



## Hobson, John Atkinson (1858–1940)

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### Abstract

John Atkinson Hobson, a self-styled economic heretic, had a long and prolific career as an economist and political activist. His heresies included underconsumptionism and a critique of orthodox welfare economics based on ideas from John Ruskin, the former being elaborated into a theory of imperialism that influenced Lenin. He was belatedly recognized as a forerunner by Keynes in his *General Theory*, but this does not do justice to the range of Hobson's work.

### Keywords

Accelerator; Clark, J. B.; Effective demand; Fabian economics; Forced gains; Hobson, J. A.; Imperialism; Involuntary unemployment; Keynes, J. M.; Lenin, V. I.; Living wage; Marginal productivity theory; Marginalism; Mill, J. S.; Pigou, A. C.; Productive and unproductive surplus; Progressive and regressive taxation; Protection; Quantity theory of money; Rent; Surplus value; Underconsumptionism

### JEL Classifications

B31

John Atkinson Hobson was born in Derby in 1858 and died at home in Hampstead in 1940. He was educated at Derby School and Lincoln College, Oxford, where he read Greats from 1876 to 1880, but only gained a Third. He taught classics at Faversham and Exeter in 1880–81, before moving to London, where he supplemented his private income (from the Derby newspaper which his father had owned) with intermittent earnings from journalism, lecturing and his books (Clarke 1978). A prolific writer, he propagated his economic views through more than 50 books and

700 articles, many of them in a series of organs of radical liberal and socialist leanings. Hobson thus left an oeuvre which is not easy to assess and in which formal inconsistencies are not difficult to find: but he conveys, nonetheless, a general vision of the scope and nature of economics that is both distinctive and coherent. His reputation has been coloured by his supposed role as a predecessor not only of Lenin and his theory of imperialism but also of Keynes and his concept of effective demand. Neither connection is wholly factitious but both have been open to unhistorical distortions of Hobson's own concerns.

Hobson has long been best known as an underconsumptionist. His first book (Mummery and Hobson 1889) was written in collaboration with A.F. Mummery, a businessman, who seems to have been the senior partner. The book set out to expose fallacies in classical political economy as expounded by J.S. Mill. Its central proposition was that trade depression was caused by a deficiency in effective demand since it was the level of consumption in the immediate future that limited profitable production. It followed that there was a limit to the amount of useful savings which a community could make. Each individual could save with advantage to himself, but the overall result might be a position of underconsumption, for which over-saving was another name. Hobson was to seize on this self-defeating process as an example of what he called the protean fallacy of individualism – an idea that pervades his work in a far more general way than the particular concept of underconsumption. The polemical thrust of this early book was thus against the tendency of economists to extol thrift in so far as this neglected the crucial importance of maintaining sufficient demand. Hobson and Mummery provided an account (complete with a numerical example) of the accelerator, a concept commonly believed to have originated in the 20th century (1889, pp. 85–6; cf. Backhouse 1990). Though the book attracted hostile comment from established economists, it did not, as Hobson alleged, blight his career. He carried on teaching economics as a university extension lecturer, the job for which he was well suited temperamentally (Kadish 1990). Later, he was proud

to proclaim himself an 'economic heretic' (Hobson 1938).

This early statement of the underconsumptionist case was reiterated in two further books (Hobson 1894, 1896) the second of which made use of the newly coined term 'unemployment', defining it in terms of involuntary leisure suffered by the working classes. He broadened rather than narrowed his dissent from neoclassical analysis through his distrust of marginalism, which he rejected on the ground that it rested upon an unreal individualism, marking a further breach with Marshallian orthodoxy (Hobson 1901b, 1926a). A later book (Hobson 1913), which was savagely reviewed by J.M. Keynes, sought to expose the errors of the quantity theory of money, recently popularized by Irving Fisher: this shows the extent to which Hobson was still thinking as a classical economist brought up on Mill, failing to fully take account of the innovations of his contemporaries such as Marshall and Fisher (Backhouse 1990).

Hobson was to supplement his account of underconsumption with a theory of distribution (Hobson 1900) which drew heavily upon the Fabian theory of rent. This theory built on a marginal productivity theory of distribution that had first been published in 1891 in the *Quarterly Journal of Economics*, alongside John Bates Clark's article on the same subject. Hobson distinguished the costs of subsistence for any factor of production from its rent element, and argued that in principle surplus value might accrue to land, labour or capital. He further introduced the idea of 'forced gains' as an assertion of superior bargaining power in this process, with the result that 'unearned income' accrued to certain individuals and classes. He also assumed that the proportion of income which was in this sense economically functionless varied directly with the absolute level of income received. It followed that progressive taxation would not in practice impair any necessary incentive to production.

This analysis was later elaborated (Hobson 1909b) to distinguish a 'productive surplus' that covered the costs of growth from an 'unproductive surplus', distributed according to no functional principle. Morally this was the

property of the community which had created it. If redistributive taxation could restore it to its rightful possessors, over-saving by the rich would be curtailed and underconsumption by the poor rectified. This functional view of the proper working of the economic system, with effort matched to reward by rooting out parasitism, reappears constantly as a paradigm in Hobson's writings. He dignified it with the name 'the organic law' and often suggested an evolutionary provenance for it. But he also claimed the authority of John Ruskin, of whom he wrote an admiring study (Hobson 1898), for seeing consumption, not production, as the qualitative end of economic activity. He sought to unite these ideas in one of the most frequently reprinted of his books (Hobson 1894) by adopting the formula: 'From each according to his powers, to each according to his needs.'

Hobson's view, taken from Ruskin, that attention should be focused on the human cost of economic activity was the basis for *Work and Wealth: A Human Valuation* (Hobson 1914), which offered a systematic response to Pigou's welfare economics, the first systematic exposition of which had been published two years earlier. As in his writings on underconsumption, and distribution, he adopted terminology that emphasized, and possibly exaggerated, his differences with orthodoxy. Resting on clear value judgements about the worth of different activities, such an approach fell out of favour in the 1930s, and even before that failed to dislodge the Cambridge approach, especially in Britain. However, his work was much better received in the United States, where he had significant personal connections and where some institutionalists considered him the leading representative of English welfare economics.

In the early 1890s, Hobson was inclined to believe that protection and economic imperialism could mitigate underconsumption. As his political radicalism intensified, however, he dismissed protection as a device for safeguarding the incomes of the wealthy, thereby aggravating the problem of over-saving. In the wake of the scramble for China and the outbreak of the South African War (1899–1902) Hobson also developed a novel theory of economic imperialism. He identified

speculative investment in undeveloped territories as a cause of imperialism and claimed that it arose from over-saving by a parasitic class at home. In this sense underconsumption was the economic taproot of imperialism (Hobson 1902). What he vigorously rejected was the proposition that there was sufficient profit to the country as a whole from trade and investment in Africa to counter-balance the costs of aggression. In contrast to Lenin, therefore, Hobson denied that imperialism was a structural necessity of the metropolitan economy. It could and should be checked at home by a policy of redistributive taxation, which would have the reciprocal effect of cutting the taproot (ending over-saving) and stimulating domestic demand (ending underconsumption).

The economic implication was that Britain could easily make up any loss on foreign trade by generating wealth at home – an argument that could be used by protectionists. Nonetheless, it was the Liberal and Labour Parties, with their commitment to free trade, to which Hobson looked for reformist amelioration. He was confident that imperialism could be beaten by democratic means precisely because it did not serve the interests of the majority but only of a privileged section of the nation. In his most famous book, therefore, Hobson devotes more than twice as much space to the politics than to the economics of imperialism (Hobson 1902). He needed to do so because the puzzle was how a policy that was bad business for the nation as a whole had come to be adopted. The answer was that finance was the 'governor' of an engine whose motor power came from the forces of nationalism and social psychology that fuelled the politics of self-assertion (Hobson 1901a). His analysis of imperialism changed over time and was often strongly coloured by passing political events. In at least one book (Hobson 1911) he commended cosmopolitan finance as a force for peace and saw imperialism as a step on the road to world economic development. During the First World War, he made a partial return to his earlier views and between the wars his position was often an uneasy compromise between the stances adopted in 1902 and 1911. The fact that he chose to republish *Imperialism: A Study* in 1938 virtually unaltered

obscured the complexity of his response to empire (Cain 2002).

It will be apparent that Hobson was no single-minded underconsumptionist. In the early 1900s his energies were directed towards permeating the Liberal Party with a broad-based conception of economics that would justify it in rejecting the classical nostrums of laissez-faire in favour of interventionist policies designed to further social justice (Hobson 1909b). The publication of Hobson's *The Industrial System*, which consolidated much of his previous work, opportunely coincided with Lloyd George's People's Budget of 1909 and offered a defence of the policy of redistributive taxation via the concept of the surplus. This aspect overshadowed the restatement of Hobson's underconsumptionist position; though he now went further than before in analysing the dynamic process by which over-saving reduced all real incomes in the economy until automatic checks came into play (Hobson 1909b, ch. 18). One might call this Hobson's most accomplished exercise in macroeconomics.

It was in the context of the depression after the First World War that Hobson once more returned to this theme (Hobson 1922, 1930), and it was in this period that his economic views enjoyed greatest publicity. He was now loosely identified with the Labour Party and found a natural application for his ideas in mounting an economic case for a 'living wage' (Hobson 1926b). His central contentions on oversaving continued to be refined (King 1994) and, amid widespread unemployment, they found a more sympathetic response, even among professional economists who had previously accepted a full-employment assumption. In particular, by 1930 Hobson was on cordial terms with J.M. Keynes, who had in earlier years scorned his work. But Keynes was still anxious to keep his distance, as he made clear (Keynes 1930, pp. 160–1). The reason was that when Keynes wrote of over-saving he meant under-investment; whereas for Hobson saving and investment were two names for the same thing, and by over-saving he had always meant under-spending. It followed also that Keynes had more interest in policies of public works as a means of promoting investment, whereas Hobson concentrated on the case for redistribution as a means of

stimulating consumption. It was not until Keynes had virtually finished the *General Theory* that he fully realized that he had done Hobson and Mummery an injustice; and so he paid them a handsome, if belated, tribute (Keynes 1936, pp. 364–71).

### See Also

- ▶ [Clark, John Bates \(1847–1938\)](#)
- ▶ [Keynes, John Maynard \(1883–1946\)](#)
- ▶ [Lenin, Vladimir Ilyich \[Ulyanov\] \(1870–1924\)](#)
- ▶ [Pigou, Arthur Cecil \(1877–1959\)](#)
- ▶ [Underconsumptionism](#)

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