICISM

Cogent Reasons for a Resurvey

"Economic conditions are constantly changing, and each generation looks at its own problems in its own way."[1] The truth here expressed presents cogent reasons for the preparation of a synthesis and restatement of existing economic ideas toward the close of the nineteenth century. Since the publication of Mill's *Principles of Political Economy* a full generation earlier, great changes had taken place in the technique of industry. Progress in the physical sciences and in the field of invention, readjustments in the organization of business, and broader participation in regulation by the state were factors clamoring for a fresh survey and reappraisement of economic facts. The traditional classical theories had either worn threadbare or were no longer considered adequate as answers to pertinent current questions. The subjective-value concept had destroyed the former faith and credit in the pure cost theory of the classicists, and the adherents of the historical school flouted the abstract deductive method of the great orthodox economic authorities. Here was an opportunity for someone to weave a new fabric out of the abundant materials at hand. That one was Alfred Marshall.

Alfred Marshall

Biographical Sketch. Alfred Marshall (1842–1924), brilliant British economist, was born in London, son of a cashier of the Bank of England. The family was socially of the good middle class, moderately well off, and sincerely devout. Like his great predecessors, Smith and Mill, Marshall gave early promise of exceptional intellectual capacity. He was placed in the Merchant Taylor's School in London, where he was educated in the classics, with the taking of orders in the Anglican

[1] Alfred Marshall, *Principles of Economics*, Preface to the First Edition.

Church the ultimate objective. Preferring rather to specialize in mathematics, he entered Cambridge, having in the meantime declined a scholarship in the classics at Oxford. He graduated with high honors and entered the teaching profession as an instructor in his major subject. At this time his immediate intention was that of becoming a physicist, but in 1868 his friends succeeded in getting him appointed to a fellowship in the moral sciences. Because of his marriage, however, he became ineligible to retain this position, so relinquished it in 1877 and accepted the principalship of University College, Bristol. This position he resigned in 1881 because of ill health.

The shift in his major interest from mathematics to the social sciences was brought about by the influence of his associates at Cambridge following his graduation. During this period he began the study of social ethics, which gave his fundamentally religious nature an outlet prompting, as it did, the search for the means of improving the conditions under which men live. Humanitarian instincts and dissatisfaction with the prevalent ethical attitude toward some social institutions led him to explore the writings of Mill, Bentham, and Spencer. A broad sympathy for social reform was engendered, and thenceforth the mental gifts of a zealous devotee were applied unremittingly for half a century to the solution of economic problems. In 1879 he published his first book, *The Economics of Industry,* in the preparation of which his wife collaborated.

Following the death of Arnold Toynbee, he served as fellow at Balliol College, Oxford, from 1883 to 1885, but returned to Cambridge to fill the chair of political economy as successor to Henry Fawcett. Marshall continued actively as professor until 1908 and thereafter as research specialist until 1924. Under this happy arrangement the classical tradition continued at Cambridge, though under a new guise, that of neoclassicism.

A lineal descendant of the great economists Smith, Ricardo, and Mill, Marshall has earned a high distinction. His greatest work, the *Principles of Economics,* has become a classic. In it he abandons the rigid dogmatism of the "old school," which had brought about the alienation of many; he also reconciled the marginal-utility principle of Jevons and the Austrian school with the classical cost-of-production theory by introducing a time element as a factor in analysis. New concepts introduced by Marshall such as *elasticity of demand, consumer's surplus, quasi rent,* and the *representative firm* have played a prominent part in the development of the science. Even the title by which the subject matter is now commonly designated has been

changed from "political economy" to "economics" through his pioneering.

Cautious and methodical, Marshall worked his material over and over in manuscript form before it was published. His *Principles of Economics* appeared in 1890. The volume has gone through eight editions and numerous reprints. Later publications include two well-known volumes, viz., *Industry and Trade* in 1919 and *Money, Credit, and Commerce* in 1923.

The quality of accuracy in expression, characteristic of Marshall's writing, militates against clear-cut, hard-and-fast statements which are required to interest the average reader; so his *Principles* has not attained the great popularity of Smith's *Wealth of Nations* or Mill's *Principles*. It is a fruitful book for the specialist, and its unembellished rhetoric and forthright style amply reward any diligent, intensive reader. Such is his fame that admiring English adherents have made bold to call him the father of economic science as it now prevails. Cambridge, under Marshall's influence, became the mecca for the best talent in economic studies in the world, and most of the brilliant British writers on economics follow in the Marshall tradition. Hence a surprising British academic unity prevails which, in factional America, is difficult to comprehend.

The True Aim of Economics

In Marshall's conception the true aim of economics in his generation was to contribute to a solution of social problems. This thought is reflected in his definition of the science, which reads:[2] "Political Economy or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well-being."

The function of the science, according to Marshall's idea, is stated as follows:[3]

> In accordance with English traditions, it is held that the function of the science is to collect, arrange and analyze economic facts, and to apply the knowledge, gained by observation and experience, in determining what are likely to be the immediate and ultimate effects of

[2] *Ibid.*, 8th ed., Book I, Chap. I, sec. 1.

[3] *Ibid.*, Preface to the First Edition.

various groups of causes; and it is held that the Laws of Economics are statements of tendencies expressed in the indicative mood, and not ethical precepts in the imperative. Economic laws and reasoning in fact are merely a part of the material which Conscience and Common-sense have to turn to account in solving practical problems, and in laying down rules which may be a guide in life.

Marshall's Aim Reminiscent of Mill

Marshall's aim in the preparation of his book is reminiscent of Mill when he declares: "The present treatise is an attempt to present a modern version of old doctrines with the aid of the new work, and with reference to the new problems, of our own age." In clarification of his own position and in announcing his norm of approach, he criticizes the conventional method and narrow scope of economic science. Yet, even when in critical moods, his liberality of spirit is evident, for he gives a generous interpretation of the doctrine of others. As a typical illustration we have:[4]

> But ethical forces are among those of which the economist has to take account. Attempts have indeed been made to construct an abstract science with regard to the actions of an "economic man," who is under no ethical influences and who pursues pecuniary gain warily and energetically, but mechanically and selfishly. But they have not been successful, nor even thoroughly carried out. For they have never really treated the economic man as perfectly selfish: no one could be relied on better to endure toil and sacrifice with the unselfish desire to make provision for his family; and his normal motives have always been tacitly assumed to include the family affections. But if they include these, why should they not include all other altruistic motives the action of which is so far uniform in any class at any time and place, that it can be reduced to general rule?

Thus the departure from some of the traditional guideposts is taken and with a salutary result, as will appear. There is not, however, a promiscuous discarding of the old doctrines; rather, recognition is given to the fact of divergence between traditional economic theory and concrete economic reality. The hazard of a too rigid adherence to abstraction is thus avoided.

[4] *Ibid.*

Changing Conditions Require New Explanations

In economic science ideas old and new are interrelated. Since economic conditions change ceaselessly, new doctrines are evolved to account for modified points of view. Continuity, however, is not broken; the new but supplements the old, extends, develops, or corrects it. As Marshall states:[5] "The main concern of economics is thus with human beings who are impelled, for good and evil, to change and progress." The central idea is found in "living force and movement." Now, as always, economics is more than the science of wealth unrelated to man, for it treats of him also as producer and consumer. Although much of the consideration is concerning goods, the theme is emphatically "mankind in the ordinary business of life." Since man is the major factor, his character, so largely molded by his everyday work, by material resources, and religious ideals moves to the forefront of importance.

Income yielded by land was once the dominant element, and the tendency toward diminishing returns was a heavy factor in economic studies, but, with the improvement of transportation by land, sea, and air, new areas and countries are opened to exploitation, and diminishing returns from land do not at present loom as so weighty a problem.

The way in which income is earned and the amount of it both hold significance. In particular, consumption at the poverty level is a cause of degradation. Poverty conditions deny the decencies of life, deaden the mental faculties, and threaten health and happiness. When men are underfed, poorly clad, inadequately sheltered, and doomed to illiteracy, their powers of initiative and capacity for exertion are at a low ebb. Both society and the individual inevitably pay the price in sacrifice. Since, broadly speaking, "The destruction of the poor is their poverty," a study of the causes of degradation should reveal forces inimical to mankind.

That poverty and ignorance may be confined to narrower limits, if not extirpated root and branch, is a hope inspired by the phenomenal progress of the working classes in advanced countries during the last century. Discoveries in science, the achieve-

[5] *Ibid.*, Preface to the Eighth Edition, p. xv.

ments of invention, the advance in the art of industry, and the spread of intelligence assure for an ever-increasing part of mankind the requisites of a cultured life. How far the advance may reach depends, in part, upon other than economic factors, as, for example, on man's moral and political aptitudes. Although in modern life economic conditions are more complex, yet they are more clearly defined and more important than formerly because of man's freedom in enterprise, buoyant activity, and emancipation from custom. Prominent characteristics of modern industrial life are self-reliance, deliberate choice, and forethought.

The Golden Age Contrasted with the Modern Era

Since the dawn of money economy, romanticists have delighted to speak of a former golden age in which material needs were amply provided for, men were free from the temptation of dishonesty, and habits of trustfulness were thoroughly ingrained in human character. These idyllic pictures, we are informed by Marshall, are based on but little historic truth; in comparison with this era, past ages show more poverty and cruelty than exists in the civilized world today. Consequently, it is not only unjust but fanciful to brand our modern system as the embodiment of evil.

Although competition in some of its forms may be arraigned as antisocial, in other of its aspects it is "essential to the maintenance of energy and spontaneity" to the end that social well-being may be ensured. Energy and resourcefulness in competition, Marshall claims, are social gains when they result in cheaper goods for those in need. But antisocial competition is of a different character; in it the injuries inflicted far outweigh the services rendered. However, all forms of competition when "contrasted with energetic cooperation in unselfish work for the public good . . . are relatively evil; while its harsher and meaner forms are hateful." But, as history proves, society has not advanced to the stage where pure altruism is a common virtue; so, mankind being yet imperfect, cooperation cannot now be counted upon to completely displace competition. Consequently competition, being appraised as less injurious than combination, remains a part of our industrial system.

Although competition is prevalent in our economic order, the phrase "competitive system" is ill-suited to describe the characteristics of our industrial life. The phrase is unfortunate because of its various connotations, good and bad. In fairness, a better term must be found to characterize self-reliance in business. The forethought, deliberate action, and free choice of the businessman are distinctive features. The phrase selected by Marshall is "freedom of industry and enterprise." For want of a better it is made to serve because it points in the right direction. Its meaning, though, is not synonymous with individual freedom, for, under it, free choice may depart from or deny individual freedom, whenever cooperation or combination seem to afford the best course of action.

The Study of Men as They Are

For Marshall economics is the study of men as they are, and the chief concern is their conduct in the business part of life. He emphasizes that modern economists do not deal with economic man in the abstract. In defining their position Marshall states:[6]

> They deal with a man who is largely influenced by egoistic motives in his business life . . . ; but who is also neither above vanity and recklessness, nor below delight in doing his work well for its own sake, or in sacrificing himself for the good of his family, his neighbors, or his country; a man who is not below the love of a virtuous life for its own sake. They deal with man as he is: but being concerned chiefly with those aspects of life in which the action of motive is so regular that it can be predicted, and the estimate of the motor-forces can be verified by results, they have established their work on a scientific basis.

A factor in economic study which is of considerable moment is the belief that the strength of motive can be stated in commensurable form, that is, in terms of the common denominator, money. Marshall subscribes to this when he writes that everyone of consequence takes with him into business conceptions of duty, devotion to ideals, and incentive stirred by personal affection. Although the stimulus of emulation and the desire for the acclaim of contemporary society — not wealth for its own sake — has

[6] *Ibid.*, Book I, Chap. II, sec. 7.

coaxed forth the best energies of many, yet the most constant motive in business enterprises of either a major or a minor sort is the desire for a monetary reward for work. Individuals think in terms of definite amounts of money. Its use as a common denominator in the comparison of values lends itself to precise measurement. According to Marshall, it is this feature of the monetary system "which has enabled economics far to outrun every other branch of the study of man."[7]

The Plan of the Book

The material in Marshall's *Principles of Economics* is divided into six books. Books I and II deal with general introductory matter, and Book III is devoted to the consumption of wealth under the title of "Wants and Their Satisfaction." "Agents of Production" are discussed in Book IV. In Book V is presented an exposition of "Value." The theme in Book VI is "Distribution of the National Income."

Full Treatment of Wants and Their Satisfaction

The plan is a departure from the customary organization of material by the classical economists because, as Marshall says, consumption or demand had been somewhat neglected prior to the writings of Jevons and the members of the Austrian school. In Marshall's day greater prominence was assigned consumption in economic discussion, and notably so by Marshall himself. The reasons given for the departure from the traditional practice are as follows: first, the disproportionate stress on the cost of production by Ricardo in his search for the causes determining exchange value; second, the requirement of a distinct statement of premises on which to reason because of the more exact habits of thought then current in economics; third, the search for means to better distribute rapidly increasing wealth in order to promote general well-being.

Modern man, in contrast with savages and animals, has countless wants and desires. They are various as well as numberless, for

[7] *Ibid.*, sec. 1.

in taste and appetite variety adds spice. Though man's capacity for food is limited, it is not so with his craving for distinction. This trait Senior pronounced the most powerful of human passions. Marshall illustrates by calling attention to desire for costly dress and for houseroom as an obvious claim to social distinction, and for the exercise and development of activities. Wealth provides opportunity for leisure, which, in turn, becomes a means of promoting the desire for excellence for its own sake. Although in the earliest stages of man's development wants give rise to activities, afterward upward steps develop new activities which give rise to new wants. Thus it is that an auspicious sequence of causes and effects promotes advances in culture. As McCulloch states it: "The gratification of a want or a desire is merely a step to some new pursuit. In every stage of his progress he is destined to contrive and invent, to engage in new undertakings; and when these are accomplished to enter with fresh energy upon others."

Consumer's Surplus

In the discussion of value, utility, and price, Marshall coined the term *consumer's surplus.* It is defined as the difference between the price which, rather than go without, one would be willing to pay for a commodity and the amount actually paid. The distinction between marginal and total utility is illustrated and explained. It is emphasized that *dependence of well-being on material wealth* is more intimately related to the flow of incoming wealth and the power of consuming it than to the aggregate amount of wealth in the form of possessions. We are told that after a time new riches may lose a part of their charm through the weariness of age, nervous strain, and enervation from habits of living – all of which tend to diminish the capacity for pleasure.

Leisure and Rest

The value of leisure and rest are contrasted with the benefits derived from the stimulus to increased exertion because of the growth of new wants. Are riches to be found in the paucity of wants rather than in the abundance of goods? Marshall takes the

position that man degenerates without work and without some difficulties to overcome. Exertion promotes physical and moral health; the development of faculties adds to the fullness of life. In further statements he continues: "There is intense pleasure in the ardent pursuit of any aim, whether it be success in business, the advancement of art and science, or the improvement of the condition of one's fellow-beings." It is acknowledged, however, that there is some misuse of wealth. It is pointed out that, though increase in wealth results chiefly in the satisfaction of real wants, there exists in England and new countries, notably among artisans, an unwholesome desire for wealth in order to enjoy ostentatious display and other luxuries. The appeal to refrain from outward display must be to moral sentiment, since legislation against luxury proves futile. Wealth expended for the worthy pleasures to be derived from magnificence centers in public edifices, parks, art and other collections, and games and amusements of a national character. These forms of surplus expenditure are more readily kept free from the taint of envy and personal vanity. The first claim upon wealth is for the necessaries of life and for culture. With these provided, it still continues noble to strive to augment incomes when the resulting abundance becomes the treasury from which collective enjoyments are drawn.

After individuals and families are provided with the comforts of life, further striving should be for the purpose of adding, not to the quantity of consumables, but to their quality. Artistic features or character in clothing, furniture design, and architecture train higher faculties in both producer and consumer. The purchase of fewer articles well selected for utility, durability, and beauty, which are the output of skilled, highly paid labor, is to be preferred to objects produced by low-paid labor or to goods whose possession brands the owner with the epithet "conspicuous consumption." In this exposition is found Marshall's consumer philosophy.

Agents of Production

Man is declared to be both an agent and the end of production. The agents of production are variously counted as three, four, or

two, dependent upon the purpose. Labor is defined as the economic work of man by hand or head, and land as the material and force given freely by nature in aid. Marshall, in writing of capital, gives an emphasis to it not common to classical economists in that knowledge and organization are given a part. Capital is defined as "all stored-up provision for the production of material goods, and for the attainment of those benefits which are commonly reckoned as part of income." Knowledge is depicted as a powerful mechanism useful in the subduing of nature; organization is portrayed as a device serving as an important aid to knowledge. Assistance is afforded by all types and forms of business enterprises, private and public; the state, above all, provides security and help for many in myriad forms. Capital in all its forms is, to Marshall, a secondary or derived agent. It is, to his thinking, the result of the combination of the productive forces found in man's work and the passive assistance of nature. Man and nature are the primary agents from whose productive power are gleaned wealth and knowledge. Man, being the active factor and directing head, is at the center of the production and consumption problems, but since his nature and capacity are molded in no inconsiderable part by his surroundings – largely natural – nature plays a highly important role.

The Representative Firm

In other respects except one – the concept of the representative firm – Marshall follows the lead of Mill quite closely. The representative firm is defined as "one which has had a fairly long life, and fair success, which is managed with normal ability, and which has normal access to the economies, external and internal, which belong to that aggregate volume of production; account being taken of the class of goods produced, the conditions of marketing them and the economic environment generally."[8]

External economies are defined as those dependent on the general development of the industry and internal economies as those dependent on the resources, organization, and efficiency of management of individual business houses. A representative firm is

[8] *Ibid.*, Book IV, Chap. XIII, sec. 2.

one which in external and internal economies stands at the average of development. An increase in the aggregate volume of production of an average firm will increase its size and, for the most part, will also multiply internal economies. By acquiring access to external economies, too, there will prevail a lessened proportional cost in labor and sacrifice. While nature in its part in production shows a tendency to decreasing returns, man in his part shows a tendency to increasing returns. A balancing of the two forces brings constant returns. Under the latter condition the additional costs in labor and sacrifice are in proportion to increase of product. Because of the interaction of the laws of increasing and decreasing returns, growth of population may outrun the material resources and thus enervate the people; but, on the other hand, the strengthening of collective efficiency may provide a more than proportionate increase of material goods in the face of an increasing population. Marshall's conviction was that the accumulated wealth in civilized countries was growing faster than population and was likely to continue to do so. This is not the dismal outlook of a Malthusian. His optimism rests upon a favorable conjuncture, which is stated as follows:[9]

> An increase of population accompanied by an equal increase in the material sources of enjoyment and aids to production is likely to lead to a more than proportionate increase in the aggregate income of enjoyment of all kinds; provided firstly, an adequate supply of raw produce can be obtained without great difficulty, and secondly there is no such overcrowding as causes physical and moral vigour to be impaired by the want of fresh air and light and of healthy and joyous recreation for the young.

Marshall's Exposition of Value

In the exposition of value in its relation to economic processes, Marshall explains economic life in terms of the price system. The market is the center of activity. In the analysis of markets two sets of characteristic features are observed which are the basis of their classification into the short-period and long-period types. The "higgling and bargaining" activities in the short-period mar-

[9] *Ibid.*, sec. 3.

ket cause an oscillation about a mean and a price establishment at a short-run equilibrium. Demand and supply are effective forces here, but the effect of demand is predominant, as the influence of cost of production in supply is but weak. The long-period market is one in which the time element allows the normal action of economic forces to work itself out, so that temporary scarcity or excess of productive agencies will be properly discounted. The result is long-run equilibrium and the establishment of a normal price in contrast with the short-run equilibrium and prices at subnormal or supernormal levels.

When a long-period market is in equilibrium and the normal price is established, the income from sales is sufficient to cover all the expenses of the marginal producer. The producer, enjoying special and exceptional advantages in production, receives an income beyond his costs and consequently realizes a surplus designated by Marshall as "producer's surplus." Its presence stimulates a flow of capital toward those producers. These advantages, together with improvement in organization and technique will in a sufficient period of time tend to the establishment of equilibrium again, but at a normal price of lower register.

Ricardo's Cost-of-production Theory Defended

On Ricardo's cost-of-production theory in relation to value, Marshall takes an unequivocal position in defense of its validity. He concedes that the form in which it is expressed invites misunderstanding. He does not agree that the theory has to be reconstructed. Marshall's view is that its foundations remain intact. The explanation advanced is that Ricardo knew full well that "demand played an essential part in governing value, but that he regarded its action as less obscure than that of cost of production, and therefore passed it lightly over in the notes which he made for the use of his friends, and himself; . . ." Marshall asserts further that Ricardo "regarded cost of production as dependent . . . on the quality as well as quantity of that labour, together with the amount of stored up capital needed to aid labour, and the length of time during which such aid was invoked."[10] Here the

[10] *Ibid.*, Book V, Chap. XV, sec. 5.

opinion of Marshall conflicts with that of Karl Marx, who asserted that Ricardo's meaning was properly construed when merely the quantity of labor used in production of a commodity was the measure of its value.

Distribution

Marshall departs from the classical pattern in his exposition of distribution. He sees the problems of distribution as an integral part of the valuation process. A century ago, he says, value was represented as governed almost wholly by production costs with demand in the subordinate place – a condition which is closely representative of results to be expected in a stationary state, but not harmonious with the conditions in a progressive state. The operation of demand was taken for granted, and so it was neither studied nor explained. In the modern progressive state the influence of demand on distribution is of greater significance, for results need to be brought into harmony with actual conditions of life and work.

In introducing the topic, Marshall stresses the fact that in their work human beings are not related to it as though they were machines, horses, or slaves. Since in the growth of power over nature surpluses above necessaries become ever greater, surplus commodities and incomes present the engrossing problem of equitable distribution.

A Natural Wage

The idea of the inevitableness of a natural wage at the subsistence level has been abandoned in both theory and practice. Today the tolerable minimum provides conventional necessaries which make up a "standard of comfort." The mode of life exerts a direct influence upon efficiency; hence income at a level of the salutary "standard of life" affects volume and quality of output. The efficiency of the worker is as important in production as the effectiveness of the machine. Nevertheless, capital in the hands of those who work increases their power. The vital and perennial question is what part of income shall remunerate those who work

and wait and what part shall be allotted to those who work and straightway consume the fruits of their labor.

The Principle of Substitution

In his discussion much use is made by Marshall of the principle of substitution and of the idea expressed by the term "marginal." In his exposition it is pointed out that, when a businessman believes it likely that he can get a better result by changing the proportions of the agents of production — land, labor, and capital — which he is using in a given productive enterprise, he will do so. The tendency to use additional units of a productive factor in a given way arises from the rational desire to make the most of something. If gain may result from shifting a part of outlay for use in another direction, it is natural to make the transfer. The underlying rule which governs the uses of agents of production and their transfer in any quantity from one use to another involves the decisions of the persons who are on the margin of doubt. When changes in the relation of supply and demand manifest themselves, shiftings in the quantity of the productive agents take place at the margin of use. The maintenance of equality between the values for each use of a productive agent, by the constant tendency to shift units of it from services of less value to others of greater value, is a principle named the *law of substitution.*

The National Dividend

The aggregate net product of economic endeavor comprises the annual net earnings of a nation. It is also known as the *national dividend,* for from it the agents of production within a country draw their compensation. The larger the national dividend, the larger is the share normally allotted as the earnings of labor, as the interest of capital, and as the producer's surplus. The last-named share Marshall subdivides into the rent of land and *quasi rents* derived from differential advantages of production other than land.

The distribution of the annual net earnings among the factors of production, generally speaking, is not in proportion to the total

demand but in proportion to the marginal need for each factor. In harmony with the law of diminishing utility, the value in use of the marginal unit determines the rate of return for each of the factors. When everything has been brought into full equilibrium, the rate of remuneration of each of the factors is automatically set by the value which an additional increment has for a marginal user at the point of indifference.

The Distributive Shares

As his theory of rent, Marshall holds that it is the surplus yielded by land of greater fertility or better situation as compared with that at the margin of cultivation. To it he adds the new concept of quasi rent, which represents the surplus income yielded by productive agents other than land. For illustration: Capital invested in factory or machinery may, for short periods, bring a return above the current rate of interest. Also, a man possessed of extraordinary ability in a given line of production may gain for a time a differential profit. Wages over short periods of time, we are told, may possess the characteristics of quasi rent also. The notion of a general rate of wages is rejected, as is Cairnes's theory based on the existence of *noncompeting groups.* The wage theory held by Marshall is that no general proposition concerning wages can be wholly true but that the price of labor is affected by a variety of factors which interact on each other; demand and, especially, supply are held important.

In the broad sense interest is the yield of any investment; in the narrow sense it is the payment for the use of money; but it is generally looked upon as a return to capital. Contract, or gross interest, is distinguished from pure, or net, interest. In the determination of rates, demand and supply interact to establish equilibrium. The rate is established at the point where the marginal borrower's estimate of advantage to him coincides with the marginal lender's estimate of what he should receive. Over short periods the demand of borrowers is seen to be paramount, but over the long period supply outweighs the influence of demand since, in the long run, the rate of interest must conform to the costs of saving and waiting.

The term "profits" has many different meanings, from some of which spring delusions. It follows that some businessmen imagine they are receiving profits when, in reality, they are not. The term "gross profits" is often used, perhaps for want of another term. The economist is more interested in pure profits and strives to strip down the larger meaning by paring off the return to capital. Marshall finds equilibrium between demand and supply the determinant of profits and business ability the factor rewarded. Short-run profits are quasi rent; long-run profits are an inducement to enterprise.

Interrelation of Production Agents

A clear-cut assertion to the effect that the various agents of production are the sole sources of employment for one another shows the folly and futility in pitting one agency against another in hostile array. Enrichment of a people can come only through cooperation of the agents. Although they are rivals for employment since the tendency is for the more efficient of the agents available for a given use to be substituted for the less efficient by the entrepreneur in the management of his enterprise, yet, ultimately, the field of employment of any one factor is provided by the others, and an increase in the joint product of all tends to increase the demand for each.

To illustrate: An improvement in the quality and the quantity of capital goods may temporarily and locally displace the demand for the labor and land factors, but inasmuch as an increase in material capital accelerates its application to new uses, the final result is an increased employment for manual labor in trade, as well as an increased demand for other agents of production. Machinery does not put men out of work in the long run. Furthermore, since an increase in the national dividend tends to lower the rate of interest, increments of increase in the joint product of labor and capital tend to be divided in a manner more favorable to labor. Undertakings which formerly could not pay their way become objects of successful enterprise and the means of employment of available labor previously idle. It also holds true that, even if the opportunity in new employments should not prove

considerable, the increase of capital through its power of increasing the joint product of land, labor, and capital, while it (capital) receives a smaller percentage share than formerly, actually increases the shares of the other agents of production.

Standards of Life

"Progress in Relation to Standards of Life" is the topic discussed in the last chapter of Book VI. In it are maintained the propositions that wages can be raised through increased efficiency and that time for leisure and rest, when rightly spent, makes for economy. On the other hand Marshall warns that a check on the national dividend falls in part on labor. That labor unions have had a salutary effect is affirmed. It is likewise affirmed "that the social and economic forces already at work are changing distribution of wealth for the better: that they are persistent and increasing in strength; and that their influence is for the greater part cumulative; that the socio-economic organism is more delicate and complex than at first sight appears; and that large ill-considered changes might result in grave disaster."[11]

Marshall's Poise and Optimism

A reading of Marshall's *Principles* convinces one that it is the work of a man rich in experience, possessed of poise and equableness, steady and tolerant of the opinions of others. Without underestimating the difficulty of current problems, he stands steadfast in his optimism. Believing in the worth of the masses, he urges the provision of improvements for them by thorough education of all in character and ability. The low incomes of the poorest classes are pointed to not merely as the cause of curtailment of consumption but also as having the effect of dwarfing desirable activities – activities which, if allowed to continue unchecked, would enhance the quality and potential of the workers. Up to a given limit Marshall supports the shortening of the working day, even to the point where the national dividend is lessened and wages lowered, provided that the enforced curtailment in

[11] *Ibid.*, Book VI, Chap. XIII, sec. 11.

consumption would be met exclusively by the abandonment of the least worthy methods of consumption by all classes and that the resulting leisure would be well spent.

Right Use of Leisure

In all ages history teaches that it has been easier to learn to work well than to use leisure well. All the more, then, it is evident that some time free from work that fatigues without educating is essential to maintain a high standard of life. For the appropriate human development, to have leisure and to have the freedom to use it are prerequisite to the art of learning to use it well. The development of these faculties in the young is of the highest importance. They should have abundant leisure for school and other activities which develop character. Full opportunity should be provided to make the growing generation, fitted by the fullest development of their higher natures, efficient producers and individuals worthy of membership in a cultured society.

Necessity for a Judicious Approach

Although human nature improves but slowly, reformers, in their projects for the reorganization of society, depict in the rosiest hues life as it might be. Their imagination runs on the assumption that under new institutions human nature will quickly undergo changes which, given the most favorable conditions, cannot take place short of a century. In their imaginings they attribute to human nature qualities which, if they were present in strength, would impel, even under the existing institutions of individual initiative and private property, an economic chivalry which would dominate life. Under the ideal conditions presupposed, society would find the institution of private property "harmless at the same time that it became unnecessary."

To ignore the existence of evils in earlier ages, to magnify the evils of our own time are allurements to be carefully guarded against, even though an exaggeration may enlist others in the cause of an improved society. The stress placed upon imagina-

tion and sentiment in the romantic reconstruction of a past economic order and the pessimistic appraisement of our own shows in both approaches lack of juristic balance in conduct. Our eyes must not be closed to the solid progress being made even though it be slow, nor should there be an adoption of methods which may promise a little good immediately but actually "sow the seeds of widespread and lasting decay." Moral torpor is no less an evil than impatience. Indifference to social ills cannot be condoned. To provide too little too late invites destruction. It behooves humankind to be alert and enterprising in keeping the productive mechanism and our cultural institutions abreast of the march of civilization.

Chapter 30. WELFARE ECONOMICS

Emphasis in Modern Theory

Classical economists, applying the traditional method and pursuing stereotyped objectives, emphasized production, supply, and costs in their approach to economic science. Under the stimulus of constructive and destructive criticism, however, further study has brought about evolutionary and, in some of its phases, revolutionary changes in the method of solution of economic questions; consequently, the modern economic theory stresses consumption, demand, and utility. Welfare as the direct objective is now receiving emphasis as the substitute for wealth in the center of our economic stage, and economics is looked upon as an art as well as a science. The ideal of social welfare as an attainable goal under the operation of the capitalistic system, with economic science and economic art as potent implements in the work of social reform, is the program of a group of writers known as "welfare economists."

Some of the welfare economists are more nearly typical of the social reformer than of the economist. As in the case of Ruskin, for example, they incline to stress ethics and aesthetics. In their projects of institutional reform goodness and beauty as noble concepts are fused into their economic theory and art. Their tendency is to modify the classical doctrines in order to remove human inequality and economic oppression. They insist that there is a discoverable right ratio between saving and spending. Saving an improper portion of the social income, they say, produces an "unproductive surplus" which is the cause of trade cycles and crises. In turn, dislocation of industry imposes a disproportionate amount of self-denial and suffering upon the poor and engenders the loss of much of the workers' initiative. The current systems of distribution and consumer buying are criti-

cized, and, as a remedy for their correction, they propose the social control of business.

English Adherents

English adherents to the welfare philosophy include Henry Clay, *Economics for the General Reader* (1916); R. G. Hawtrey, *The Economic Problem* (1926); and John A. Hobson, *Work and Wealth; A Human Evaluation* (1914; 2d ed., 1933). Their doctrines have had considerable influence in America.

John A. Hobson

Biographical Sketch. John A. Hobson (1858–1940), social reformer, journalist, and economist, came from a good middle-class family. He received his education at Oxford in a period when the Ricardian system of economics was on the wane and a prolonged period of theoretical controversy was beginning. Toynbee, then a lecturer at Oxford, and Ruskin, who had founded the Guild of St. George in 1871 as an experiment with English workers, both had lasting influence upon Hobson, who was busying himself with the reformation of society and the education of the working classes.

For seven years after leaving Oxford in 1880 Hobson was a schoolmaster, and for ten years following that service he gave university extension lectures to classes of workingmen. These lectures, though on literature at the outset, soon turned to the discussion of economic subjects. They were explanatory of the structure of industrial organization and discussed workingmen's problems from the workers' viewpoint. In the course of his lifetime Hobson published upward of 30 books and innumerable articles, the first two of which were on problems of poverty and unemployment.

Hobson stresses welfare, the general meaning of which, in his conception, is synonymous with that of the "good life." Hobson engages in the attempt to translate the ideals of John Ruskin, who hated the Industrial Revolution and desired to reenthrone craftsmanship as the substitute for the machine age, into an economic system in which human value is the essence. His best known work is *The Evolution of Modern Capitalism* (1894), but his *Work and Wealth* (1914) contains the best outline of his proposed procedure in his plan to remedy the defects in industrial society. He has been accepted as the economic theorist of the middle-class reformers, who are concerned with welfare, not wealth.

Criticism of the Classical Economics

The welfare economists stand as critics of the classical economics. Their criticism represents the point of view of a personality with complex characteristics which have been designated as theoretical, social, and artistic. Their approach to economic questions is qualitative rather than quantitative. The ultimate values which are the declared objectives are adjudged as better or best, and not otherwise measurable.

Hobson objects to classical theory, first, because in his opinion the assumption of free competition is no longer tenable; second, because the pecuniary standard of a market price is no index to welfare. In his economics, industry is evaluated by the standard of welfare, and the test of welfare is the good life. This criterion, however, does not lend itself readily to objective measurement.

Hobson asserts that the identification of economic subject matter with the productive apparatus, to the exclusion of the use and enjoyment obtained by consumption, places the arts of the latter in subordination to the arts of the former. This is looked upon as an anomalous condition, since the purpose of production is the utility derived through consumption. The result of this inversion of the normal relation between production and consumption leaves the economic field, important from the standpoint of human welfare, unexplored or, at best ill explored. This is Hobson's explanation for the distinctly mechanical character of the study of economics from other than the welfare approach.

As Hobson interprets economic life, back of the network of business and trades and processes there are thoughts and desires and relations which are its spiritual texture. Although economic science tends year by year "to become less material in its outlook and treatment, and to give more attention to the psychological supports of the industrial system . . . yet the science remains distinctively mechanical and unfitted for the performance of any human interpretation of industry."[1]

In the mechanical approach to economics the primary significance of *value, cost,* and *utility* is monetary. Wealth is appraised in monetary terms; the cost of its production and the utility de-

[1] John A. Hobson, *Work and Wealth,* 2d ed., p. 7.

rived in its consumption are judged in like manner. "The study of motives, interests and ideas in the process of invention, or in the organization and operation of some productive work, treats these thoughts and feelings not in their full bearing upon human life, its progress or happiness, but in exclusive relation to the monetary end to which they are directed."[2]

Three defects in our current economic science are pointed out by Hobson which, in his estimation, disqualify it from serving in the work of human valuation. They are:[3]

First, an exaggerated stress upon production, reflected in the terminology and method of the science, with a corresponding neglect of consumption. Secondly, a standard of values which has no consistent relation to human welfare. Thirdly, a mechanical conception of the economic system, due to the treatment of every human action as a means to the production of non-humanly valued wealth.

Vital Value

The expression of cost and utility in terms of human effort and satisfaction, respectively, is not a novelty, Hobson assures us, nor is the substitution of a standard of human well-being for the monetary standard an innovation. *Vital value* has been proposed by reformers earlier as a standard and criterion for the appraisement of institutions. In support of this Hobson writes:[4]

It has underlain all the more comprehensive criticisms of orthodox political economy by moralists and social reformers. By far the most brilliant and effective of these criticisms, that of John Ruskin, was expressly formulated in terms of vital value. The defects which he found in the current economic science were substantially the same as those which we have noted. His famous declaration that "There is no wealth but life," and his insistence that all concrete wealth or money income must be estimated in relation to the vital cost of its production and the vital utility of its consumption, is the evidently accurate standpoint for a human valuation of industry. This vital criterion he brought to bear with great skill, alike upon the processes of production and consumption, disclosing the immense discrepancies

[2] *Ibid.*, pp. 7–8.
[3] *Ibid.*, p. 9.
[4] *Ibid.*

between monetary costs and human costs, monetary wealth and vital wealth. No one ever had a more vivid and comprehensive view of the essentially organic nature of the harmony of the various productive activities needed for a wholesome life, and of the related harmony of uses and satisfactions on the consumptive side.

Welfare Criteria

Welfare economists propose to strike a balance between human costs and human utilities. An industrial system which puts an exaggerated emphasis on production gives too much consideration to man as the mere source of labor and too little to man as a human being seeking wholesome satisfactions. In welfare philosophy, man is more than an organism in the scheme of production of marketable wealth. Man's needs are the objective in production, and human costs arising in the productive process are sacrifices which must be balanced by the utilities created.

Saving, which is the source of capital, entails sacrifice. This sacrifice is one of the unevenly distributed human costs. Saving by the upper and middle classes of society involves no sacrifice. Their incomes are above the amount necessary for the enjoyment of a comfortable standard of living, and their work is mostly of an artistic, inventive, professional, and managerial nature – therefore both agreeable and interesting. This condition does not obtain among the laboring classes. Among these, human costs are heavy – heaviest upon those who put the greatest strain upon the human organism through unattractive or monotonous productive efforts. The conclusion reached by Hobson is that it is the small savers and those engaged in manual labor who bear the human costs of production. Saving in most working-class families, since it has for its objective future security, is purchased through self-denial, stinting of comforts and education, and the surrender of the amenities of cultured life.

Human Costs versus Utilities

In elaborating upon human costs incident to saving, Hobson asserts that saving is essential to progress and that the industrial

system on which the savings are spent needs to be recontructed in accordance with an ideal plan. Men have the power, he asserts, to shape their institutions so that their interests will harmonize. In determining the values emanating from the industrial system human costs must be set over against the utilities derived.

In the calculation productive activity is classified under the captions of art, invention, professional service, organization, management, labor, and saving. Art for art's sake involves no costs, and, in general, the human costs of artistic work are low. The recompense for invention is common with that of art because it results from an inward urge which makes it more play than work.

The higher grades of professional work, too, result in large yields of utilities over costs. Since the exercise of leadership in organization and management brings to those practicing it a pleasurable feeling of power and an exhilaration from their creative effort, the disutilities of worry and uncertainty are greatly outweighed. But, among clerks and industrial workers, human costs are great because of the repetitive character of their work.

Another observation of Hobson's is that, in pursuits commonly best paid, human costs are relatively light, and inasmuch as the productive activity of best paid workers is "creative, varied, interesting, and pleasurable" the utility involved may outweigh the human costs. But in the laboring-class occupations, especially in mechanized industries, physical fatigue and nervous strain lead to accidents, nervous disorders, lowered morale, and dissipation. To these heavier human costs, others of less weight arising from unhealthful surroundings and the sheer monotony of factory industry must be added. Yet credit must be allowed for release from physical strain through the machine devices which lighten labor. Unemployment and intermittent employment of men add to human costs and force an undue amount of work upon women and children. Many other conditions of modern industry add to costs through disruption, discrimination, and degradation.

Material Welfare Related to Improved Industrial Processes

Material welfare bears a close relationship to improved industrial processes, but when Hobson answers the self-put question,

"What goods are produced?" he asserts that a large proportion of the total of goods produced is, when gauged by proper standards, useless and damaging. These "useless commodities and services" constitute the "unproductive surplus." It follows that misdirected productive energy hinders the provision of useful goods in sufficient quantities to ensure a satisfactory life to all classes. The large surplus obtainable under scientific processes of production is being consumed in the field of conventional consumption, which leads to economic waste through frivolousness, sport, sham culture, vain display, and drink. No inconsiderable part of the surplus is expended in conspicuous consumption.

Social Reform through State Intervention

Malproduction and malconsumption are presented by Hobson as evidences of the need of state intervention for the purpose of enforcing better distribution. In the devices of social control suggested, the rule of the "human law of distribution" is to be followed, according to which costs of production are to be distributed in a manner corresponding to the ability of individuals to bear them and goods are to be allotted in accordance with capacities to derive utility therefrom. Under the proposed social reform it is asserted that social harmony is attainable through the equitable distribution of the surplus produced by modern industrial organization. The method for the accomplishment of the proposal is to be on the basis of a "human" valuation of wealth. Hobson reiterates that the basis of his social reform is "From each in accordance with his ability and to each in accordance with his needs as a consumer."

In the proposed establishment of social control, Hobson has in mind its substitution for the private profit-seeking motive. All artistic activity is to be unhampered and uncontrolled. Experimental industries are given a free hand. New ventures are left untrammeled except for minimum-wage laws and high taxation of profits. Professions are to be made parts of the governmental service. Industries essential to public service and those tending to achieve monopolistic position are to be socialized.

The combination of freedom and control, Hobson believes,

could, if supported by proper wage and other social legislation, be made the means of diverting the unproductive surplus to wages and the public funds. Higher wages would promote the conditions of the good life. Receipts from the socialized industries would provide the ample source for more efficient education, adequate health service, wholesome recreation, and other public services of many sorts.

Under the auspices of industry, as Hobson envisions it, organized in such a way as to distribute rewards in conformity with the human law of wealth distribution, the problems of luxury and poverty, of toil and of idleness are to be satisfactorily solved. In addition to the achievement of security and the rationalizing of economic life, all sources of human ability are to be tapped, and all parts of human life are to be remolded.

Chapter 31. INSTITUTIONAL ECONOMICS

Economic Laws Called in Question

The classical and neoclassical theories that production, consumption, and distribution of wealth are determined by economic laws are disputed by a group of present-day economists who are developing a new doctrine. This they propose to substitute for the classical principles which they reject. They seek the determining forces of most economic activities in economic institutions. These institutions are largely psychological and comprise habits, customs, and existing economic arrangements. As described by Davenport, "Institutions are a working consensus of human thought or habits, a generally established attitude of mind and a generally adopted custom of action — as, for example, private property, inheritance, government, taxation, competition, and credit."

Nature of Institutions

Institutions, being group habits, are in economic literature variously designated as the social heritage, the collective mind, or culture. In addition to the influences of social inheritance and social environment, however, man's biological attributes constitute another factor in human nature. The latter contribute the original and indestructible properties; the former include variable modes of expression. The one element is innate, the other a postnatal creation and development.

The Classical and Institutional Approaches Contrasted

Classical economists, emphasizing the rational nature of man, held that enlightened self-interest dominated behavior. Conse-

quently, rational motives and incentives based on them are placed in the foreground; but since modern psychology proves that foresighted judgment is characteristic of only a limited part of humankind, it is now the conviction that instinct, in being assigned a small, subordinate role, was undervalued in earlier appraisement. In the classicists' theory, as the institutionalists see it, too large a part of economic behavior was based on rational motives and too little of it on instincts and habits. Marshall, a neoclassicist, recognizes the deficiency in calculation and foresight in nearly everyone except business executives, and even among these he places a limitation which does not extend beyond the managers of the representative firms. Since Marshall's time, the economic man, the Robinson Crusoe of economics, is no longer put forward as the possessor of a universal race characteristic.

Habit patterns, when objectified in buildings, equipment, and settled order of procedure, result in a variety of social institutions — religious, educational, governmental, and others. Thus culture, with its psychological basis, becomes material and technological. It takes the form of objective durability.

The English classicists did not sufficiently distinguish between the natural and the artificial, the biological and the created. For them the created part of institutional environment was a part of the natural order, which, as is now known, was too ready an assumption. Too little place was given to man-made arrangements and too much to mechanical laws of nature.

According to modern psychology, the theory underlying institutionalism is consistent with the idea of social reform. The emphasis is placed now on habits subject to change by willed direction. This suggests the replacement of the idea of a static equilibrium by that of a planned evolutionary readjustment of economic life. The possibility of improved or new institutions lies inherent in dynamic economic conditions.

Generally speaking, orthodox economists present either an explicit or an implicit defense of the prevailing economic order. Dissenters, unimpressed by its apparent beneficence, attack the dominant theory with a view to effecting a social reform. Institutions are to be transformed in society's interest. Institutional

reformers, however, are to be classed as liberals rather than socialists. The transformations they seek are within capitalism; it is not its destruction that is advocated. The man who serves as the primary influence on the institutionalist school is Thorstein Veblen.

Thorstein Veblen

Biographical Sketch. Thorstein Veblen (1860–1929), dissentient economist and social theorist, was born of Norwegian parents on a Wisconsin farm and reared in a pioneer Minnesota community. He gave early evidence of mental power and was graduated from Carleton College at the age of twenty. At Carleton he was under the instruction of John Bates Clark, who was to become America's most eminent theoretical economist, but in his early student days Veblen's main interests were in classical philology, natural history, and philosophical studies. He entered Johns Hopkins for graduate study but shortly transferred to Yale, where he received his doctor's degree in philosophy in 1884.

During the years immediately following his departure from Yale, ill health and inability "to sell himself" in academic circles kept him from active work, but, arriving penniless at Cornell University in 1891, he was awarded a scholarship in the social sciences after he had impressed Professor Laughlin with his intellectual attainments.

When Laughlin was called to the University of Chicago as head of the department of political economy in 1892, Veblen accompanied him to fill the position of teaching fellow with an annual stipend of $520. Now assigned a teaching post long denied him, he was promoted to higher academic ranks only after long intervals. His class assignments at Chicago were in agricultural economics, socialism, and the history of economic theory. In addition he worked at the task of editing the *Journal of Political Economy* for almost ten years and became a frequent contributor to scientific journals. His first book, *The Theory of the Leisure Class,* published in 1899, established his reputation as a scholar of note and a writer with a distinctive point of view.

Pronounced eccentricities prevented his advance to the highest academic rank in any of the several universities with which he was later connected. He never held a full professorship, was thirty-nine before he held an instructorship, and forty-three when he was first made an assistant professor. He early evolved the idea that for any

work of scientific inquiry one needed to be of a skeptical frame of mind. This he was himself in high degree. He was brought up in a Norwegian family whose culture and language remained intact because it was too remote in its frontier community for modification by American influence. Thus natively of a different culture, he found much in America strange and of a nature to be questioned. Coming out of his environment with a whetted curiosity, he was skeptical of the things commonly cherished. His inquiring mind projected itself into the study of human cultures. Having, as he himself said, a "court-plaster" memory, through inveterate reading he made himself one of the most erudite of his generation.

Scholarly habits and a singular aloofness from affairs that engross the normal citizen's interests made Veblen a strange creature in any other than an ascetic environment. Shy, living mostly in his student's garret, he conversed little, voted never, but thought much. Embittered by ill success in gaining recognition in academic circles because of a disregard for social conventions and the failure to approach economic questions in moderate spirit, his skepticism regarding existing institutions was deepened.

Veblen placed emphasis upon the cumulative character of cultural changes. "Cumulatively, therefore, habit," we are told, "creates usages, customs, conventions, preconceptions, composite principles of conduct that run back only indirectly to the native predispositions of the race, . . . " To these derivative standards are added acquired predilections and preconceptions which became conventional. No existing scheme of institutions is accepted as permanent. In Veblen's words, "Each new situation is a variation of what has gone before it and embodies as causal factors all that has been effected by what went before."

By brilliant phrasing Veblen plays upon his reader's emotions. His criticisms of modern culture are pungent; his satire, based on wit, makes the recipient squirm. Many a coined phrase carries a distinct sting, as, for example, "conspicuous waste," "kept classes," "underlying population," "animated slide rule," "capitalistic sabotage." It is his aim to startle the reader into attention and then to make his foibles appear ridiculous.

Of Veblen's numerous books *The Theory of the Leisure Class* (1899) was the first; *The Theory of Business Enterprise* (1904) is reputed his most significant work; *The Instinct of Workmanship* (1914) he himself considered his important best. The full list of his book titles indicates

a wider interest than conventional economics, but wherever his probe enters the fabric of civilization it is from the economic aspect that he delineates his social theory.

Mannerisms, eccentricities, and dogmatic assertions have prevented a ready appraisement of Veblen's worth. That he was an inspired critic may be agreed; that he wrote constructively concerning many of the most important problems of modern economics must be denied. Only the passing of time can tell what he has evolved that is of constructive permanence. Nevertheless, in influence his work has been far-reaching. Followers in the United States have been engaged in reconstructing the science of economics along institutional lines as a substitute for the long-established conventional theory. Popular acceptance of his doctrine may accord him fuller recognition.

Veblen's Approach to Economic Science

Veblen's early reputation was gained by his masterly skill as a critic. He considered economic science as "a body of logically consistent propositions," and he had little to say in criticism of economists from Adam Smith on, with reference to their power of analysis. But since a system based on deductive logic is dependent upon premises, the proof of their validity is fundamental. In this regard Veblen decried the classicists' procedure and discredited the preconceptions and postulates upon which their logic rested. He disclaimed their method on the ground of its assumptions, especially the principles of individualism and self-interest motivation. To him economic science was evolutionary, the essential features being human instincts and institutions as delineated in his book, *The Instinct of Workmanship.*

Proponents of his theory have endeavored to make his ideas the basis of a new economics. Institutions, we are told, persist and become a developmental factor in man's environment. Hence the paramount features of economic study must be the origin and evolution of institutions and their reaction upon man.

Institutional Technique

Economic institutions, and not economic laws, constitute the subject matter upon which the attention of institutional econo-

mists is focused. An objective study to reveal the origin and development of these is their prime task. That man-made institutions are modifiable is their thesis; that with proper forethought these can be given direction toward a salutary transformation is their firm belief. The study of history reveals their evolution; the direct examination of them displays their mechanism. Institutionalists use the elements of economic theory as instruments for measuring and as implements for modifying the economic institutions which they study. They apply tests to determine their worth and evolve projects for change of direction in the development of specific institutions, but though they use realistic description of the industrial processes as the basic factual material, the valuation is ethical and aesthetic. In the conception of the institutionalists the industrial order should and can be brought to harmonize with what makes for the good life. In the determination of institutional characteristics of acceptable form, the search for essential criteria must extend to the fields of psychology, biology, archaeology, and anthropology, as well as history. This makes the approach to human behavior empirical, and the objective is description, not explanation of economic phenomena. To reach the objective an integration of the social sciences is called for, and instead of value and price motives, nonpecuniary motives become the main theme of their economic thinking.

Since man-made institutions are no longer satisfactorily controlled by automatic forces, attention is directed to the devices of social control. Private property, competition, and monopoly must be transformed in the interest of social reform. In their proposals they do not take the course of the socialists; the reforms suggested are for modification of our present order, not for its replacement. They are progressive capitalists, not socialists. In this characteristic the institutionalists are in accord with the welfare economists; they differ, however, in that the former put the emphasis upon means and mechanism, the latter upon the ends.

Differences among Institutionalists

Among institutional economists themselves there are many differences. There are differences in attitude, which may be

classified as the negative and the positive approaches. The one group merely analyzes and describes economic life, going no further than to point out maladjustments; the other goes much beyond this stand by making suggestions for action and by formulating definite, concrete plans in the form of projects of social control.

The first group is doubtful of the existence of norms upon and about which a science of economics can be constructed. Men, motivated largely by instincts and habits, are not in their conception (classical economists to the contrary notwithstanding) actuated by deliberate, rational self-interest. For them social evolution is the significant force, unattended by artificial propulsion. The second group, however, seeks to replace the old economics with a new science. Automatic revolution of institutions, though significant, is subordinated, but great dependence is placed upon the part played by rational man. This group assigns to itself the task of appraisal of institutions, the designation of goals, and the projection of reform programs. Their positive position is indicated by their attempts to direct social evolution. The distinguished members of the older group are Veblen and Mitchell (at one time related as teacher and student), and John R. Commons, although Commons has an individual approach; the younger group includes many well-known names, among which are those of Hamilton, Tugwell, Tyson, Atkins, Slichter, and Wolfe.

Institutionalists following the Veblen pattern are designated by the term "sociological." Commons, whose institutionalist writings in part antedate Veblen, should be classified under the term "legal" because of the subjects treated. Mitchell and his followers may be labeled "statistical."

Their Economic Man

The institutionalists create their own economic man, a Robinson Crusoe of their own delineation. Their economic man has as especial bent for effective work and an abhorrence of futile effort. Instinctively he is to move for the common good. "Effectiveness" and "futility" are terms substituted for the older pleasure-and-pain hedonism and the idea of a motivation resting upon

the theory of an enlightened self-interest. How one is to differentiate between good and bad institutions is still a problem, and determinate criteria by which to evaluate the success of social experiments are yet to be assembled. In these things a norm or the idea of equilibrium seems essential.

Institutions Classified

Institutions may be aristocratic or democratic. Veblen finds the institutions of the leisure class, of business enterprise, of ecclesiasticism, and of militarism not only undemocratic but also unethical. In contrast, the institution of trade-unionism is declared democratic and ethical by the eminent English social reformers, Sidney and Beatrice Webb. Different criteria and different appraisers of institutional beneficence present factors leading to varied judgments.

Institutions First Potential, Later Effective

Dynamic conditions present the possibility of new institutions. Coal, oil, and electricity as new sources of industrial power create the conditions for new arrangements, and man's initiative establishes the new technology. Changes in factors comprising resources, progress in science, capital accumulation, and modified wants of population bring forward the consideration of the advisability of a planned economy. Where planning is adopted, it is not necessarily of a systematic nature, but of the limited-view, trial-and-error variety. Institutional economists are optimists with an interest in social reform. In their conception our institutions are made by men and are subject to transformation through forethought and purpose. They frankly criticize and definitely discard, as an unhealthy attitude in the dynamic state, the emphasis of the classicist upon the automatic adjustment of economic institutions to society's needs.

Chapter 32. THE KEYNESIAN THEORY

Influence of Economists on Governmental Policies

In our day and generation the influence of academic theorists upon statesmen in high places has increased greatly in democratic countries. Government officials who carry the responsibility of proposing and effecting economic reforms through legislation and administrative action evaluate the hypotheses of economists in seeking solutions to pressing problems. When proposed governmental action involves a modification or rejection of economic theory ingrained in private and public institutions, debate waxes warm and political controversy becomes bitter.

The academicians gain prestige and even more than a modicum of power when their ideologies match the desires of the people in a country seeking permanent prosperity and social security.

Such prestige in popular thinking and influence over governmental policies has been attained during the past score of years by an Englishman, John M. Keynes.

John Maynard Keynes

Biographical Sketch. John Maynard Keynes (1883–1946), elevated to the peerage in 1942 as the first Baron Tilton, was born in Cambridge, the son of the English economist John Neville Keynes. He was educated at Eton and Cambridge, graduating from the latter in 1905. To this institution he returned as a lecturer in economics three years later and continued in that capacity until his death.

In 1912 Keynes became the editor of the *Economic Journal,* remaining for several years. He then joined the Treasury Department, where he assisted in the making of loans to the Allies, but later resigned as a protest against the reparations clauses of the Versailles Treaty. When the Peace Conference convened at Paris in 1919, he attended as

the representative of the Treasury and served on the Supreme Economic Council as a deputy for the Chancellor of the Exchequer.

His book, *The Economic Consequences of the Peace,* which criticized the failure to treat Europe as an economic whole was published in 1919. Thenceforth he assumed the role of challenger of the whole tradition of economic orthodoxy, a bitter critic of capitalistic *laissez faire,* and a constant ally of the Liberal party. Many of his theories have been put into practice in Great Britain and other countries.

During the 1930's he diagnosed the cause of the depression as a lack of mass purchasing power caused by severe deflation and recommended wide governmental spending to restore prosperity. The theory did not win much favor with the British government but served as the basis for the New Deal recovery program in the United States.

In the Second World War he urged that the English government take steps to avoid inflation by a plan of "deferred savings," and certain of his recommendations were adopted in the British wartime budget.

He favored the idea of a world bank and stabilization of international currency at the Bretton Woods Conference in 1944. He served as chief negotiator of the British loan and was elected a vice-president of the World Bank and Fund at Savannah, Georgia, in 1946, when he participated in the first meeting of the governors of the Bank. On his return to England in the same year he was stricken and died.

A strong critic of those who follow conventional policies based on orthodox economics, Keynes advocated low interest rates, currency depreciation, and government control of the price level and of investments. He favored high governmental expenditures to increase demand for labor and wrote the following books: *The Economic Consequences of the Peace* (1919); *The Revision of the Treaty* (1922); *A Tract on Monetary Reform* (1923); *A Treatise on Money* (1930); *The Means to Prosperity* (1933); *The General Theory of Employment, Interest, and Money* (1936); *How to Pay for the War* (1940).

Equation of Exchange and the National Income

The basic approach to the problem of determining the effect of monetary factors upon the economy is the equation of exchange. In recent years the study of the national income and its expenditure has come into more prominence because of the

advantages accruing from the analysis of the factors causing changes in their components.

Saving to Augment General Fund

Although Keynes remained within the neoclassical tradition, he did not conform to the older ideas of capital. He believed that capital supply could become larger than could possibly be used profitably at a given time. He held that capitalists, while investigating the possibility of a prospective yield or appreciation in value of a future investment, in the interim would show a preference for cash liquidity and so reduce expenditure. Hence the demand for present goods would fall, and the rate of earnings of existing capital would inevitably diminish. Thus the need and use for new capital investment would be lacking entirely. Consequently, Keynes departs from the teaching of the orthodox economists that the insatiability of demand for goods would make new capital investment profitable automatically. According to the Keynesian theory, saving may withdraw from the income fund available for expenditure an amount which reduces current demand for consumables, thus causing unemployment. This condition reduces income and the volume of effective demand still more. Hence there is set in motion a chain of circumstances with distressing effect upon the normal equilibrium of our economy. When distress threatens to reach calamitous proportions, governmental intervention is advised to replace *laissez faire,* or the let-alone policy.

The Rate of Interest

Discussion of the aspects of interest dates from the seventeenth century. Prominent in those days was the theory that the quantity of money set the interest rate. Hume subscribed to this theory as a temporary cause only, holding that the gold and silver from the New World had no lasting effect on the normal levels. He advanced the theory that supply of and demand for capital set the interest rate in the long run, hinting that high profits from commerce tended to reduce the supply of loanable

capital, which caused the rate of interest to rise in the face of insistent demand.

Turgot accepted the supply-and-demand theory but added the idea that the money fund was continuously being augmented out of savings from incomes. So the greater the savings, the lower the interest rate if the demand from the borrowers remained constant or increased at a lower ratio.

J. B. Say divided capital into disposable and production capital, of which only the former could influence the interest rate. The latter since it was already incorporated into enterprise could not affect the supply of disposable capital. He also advanced the idea of risk and liquidity factors influencing the rates.

Ricardo and von Thünen among others advanced the theory that the interest rate tends to settle to a level which the marginal entrepreneur would accept rather than relinquish the advantage to be derived from use of the last increment or unit of capital which he contemplates adding.

The time-preference or abstinence theory of Senior was combined with the marginal-productivity theory by Böhm-Bawerk. Present advantages, he claimed, are generally preferred to future advantages, and since the function of capital is to increase the productivity of labor, a present article has greater value than a similar article in the future.

Lord Keynes under the influence of our rapidly changing weight of capital factors in the general economy of our generation has rejected the interest theory advanced by members of the classical school and has advanced his revolutionary idea that investments are not made because of the interest rate, but rather because of prospective increase in the original investment. Interest rates, he held, are a result of custom or of liquidity preference or a combination of the two. This is a complete departure from the long-accepted supply-and-demand theory of the classicists.

Propensity to Consume

It is a matter of observation subject to statistical proof that, as incomes increase, the ratio of expenditures to income decreases, thus effecting a larger proportion of saving. Saving is labeled

"oversaving" by this school of theorists and considered detrimental to the economy when additions to the potential investment fund cannot be advantageously expended for capital goods. To overcome this tendency toward oversaving, Keynes declared it desirable, perhaps imperative, that the privately saved surplus be funneled into government loans for public investment in projects which provide goods and services not entering competitive markets. Otherwise, oversaving will cause unemployment, reduction of national income, decrease in effective demand, and serious repercussions in industry.

In this reversal of the prosperity phase of the business cycle the ratio of the "propensity to consume" to national income increases and the volume of saving declines toward, but will not reach, zero (the point where expenditure for consumers' goods equals the national income). The zero point will not be reached because other potential variable factors affecting income and interventional spending by the government will cause an increase in employment and income. To prevent extreme fluctuation in the relationship between national income and useful expenditures, Lord Keynes advocated an extension of the economic role of the government.

Liquidity Preference

Money is highly important in our modern economic life. It is the one commodity for which there is no substitute. Its volume is not a matter of automatic regulation; rather the increase or decrease is decided upon by governmental decision. Since, as Keynes says, it is the link between present and future values, money holds a liquidity preference higher than any other commodity. This introduces an element of instability into our free-enterprise system.

When there is an expectation of rising prices, liquidity preference weakens and goods are preferred to money because of the intrusion of the element of speculation. Cash balances tend to decline even though borrowing on collateral or general credit is extensively employed.

When a fall in prices is expected, preference for money rather than goods becomes pronounced, the proportion of income spent

is less, and the ratio of saving to income grows, particularly among the larger income groups. The lowering of effective demand for goods reduces the volume of business and causes involuntary unemployment and a shrinkage of the national income. In order to save the private enterprise system from collapse Lord Keynes advocated the construction of public works and large governmental spending when crisis threatens.

Public Works

That public spending is advanced by every war or depression to new high levels is an undisputed fact and that the new levels never shrink to previous proportions is a matter of record. Government works projects were undertaken by ancient monarchies and democracies; for example, Solomon's Temple, the Pyramids of the Pharaohs, the Acropolis at Athens, and the famous aqueducts, roads, and public buildings of Rome.

Some of these were constructed for purposes of utility, show, or employment; other projects were completed for ceremonial uses or to perpetuate the memory of conquerors and despots.

That public works should be undertaken for the purpose of regulating the national purchasing power is a comparatively recent idea. It is part of a new philosophy of government advocated persuasively by Lord Keynes. His contention is that public works and government spending are necessary to maintain the private enterprise system and prevent modification of our economy to some sort of collectivism.

With the considerable swing away from the laissez-faire system, an entirely new significance is given to the unparalleled expenditures in peacetime and the increased proportions of the national debt. Public opinion is divided as to the effectiveness of the new philosophy. On the one hand, the predictions are for a glorious future; on the other, a doubt as to whether there will be a future at all.

The Investment Multiplier

In a specialized free-enterprise economy initial expansion in the rate of spending, or the reverse, carries its effect into second,

third, and additional successive rounds of expenditure and income. The initial increment to normal spending provides income for the sellers of goods or services, who in turn (second round) spend according to the rate of their current propensity to consume.

From this practice arises the Keynes multiplier theory. If the propensity to consume is 50 per cent of income, the other 50 per cent is saved; if it is 66⅔ per cent, 33⅓ per cent is saved; if it is 75 per cent, 25 per cent is saved. The same principle is carried forward into each succeeding circuit.

Since the propensity to consume influences the ratio of income saved and the amount saved is taken from funds available for expenditure (the time of disuse is dependent upon savers' liquidity preference), the idea of the multiplier emerges. Though the full force of the expansive or depressive influence set in motion by an initial increase or decrease in expenditure is not immediately evident, the ultimate cumulative additions to or subtractions from market demand affect the multiplier. For example, when the propensity to consume is 50 per cent, the multiplier is 2; in the change to 66⅔ per cent, the multiplier becomes 3; when the expenditure proclivity advances to 75 per cent of income, the multiplier reaches 4. To illustrate,

$$1 + \tfrac{1}{2} + \tfrac{1}{4} + \tfrac{1}{8} \cdots = 2 \qquad 1 + \tfrac{2}{3} + \tfrac{4}{9} + \tfrac{8}{27} \cdots = 3$$
$$1 + \tfrac{3}{4} + \tfrac{9}{16} + \tfrac{27}{64} \cdots = 4$$

Since the propensity to consume is always likely to be below 100 per cent of the national income, some part of it will be saved. Hence, if at any time investments from saving are not being made through private channels in sufficient amount to provide a satisfactory level of employment, public works were recommended by Keynes as a means of bringing it to the desired height.

According to the Keynes doctrine no factor which could operate to prevent expansion of private investment is applicable when the state and its credit are brought in to provide employment projects.

Price-raising Efforts

During the depression of the thirties, fundamental changes in American fiscal policy were desired by many of the electorate;

for this reason a positive program was sought which would utilize free capital and idle man power. Price raising and deficit spending were proposals offered with the expectation that they would help effect the needed readjustment. Consequently, in 1933 the National Industrial Recovery Act (NIRA) and the Agricultural Adjustment Administration (AAA) were established and gold purchasing at advanced prices instituted. Depreciation of the gold value of the dollar was completed when the gold content was reduced 40.94 per cent by the Gold Reserve Act of 1934.

Public opinion was divided as to the effectiveness of the measures undertaken. Probably domestic prices were raised somewhat, and businessmen and farmers experienced an advance in income, but it appears that a majority of Americans were at a disadvantage because of the higher costs of living which follow price advance while betterment in wages lags behind. For this reason other means of recovery advocated by theorists were favored.

"Pump Priming"

In 1934 Keynes, upon invitation, visited the United States to confer with high administrative officers. They devised a plan which provided noncompetitive services in the form of government-sponsored construction such as roads, schools, power projects, and rural electrification. By this means private investment was to be stimulated and extended to industries only remotely related to public works. The Federal government by 1937 had spent 5 billion dollars on this phase of the recovery effort known as "pump priming."

Proponents of the device considered it merely an experiment. A full recovery program would have required advance planning on a larger scale earlier in the depression. Probably pump priming did not play an important role in the recovery of the thirties. It did not have the expected effects because many private investors were wary of the next move of the government. Uncertainty retarded expansion of private investment, and public expenditure for recovery was discounted by protracted reluctance of private investors to enter the capital market.

The next venture of the government was that of deficit spending.

Deficit Spending

During the decade beginning in 1932 and closing with the entry of the United States into the Second World War, the public debt was increased by 25 billion dollars, raising the level of the national debt to approximately 45 billion dollars.

The debt-retiring policy of the twenties was abandoned, and heavy expenditures were undertaken for relief of the unemployed and for benefits to the farmers. In addition the government made loans through the refinancing corporation to increase purchasing power. The plan to spend more money than was collected through taxes was definite.

Through the sale of bonds to private investors and through borrowing from banks the credit of the government was extended. These inflationary procedures automatically raised price levels. Advancing prices stimulated industry and increased employment, both of which were objectives in the effort to improve the national economy.. Doubt as to the efficacy of the program has been engendered because of the growing burden of the national debt. Proponents of the inflationary procedures respond with the declaration that the burden is less than that imposed by a stagnant national economy.

Full Employment

A high level of spending is maintained in every period of prosperity. When spending declines, unemployment follows. Hence how to combat unemployment becomes a vital question in periods of depression. But how to increase spending is also vital since the two are intimately related and consideration of the one involves the other.

Effective demand determines the amount of spending and the volume of purchases. When analyzed the volume of purchases may be classified according to four chief types of buyers. These are business firms, government purchasers, foreign buyers, and

consumers. The three former may be considered as contributing to investment and the latter to final consumption.

Consequently, full employment depends upon the propensity to consume and the rate of investment. Then, if variations in investments and the propensity to consume are analyzed, evidence is produced which is valuable in the determination of causes for variation of income.

In examining these types of buyers seriatim, beginning with business firms, we find that private investors impelled by the profit motive expand their business facilities and inventories when they can better their position by doing so. Under reverse conditions they slow down or halt expenditure for expansion of plant facilities and for enlarged production.

Important factors to consider in the evaluation of future business prospects are the effectiveness of the interest rate on capital-plant expansion, invention projects, perfection of techniques, development of new products, and growth of the market. A further proximate factor to be considered in interest-rate efficacy is the tax policy of the government. An appraisal of a firm's position after review of these factors and the study of its competitive status will prompt the decision whether to go forward or to mark time.

Private investment is an unstable factor in the employment problem. It is free from social control. On the contrary, public investment is under social control and can be expanded as desire dictates. Expenditure by the government may lead to increased income and employment, definitely so, if expansion of public investment does not discourage private business activity materially. A high level of public investment means a rapid increase of the public debt in the long run. This, to many, seems undesirable because it adds to the level of taxes, and by discouraging private investment it retards the increase of the tax base since high taxes tend to interfere with wealth accumulation and to check growth of income. Others reply that high private investment also increases debt and that there is no convincing evidence that the one kind of debt is preferable to the other.

A high public debt has both a deflationary and an inflationary force — the former tending to be the stronger normally. This

is because of higher taxes and their effect in reducing the propensity to consume. On the other hand, when banks hold a large quantity of government bonds, the volume of money in circulation is high. This condition keeps the interest rate low, which in turn encourages private investment. Moreover, if bondholding can be widely distributed among the population, the propensity to consume advances. Larger private investment and consumer purchases increase employment and income.

Proponents of the policy of heavy government spending argue that a large government debt is not a heavy burden and can be made lighter by holding the interest rate low and by adjusting the tax structure so as to prevent an unbalance of income through a shift from the masses to the classes. A final answer to this question must be deferred until the experiences of the next few decades are recorded. Convincing proof may even then be lacking though hypotheses give promise.

Exchange of goods with foreign countries is important to our economy even though exports and imports may represent less than 5 per cent of total output. Some commodities that we desire are produced only in foreign countries. Moreover, there is a definite advantage in maintaining the principle of the geographical division of labor in both our domestic and foreign trade since it increases output, the standard of living generally, effective demand for goods, and employment. The existence of a high rate of international trade indicates specialization of production by countries.

Under the best pattern each country devotes itself to the productive activity in which it excels. This principle applies not only to commodities and services in which countries enjoy absolute advantage in production costs, but it applies also to countries inferior to others in all lines of production endeavor. In the latter circumstance it pays to concentrate upon production of goods in which the country's relative comparative disadvantage in production costs is least. The utilization of relative production efficiencies adds to total output at any level of employment.

Consumer buying is governed by income and the propensity to consume. With the increase in income the percentage proportion expended for consumers' goods decreases but the dollar amount increases. With a decrease in income the relative amount

of income percentagewise increases but the absolute amount in dollars decreases.

According to the exposition in the above sections it appears that investments and propensity to consume are compelling forces in bringing about full employment; hence they should prove especially potent in efforts to rout depression.

Remedies for Depression

Under the Keynesian theory analyses of employment levels are undertaken to ascertain their relationship to depressions. If the cycle has already moved into a depression phase, any remedial action will necessarily give attention to investment factors which improve employment and to the implanting of habits which increase the propensity-to-consume ratio.

To influence private investment, business expansion must appear profitable. By making capital abundant at a low interest rate an attractive element is injected into our economy. But since profit-seeking investment has its limit, government investment may be employed for an amount consistent with the country's credit as appraised by the legislative and executive authorities. It is considered expedient, however, to limit public investment to projects which provide intangible values rather than to extend it to goods designed for the competitive market, which would prove disruptive to private enterprise.

Stimulation of foreign buying tends to react favorably in both the exporting and the importing country if the principle of comparative advantage in production costs raises aggregate output, income, and purchasing power. Much discussion has arisen as to the efficacy of foreign loans and the purchase of gold from foreign countries. Each of these policies has proved of present advantage by making dollars available to foreign peoples for expenditure in the American market. We have an interest in the prosperity of foreign buyers because their material well-being raises income and employment, not only in their own countries, but in ours as well. What the effects will be on the economy of the lending country when the borrowing country repays its loans is a debatable question among economists and a problem that only the future will

solve. The feeling is prevalent that warding off a depression at any price is better than the misery of millions of people and the sweeping away of billions of dollars.

Appraisal of Keynesian Theory

Keynes's purpose as well as that of welfare and institutional economists was to propose and having proposed to defend policies which would solve the economic problems of capitalism by stimulating the growth of public enterprise. It was his hope to supplement the private economy rather than to impair it.

His most earnest attention was directed toward involuntary unemployment – the bane of prosperity and a disease threatening the whole capitalistic system at each turn of the cycle. Its eradication he hoped to bring about through the stabilization of production and income at a level adequate to provide full employment.

Whether the end sought was attained through the experiments undertaken in the thirties is a subject of argument. Those who favor the Keynes analysis see in it definiteness and precision, which lead to accurate interpretations and predictions. When experiments conducted do not result in complete fulfillment of expectations, it appears to converts that the recovery program was sabotaged by abandonment short of assured success.

Others hold that the optimistic expectations of the converts are doomed because the precision and definiteness they find in the Keynes concept are acquired at the expense of reality. To dissenters the problem appears too complex to admit of a simple answer.

Whether one adheres to the Keynesian theory or not, it is conceded that the economic ideas of Keynes have been persuasive in popular thinking and influential in molding governmental policies. It should be remembered, however, that the ideas presented by Keynes and therefore attached to his name are not all original with him. They are of varied origin, and only the pattern is Keynesian. Its speculative conceptions have exercised a potent influence upon both public and private policies in industry, trade, and finance. His doctrines have effected monetary, price, and deficit-financing policies which have an inflationary tendency. They

have induced a review of the merits of saving as opposed to spending; they have pointed out the benefits to be derived from the regulation of the capital market and the desirability of an international monetary relationship.

Insufficient time has elapsed and too little experience has been acquired to arrive at a valid conclusion as to the merits of the theory as applied by businessmen and politicians. The passing of a few decades may provide a generally acceptable answer to the still controversial question.

Chapter 33. TOTALITARIAN IDEOLOGIES

Collectivism

Collectivism comprises a set of institutions conditioning social and economic life. It is in contrast with individualism, which possesses the significant characteristics of private property, inheritance, free competition, individual initiative and enterprise. Communism and fascism – group patterns of behavior – are samples of collectivism. A supportable thesis is found in the conviction that under varying circumstances and conditions, now one, and later another form of economic organization may be preferred by an established society.

Collectivistic systems of the communist and fascist types have common characteristics and similar origins. Differences appear because in the one emphasis is on a democratic element; in the other it is on the autocratic principle. Under a communist regime benefit to the individual is not overshadowed nor are his rights renounced; in the fascist type of organization paramount interests of nation or race prevail regardless of individual benefit. Common to all, however, are:[1]

> First, a condemnation of the existing political and social order as unjust; second, an advocacy of a new order consistent with moral values; third, a belief that this ideal is realizable; fourth, a conviction that the immorality of the established order is traceable not to a fixed world order or to the unchanging nature of man but to corrupt institutions; fifth, a program of action leading to the ideal through a fundamental remodeling of human nature, or of institutions, or both; sixth, a revolutionary will to carry out this program.

[1] Oscar Jaszi, *Encyclopædia of the Social Sciences*, Vol. XIV, p. 188.

Periodic Crises and Production Control

Economic liberalism rests its case for an assured, productive efficiency and social justice upon political democracy and economic *laissez faire.* Critics attest the result as being of an opposite character. Socialists insist that the element of private interest defeats the public interest through waste of resources by the application of monopolistic principles. They contend that periodic crises develop through a lack of public production control, which forces governmental intervention on a widening front. Thus necessity compels an abandonment of private enterprise and free competition. Consequently, they prophesy a trend toward making the important means of production the common property of the people.

Italian Fascism

Criticism of Democracy

The Fascist criticism of the democratic order was political. Democratic organization is typified by talk, they contended, instead of action. Government by talk and political duties discharged by logrolling and compromise do not, in their opinion, constitute effective methods for the accomplishment of public acts in the interest of the state. For popular assemblies and the electorate, they substituted the superior knowledge of the few and control by specialists. In the Fascist system the institution of private property is retained, but the utilization of capital is under state direction. Inefficiency and waste, alike intolerable where the interests of the nation are paramount, are eliminated, they believe, through state control of capitalistic enterprises. Dictatorship is substituted for democracy, and the totalitarian state is erected to bring about the elimination of economic strife and to assure national proficiency. Individual liberty is relinquished in the interest of the growing glory of the state.

A Militant Minority

The Fascists comprised a militant minority seated in a position of ruling authority. The term "Fascist" is derived from the Italian

fascio, meaning bundle, hence, "club" or "fighting squad," as used by Mussolini. The groups of fighting squads at the outset of the Fascist movement were composed mainly of war veterans consolidated into an organization on the basis of internal discipline and patriotic ideals. Later, popular support was won among young men and among others of patriotic persuasion, generally from the middle and upper classes. In 1922, after the King yielded to the demand of the Fascists for control in the government, the Italian "corporative state" was organized. But, as Mussolini wrote, "Fascism is not only a regime, it is also a doctrine."

The Fascist Doctrine

We are told that Fascism does not believe in the possibility of unity or perpetual peace. In the doctrine are the evidences of a fighting spirit accepting all risks. Individually the Fascist accepts life and rejects what is cowardly. "Life, as he understands it, means duty, elevation, conquest; life must be lofty and full, it must be lived for oneself, but above all for others, both near by and far off, present and future." According to Mussolini: "The keystone of the Fascist doctrine is its conception of the state, of its essence, its functions, and its aims. For Fascism, the state is absolute, individuals and groups relative." The state is conceived of as a spiritual and ethical entity. It lays claim to authority in the economic as well as in other fields. Through organization of individuals within the nation the Fascist state aims to multiply the individual's power. It denies useless and harmful liberties, while preserving the essential. In these matters it insists the state only can be judge.

Centralized Governmental Organization

The government of Italy represented an extreme centralization. Nominally a monarchy, the actual governmental authority resided in a cabinet of 14 department heads. The ministers were appointed by the King upon recommendation of the Prime Minister, Mussolini. Since there was no restriction on the number

of offices an individual might hold, Mussolini customarily held half or more of the cabinet posts himself. Each of the 92 provinces into which Italy was divided had an administrative officer, a *prefect,* appointed by Mussolini acting as Minister of the Interior. Each municipality had for its directive officer the *podesta,* chosen in the same manner. The Chamber of Deputies was but nominally a national legislature. Its debate privileges were restricted and its jurisdiction prescribed. The citizen voters had no real right of choice in electing members to the body, since the franchise function consisted merely of accepting or rejecting the list of 400 names presented to them. All nominees selected as candidates for the national legislature by the Grand Council, the party organ with the highest authority, were members of the Fascist party.

The Grand Council

The Grand Council consisted of 24 members: Mussolini as president of the party, the secretary, the surviving quadrumvirs of the "march on Rome," the 14 cabinet heads, and five members appointed by the head of the government. Besides selecting the nominees for the national legislature, the Grand Council was vested with the power to choose Mussolini's successor. It nominated and the King appointed. Since but one name might comprise its list, nomination constituted appointment.

Party Membership

To become a member of the Fascist party the applicant had to be well grounded in its principles. Membership was looked upon as an honor which, when attained, gave prestige. Should one be selected for a party office, he became a person of prominence approaching distinction. The party comprised about one in four of the male citizens. Membership cards were issued annually, and continuation with the party depended on merit. An oath of loyalty, including unquestioning obedience to *il Duce,* had to be taken. The annual purge ensured solidarity.

In the future, members of the party were to be recruited in the main from youth organizations which provided instruction in

the principles of Fascism and the totalitarian state. At the age of six, boys and girls were admitted to organizations known as *Wolf Clubs.* At eight they became members of the *Balilla,* and at fourteen they were transferred to the *Avanguardisti.* At eighteen they became young Fascists. From this organization the young men became eligible for full membership in the party. The young women, who had been taught the duties of Fascist women, were prepared to take their place in the home. The young men, with their national pride, military spirit, and the theory of unquestioning obedience, thrilled to the Fascist slogan of "Believe! Obey! Fight!"

The Economic System

In Italy the economic system was that of private enterprise, because it was considered the most effective method of production and distribution. In fact, it was not the traditional laissez-faire capitalism, since the degree of state regulation required for the promotion of economic stability was high. The state directed the flow of raw materials and credit. The state had the right to fix wages, rents, interest, and even commodity prices. Before old industrial plants might be expanded or new ones erected, licenses had to be obtained. The restrictions under which private initiative functioned made it clear that the economic aim of Fascism was the increase of the military power and glory of the state, and not the attainment of a high standard of living. It followed logically that the Fascist state operated even in peacetime on a basis of wartime economy. Production was diverted to armaments at the expense of consumers' goods. A large standing army was maintained, a jingoistic policy adopted, and imperialistic enterprises undertaken.

Self-sufficiency at a Price

Economic self-sufficiency was sought; the advantages of geographical specialization were foregone, and much productive effort was concentrated in industries for which the country was ill adapted. Synthetic materials and substitutes produced in the

effort to become nationally self-sufficient caused an inevitable decrease in the real income of the people. This condition threatened to lower morale, but the Fascist leaders substituted the emotional incentive of national glorification. The citizens were exhorted to prefer bullets to bread. Self-sacrifice in the interest of the state was extolled as the highest virtue.

Political and Economic Coordination

In Italy the political and economic organizations, though separate, were so closely coordinated as to make it clear that national interests preceded those of individuals or groups. In 1934 twenty-two Corporations were officially launched – eight in agriculture, eight in manufacturing, and six in public services. The Corporations were organized both vertically and horizontally – vertically, in that they controlled production from raw material to finished product; horizontally, in that as in the textile industry, for example, the control extended to cotton, rayon, and silk. Each Corporation was presided over by a council whose members also served as representatives to the National Council of Corporations, composed of approximately 800 members; of these some were representatives of skilled labor, technical experts, professional men, and a few other groups; others served solely as members of the Fascist party. The president of each of the Corporation Councils was Mussolini, in practice represented by an official responsible to him.

The Confederations

There were also nine confederations which had the function of coordinating the interests of employers and employees. They served industry, agriculture, commerce, credit and insurance, and the professions. The first four had separate confederations for employers and employees, but the fifth, in which self-employment was customary, did not show the same quality. Through the confederation device, capital and labor were organized into local, provincial, and national groups, inasmuch as each national confederation was made up of constituent subdivisions resident in provincial and local areas.

The Central Corporative Committee

The Central Corporative Committee, which had full powers to pass legislation relating to the Corporations, was intimately connected with the government and amenable to its policies, since it included most of the ministers of the Cabinet, the heads of the Fascist party, and the heads of the Confederations of Employers and Employees. More powerful still in the management of the Italian economic system was the Ministry of Corporations, with Mussolini at its head. It was a highly authoritative economic body in that it was the planning agency; it also ratified labor contracts, arbitrated disputes, supervised social insurance and unemployment compensation, issued patents and copyrights, provided inspection services and customs regulations. Strikes and lockouts were forbidden, and controversies had to be referred to a Labor Court with the power of final decision.

Philosophical Basis of Fascism

The philosophical basis for the Fascist form of national aggrandizement was a patchwork of ideas. At the inception of the Italian Fascist state in 1922, the Fascist set of principles were assertions unsupported by a carefully prepared philosophical theory. It is still without a coherent philosophy. Since Mussolini himself was Italian Fascism, philosophical ideas held by him influenced Fascist development. In the Fascist theory that "what works is right" there is something of pragmatism; in it there is also something of Nietzsche's "superman" will to acquire power, and something of Machiavelli's injunction to dominate through force. The modern Italian sociologist, Pareto, had a direct influence upon Mussolini, who, prior to the First World War, had attended Pareto's lectures in Switzerland. Interest in Pareto was manifest in the offer of a senatorship on condition that he migrate to Italian soil.

A number of elements of Pareto's philosophical system fitted the Fascist procedure exactly. The first proposition is that human action is characterized by a nonlogical behavior, as is shown in ready response to sentiment, myths, and patriotic appeals; the

second is the certainty of a rise to power successively of groups of the elite – those possessed of the intelligence and capacity to govern; the third is the theory that, since even among the governed there are individuals disposed to use force in the attempt to dispossess the ruling class, the governors, impelled by the desire to remain in power, need not be humanitarian in their acts; the fourth is the stressing of relativity in explaining the nature of scientific laws. Social science laws, in particular, Pareto declared to be probable in their effect – not absolute – and subject to change as new conditions develop.

German Nazism

Concentration of Power

Concentration of political and economic power typified the Nazi state. Under it the state legislatures of the German Empire were abolished, and the states became completely subordinate administrative subdivisions. Cities, operating under a new municipal code, were directly responsible to national officers. All semblance of federation disappeared. Authority was concentrated in the *Führer* and by him delegated to other officials. The state performed its functions through the National Socialist party, which held a monopolistic position in political activity and was, in fact, inseparably connected with the state in that it served as the Corporation of Public Law with the Chancellor as its directing officer. Members of the party were subject to strict discipline, having taken the oath of "blind loyalty" to the *Führer*.

Nazi Party Membership

Attainment of majority by an individual did not qualify him for admission to the National Socialist party. Primarily, membership was gained through the Hitler youth organizations. These comprised about 6 million boys and girls between the ages of ten and eighteen. Their purpose was the indoctrination of National Socialist principles, and much emphasis was placed

upon physical fitness. The groups wore uniforms, and their activities included excursions, parades, summer camps, and gymnastics. A minimum of four years was served in youth organizations under appropriate discipline. Membership in the party could be gained by older persons, not members of the youth organization, who had shown their loyalty and usefulness through approved activities, most generally in the nature of political service. Requirements which had to be met by all applicants were those of nationality and race. Since the Nazis claimed cultural and racial superiority, no one could be admitted to the party who could not trace his Aryan ancestry back to the year 1800.

Totalitarianism

Emphasis upon nationalism and the totalitarian state was made effective through a tremendous concentration of power in the executive branch of the government. Although there was a parliament, the *Reichstag*, it met only upon call to approve unanimously the proposals of the *Führer*. It was without power, since the national laws were promulgated through Hitler and his cabinet. The undivided authority of Nazism coordinated with the theory that the state has an existence apart from its citizens and that individual rights are a myth.

Since the principle underlying the totalitarian state made the national interest paramount, the idea of solidarity was carried into the economic as well as into the political system. Although private property and the profit system were retained, competition and private economic decision were restrained, and the profit motive subordinated to that of predominant national interest.

Political and economic solidarity was the basic principle of the National Socialist party program. The interests of the individual and the group were merged with the national interest. Private property was subject to the prior needs of the state. Economy in Germany was rigidly controlled. Control was exercised through "Estates": first, the Agricultural Estate; second, Industry and Trade; third, the Labor Front; fourth, Handicrafts; fifth, the Transport Organization.

The Agricultural Estate

Of the Estates, the Agricultural was the first to be created. It was a statutory corporation, self-administrative. Membership in it was compulsory for all the individuals and organizations engaged in the production and distribution of agricultural commodities. Farming, forestry, wine culture, fisheries, and allied industries engaged in the processing of raw and partly finished products were included. In effect, the organization of the agricultural industry was both vertical and horizontal, since the products were under control throughout all stages until they reached the consumer.

The Minister of Food and Agriculture was the Farm Leader, with the authority to appoint all other officers of the Estate and its subdivisions. Included among the appointees was a body of 100 members which served as an advisory council. The objective was the attainment of self-sufficiency; the result was highly regimented industry. Racially pure Germans settled on the farms ensured, too, the renewal of pure German blood.

The National Socialist view was that in cities the race decays; consequently, agriculture was encouraged by raising the prices of products and by giving racially pure German peasants hereditary ownership of farms. Sale and mortgage of the holdings were prohibited. In consummation of the project, much of the farm acreage was entailed and registered.

The Estate of Industry and Trade

The Estate of Industry and Trade organized the productive power of the nation. Its economic field was all-inclusive, since membership of every employer, including private and public corporations, was required. Vertically, the organization of the Estate consisted of six business groups: industry, handicrafts, trade, banking, insurance, and power. Territorially, the Estate functioned through 14 subdivisions. Inasmuch as the Chambers of Commerce resident in a district were the legal representatives, coverage was complete, since for all businessmen membership in a Chamber

of Commerce was compulsory. To provide unity on the territorial scale the National Economic Chamber was established. The chief components were the presidential heads of the six national business groups and of the seven main groups of industry and the President of the Association of Chambers of Commerce; others in the National Economic Chamber were representatives from transportation, from agriculture, and from the municipalities; selectees were appointed by the Minister for Economic Affairs. The last named, a state officer in control of the whole German system of manufacturing and trade (wholesale and retail), carried out the economic policy of the National Socialist party.

The Labor Front

Trade associations and labor unions were nonexistent in Nazi Germany. Their functions were assumed by the Estate of Industry and Trade and the Labor Front. Membership in the latter extended to both employers and employees. Its prime duty was the creation of a mutual understanding of entrepreneurial and labor problems. Through common membership in the Labor Front, class distinctions were minimized, and solidarity developed. The objective was improvement in the quality of labor and the maximizing of industrial output. Incipient labor disputes were settled informally in the Labor Front organization so that but few cases were referred to the state-appointed Labor Trustees and to the special Courts of Social Honor.

The Estates of Handicrafts and Transport

The Estate of Handicrafts was a regional organization which included in its membership 16,000 German guilds grouped in 750 guild associations. All registered craftsmen were attached to this unit, which comprised 60 Chambers of Handicraft directed by the Grand Master of Handicrafts, who was appointed by the Minister of Economics.

The Transport Organization included seagoing and inland shipping, motor and rail services, and auxiliary transport services. There were seven subdivisions which were regulated by the Reich

Transport Council under its state head, the Minister of Transport. It dealt with questions involving the improvement of transportation.

Economic Hierarchy

The German economic organization comprised a state hierarchy, military in character. The hierarchy was based on appointive officers whose selection was consistent with National Socialist leadership principles. Authority extended downward from the top, delegated and subdelegated until the lowest official stratum was reached. Unity of action was assured, and state policy prevailed. The owners of private business enterprises were all drafted into the system as "leaders" working for the benefit of nation and state. To prevent abuses on the part of business leaders, the Labor Trustees and Courts of Social Honor functioned. Heavy penalties were imposed upon those who failed to follow the regulations.

Government and Business

The relationship between government and business in National Socialist Germany was close. Although the government operation of industries was not favored in party policy, yet, through the series of organizations described above, private business enterprises were used for state ends. The German entrepreneur could not obtain raw materials except through government permission; prices, wages, profits and employment all were state controlled. The tasks which industry performed were set by the government, with the result that a private capitalistic economy became a government-controlled economy under the leadership of the National Socialist officials, who were under the direction of the *Führer.*

Nazi Doctrine of Economic Harmony

The doctrines of the economic optimists, in which the complete harmony of interests of the various classes and groups in an industrial nation are set forth, appeared in a revised form in Nazi

economy. The new doctrine of the economic harmonies taught by Nazism had as its essence the principle that the state is an organism with paramount interests. It follows that individual self-interest lay within the national interest, and as a consequence the promotion of one's self-interest could be implemented only by a wholehearted support of the national economic program. In Nazi philosophy divergent interests of opposing groups were shown to be apparent only, not real, and in Nazi theory national solidarity resulted.

Weltanschauung

For incentives to production, the Nazis advanced emotional appeals as substitutes for the traditional economic motive of personal advantage. The idea of *Weltanschauung,* which has been a prominent element in German philosophy for more than a century, became one of the keynotes of their policy. In the *Weltanschauung* – world outlook – they registered their belief in the greatness of Germany and in the certainty of her playing an important role in world affairs. For Germany to fulfill her manifest destiny she must have *Lebensraum,* involving an extension of boundaries and the acquiring of colonies – definitely she must have a place in the sun. As a matter of course, the objectives could be gained only by the dispossession of those who had title to the areas wanted. German aspirations extended to much more than a rectification of her frontiers, however. Germans of Continental Europe not resident in Germany were repatriated by the tens of thousands in mass migrations; raw materials were to be made available by annexation of productive territory; substitute products were created by synthetic processes; and international trade agreements were sought. A self-contained Germany, potent as a world power, prideful and respect commanding was the dream of a Nazified German.

Origins of National Socialist Philosophy

The National Socialist philosophy is traceable to multiple origins. Johann Fichte, as early as 1807, inspired a strong nationalist feeling by tracing German superiority to the purity of the Ger-

man language as an exclusive characteristic. According to Fichte, since other languages are not possessed of the quality of purity, only Germans are capable of profound thought. Under the system he advocated, a national educational program was to provide a molding influence culminating in the welding of Germans into a corporate body. Patriotic sacrifice, voluntary among "noble" men and demanded of the "ignoble," is the basis of an autocratic state requiring universal military service. It is also the basis of the authoritarian state and a reason for the rejection of democracy.

Nietzsche and Hegel presented other elements which fit the National Socialist philosophy, the former by his advocacy and glorification of force, and the latter by his conception of the state as a great creation. In their conception, privileged classes giving direction to a state autocratic in form provide for individuals the most favorable setting for fullest development. Philosophic ideas supporting the Nazi program can also be traced to members of the party. In this connection, in addition to Hitler, Gottfried Feder and Alfred Rosenberg are noteworthy. Feder directed attention toward German big business as an exploiting institution and gave the basis for a leaning toward state socialism; according to Rosenberg there is a superior creative power in the Nordic race (Aryan, in Nazi theory). Rosenberg revived the ideals and spirit of the old Germanic gods. Heroism and virtue were the worthy attributes, and their retention in pure form was a compelling objective. Infiltration of blood of other than the Nordic strain would bring deterioration of race; hence, only pure Germans could become or remain citizens and wielders of political influence. The invasion of Germany by foreign cultures tended to weaken the German *Kultur* and threatened its superiority; therefore, communism and Christianity were looked upon by Nazis as Oriental importations and held to be of subversive influence in the National Socialists' ambition to construct an ideal, all-contained, and completely competent national state.

Russian Communism

The current system in Russia has substituted socialized production under central planning for private enterprise. This has been accomplished through the instrumentality of the federation of

republics and autonomous regions organized as the Union of Soviet Socialist Republics. In form the Union is a representative democracy, but in operation it is a dictatorship carrying out a planned economy.

State Socialism

Under the state socialism early envisaged both by Louis Blanc and Johann Karl Rodbertus, the goal of distributive justice was to be reached peacefully and gradually through state direction. Violence and coercion were no part of its implementation. In their plans ownership of production goods was in the state, while consumption goods and unimportant capital instruments such as hand tools and implements remained in private ownership. Their concepts of society were those of a harmonious whole in which each contributed according to his ability and was rewarded according to his needs.

Communism

The distinction between state socialism and communism lies in the extent of government ownership or control of goods either productive or consumable. When strictly defined, communism suggests complete governmental control of both categories and uniformity of individual incomes.

In the communistic ideal voluntary association is the central element. Theoretically in Russia today the associated communistic groups of rural communities and factory workers are bound together voluntarily, and officials proceed through advice rather than by outright orders. Actually, however, Russian communism in the process of its development has fostered class hatred and intensified the class struggle. Its methods have been vigorous, even cruel. In the hurried property-communizing process those resisting have been brutally liquidated.

Five-year Plans

Russia exemplified determination, thoroughness, and speed in the liquidation of private enterprises. Five-year plans and super-

vised economy dominate productive effort. A casual examination of the government leaves the impression that deputies to the Council of the Union and to the Council of Nationalities are chosen to represent the people upon the principle of free democratic selection. The two councils comprise the legislature of the Soviet Union. A Presidium chosen by the legislature carries on its business between sessions. The Council of the People's Commissars, also selected by the central legislature, serves as the executive. The executive body functions through various committees, the most important being the State Commission, which has charge of economic planning. Judges of the People's Courts in the various districts are chosen locally by the citizens. Courts of the republics and of the Soviet Union are chosen by the respective legislative councils. Apparently the citizens in a direct or delegated manner choose the governing bodies and hold them responsible, a theoretical condition not everywhere fully maintained.

Democratic Principle Not Fully Operative

In Russia the democratic principle is not operative because persons eligible to hold office must be members of the Communist party — a qualification met by but 2 per cent of the population. Only persons amenable to discipline may aspire to membership. The education of prospective members is directed by the party throughout two preparatory stages — that of the Young Pioneers and that of the Young Communists. At the age of twenty-three those declared fit become Communists. Periodic purges remove the impure in thought or action. Penalties are severe. The party brooks no opposition, and personal liberty, ostensibly guaranteed, does not extend to the right to strike or to criticism of the party.

The Right to Work

Personal incomes in Russia are mostly in the form of wages which vary with the quality and the quantity of work. The Constitution of 1936 declares that the citizen has the right to work and the principle applied is: "From each according to his ability, to each according to the work performed."

Planned Economy

The Russian planned economy is more than a substitution of public for private initiative. It determines the amount of collective effort which is to be devoted to the production of capital goods and to the provision of goods for consumption purposes. The objectives are the rapid accumulation of capital and the encouragement of the consumption of approved articles. To accomplish the former, an abnormally large part of the national resources is devoted to the production of capital goods; to attain the latter goal, prices are manipulated – placed below the cost to encourage use or made excessively high to force substitution. Control of the distribution of capital is a further aid in the control of consumption.

Collective Farms

Industrial establishments are allotted quotas. Citations and other awards fall to the worthy directors and workers; censure, at times demotion, is the lot of the inefficient and the victims of misfortune. Agriculture is carried on by state and collective farms. The state farms, comprising about 10 per cent of the land cultivated, are subordinate in importance to the *artel,* which is the dominant type of collective farm. On the latter, capital equipment and land are used jointly by a group of peasant farmers working under a group leader. Each collective farm is required to sell to the state a specified proportion of its harvest at low prices and has permission to sell surpluses to agencies of the state on a state-controlled open market.

The Marketing Mechanism

The marketing mechanism is unlike that which prevails in an industrial order motivated by a profit economy in that the dealers work for the state. Although the desires of the consumers as expressed by their purchases seem to give direction to the production plan, in actual fact this is not the case, for price fixing and other forms of control by the state effectually drive the consumers

to selections other than those actuated by free choice. Nor is foreign trade left to the automatic operation of the law of comparative advantage in production costs. Trade agreements are made by state officials on the basis of what is considered the current need, with cost an unimportant factor in the negotiation. What is sold abroad below cost results in losses which are readily recouped by fixing the domestic prices of essential commodities above cost.

Stability of the Regime

The movement toward a greater unification of industry is a noticeable trend in every nation, but the Russian plan to coordinate all industry rapidly into a closely integrated system constituted a striking experiment. The attempt to force the installation of a socialist program by extreme measures divided the Communist party into radicals and moderates, which destroyed its unity.

Political experience indicates that a dictatorship has a shaky foundation inasmuch as it customarily has its inception in a *coup d'état*, or other act of usurpation. Though it is true the citizenry may hold implementation of a new ideology an insufficient compensation for the discomforts of regimentation, the Russians under Soviet leadership have shown a phenomenal constancy in support of the revolutionary program. Industrial productive power and military strength are evidences of united national action.

Origin of Communistic Philosophy

The concept of communistic society is of ancient origin. In the earliest form it was objective and utopian in outline as described in Plato's *Republic.* In this ideal commonwealth there were to be neither luxury nor poverty and no marked inequality of wealth. The communism pictured in the *Republic* was aristocratic, however, since its government was to be the care of the wise and carefully educated few. The theory of democratic or proletarian communism is a product of comparatively recent times.

The term communism in its modern implications stems from the *Communist Manifesto,* the short monograph prepared and pub-

lished by Karl Marx and Friedrich Engels in 1848 as a clarion call for all workers to unite in order to escape oppression and exploitation by their bourgeois employers. The authors of the *Manifesto* used the term communist rather than socialist so that their identity would be established as distinctly separate from the utopian socialists of their own generation. Nevertheless, Marx, an omnivorous reader, was under obligation to other writers of his generation for some of the ideas he expounded. He followed the theories of William Thompson, Irish socialist and disciple of Robert Owen, who declared labor the sole source of value and explained the concept of surplus value, which is basic in the Marxian system. However, Marx's revolutionary theories were in contrast with the Fabian socialists, who advocated the gradual and peaceful transformation of society to their ideal.

Lenin, Marxist leader and dictator after the Revolution of 1917 until his death in 1924, established a government along the lines of Marxian communism. Although at first adhering strictly to Marxian theories, later he relaxed these policies, and farmers were allowed to sell their surplus on the open market after paying a fixed grain tax, small private business enterprises were permitted to function anew, and plans were evolved for expansion of the national economy. Lenin's modification of Marxian theory is found implicit in his governmental policies rather than explicit in his writings.

Karl Marx has become the patron saint of revolutionary classes, but Lenin holds the affection and virtual adoration of the Russian people.

Marx's doctrines are interpreted by the Russians as advocating the overthrow of capitalistic societies through violent revolution and the establishment of the dictatorship of the proletariat. Since the proletariat in Russia constitutes a large majority of the population, the dictatorship is conceived by them as democratic government, when in reality governmental power and authority are wielded by an oligarchic few. Love of power remains strong in men who lead a revolution; consequently, the dreams of the liberated proletariat in a classless society have not been realized. The consummation of their hopes extends no further than an imaginary democracy.

Chapter 34. IN SUMMARY

Ancient Times

In ancient times detached ideas were recorded by poets and philosophers, descriptive of politicoeconomic relationships in human society, but no complete system of economic thought was developed.

Though a simple, self-sufficient natural economy was the norm in community life, frequent departures from it such as barter or trade between villages were evident as early as the Stone Age. We have proof that even foreign commerce existed during the Bronze Age since the sources of copper and tin (the components of bronze metal) were not found together but rather in places distant from each other.

Menial tasks in a hoe culture or a simple agricultural economy did not fire the imagination or provide the incentive to meditate on the common activities of economic life. However simple economic relationships may have been in earlier centuries, the basic principles found in modern economic organization are the product of the past.

Survey of Early Practices

From time immemorial society spent much energy and some thought in securing the material things which support life. Throughout the centuries, modes and manifestations differed, but underlying and controlling were the general principles which form the subject matter of the science of economics. So a study of the economic activities of the past, near and remote, is helpful in forming reasoned judgments about the economic institutions of the present. The science of economics concerns itself, therefore, with the observation of man in the ordinary business of life.

Early Economic Ideas

Customs, habits, and instincts as well as material bodily wants are motivating influences in guiding man's industrial activities, and since environment affects wants, man's physical and social condition are also forces to be considered.

Analysis of economic matters when separated from the psychological and philosophical aspects of human behavior results in judgments out of harmony with the realities of life. This was not an error made in the early centuries; rather economics was subordinated to ethics, justice, and politics. Consequently, there is an obvious absence of economic literature except as it is found in philosophical treatises on ethics and politics or in the epics and odes of the poets.

Development of a Higher Culture

Among primitive peoples few wants beyond the need for food, shelter, and clothing constituted effective incentives toward economic enterprise. With improvement in the techniques of production came a measure of leisure, a modicum of wealth, and a higher culture.

Change in tribal society brought different social arrangements, greater division of labor, and the exchange of surplus products.

Growth in Economic Ideas

Economic changes in ideas accompanied the transformation. Evidence of progress in ancient social thought is found in legend before the authenticated thought concerning institutions contained in the Scriptures. Here morals and a comprehensive philosophy of life embodied in precept and injunction have their origin in divine authority. Justice, mercy, and charity are advanced as beneficent in social behavior.

The Greek Contribution

In classic Greek philosophy the ordinary business of life was not esteemed. Society based on caste restricted so-called "noble"

occupations to the military and administrative professions; among the manual arts only agriculture was listed as not ignoble. Consequently, the caste system founded on slavery did not prompt the full analysis of economic relationship and the preparation of a comprehensive treatise by a race notable for philosophy, politics, literature, architecture, military science – a people who produced the golden age of Pericles.

Among the philosophers, Plato made noteworthy contributions to economic ideas in a virtually modern word picture of the division of labor and its advantages, the desirability of limiting wealth accumulation by individuals, and the ideal relationships, political and economic, found in an imaginary state delineated in the *Republic.*

Aristotle cites the advantage in a society based on private ownership of property, a barter economy, and disapproval of the chrematistics prevalent in an economy which produced goods primarily for exchange rather than for common and direct use.

Though in instances confused or even in absurd error, Xenophon appears quite modern in some of his economic ideas and proposals. Primarily an agricultural writer, he conceived that land is productive in good measure under laborious exertion. In the dictum, "When husbandry flourishes, all the other arts are in good fettle; but whenever the land is compelled to lie waste, the other arts of landsmen and mariners alike wellnigh perish," he provided the motto of the physiocratic school, which flourished in France centuries later. In coupling the ideas of maintenance of peace and wealth accumulation he voiced an economic truth. In recommending the abolition of measures that bore hard on foreign residents of the better sort in Athens and in suggesting they be shown favor at festivals and banquets he presents a modern view. In his plan for the organization of silver mining under state auspices he advances the prospect of public enterprise as a source of revenue in lieu of taxes. Others of his proposals, enlightened for his century, were remedial measures for poverty and provision by the state of accommodations for merchants in the form of shops and houses since he saw in the foreign tradesmen a lucrative source of revenue.

The Roman Contribution

The contribution which Rome made to economic theory was meager (the theory provided by them was implicit in their actions rather than explicit in their literature).

The Roman philosophers were moralists rather than economic theorists. They emphasized the right uses of wealth rather than its production. They censured luxury and praised simplicity. In their approval of agriculture they were on common ground with Greek philosophers and with medieval and physiocratic economists. It was not, however, as a profit-making industry that agriculture was given attention. It was looked upon as made up of self-sufficing units similar to those Aristotle described under the title of "domestic economy."

When occupations were discussed, it was from the viewpoint of their respectability rather than their productivity. Work in the crafts and menial tasks normally performed by slaves were not considered dignified. Cicero declared hired workmen, mechanics, and small tradesmen to be engaged in vulgar occupations. Lowest in the scale he placed the trades which catered to sensual pleasures. Only agriculture and the professions requiring a higher degree of intelligence were regarded as activities becoming to free men. From beliefs of this type a modern economic relationship between a prosperous economy and dignified labor could not evolve.

Roman agricultural writers join in the declaration that slave labor is inefficient and that the citizens would be better served if the large estates were subdivided.

Romans had a deep respect for property rights and early developed a keen sense for law and order. Their idea of justice, partly inherited and partly developed by experience, evolved a distinct institution holding certain judicial powers which tended to keep the Roman law progressive. Jurisdiction over contested legal cases, formerly held by the consuls, was bestowed upon special officials named "praetors." The men chosen for the position were highly respected members of the Roman Senate who, through their precise knowledge of laws and treaties, gained a

wide influence. Consequently, legal principles laid down by them gained high repute.

In 366 B.C., the number of praetors was increased and the office of *praetor peregrinus* (judge of the court of strangers) was established. Cases brought before this judge revealed differences in racial custom which made it pertinent that, after hearing both litigants, the judge should carefully appraise their varying points of view before rendering a decision, thus introducing the principle of equity. Through this practice jurists learned much about diverse foreign customs.

From the decisions made by the *praetor peregrinus* new principles of jurisprudence evolved which served as the basis for the body of rules designated as the *jus gentium* or law of nations. The influence of the *jus gentium* prompted belief in the advantages to be found in individualism, freedom of contract, and the right of private property.

From their court experience jurists arrived at the conclusion that there were certain abstract principles observable in nature common to all nations. This gave rise to the theory of natural law. The idea that law should be based on principles of equity is a legacy from the ancient to the modern world.

The Middle Ages

The medieval point of view reflected the condition of man's position in the social structure. Within the feudal system the economic ties were the obligations of vassals to their lords in return for protection. In guilds and crafts the requirements were good service to the public and mutual good will among the members.

Though there was some trade the dominant feature of the period was life in a "natural economy." A normal life required service to the community in which each one had a definite and relatively permanent place.

In man's spiritual life the all-pervading force was the Church. It had the function of directing human relationships, and its cosmopolitan organization fitted well the condition of the Middle Ages. The Church conferred a unity on Europe before the rise of

nations. It exerted a dominant influence and bestowed on medieval society values drawn from the original sources of the Christian religion and the writings of the Church Fathers.

Views opposed to classical tradition concerning the economic aspects of life were introduced with lasting advantage. Prominent among them were the removal of class distinctions, the establishment of the reign of justice in all human relations, and the rightfulness of private property when put to appropriate use. Manual labor of the common type and that of the skilled crafts were rated dignified, vanity was enjoined, and charity praised.

As the centuries of the Middle Ages progressed, trade expanded, towns began a vigorous growth, and the guilds assumed an authoritative position in local industry and government. The influence of the significant changes in society prompted the discussion of price and the medium of exchange. Theories were evolved supporting the principle of just price and monetary policy which are still influential today.

Mercantilism

National policy from the sixteenth to the eighteenth century relative to a country's industry, commerce, and shipping was labeled the *mercantile system,* or its variant *mercantilism.* The term is applicable to comprehensive planning by a state to amass economic resources; encourage variety of occupations; build a large national income; and reduce dependence on the industries, ships, or merchants of other countries. These objectives were to be attained by high-level employment, rigorous restriction of imports, commercial expansion, and the production of a large food supply to feed industrial workers at low cost. Thus prices of goods produced for export could be held at an advantageous level to meet the competition of other countries in foreign markets.

In all states the emphasis was on national development, economic and political. In some, economic procedure was predominant; in others it was merely complementary to the political. However, the emphasis placed on mercantilistic policies varied in different countries.

Serra, the Italian who set forth how to make gold and silver abound in a country which possessed no mines, selected industry in preference to agriculture. He made this choice because industry was independent of weather and therefore assured greater output and more surplus for export.

The French Colbert also emphasized commerce and manufactures in his program as Finance Minister although France was the richest agricultural country in Europe. By encouragement to owners and promoters he fostered selected industries and increased output by the establishment of others. Government officers stationed in foreign countries were directed to induce skilled workers to emigrate to France.

Colbert also ordered a nation-wide system of guild ordinances and standardized trading practices. Since all artisans and tradesmen were compelled to hold memberships and since all guilds were licensed by the state, this affected prices and became an indirect tax on the consumer.

Additional devices adopted to stimulate industry and trade were protection, monopoly grants, and capital advances to newly formed companies. Colbert's hand was everywhere, but his success in most enterprises was mediocre, and there were numerous failures in his ambitious state planning.

In England different conditions prevailed, but there too the state used economic means to promote political ends. Though some mercantilistic ideas and policies originated with rulers or their ministers, many were urged on the state by interested groups acting under the guise of patriotic motive for national advantage. More and more the policy of the government reflected the wishes of the trading class.

As England grew into an empire, the colonies offered opportunities for the sale of her wares and for the import of raw materials not found at home. They were provinces in which to invest capital and reap profits. Also they provided a haven for surplus or unwanted population. Continuing the system of monopolistic grants proved expensive because of enlarged military and naval establishments; so England, the country where the mercantilistic idea was most fully developed, approached the time when she was ready to entertain a new doctrine. The notion

that what one country gains another loses had to be abandoned.

In Germany, mercantilism took the name of "cameralism," which is a patchwork of economic theory, government financial policy, and technology. Cameralists in general were practical men of affairs placed in charge of the territorial domain of princes or of the state's financial administration. Others engaged in the management of industry or mining. Their objective was the fostering of home industry and the establishing of a self-sufficing economy. The cameralists encouraged advantageous use of a country's soil, the refining of raw materials within the country, and a growing population. They also favored consumption of domestic products except when there was a shortage of supply. If foreign goods must be used, the imports should be in the form of raw material which could be finished within the country and were to be paid for by exports of surplus finished commodities. Precious metals should be in the list of imports only, since they bolstered the wealth and prosperity of a country.

Physiocracy

It was more than chance that the economic regeneration of France should be coupled with agriculture, her richest resource. For two centuries mercantilistic policy had stressed manufacturing and actively promoted its development and that of consequent commerce, thus overlooking the importance of the extractive industries. This undervaluation of agricultural resources in a period when the annual interest on the national debt exceeded the whole of the national income induced a reexamination of the foundation of a nation's welfare. The result was the formulation of an economic philosophy which located the source of well-being in the primal productive activities, principally the tilling of the soil.

Dr. Quesnay, physician to the King, was the founder of the new doctrine of physiocracy, but to Du Pont de Nemours, enthusiastic disciple of Quesnay, we owe the term "physiocracy," which signifies the rule of nature. Turgot, the most eminent physiocrat, in his position as Finance Minister was able to apply the policies dictated by physiocratic beliefs.

The basis of this new doctrine was the *droit naturel,* the law governing human actions and superior to any law of man's making.

The function of man-made laws as envisioned by the physiocrats was the interpretation of laws fundamental in nature and "imprinted on the hearts of man." The immutable natural laws which illumine man's conscience reduce the need for legislation. In accordance with this belief the physiocrats evolved the principle of governmental nonintervention. Under physiocratic doctrines the functions of government were restricted to routine administration, maintenance of internal order, and assurance of freedom from foreign aggression.

Quesnay asserted that agriculture is the source of wealth of both state and citizens. All other occupations are declared unproductive and sterile. Enterprise in the extractive industries yields a *produit net*, or surplus, thus providing a bounty from agricultural operations which is drawn upon for the support of the manufacturing and commercial classes. Logically it follows that, since taxes should be paid out of gains, an *impôt unique*, or single tax, on agriculture should provide the income to cover the expenses of government.

Another characteristic of the physiocratic doctrine was the division of the population into classes: (1) the class of proprietors, who make the advances of capital and perform administrative services and social duties falling naturally to their lot; (2) the productive class, cultivators of the soil; (3) the unproductive craftsmen, merchants, and wageworkers, who contribute nothing to the net product.

The physiocratic doctrine spread into Germany and other European countries but made little headway in England. After Quesnay's death dissension invaded the ranks of adherents. A poor harvest induced food riots throughout the country, causing dissatisfaction and a subsidence of interest in physiocratic beliefs. Nevertheless, some measure of influence continued through the nature philosophy incorporated in Adam Smith's *Wealth of Nations.*

Preclassical English Economists

The growth of industrial capitalism had its beginning in the sixteenth century and further development in the seventeenth. Expanding markets, invention, and disregard of restrictions on

enterprise provided the conditions which produced the industrialist, who was destined to attain paramount economic importance.

While the mercantile system still dominated governmental policies, ideas out of harmony with this theory were entertained by prominent men. Early in the reign of the mercantilists one who injected novel ideas into the stream of economic thought was Sir William Petty. That "labour is the father and active principle of wealth, lands the mother" is a leading principle in his exposition.

Sir Dudley North, a contemporary, advanced the idea that wealth might exist independently of gold and silver and that human industry whether applied to manufacture or cultivation was its source. He believed also that money possessed by persons without the ability to use it should be loaned like land and command a money rent since it was not something to be kept unused but should be invested to bring a profit.

A generation later Richard Cantillon agreed with Petty that land is the source of wealth and human labor the active force in production. He stressed better cultivation and improved techniques in the transformation of raw materials into goods of greater value. To proprietors he assigned the duty of giving direction to industry, and to their expert management he attributed their success.

David Hume argued effectually against the importance attached by the mercantilist to gold and silver in the national economy. A greater plenty of it, he declared, would merely raise the price of labor and commodities. The secret of prosperity does not lie therein, but rather the real strength of the community resides in men and goods. He held that money would not abandon a kingdom abounding in people and industry. Therefore a government should preserve people and manufactures and trust its money to the ordinary course of affairs since prosperous neighbors do not detract from but rather add to the native country's prosperity.

Sir James Steuart, often referred to as the "last of the mercantilists" and the last important predecessor of Adam Smith, published his book on the *Principles of Political Economy* in 1767. It added little to the body of economic doctrine and was held in low

esteem by Adam Smith, who once declared it his intention to "confute it in every fallacious principle."

Adam Smith

Adam Smith established a new system of economic doctrine, but except in pattern and scope it was not a completely original achievement. Many of his ideas were formerly and plainly stated by predecessors, notably Petty, North, Cantillon, Locke, Hume, and leaders among the physiocrats. Because it amalgamated concepts not yet widely held regarding the notion of liberty injected into a business economy, his newly enunciated system had revolutionary significance.

His doctrine regards labor as the primary source of wealth and its fruitfulness of vital importance. Division of labor properly coordinated provides an abundant output, specialization in craft and task stimulates invention, while tool and machine design directs ever larger use of capital and labor. The consequent increase in production presupposes a market, and the extent of the market limits the degree of specialization. Widening of the market is dependent upon factors which facilitate communication, transport, and exchange. Exchange value injects the idea of price, and price the element of costs. This involves the factors of production – land, labor, and capital, and their appropriate awards – rent, wages, and profits. Smith's doctrine is variously called the "science of exchange" or the "science of value."

Smith set forth enlightened self-interest as the motivation in economic endeavor. He asserted that free competition promotes and directs human industry in harmony with national and individual advantage. In advocating freedom from governmental intervention he introduced the principle of *laissez faire, laissez passer,* or the unhampered operation of supply and demand, which leads to the best results of a productive system.

Smith believed in a natural order, as did the physiocrats. This belief was based on ideas partly philosophical and partly religious. In a natural state divinely appointed impulse, a psychological instinct, provides the necessary economic drive free from other propulsion. It has been arranged by a beneficent deity that

progress and harmony shall result from free play of instincts. Self-interest guides man as though he were "led by an invisible hand to promote an end which was no part of his intention." His approach is both natural and optimistic.

The *Wealth of Nations* had a speedy and enduring influence in all civilized lands. A prominent writer recorded that "next to Napoleon, Adam Smith is now become the mightiest monarch in Europe."

Benthamism

Jeremy Bentham formulated utilitarian ethics and its goal of social action — the greatest happiness of the greatest number. An immediate follower of Adam Smith, he accepted his economic theories with but few exceptions. He was, however, more absolute in their application.

While Smith allotted to government some measure of control in economic affairs, Bentham believed that government action was not only inexpedient but even harmful. Since he was convinced that the wealth of society is but the sum total of the wealth of individuals, in matters economic there could be no true interest other than individual interest. Bentham also rejected Smith's theory of the harmony of interests. As a substitute for this optimistic nature philosophy, Bentham provided the rational principle of utilitarianism. In economic matters he allotted to rational tests what in the theory of natural law was left to metaphysical assumptions.

Influence of Environment on Individualism

The economy of the frontier was the ruling order and individualism the prime characteristic in American pioneer days. Unremitting industry and prudent frugality were demanded of settlers exposed to the rigorous natural order. The requirement of self-preservation activated latent talent in practical backwoods invention.

Barter exchange could not long suffice to meet the needs of growing communities, and since suitable metals to serve as money

media were scarce, the theory of paper currency early became a topic of discussion and plans were formulated for currency issue. In the clash of opinion it became evident that the needs of the economy in a new country differed from those in a country long and well established. As a consequence, the principle of relativity became a factor in deciding economic matters among colonials.

The pamphlets written by Benjamin Franklin on economic subjects serve as examples of convincing argument from the American viewpoint. His discussions of the currency question, population, wages, and industry contain implicit proof that a country lacking capital and short of population but abounding in resources cannot prosper under a policy of exploitation and a restrictive system of control.

Malthus

In a measure the pessimism pervading economic doctrine in the early decades of the nineteenth century is the legacy of Malthus and of his theory that population increases faster than the means of support unless checked by famine, pestilence, or war. Conviction as to the correctness of his theory grew because of the miserable condition of the poor due to the positive checks of bad harvests and the aftermath of war. The feeling was more intense because it was a period of rapid growth of population in Great Britain.

The passing years have dispelled this pessimistic outlook since the statistics of population and the improvement in techniques of production did not bear out the Malthusian predictions. Famines in the modern world are attributable to difficulties of distribution rather than to lack of productive power. Though the law of diminishing returns is definitely effective in agriculture, advancement in science and increasing returns in various phases of industry have in our century provided the means for a comfortable standard of living rather than the subsistence level long feared.

In addition to his theory of population, Malthus also anticipated some of the essential points in the Ricardian exposition on rent. He states that when fertile land is in abundance no one will pay rent to a landlord but that when demand for products exceeds

the supply from the best lands some users must curtail consumption or resort to substitutes. Prices will naturally rise and make profitable the use of inferior land at greater cost. No fresh lands, therefore, can be brought under cultivation until prices rise and economic rent emerges. This exposition rejects the theory of monopoly and avoids the criticism showered on Ricardo because of his forthright phrasing.

The Ricardian Theory of Distribution

Ricardo in developing the individualistic and abstract trends in the *Wealth of Nations* became a highly renowned economist. Smith taught that labor alone determined the exchange value of goods in a natural economy but that in later stages of economic development exchange value was determined by the elements of labor, profits, and rent combined. Ricardo, however, held that quantity of labor alone determined exchange value in all stages. Capital he resolved into stored labor and therefore labor cost. The price of the goods determined by the sum of labor and capital costs is the natural price which the market price always tends to approximate, fluctuating only under the varying influences of supply and demand. He considered that in the aggregate wages and profits form a constant; hence if wages rise, profits fall, and vice versa. Rent, he said, is not a cause of value at all but rather a result. This being the case, rent is not an element entering into exchange value and market prices.

Ricardo held that rent arises when increase in population "obliges" recourse to land of inferior quality to provide sufficient sustenance for the enlarged population. Increased demand raises prices, which compensate for increased costs of production on the new and inferior land brought under cultivation.

Ricardo also supported the quantity theory of money, freedom of the exchanges, and nonintervention by the government even in protection for home-grown foodstuffs, though he was a large landowner.

Ricardo classified goods in two categories and attributed different causes for value to each: (1) those rare and not readily increased in quantity by labor; (2) those which can be multiplied

without assignable limit by human industry. In discussing value theory he used qualifying phrases such as in the "early stages of society" and "almost exclusively." Though he made many reservations and qualifications, they were either considered minor or heedlessly overlooked. Despite argument to the contrary, the widely held assumption is that Ricardo categorically presented the world with a labor theory of value.

Early Classical Followers

The noted French economist, J. B. Say, was called "the godfather of Adam Smith's doctrines on the Continent" because he played a notable part in their spread. This he accomplished by rewriting parts in improved style after rearranging the material in a more logical order.

Say originated the classification of economics which is in current use and defined production as the creation of utility. He held that value in objects rests on the use that can be made of them.

Once a manufacturer himself, Say raised this economic activity to a coordinate place with agriculture. More and more he emphasized the use of machinery and brought into strong focus the entrepreneur, who has since risen to high importance in industrial activity. He created the term "entrepreneur" to remove the ambiguity in the earlier use of the word "capitalist." The isolation of the entrepreneur has led to the refinement of the word "profits," as formerly used, by division into its components – interest and pure profits.

James Mill, customarily presented as the father of John Stuart Mill, was a distinguished philosopher and historian in his own right. Like Bentham he advocated utilitarianism and became the recognized head of the philosophical radicals who helped in the political and social reform movement in England. His most noteworthy contribution to economic science was his *Elements of Political Economy,* which is thoroughly Ricardian, of doctrinal certainty and rigid mold.

J. R. McCulloch's writings on economics were noteworthy not for their originality but for their lucidity. His *Principles of Economics* was prepared from an article which he contributed to the

Encyclopædia Britannica. McCulloch was a renowned biographer, statesman, and bibliographer and has the distinction of making the "dismal science" temporarily fashionable.

Nassau William Senior belonged to the Ricardian school but did not restate the doctrines in the absolute form of James Mill's phraseology; yet he applied the Malthusian theory of population to the English Poor Laws with the utmost rigor. In his economics he stressed wealth, not happiness, insisting that the science of economics "depends more on reasoning than on observation." Deductions from a few "postulates" was all Senior allowed the economist. He advanced his abstinence theory to explain the origin of capital. Though a noninterventionist he championed governmental interference for the improvement of health, housing, and education.

German Adherents

By allowing a place for state activity German economists, followers of Smith, limited the individualistic teachings of the classical economists. They were influenced by the cameralistic theory, which emphasized the duty of the state in economic activities for the common good. This view made German economics seem practical and its principles expedient. Later the dominance of the state was unfortunate in its influence on economic science because it was subordinated to political policy, with calamitous results experienced by the citizens even in our own century.

Karl Heinrich Rau was noted for effective exposition rather than original contribution to economic theory. In his writings he attempted to combine cameralistic learning with the political economy of Adam Smith. His encyclopedic *Lehrbuch* had a wide influence throughout Germany. It took the tripartite form of economic theory, economic policy, and the science of finance.

Karl Friedrich Nebenius discussed the nature and function of capital, money, credit, and public debts. He favored a protective tariff and in general theory believed in the expediency of a degree of state intervention. In other respects he deviated but little from Smith's doctrines.

Friederich Wilhelm von Hermann almost invariably began a topic with a quotation from Smith and indicated his general accord with the classicists. He rejected the classical wages-fund theory and agreed with Say that the businessman performs distinctive functions in combining factors of production and directing the enterprise. In doing so he distinguished between interest and profits in a manner not common to the classicists.

Johann von Thünen enriched economic literature with an original book on distribution in which he worked out a marginal-productivity analysis of wages and interest. In the same book he developed a rent theory based on differences in the choice of crops selected for cultivation because of their varying distances from the market. He had a benevolent attitude toward wage-workers and applied a profit-sharing system in his agricultural enterprises. In measures for social reform von Thünen favored a considerable degree of state activity. He has been given recognition as one of the leading German economists of all time.

The Nationalists

James Maitland, eighth Earl of Lauderdale, was the first prominent critic of Smith's *Wealth of Nations*. In a book published in 1804 he declared there was a difference between national wealth and personal riches. He took exception to the idea that wealth could be increased by making things scarce. He declared that, although individual riches could be augmented by a scarcity, the sum total of goods in a country was decreased. He felt that this principle showed an inevitable clash between private and public interest. Furthermore he contended that Smith erred in his statement that a nation could increase its store of capital by saving in the same manner as an individual. Maitland's view was that nation-wide underconsumption would result from oversaving, an oversupply of capital goods would accrue, and consequently insufficient opportunity for profitable investment. Thus early was announced a theory held by certain modern economists.

Daniel Raymond, early American economist, opposed the cosmopolitanism of the classical school; instead he favored freedom

of domestic trade and restrictions on imports. He believed such a policy would develop a vigorous America. He agreed with Lord Lauderdale that individual and national interests clashed in some instances and that the principle should be held in mind when national policies were decided. "Facility of acquiring the necessities and conveniences of life by labor," he insisted, must be improved in order to augment national wealth.

John Rae, a Scottish emigrant to North America, held views similar to those of Lord Lauderdale and Raymond regarding the distinction between riches and wealth. He believed that, while individuals grow rich by acquiring a larger portion of wealth in existence, the nation can grow wealthy only by the creation of new wealth. Some of Rae's ideas have been revived and elaborated in our generation by Thorstein Veblen in his book, *The Theory of the Leisure Class.*

Among the nationalist critics of Adam Smith's economic philosophy was Adam Müller, who believed that economic life could not be analyzed without considering the individual's intimate relation to the state. Some of the theorists went so far as to hold that economic activity must be subordinated to state interest and guided by it. Consequently what may be considered wealth must reflect value from the light of what produces and maintains it — in categorical language, the state.

Another nationalist more practical in approach than Adam Müller was Friedrich List. He put the development of productive powers first in the discussion of national well-being, concluding that individuals such as teachers, administrators, and physicians who were classed by Smith as unproductive workers were highly important to the state because they produced wealth indirectly by increasing the productive powers of the nation. Because of his belief that national self-sufficiency would increase national wealth he advocated a protection policy during certain stages of a nation's development.

The Protectionists

Alexander Hamilton, Secretary of the Treasury in Washington's Cabinet, influenced the economic policy of the United States in

its formative period to a high degree. He saw clearly that demand for American goods was curtailed by restrictions in foreign markets while the American market remained free to imports; consequently, he advocated the adoption of a national policy which would assure more of a home market to domestic industries. Logically the idea of developing new industries to the advantage of our nationals followed. He recommended that the government should invoke a protective tariff or subsidy if (1) American conditions would support the industry being considered; (2) if potential demand would warrant the effort; (3) if the industry contributed to the national defense. Governmental assistance was to continue only for the period necessary to establish the industry on a firm basis and so be able to meet foreign competition without further support.

Two Americans influential in popularizing Hamilton's ideas were Matthew Carey and Hezekiah Niles. Carey was a charter member of the Philadelphia Society for the Promotion of American Industry and prepared most of its addresses. These contain the classic American arguments in favor of protection, which comprise the theory of the American nationalist school of economic thought.

Niles gained great distinction as the editor and publisher of the *Niles Weekly Register.* It championed the salutary traditions of union, internal improvements, and protection for industry. One of the outstanding features of Nile's protectionist arguments was the ingenious mode of exposition used to win agricultural support.

Henry Clay and numerous other statesmen provided assistance to the movement leading to the adoption of the doctrine and policy of the American system, which has endured with a varying degree of constancy for more than a century.

The Manchester School

Although Adam Smith had exposed fallacies in mercantilist philosophy in 1776, the English trade policy he criticized continued in effect during the early decades of the ninteenth century. In the interest of England's expanding industries many raw mate-

rials were admitted free so that greater amounts of refined goods of higher value would be available for export.

The agricultural industry, however, continued to enjoy a high degree of protection even though annual domestic production of foodstuffs was not always adequate for home consumption. As a result the conviction grew that it was not only improper but virtually iniquitous to apply restraints on importation of food since it taxed the consumer to provide a bounty for the producer. Though higher food costs caused a rise in wages, the advances often lagged to a degree which forced the workman's income below the subsistence level. Furthermore, expansion of British manufactures was hampered by inability of countries with agricultural surpluses to make purchases in England; hence neither the factory workers nor their employers were benefited.

To rectify English economic policy and protect the national interest the Anti-Corn Law League was organized in London by leaders of the philosophical radicals in 1836. The new industrial city of Manchester proved the ideal center to direct the nation-wide agitation. In 1838 the League's headquarters was established there, and the name "Manchester school" was given to the group of men who as members of the Manchester chamber of commerce were active in advocating free trade and the principle of *laissez faire*.

Richard Cobden and John Bright were leaders and incessant workers on the project. Cobden was genuinely convinced that the geographical division of labor and free trade would spread its benefits world-wide, raise the standard of living everywhere, and remove the causes of war.

Sismondian Reform

Sismondi, French social reformer, although not a socialist, was a severe critic of individualist economics. Always an admirer of the *Wealth of Nations,* he was later influenced by German romanticism and Bentham's utilitarianism. This induced him to advocate state action for the improvement of the condition of the poor but without departure from the capitalistic system of production.

The focus of his attention was the obvious effect on labor in the transition period from primary agriculture to large-scale

mechanized industry. Not the reduction of money costs, merely, but also the burden of increasing human costs in this period must be weighed to determine the expedience of the change.

He proposed a number of suggestions for an orderly and beneficial change in the economy. Among these were (1) limiting rapidity of increase in invention, (2) the control of competition in production, (3) the return of ownership of land and capital to artisans and small capitalists, (4) the rejection of the doctrine of *laissez faire,* and (5) the adoption of state paternalism.

Sismondi could not tolerate a complacent attitude in the midst of the poverty of the masses. He foreshadowed an increasing demand for state intervention in economic matters. Among his immediate objectives were the right of unions to organize, limitation of hours of labor, safeguarding women and children employed in industry, and employer responsibility for the maintenance of workers during illness and old age. An early advocate of economic reform, Sismondi stands revealed a benevolent man, a great humanitarian.

Saint-Simonian Collectivism

The literary efforts of Saint-Simon in behalf of social reform were begun late in life and at the outset attracted little attention. His projects for social betterment, utopian in nature, gained converts among some who later became prominent in the learned professions. Through them the influence of Saint-Simonian teachings spread abroad.

Basic was the belief that progress of French society was hindered by idle citizens in high places. To utilize both human and national resources completely he advocated abolition of privileges and the increase of industrialization. He believed the spread of education and the condition of full employment would accomplish this end. Thus society would automatically divide itself into savants, artists, and industrial specialists and so provide a salutary influence for moral uplift and the amelioration of human misery.

Although Saint-Simon was restrained in suggesting change in social institutions, his followers, the Saint-Simonian propagandists, advocated more extreme measures. They attacked private prop-

erty and insisted that the right of inheritance be abolished. The state in becoming residuary legatee of all property would control all instruments of labor. In this wise it would become possible to award the use of capital and land to individuals of ability and therefore able to make a social contribution. So that all could start from the same point of vantage, each was to be provided with capital goods according to his merits and rewarded according to his work.

Soon the extremists came under the ban of the law, but the memory of Saint-Simon as an ardent liberalist has continued for generations since. Some of his ideas stripped of infelicities have continued to exert an influence in present-day efforts to socialize industry.

Associationists

Under the classification of associationists fall bourgeois or utopian socialists such as Robert Owen and Louis Blanc, who conceived the idea of bringing aid to the poor and regenerating mankind through education and wholesome environment. Fourier represents another type who while remaining under the capitalistic aegis criticized the existing industrial system. Proudhon represents still another type, thoroughly proletarian, holding to the tenets of socialism and strongly antagonistic to the functions of the state.

In Owen's early career as a manufacturer he instituted reforms of both technical and social aspects in mill operation, which brought him widespread renown and a large fortune. Later he experimented with model communities in the belief that by molding man's environment he could recreate society. Among his experiments was the communist society established at New Harmony, Indiana, in 1825. A conspicuous failure, it lasted but a few years, helped to dissipate Owen's fortune, and gave evidence that freedom from moral restraint and the absence of religious influence does not assure spiritual health or physical well-being.

Louis Blanc advocated a gradual development of the existing social order into workers' associations in the form of cooperatives with the assistance of the state. His book, *Organization du Tra-*

vail, was long evaluated as the best statement of the worker's condition and ambition.

Fourier assumed that perfect harmony existed in nature and society. He proposed organizing production units of comparatively small cooperative groups named "Phalanxes" in which the members performed tasks suitable to their talents. Under the carefully planned arrangements all work was to be pleasurable since it was permitted any individual to be a worker, a managing director, an investor, or any combination of these. The prearranged allotment from income was five-twelfths to labor, four-twelfths to capital, and three-twelfths to talent.

Proudhon attacked the principle of property, calling it theft. He saw the root of economic evil in the charge of interest for the use of capital. His proposed remedy was the establishment of an exchange bank to buy all goods produced and make payment for them by the issue of labor notes. This service was to be free except for a small charge to cover expenses. Credit and capital were considered idle tools until activated by application of labor.

Scientific Socialism

The adjective "scientific" is used merely to differentiate the term from others, such as utopian or bourgeois socialism. "Proletarian" is a more descriptive term since it manifestly opposes labor to capital.

Johann Karl Rodbertus was the real founder of scientific socialism in Germany. Using Ricardo's theories of value and wages, he arrived at a declared defect in classical theory – that the working-class share of the national income remained constant even when aggregate products of industry were being augmented. Furthermore, he believed there was convincing proof that during the same period capitalists and landowners were receiving incomes absolutely and relatively larger. This condition Rodbertus held was the cause of poverty and crises.

As a solution of this injustice he proposed to make capital and land the property of the state. Abolishing rent and interest was to give the whole product of labor to the working class, but since it would take generations to reach this socialistic ideal, there

should be set up in the meantime socialist monarchies by present rulers. Immediate reforms proposed were state regulation of wages and the length of the working day.

Karl Marx while a university student was classified a radical. At odds with the government, he later edited several papers successively, which were promptly suppressed. His most important book is *Das Kapital,* published in three volumes, at long intervals, in 1867, 1885, and 1894. The second and third volumes, edited by Engels, were published posthumously. It is the amplification at great length of the *Communist Manifesto* written by Marx and Engels in 1848.

Customarily, *Das Kapital* is summarized in six propositions; two on the interpretation of history, two on value and inferences therefrom, and two on prophecy. The first two provide the economic and sociological basis of the book. They are the materialistic concept of history and its expression in an intermittent class struggle. The third and fourth devote themselves to the labor theory of value and the explanation of surplus value. The remaining two predict the growing misery and degradation of the working classes and that among capitalists the larger will devour the smaller to the inevitable destruction of the class, after which the proletariat will come into its own.

Despite the infinite labor spent on *Das Kapital,* the brief and hastily written *Communist Manifesto* has remained the most influential of Marx's writings, but the predictions which were to become realities during his lifetime have not been fulfilled.

The Optimists

The pessimistic conclusions of classical economists appeared to Henry Charles Carey out of harmony with the realities of American life; accordingly he devised a theoretical economic system noted for its optimism. Its main characteristic is the theory of value with labor the sole cause.

In the earliest period of industry, or the Robinson Crusoe stage, as he named it, exchange value is determined by the amount of labor required to fashion an article, but when capital comes into use, goods exchange in accordance with the cost of reproduction.

Since value in terms of labor declines and labor in terms of value increases progressively, an increasing proportion of the national income will be diverted to labor as wages, with a relatively decreasing portion falling to capital as interest. The diminishing part which accrues to capital, however, will be an increasing dollar amount.

Carey also advanced the idea that land rent is wanting because the value of landed property is due solely to the labor of appropriation and improvement.

Carey rejected the Ricardian theory that the most fruitful lands are brought into cultivation first. He claimed instead that the richest but low-lying, fever-ridden, and marshy lands are brought under cultivation last. The Malthusian doctrine he also refused to accept, declaring that by the use of ever-improving capital goods (and land is capital, too) mankind is provided with subsistence increasing at a rate faster than the increase in population.

Bastiat, the French economist, was an optimist of the Carey type except that he was a noninterventionist. He contended that under the reign of liberty there is complete harmony of interests. His economic system is unique, however, because of his treatment of the theory of value as related to utility. The latter is of two kinds — the gratuitous and the onerous. Onerous utility is created by labor, and only this type has value. So the essence of value lies in human service, and where no service is rendered there is no value.

Since nature under conditions of progress and invention provides a larger proportion of gratuitous service, less labor is needed, the value of goods falls relatively when weighed in comparison with units of labor, and workers have in prospect a better standard of living. Rent and interest are legitimate under the system, and the amounts accruing are greater when considered absolutely but are a relatively smaller proportion of the national income.

The Restatement of John Stuart Mill

Ricardo and Malthus presented the main doctrines of the classical economists, which were later gradually modified by constructive critics such as Lord Lauderdale and Rae. In the meantime dis-

senters, either out-and-out socialists or liberals less radical in their suggestions for modification of the economic order, gained adherents and so confused the orthodox economic issues as to require a restatement of the fundamental principles.

John Stuart Mill was best equipped in his generation to undertake the task because of talent, education, practical business knowledge, and fellowship with prime movers in the development of economic theory. For pattern and style he chose the *Wealth of Nations,* wishing like Smith to associate economic principles with their applications and encompass a wider field than pure political economy. To treat the subject as pure science was to work under a restraint which did not suit his purpose, for he wished to advocate methods of social reform. His proposals were peasant proprietorships, workers' cooperatives, heavy taxation of rent, and restriction of inheritance.

Mill's restatement includes modifications of classical doctrines as a distinctive feature. The most famous is the distinction he draws between the laws of production and those of distribution. The former are declared to be like physical truths, immutable; the latter are changeable institutions solely, depending upon the wishes of society. Here he departs unqualifiedly from classical teaching, but none of his departures disturbed his fundamental belief in individualism. His socialistic tendency reached no further than to unite abstraction with ideals. He performed a great service by injecting a distinctive human element into economics.

The Last Defenders

The orthodox school, so named by Sismondi, had its beginning in the generation of Malthus and Ricardo and its close in the time, and in some ways in the person, of John Elliott Cairnes. He was troubled that John Stuart Mill in his restatement of the classical political economy had made what Cairnes considered material and unwarranted modifications — an obvious falling away from the true doctrine.

In the view of Cairnes economics must remain rigidly scientific, which can be accomplished only if it continues shorn of all practical considerations. Cairnes was a teacher of method; for him

economics was a deductive study. No advantage was seen in the use of induction because in this method of reasoning experiment is necessary, an impossible procedure in economic study. In his words one "may reason till the crack of doom without arriving at any conclusion of the slightest value." Aided by Cairnes economics continued a formal, rigid, abstract, deductive science some years longer.

Henry Fawcett, professor of economics at Cambridge, also continued in the classical tradition but adhered to some of the modifications suggested by John Stuart Mill. Though generally favorable to economic *laissez faire*, he advocated governmental intervention in the Factory Acts because he believed that interference could protect without enervating.

The Mathematical School

The members of the mathematical school emphasized the distinction between a static and a dynamic economy with great clarity. Among the writers of this persuasion were Cournot, Gossen, Jevons, Walras, and Pareto. They worked independently of each other, with knowledge, however, of previous development of the mathematical method, with the exception of Cournot and Gossen, who worked without benefit of patterns prepared by earlier theorists.

Cournot made the first important use of mathematics in economic procedure by presenting deductions in concise, accurate form from materials of slight variation. He demonstrated mathematically the relationship between supply, demand, and price.

Gossen in his book enunciated a doctrine since christened "Gossen's law." It declares that successive portions of a good possess a diminishing measure of utility or decreasing power in satisfying a want. The measure of the utility of the last portion of the good in the series is that of the marginal unit.

Gossen demonstrates further that the amount of satisfaction derived from the utilization of a good declines progressively to the point of satiety and that the maximum satisfaction is derived when the point of indifference has been reached. At this point intensity of enjoyment of different goods is the same.

Stanley Jevons emphasized wants and their satisfaction. Because of this approach he places consumption in the position of paramount importance. He points out that utility is not an inherent quality in a good but that it is relative to wants and too much of it brings disutility. He arrives at the same conclusion as Gossen, that in consumption the tendency is to equalize final, or marginal, utilities.

Léon Walras constructed a more complete system of mathematical analysis of economic data than Jevons. Walras expounded a mathematical theory of exchange assuming a condition of perfect competition. He declared that the exchanging persons react so as to get the greatest possible satisfaction out of their desires, the exchange values being proportional to their *rareté*. *Rareté* is defined as "the intensity of the last want satisfied."

Vilfredo Pareto, an engineer turned economist, in his theory resembled Walras and is classed as a member of the Lausanne school. At the outset he accepted the classical doctrine and later developed the theory of marginal utility. Subsequently he questioned the applicability of abstract doctrine in explaining social life and substituted customs and conventions. Because of his propounding of sociopsychological theorems he has become known as a theoretical forerunner of Fascism.

The German Historical School

Members of the classical school believed that individuals were motivated in economic matters by self-interest exclusively. In analyzing the choice of action adopted by persons in seeking economic advantage they used the deductive method.

Savigny, professor of Roman law at Berlin, rejected rationalistic and abstract ideas of natural right and chose actual and historically recorded law as the topic of study in jurisprudence. According to his theory law is a spontaneous growth of the life of the nation, the character of which is revealed through historical and comparative studies. Savigny and notable contemporaries supplied a pattern for economists to follow.

Roscher, Hildebrand, and Knies pioneered in stressing the need for infusion of the historical spirit into economic investigation.

They believed that political economy should use actualities of life as phenomena for study instead of mental abstractions. The economic theorists who contributed to the venture during the three decades following 1843 are known as the older historical school.

Whereas the older historical school was mainly concerned with theoretical questions, the younger school turned to the history of economics and prepared a multitude of descriptive monographs. The outstanding leader of the younger school was Gustav Schmoller.

Contrary to the practice of the older school, which drew lessons from universal history without sufficient inquiry into the details of its economic phases and made but slight use of deduction, Schmoller used a combination of induction from historical and statistical observation with deduction from the known properties of human nature. Psychological factors according to Schmoller explain motives, while natural and social environment present conditions to be considered in the solution of an economic problem.

English Historical School

Most of the historical critics in Great Britain desired a broadening of the scope of political economy to include motives and conditions which affect man as an economic and social being. All, however, were in agreement on the need for change in method. They were dissatisfied by overuse of the principles of isolation, abstraction, and deduction and disapproved of theoretical conclusions applied absolutely. The dynamic character of society, they felt, required constant study of economic phenomena to provide concrete data for reasoned judgment.

Richard Jones was the first important English critic of the classical school. Although Jones was not well known during his lifetime, after the publication of his *Literary Remains* in 1859 his ideas on method influenced the thought of many English students.

Cliffe Leslie, the Irish economist, asserted that pure deduction by the Ricardians became the pitfall of "enormous fallacies" from which Adam Smith escaped only because of his use of an element

of induction. Leslie held that assumptions from deductions must be verified by reference to fundamental laws obtained by careful induction.

John Kells Ingram, Irish scholar and sociologist, as a follower of the philosophy of Comte treated economics as a part of sociology. He considered the orthodox economists at fault because wealth was studied by them in isolation from other social phenomena. Their approach he considered abstract, inhumane, deductive, and unhistorical. Ingram restricted the use of the deductive method to the "verification from fact of the conclusions of theory."

Walter Bagehot, English literary critic and editor of the *Economist,* acknowledged that the political economy of his time did not carry the same interest nor command the same confidence as formerly. He ascribed three reasons for the decadence of the science. These were its too abstract nature, infrequent proof through verification, and the use of a single set of abstract propositions to explain conditions in all societies.

Arnold Toynbee, an important member of the historical school, placed reliance upon facts and the testimony of history. He asserted that each writer was influenced by his environment. Toynbee also strove to supplement theory with fact and through statistics to test the validity of deductive principles. He made noteworthy studies in the field of economic history and was the originator of the term the "Industrial Revolution."

William James Ashley, a member of the younger historical school, claimed that economic science has been modified by historical studies and the idea of evolution. Each age, he contended, reformulates its doctrines just as each age develops its institutions.

Late American Economists

Environmental conditions have had a strong influence upon American economic theories from colonial times. Unbounded natural resources, scarcity of capital and labor, and the presence of almost limitless land virtually free greatly influenced the thought and action of the American people. Our isolated situation far removed from Europe and the settlement by immigrants

hoping to better their condition in the new home fostered the ideas underlying the American system and developed the concepts of idealism and individualism.

The last quarter of the nineteenth century marks the beginning of a relatively new development in American economic theory. Selected as examples of the many American minds contributing to the thought in this field are Henry George, General Walker, John Bates Clark, and Simon Patten.

Henry George, author of *Progress and Poverty* published in 1879, aroused great interest both at home and abroad by his agrarian policy and single-tax proposal. The problem which he set for himself was the explanation for the persistence of poverty amid advancing wealth. In his analysis of the paradoxical interrelationship of poverty and wealth he concludes that, since agricultural wages are determined at the margin of cultivation, in new lands they are high and in old lands low because of inherent differences. For solution of the problem George suggests commandeering of economic rent through land nationalization. He believed that rental value created by the community should be appropriated for the common good.

General Walker shows originality in his discussion of economic topics such as wages, profits, and the entrepreneur. He contends that wages are not paid out of capital, but out of product. This is his mode of attack on the wages-fund theory. He also develops the rent theory of profits wherein he shows that entrepreneurs fall into a classification reflecting various grades of ability from the high of consummate skill through the fairly efficient to the lower stratum in the industrial order – the no-profit class of men at the margin of industry. His explanation makes profit no part of the cost of production and therefore not a causal element in changing price levels.

John Bates Clark, noted American economist, while a student at Heidelberg University came under the influence of the German historical school, which held society to be an organism. This concept, lodged in his mind while a student, became fixed in the general body of his economic theory. He also advanced the marginal theory of value and wages. His system is one of economic harmony similar to that of Bastiat and accepts the deductive

method of Ricardo. Competition is important, and if the laissez-faire principle is insufficiently operative to provide it, governmental intervention should be invoked for its enforcement.

Simon Patten, American economist and social philosopher, was not interested in static theory because of its lack of realism. He emphasized the desirability of social planning and geographical specialization. Many of his ideas were original and suggestive of future development. Acuteness of observation, fearlessness of criticism, and inspiration in controversial discussion were characteristics of his nature.

The Austrian School

The subject of value holds so great importance that many look upon it as the essence of economics. Whether value arises because of inherent properties in goods, because of their production cost, or because of human desires has been a subject of much discussion. Plato regarded value as inherent in a commodity; Aristotle attributed it to a commodity's utility. Later, prominent economists named labor the real measure of the value of exchangeable goods.

In general, classicists and socialists held to an objective theory of value. This theory, members of the Austrian school disputed, offering as a substitute a subjective-value theory which is based on the measure of a good's utility.

The leaders of the Austrian group were Karl Menger, Friedrich von Wieser, and Eugen von Böhm-Bawerk. These protagonists held that value resides in utility, that it is determined by marginal use of a good, and that it is reflected backward from goods consumed to the constituents entering into their production.

Karl Menger, the first of the Austrians, maintained that value depends on utility and relative scarcity. He divided goods into classes in the order of proximity to the final consumer. A final consumption good such as bread is of the first, or lower, order, while commodities from which bread is made are production goods and therefore of a higher order. Consumption goods are the cause of value of commodities in the higher order. The theory underlying the Austrian system of valuation is the reverse, there-

fore, of systems which attribute value to goods of a lower order because of their cost of production.

Wieser, the immediate follower of Menger, proceeds in a manner psychological in nature. His definite contribution lies in his doctrine of imputation. Since value, according to the general theory, exists in goods of the first order and is measured by their marginal use, to all goods of higher order value is reflected back. At this point in the theory Wieser presents an analysis of the process of imputation. It is from the worth of the least important product that determination is made of the amount of value to be reflected back or imputed.

Böhm-Bawerk, third in the Austrian succession, presents the theory that price is determined by the "marginal pairs." As a preliminary to his explanation of the phenomenon he describes price determination in three ways: in isolated exchange, in one-sided competition among buyers, and finally in two-sided competition in which the marginal pairs emerge. He shows that under free competition price adjustment is at a level which will clear the market. He assigns three causes for interest. First, persons generally expect to be better off in the future; hence a sum of money today has a higher marginal value than in the future. Second, we tend to underestimate our future wants. Third, because of the superiority of capitalistic, or "roundabout," production more can be produced in the future by a wisely chosen investment in the present.

Alfred Marshall

The Austrians undertook to reconstruct classical economics by building upon the foundation of utility. Marshall planned a remodeled economic structure based upon classical theories but materially strengthened. He began by combining elements of the Austrian utility theory and the cost theory of the classicists. His next step was to sift the constructive criticism of those partially dissenting but in the main adhering to classical doctrine and to weave all usable elements into a synthetic whole. Out of these materials Marshall's neoclassical system of economics was fabricated.

Marshall's synthesis presents a two-sided study – that of wealth and man. The chief aim of his *Principles of Economics* was to make a contribution to the solution of social problems. He dealt with concrete realities, the idea of positive economic laws, and the equilibria of causal forces. The core of his economic theory is the problem of the determination of value. Value, according to Marshall, is like the keystone of an arch, the two sides of which are demand and supply. In the exposition of the problem, Marshall distinguishes between market values and normal values. The former are temporary, the latter stable. The controlling force in temporary equilibrium is demand; in stable equilibrium it is supply. To clear the market of a commodity in the short period, the market value or price is determined by the utility at the margin of demand. The long-run price adjustment settles at the normal value, which tends to equal cost of production.

In the theory of distribution, equilibrium between demand and supply also determines what share of the national dividend is allotted to each of the factors of production recognized by Marshall. The shares are earnings of labor, interest for capital, and producer's surplus. The latter includes rent of land and quasi rent accruing from differential advantage in organization and enterprise.

Marshall's reconstruction of economics made additions to economic science, synthesized theories of conflicting schools, and reestablished a body of principles upon which most economists can agree. His writings have had much influence in England since 1890, and great merit has been accorded them in America.

Welfare Economics

Some economists of the classical belief have declared social welfare the ideal objective of a salutary economic system. They observed that a nation's increasing wealth, not shared by the masses, produced an element of human inequality and in some instances economic oppression. To these the name "welfare economists" was given.

One of the leaders, John A. Hobson, advocated the establishment of an ethical economic policy to combat economic oppression. In his *Economics of Distribution* published in 1900 he de-

scribed how a surplus value emerges because of inequality of bargaining power among the owners of the various factors of production. In this manner and by saving in other ways there is accumulated a larger proportion of the social income than can be used with advantage to provide capital for industry and investment. Thus an "unproductive surplus" is accumulated. This surplus is cited as the cause of trade cycles and crises. The accompanying dislocation of industry in a depression imposes a disproportionate amount of self-denial and suffering upon the poor and engenders the loss of workers' initiative. Hence public and personal interest demands that a solution be found to this problem of maladjustment in the economy. The remedy proposed by the welfare economists is the social control of business.

The welfare economists propose to strike a balance between human costs in the operation of the industrial system and the wholesome satisfaction derived from the goods produced. In place of the monetary standard formerly used as the criterion of human well-being they recommend the term "vital value."

Hobson offers as the basis for social reform the catch phrase, "From each in accordance with his ability and to each in accordance with his needs as a consumer."

Institutional Economics

The publication of Thorstein Veblen's books, *Theory of the Leisure Class,* 1899, and *Instinct of Workmanship,* 1914, stimulated the thought of some Americans in academic circles and a few in responsible government positions. Fundamental in his belief was the idea that human behavior in the form of custom, habit, and law plays a greater part in motivation than had been generally accepted and that maladjustments in economic life are not departures from normal equilibrium.

Proponents of the doctrine contended that price-system economics must be abandoned and habits and customs — prime elements in human choice — substituted. Rational self-interest as a dominant motive in human behavior was rejected.

Since behavior in economic institutions is not static but subject to evolutionary change, the establishment of a social-control mechanism seemed mandatory to some protagonists, while others

would permit institutional development to take its course without governmental intervention. It was the policy of the former to set up social goals and intervene to direct society's progress toward them, striving to eliminate cultural lags and resultant clashes of interest.

In the depression of the thirties, believers in institutional theory held official position in our national government and wielded great influence in the formation of national policies. It is an outstanding example of intimate participation by a school of economic thought in the affairs of practical government.

Keynesian Disagreement with Classical Doctrine

John Maynard Keynes, prominent modern economist, questioned much of the orthodox economic doctrine. He directed his attention in particular to economic forces operative in the development of unsatisfactory business conditions. In the course of his exposition he created new terms and gave some in former use new implication. The terms *liquidity preference, propensity to consume, the investment multiplier,* and *deficit spending* have become prominent in economic nomenclature.

Much of the discussion provoked by the Keynesian theories centers in methods of preventing the development of the depression phase of business cycles or promoting prosperity when recession prevails in the economy. Keynes's remedy in either case is the provision of full employment to be brought about through governmental intervention.

The *modus operandi* is the control of the interest rate by public authority. Since a low interest rate encourages investment and high investment provides the means for full employment, the national income will be greatly augmented. According to Keynes, when involuntary unemployment approaches the attainable minimum, prosperity prevails and large volume spending is therefore possible.

In his theory, if private enterprise does not absorb the total of investment capital available, the government springs into action with a previously prepared program of public works. Keynes believed that governmental investment to be most effective should

be supported largely through deficit financing accomplished by liberal use of its credit, the arbitrary increase of the volume of currency, and the enlargement of the public debt. According to Keynes, the plan to be successful must encourage ample investment and high consumption.

Totalitarian Ideologies

The totalitarian system is exemplified by a highly centralized government under control of a political group which allows no recognition of or representation to other political parties, as in Fascist Italy, in Germany under the Nazi regime, or in Soviet Russia.

In Italy Fascist criticism of the democratic order was political; they contended that democratic organization is typified by talk instead of action. The Fascist state was conceived as a spiritual and ethical entity, its authority extending into all fields. The state denied useless and harmful liberties but preserved the essential. Private enterprise lay at the heart of the economic system, controlled, however, by rigorous state regulation.

The economic aim of Fascism was the increase of military power and glory of the state. In economic organization the national interest was predominant. Production was diverted to armaments, a large standing army maintained, and a policy of imperialistic expansion adopted. Self-sacrifice in the interest of the state was extolled as the highest virtue, and the citizen was exhorted to prefer bullets to bread.

In Nazi Germany the state was made effective through a tremendous concentration of economic and political power in the *Führer,* the despotic ruler. The undivided authority of Nazism coincided with the theory that the state has an existence apart from its citizens and that individual rights are a myth. Although private property and the profit system were retained, competition and private economic decision were restrained and the profit motive was subordinated to that of the national interest. Emotional appeals were advanced by Nazism as wonder-working substitutes for the traditional economic motive of personal advan-

tage. For Germany to fulfill her manifest destiny she must have *Lebensraum,* therefore an extension of boundaries and a definite place in the sun were resolved upon.

The National Socialist philosophy is traceable to multiple origin. Among earlier writers Fichte, Nietzsche, and Hegel provided forceful ideas; more recently Feder and Rosenberg made contributions which stirred German emotions.

The current system in Russia has substituted socialized production under central planning in place of private enterprise. The latter has been liquidated both in theory and in fact. In form the Union of Soviet Socialist Republics is a representative democracy, but in operation it is a dictatorship carrying out a planned economy. Theoretically, voluntary association is the central element in communism; actually, the democratic principle is not operative because coercion everywhere is the vital force.

The belief has been widespread that the Russian Revolution was promoted for the purpose of implementing the tenets of scientific socialism. That the Soviet government has adopted other methods than those advocated or approved by Marx to attain its goals is patent. Marx was confident that peaceful, gradual economic change would effect a new and beneficent social order. Today Soviet intent brooks no opposition; obstructive tactics, whether by individual or by state, invite destruction.

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