

# ECONOMIC EXILES

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P.W.S. Andrews

Paul A. Baran

John Francis Bray

Edward Stillingfleet Cayley

Major C.H. Douglas

Henry George

J.A. Hobson

E.F. Schumacher

Sir James Steuart

# Economic Exiles

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# Contents

<i>Preface</i>	ix
1 Economic Heresy as Deviant Science	1
2 Sir James Steuart (1713–1780)	22
3 Edward Stillingfleet Cayley (1802–1862)	44
4 John Francis Bray (1809–1897)	63
5 Henry George (1839–1897)	82
6 J. A. Hobson (1858–1940)	109
7 Major C. H. Douglas (1879–1952)	136
8 Paul A. Baran (1910–1964)	161
9 P. W. S. Andrews (1914–1971)	187
10 E. F. Schumacher (1911–1977)	212
11 Conclusion	234
<i>Bibliography</i>	243
<i>Index</i>	271

# Preface

The original idea for this book came in 1980 from my colleague Harry Dutton. At the time we shared research interests in social history, and also in the history of economic thought. Harry knew most about the interaction between technical change and economic policy in British classical political economy, while my interests lay in Marxian theory. We shared a tendency to identify with the underdog, in intellectual matters as well as in daily life, and a certain alienation from the self-satisfied complacency of orthodox economic theory. Harry suggested that we write a series of biographical essays on heretic economists, with the general title of *Economic Exiles*. Correspondence with Craufurd Goodwin convinced us that the reception of dissident ideas by economic orthodoxy was an important unsolved problem, and so the project took shape.

Our nine economic exiles were selected on personal rather than scientific criteria. Harry and I simply chose writers, no longer living, who seemed to us to be both interesting and unjustifiably neglected. Subsequent events have not always confirmed our judgements. The recent revival of interest in Steuart and Hobson, on the one hand, renders it impossible any longer to sustain a charge of neglect in their cases. On the other, there have been enough suggestions of other authors who deserve to be included to fill at least one more volume. The only systematic element in our selection was chronological. We wished to cover as long a period as possible, and thus decided to begin with a writer from the mid-eighteenth century and end with three from the third quarter of the twentieth. Our choice was inevitably Anglocentric. Five of our nine subjects are undeniably British; two more (Bray and Schumacher) made their most important contributions while living in Britain; an eighth (Baran) was born in Russia and educated in Europe. Only Henry George is unambiguously a North American. There is a total absence (as regrettable as it was unavoidable) of dissident economists writing in languages other than English: Proudhon, Rodbertus and Tugan-Baranovsky were just three of the candidates for inclusion who were rejected on linguistic grounds. Politically we were lucky. By accident rather than design we came up with three conservatives (Steuart, Cayley and Andrews), three radicals (Bray, Hobson and Baran), and three whose political perspective is ambivalent (George, Douglas and Schumacher). If in



no sense a representative sample, our selection of heretics was a reasonably balanced one.

Work had barely begun when Harry's health gave way. We collaborated on only two chapters (Cayley and Douglas)<sup>1</sup> before his tragically premature death, at the age of thirty-seven, in 1984. Although the responsibility for every other part of this book is entirely mine, it would not have been attempted without Harry's original inspiration. In that sense it is as much his as mine.<sup>2</sup>

Robert Dixon, Mike Howard and John Singleton read the entire manuscript, and made many perceptive criticisms; they are in no way responsible for errors of fact or judgement. I must also thank (and exonerate) Gregory Andrews, Peter Cain, Alan Charnley, A. W. Coats, R. D. Collison Black, Steve Constantine, Frank Davidson, Tony Endres, Paul Ferguson, Juli Irving-Lessmann, Fred Lee, Michael Perelman, Mary Rose, Malcolm Rutherford, Michael Schneider, Dan Shapiro, Hillel Steiner, Jim Taylor, Harry Townsend, John Urry, Oliver Westall, Tom Wilson and Barbara Wood. I am grateful to Julie Taylor and Sylvia Truesdale for typing the manuscript. Last, but by no means least, is my debt to the staff of the inter-library loans department of the library at Lancaster University, without whose help the book would have been quite impossible.

## NOTES

1. Earlier versions of chapters 3 and 7 appeared, co-authored with Harry Dutton, as 'An Economic Exile: Edward Stillingfleet Cayley, 1802–1862', *History of Political Economy* 17, 1985, pp. 203–18; and '“A Private Perhaps, But Not a Major . . .”': the Reception of C. H. Douglas's Social Credit Ideas in Britain, 1919–1939', *History of Political Economy* 18, 1986, pp. 259–79.
2. Personal reminiscences of Harry by friends and colleagues, together with two unpublished papers that he was working on at the time of his death, can be found in *Innovation and Labour During British Industrialisation: A Celebration of the Life and Work of Harry Dutton, 1947–1984* (Cambridge: Huntington Publishers, 1985).

# 1 Economic Heresy as Deviant Science

John Maynard Keynes had something of a taste for unorthodox economic ideas, which he indulged more freely in the *Treatise* than in the *General Theory*. A large part of the chapter in the *Treatise* on 'The Management of Money' is given up to a dialogue between a monetary heretic and an orthodox banker. Keynes leaves little doubt as to where his sympathies (if not his analytical convictions) lie:

At any rate, we cannot be right to ignore them altogether. For when, as in this case, the heretics have flourished with undiminished vigour for two hundred years – so long in fact as representative money has existed – we may be sure that the orthodox arguments cannot be entirely satisfactory. The heretic is an honest intellectualist, who has the pluck to stick to his conclusions, even when they are surprising, so long as the line of thought by which he reaches them has not been refuted to his own understanding. When, as in this case, his surprising conclusions are also of such a kind that, if they were true, they would resolve many of the economic ills of suffering humanity, a moral enthusiasm exalts and strengthens his obstinacy. He follows, like Socrates, with unbowed head wherever the argument leads him. He deserves respect; and it must be the duty of anyone who writes on this subject to make the attempt to clear the matter up and to reconcile heretics and bankers in a common understanding.<sup>1</sup>

The cases documented in chapters 2–10 show the duty to have been sorely neglected, the attempts infrequent and usually unsuccessful. The present chapter offers some preliminary speculation as to the reasons why.

## I

To what extent has economic knowledge grown over time? Has there in fact been 'progress' in economics? An answer to these two questions is indispensable to an adequate understanding of the place of heterodoxy in economic thought. If successive generations of

economists have been guided by a single basic theory which they have refined and extended over centuries to yield more and more information about the working of the economy, then the rejection of dissident theories can be seen as a necessary condition for scientific advance, a welcome process of replacing error by truth. If, on the other hand, the history of economics is one of continual and continuing conflict over concepts and frameworks of analysis; if the belief in increasing economic knowledge is itself contentious, and there is disagreement over the very criteria of what is to count as 'known'; then it may be dangerous to neglect the contributions of heretics and theoretical outcasts in the name of intellectual progress.

The former is the majority view. Thus in his monumental *History of Economic Analysis* Joseph Schumpeter interpreted his subject – carefully distinguished from the history of 'systems of political economy' or of 'economic thought' – as nothing other than the development of the neoclassical theoretical apparatus.<sup>2</sup> This opinion has been widely accepted, Samuel Hollander (for example) having gone so far as to include Karl Marx among the unconscious practitioners of mainstream analysis.<sup>3</sup> There remains controversy as to the exact chronology. For many the publication in 1776 of Adam Smith's *Wealth of Nations* marks the real beginning of scientific economics, though for some writers all the important ideas were present a century earlier in the work of William Petty.<sup>4</sup> But very many historians of thought have agreed with Schumpeter's fundamental position, whether like David F. Gordon they see the 'basic theory' of economics as the concept of individual maximisation, or with Joseph Spengler as the operation of the price system, or (as with A. W. Coats) as the analysis of economic equilibrium established via the market mechanism.<sup>5</sup> A direct corollary is the affirmation of progress, grounded in the refinement of concepts and the increasing sophistication of tools which can be observed over the last two (or perhaps three) centuries.

Opposing voices have rarely been entirely silent. Marx's own account of the history of economics, somewhat simplified and exaggerated for popular consumption, was set out in the celebrated 'Afterword' to the first volume of *Capital*. Around 1830, he asserted, there occurred a sharp break in the development of political economy, in which honest and penetrating analysis of the capitalist system gave way to vulgar apologetics and a rapid scientific retrogression from which there was no recovery.<sup>6</sup> While some modern Marxists still accept this version of intellectual catastrophe,

a more defensible version indicates a coexistence (not usually peaceful) of two opposing schools of thought, each tracing its ancestry back to the work of Adam Smith and his immediate predecessors. One school is constituted by what eventually emerged as neoclassical economics, and emphasises the allocation of given resources among competing ends. The other, in which Marx stands out as the most important single figure, rejects the centrality of maximisation, price determination and market equilibrium in favour of the economic surplus as the central organising principle.<sup>7</sup>

One need not be a Marxist to express reservations about the Schumpeter-Hollander, 'single current-growth of knowledge' version of the history of economic ideas, since there are three further sources of doubt. The first is the existence of other traditions which fit into neither category, like the historicists and institutionalists whose treatment at the hands of neoclassical orthodoxy worried Gordon.<sup>8</sup> Second, there is the complication posed by changes in the subject matter of economics, as institutions and circumstances alter in the course of time. Economic knowledge is inevitably historically specific in a way in which knowledge about the unchanging physical universe is not. Hence 'economists share, in significant measure, the fate of Sisyphus', a fact reflected in the cyclical nature of their self-esteem and of public confidence in their statements.<sup>9</sup> Third, there is the question of sudden and dramatic changes in the basic theory itself. The so-called 'Keynesian Revolution' offers probably the best-known example,<sup>10</sup> but the 'Marginalist Revolution' of the 1870s is in some ways more interesting. The latter involved both the addition of new concepts and methods of analysis, and a restriction of theoretical scope to exclude the relations between economics (now more narrowly defined) and the wider society of which the economic system is a part. In this way 'political economy' became 'economics', and knowledge was both gained and lost – or, more precisely, abandoned – in the process.<sup>11</sup>

There is massive evidence that most sciences change discontinuously. There occur radical shifts in problems, research methods, vocabularies and analytical procedures which are so substantial that different approaches are literally incomparable. This view of scientific revolution is of course inseparably linked with the name of Thomas S. Kuhn.<sup>12</sup> In a scientific revolution, Kuhn argued, there occurs a redefinition of the discipline concerned in which some problems assume much greater importance than before, while others are deemed 'unscientific' or merely uninteresting. As the subject

matter of the science changes, so do the criteria for supplying acceptable solutions to its problems. In consequence the world changes in a scientific revolution or, at the very least, the way in which the scientist sees the world is transformed. This contributes to the phenomenon of 'paradigm incommensurability', which makes communication between different schools of thought so difficult.<sup>13</sup>

As the term implies, a scientific revolution is an unusual event. Most scientists spend most – if not all – of their time in what Kuhn terms 'normal science', and it has indeed been urged that his discussion of routine scientific activity between periods of revolutionary upheaval represents the more valuable part of his work.<sup>14</sup> Those engaged in normal science, Kuhn suggests, are employed in puzzle-solving: that is, in answering questions within a particular theoretical framework, problems which can be assumed to have solutions because analogous questions have been answered in a similar way before. Outside of revolutionary situations, normal science has a very powerful hold over the 'scientific community'.<sup>15</sup> It provides exemplars of good research and can point to real and substantial achievements in puzzle-solving, with consequent and often rapid scientific progress. Its grip is reinforced by selection, training and promotion processes which reward conformity and discourage dissent. The practice of normal science cannot be written off as 'dreary conformity', since it demands great ingenuity and imagination in addition to the application of existing knowledge and established techniques.<sup>16</sup> But it does give rise to 'an immense restriction of the scientist's vision, and to a considerable resistance to paradigm change'.<sup>17</sup> Intolerance towards dissidence will therefore be at its strongest during periods of unchallenged normal science. Not for nothing does Kuhn use religious metaphors ('faith', 'dogma', 'conversion') in describing scientific beliefs.<sup>18</sup>

Whether a Kuhnian framework can be applied to the history of economics was widely debated in the years immediately following the publication of his *Structure of Scientific Revolutions*, along with the claims of the rather similar 'methodology of scientific research programmes' of Imre Lakatos.<sup>19</sup> T. W. Hutchison has identified three revolutions in economics, of which the Marginalist and Keynesian have already been alluded to. The first of Hutchison's revolutions is that in which Adam Smith established the concept of a self-regulating market mechanism against such defenders of neo-mercantilist views as Sir James Steuart.<sup>20</sup> There are few objectors to the notion of a Smithian revolution, but serious doubts persist

concerning the other two, since in neither case was the core of competitive market equilibrium theory overturned by the new ideas.<sup>21</sup> In part this is simply a question of time-scale: 'outmoded' economic ideas have a longer life than Kuhn allows for their counterparts in the natural sciences (and it may indeed be asked whether theories do ever 'die' in the social sciences). The differences may, however, go deeper than this, with revolutions in economic thought following a dialectical course in which innovations are absorbed into existing analysis through a quasi-Hegelian synthesis. On this view scientific progress in economics takes the form of accretions to (or reformulations of) existing knowledge rather than the overthrow of orthodoxy. Two examples are the addition of utility concepts to the established supply and demand theory of price in the 1870s, and the grafting of Keynesian macroeconomics on to the corpus of neoclassical micro theory in the 1930s.<sup>22</sup>

For some critics even this modified version of Kuhn's ideas is too close to the Schumpeter-Hollander position. A general objection raised against the *Structure of Scientific Revolutions* is that 'paradigm competition' is the usual state of affairs in science, with fundamental theoretical conflict being almost continuous instead of confined to brief periods of revolutionary abnormality.<sup>23</sup> Applied to the history of economics, this perspective can be used to deny that there has ever been normal science in the Kuhnian sense of a single routinised orthodoxy. The classical or surplus tradition, for example, has always offered a rival conceptual framework, to which a common response from neoclassical writers has been to deny it the status of economic analysis altogether. 'This is what all the *Methodenstreite* in economics have always been about: to liquidate scientifically some school of thought by associating it with poetry rather than science.'<sup>24</sup>

There is some truth in this, and the significance of disciplinary boundaries will become evident shortly in a slightly different context. For the present purposes, however, it is sufficient to note that neoclassicism does function as a (Kuhnian) normal economic science; hence I ignore the possibility that there may be other schools of thought which can lay claim to the title. The nature of neoclassical orthodoxy is demonstrated with great clarity by M. W. Reder's description of Chicago economics:

Let me elaborate: initiation to the Chicago sub-culture is through a rigorous training programme in which failure is for many a distinct possibility, and placement in a well defined pecking order

a concern of all. Success is achieved by mastery and application of certain tools and concepts to obtain correct answers to analytical problems (Kuhnian puzzles). Correct answers must conform to definite criteria which are the fundamental characteristics of TP ['tight prior equilibrium theory'] for example: competitive markets must clear, decision makers must optimize, money illusion must be absent. However imaginative, answers that violate any maintained hypothesis of the paradigm are penalized as evincing failure to absorb training.<sup>25</sup>

That this is an essentially accurate account is supported by the Ph.D examination papers published by H. G. Johnson, which are as demanding and almost as narrow as any set of multiple-choice questions in physics or engineering.<sup>26</sup>

As Reder makes abundantly clear, this has major implications for the treatment of dissent:

In 'normal science' it is presumed that the currently accepted theory is valid, [and] new findings are accepted far more readily if they are consistent with the theory's implications than if they are not . . . A theoretical innovator must squeeze between the rock: 'if an innovation is consistent with what is known, it serves no useful purpose' and the hard place: 'if inconsistent with what was previously believed, it must be wrong.'

Hence innovation in Chicago economics is 'paradigm-preserving' or 'paradigm-extending' rather than 'paradigm-shattering'. It involves redefinition of key variables or the extension of the scope of the theory to a new range of behaviour, instead of ideas inconsistent with 'tight prior equilibrium theory' itself.<sup>27</sup> Would-be subversives are won over in the course of their training, denied appointment or tenure, or simply deterred from applying in the first place.

Chicago may be extreme in its dogmatic rigour, but the differences between it and other strongholds of neoclassical theory are a matter of degree rather than kind. However the debate on scientific revolutions in economics may ultimately be resolved, the reality of normal science can hardly be denied. Hence the culture of economics is similar in one very important respect to the culture of natural science, and it should therefore be possible to relate the findings of sociological studies of science to the behaviour of economists in the face of theoretical novelty. To do so is the principal purpose of the present chapter. Two aspects of the sociology of science are of

particular relevance. One is the treatment of deviants by the scientific community. The other is the degree to which scientific change (and its correlate, scientific conservatism) can be explained by endogenous factors without invoking issues external to the science itself. After a consideration of these issues some general hypotheses will be formulated concerning the receptivity of neoclassical orthodoxy to heretical economic ideas.

## II

According to Robert K. Merton, the ethos of modern science consists of four central norms. *Universalism* demands that the grounds for acceptance or rejection of a truth-claim be independent of the personal or social attributes of the claimant, and entails that careers are open to talents. '*Communism*' (the inverted commas are Merton's own) requires that scientific knowledge be treated as common property, with full and open communication of research findings and the prohibition of secrecy. *Disinterestedness* implies that the pursuit of truth, together with the professional recognition that comes with the acquisition of scientific knowledge, should be its own reward. Finally, *organised scepticism* involves continuous scrutiny of established ideas and a willingness to replace them immediately they fail the test. Science thus rejects the cleavage between the sacred and the profane; it is inherently undogmatic and anti-authoritarian.<sup>28</sup> From these norms can be inferred criteria for assessing a proposed new contribution to science. Radical innovations should be welcomed. They should certainly not be rejected unread, nor should the personal background of the contributor influence critical reaction to their intrinsic merits. No authority should prevail against experimental evidence. The author may claim that the contribution be tested and publicly discussed, with a right to return after its rejection with additional evidence.<sup>29</sup>

None of this bears much resemblance to the activity described by Kuhn as 'normal science'. Indeed, as Kuhn himself has stressed, the 'dogmatism of mature science' appears to be essential for productive research, both in defining what is to be done by the scientist and in offering proven methods of puzzle-solving for scientific advance. Scepticism concerning basic principles, he argues, would be positively harmful to the work of most scientists. Resistance to innovation is thus a necessary feature of scientific practice. It engenders a continuous tension between the scientist's skills and the prevalent



ideology of organised scepticism, in terms of which science is a process of undogmatic exploration.<sup>30</sup> Usually daily routine triumphs over methodological purity and scientific establishments, like churches, rely upon authority to defend their monopoly of knowledge.<sup>31</sup> One of the tacit principles of science, in fact, is plausibility. Science cannot survive without a filtering mechanism which prevents wasted time and effort by keeping patent nonsense out of the journals. Errors will occasionally be made, and good but apparently implausible ideas rejected along with the rubbish, but this is simply the inescapable price of scientific progress.<sup>32</sup>

Irrespective of its substantive merits, this position does indicate the way in which scientists tend to behave when confronted by unexpected theoretical novelties. Oddly enough, very little attention has been paid to scientific heresies; the nineteen-page index to Merton's 559-page text, for example, yields only three references to 'heterodoxy', and two of these relate to dissension among sociologists.<sup>33</sup> There are two fascinating cases which form exceptions to this general rule. One is the Velikovsky affair, the other the treatment of parapsychology at the hands of the orthodox scientific establishment.

Immanuel Velikovsky was a psychiatrist who achieved considerable notoriety in the early 1950s because of his claims concerning the origins, within historical time, of the planet Venus and their supposed connection with a variety of ancient legends, including the biblical flood and Egyptian plagues. Velikovsky's book *Worlds in Collision* was a best-seller, but the huge appeal of his ideas to the general public was not matched by the scientific recognition he sought. Instead he was the victim of a sustained heresy-hunt which violated 'both the [Mertonian] norms of science and the norms of common courtesy'.<sup>34</sup> He was refused facilities for conducting experiments and denied access to leading scientific journals, including a ban on the publication of his speech to the American Philosophical Society in 1952 in the Society's *Proceedings*.<sup>35</sup> Leading establishment astronomers led a campaign against his book without having read it; threatened its publishers with a boycott and alarmed them sufficiently to force the transfer of the title to another company; and secured the dismissal both of the editor responsible for the book's publication and the chairman of the Department of Astronomy at New York's Museum of Natural History, who had shown some sympathy with Velikovsky's ideas.<sup>36</sup>

Academic hostility continued into the 1960s, even after space

probes had appeared to confirm several of his original predictions, including the existence of the Van Allen belts and of petroleum gas in the atmosphere of Venus.<sup>37</sup> Among prominent US scientists only Albert Einstein and H. H. Hess of the Geology Department at Princeton University seem to have behaved at all decently towards Velikovsky, and it was not until the 1974 meeting of the American Association for the Advancement of Science (which held a special symposium on Velikovsky and published most of the papers) that anything approaching a full scholarly examination of his arguments was at last undertaken.<sup>38</sup> To this non-scientist Carl Sagan's point-by-point rebuttal of *Worlds in Collision* is so totally convincing<sup>39</sup> that it prompts the question why Velikovsky's detractors had not carried out a similar exercise twenty years previously.

The vehemence of the reaction against Velikovsky owed something, first of all, to his status as an outsider, trained in psychiatry rather than physics or astronomy and thus unqualified to conduct research in these fields. Hostility to 'trespassers' from other disciplines is common in the history of science. It prejudiced the scientific establishment against the meteorologist Wegener's theory of continental drift, now widely accepted by geologists; denied the medical practitioner Robert Mayer and the amateur experimenter James Joule credit for the law of conservation of energy, in favour of the academic physicist Herman Helmholtz; and cost Jacobus van't Hoff recognition for having discovered the scheme of the tetravalent carbon atom, since he was teaching in a veterinary school and the more fortunate Adolph Kolbe was an orthodox chemist.<sup>40</sup>

Velikovsky broke a second unwritten rule by appealing to the general public over the heads of the professional scientists. This was regarded as a breach of the principle of communality (a concept kindred to Merton's 'communism'), whereby science is deemed in the first instance to be the property of the scientific community and not of humanity as a whole. His writings thus provoked a defensive counter-reaction which drew upon deep reserves of scientific group loyalty.<sup>41</sup> Third, his approach was inherently and unacceptably interdisciplinary: a Velikovsky victory would have had immense implications for received scientific theory in physics, geology, palaeontology, biology, psychology and anthropology. This was cited by Velikovsky's supporters as his great strength, but orthodox researchers were understandably nervous in the face of an argument 'depending for its impact on the daring of its methodological synthesis rather than on a detailed, scholarly criticism of any one

area'.<sup>42</sup> For some, indeed, this alone was reason enough to deny him a hearing:

The claim of universal efficacy or universal knowledge is the unmistakable mark of the quack. No man today can be an expert even in the whole of geology or the whole of astronomy. I do not mean that we are ignorant of all fields but our own; I do mean that we are not equipped to do highly technical research in more than several distinct specialties for each scientist. But no man today can hope to correct the mistakes in any more than a small subfield of science. And yet Velikovsky claims to be able to dispute the basic principles of several sciences! These are indeed delusions of grandeur!

This was part of a letter of protest from a professor of astronomy to the publishers of *Worlds in Collision*, a book he had yet to read.<sup>43</sup>

The fourth and most important reason why Velikovsky's ideas aroused such bitter opposition was the depth, as against the breadth, of his challenge to existing scientific thought, above all the laws of mechanics. His claims could thus be dismissed as 'extravagant' and as lacking in 'plausibility' and 'legitimacy'.<sup>44</sup> Very similar grounds have been given for the sustained professional hostility to the other major species of heresy discussed in the literature: parapsychology. In the late nineteenth and early twentieth centuries parapsychology was an amateur activity which attracted a sizeable following among the educated middle classes (including the economist Henry Sidgwick, founder of the so-called Sidgwick Group for the investigation of the paranormal). Only in the 1930s did it take on some of the trappings of a scientific discipline, under the leadership of J. B. Rhine of Duke University (who, interestingly, was another trespasser, having been trained as a botanist). Bit by bit the parapsychologists established graduate programmes and their own learned journals, while a professional body (the Parapsychological Association) was set up in 1957. A survey of the Association's membership found it to be broadly comparable in qualifications, activities and aspirations with scientists in other disciplines closer to the mainstream, and to be conducting experimental research in a generally unimpeachably rigorous manner.<sup>45</sup>

Yet the parapsychologists have good reason to complain about their treatment at the hands of orthodox psychology. Refusal of appointments, denial of research funding and facilities, rejection of articles by academic journals which would probably have been

accepted had their subject matter been less contentious, and dilution by editorial criticism of those which do appear remain commonplace. The critics of parapsychology (like those of Velikovsky) employ polemical tactics which conflict blatantly with the Mertonian norms, including *ad hominem* arguments concerning the political and religious affiliations of individual researchers, dogmatic refusal to believe experimental findings, and 'guilt by association' with dabblers in the occult.<sup>46</sup>

The reasons closely resemble those in the case of Velikovsky. Parapsychology has an inescapable appeal to sections of the lay public, which researchers have often been forced to exploit in order to secure funding. (A recent well-publicised incident in Britain involved the endowment of a university chair in the subject by the will of the novelist Arthur Koestler.) This promotes suspicion of its scientific credentials, which is not always unjustified; an early Society for Parapsychology soon disintegrated after it was overrun by followers of L. Ron Hubbard's 'dianetics' cult. Moreover, by contradicting the laws of physics it threatens fundamental scientific principles. Thus 'experimental parapsychology poses a real dilemma for established science by presenting a picture of methodological innocence and theoretical guilt.'<sup>47</sup>

According to Warren Hagstrom, 'disciplinary differentiation' is a common outcome of scientific disputes. A 'deviant specialty' emerges within an established area, challenges the goals and practices of the prevailing orthodoxy, fails either to win over the majority or to succumb to its pressures, and secedes from it to form a new discipline with its own informal organisation and systems of internal control. This is the course which parapsychologists appear to be following. They have persevered in their quest for scientific respectability and to a limited extent they have succeeded, as the acceptance in 1969 (at the fourth attempt) of their application for affiliation to the American Association for the Advancement of Science suggests. The continued difficulty of publishing positive findings in parapsychology in an established mainstream journal indicates that they still have some way to go.<sup>48</sup>

One conclusion which may be drawn from these two examples of 'deviant science' is that 'science is very far from being democratic, and widespread apparent agreement is due to submission to the shared views of a small proportion of elite scientists.'<sup>49</sup> Against this, Richard Whitley has recently argued that there are considerable variations in the degree of intellectual uniformity which is enforced

in different scientific fields. The degree of agreement upon appropriate research methods and goals, and on the interpretation and significance of results, is evidently much greater in modern physics, for example, than for sociology or management studies. Intellectual fragmentation varies accordingly, and with it the degree of openness to dissident ideas. Economics, Whitley suggests, occupies an intermediate position in which a high degree of theoretical conformity coexists uneasily with diffuseness and uncertainty in empirical research.<sup>50</sup>

Since most economic heretics make analytical as well as factual claims, they almost invariably clash with the authoritarianism of orthodox theory. As the case of modern Chicago economics has already demonstrated, consensus among economists may have been in large part the result of deference to accepted authority. Such was the case, too, at various points in the history of British economics, where the authority successively of the Ricardians, of John Stuart Mill, and finally of Alfred Marshall and the 'Cambridge School' was successfully asserted against a variety of dissidents.<sup>51</sup> There are epistemological as well as cultural reasons why this should have been so:

The language of economic theory, like any language, provides a framework for thought; but, at the same time, it constrains thought to remain within that framework. It focuses our attention; determines the way we conceive of things; and even determines what *sort* of things can be said. The commitment to use any language is also a commitment to conduct discourse in terms of assertions which are expressible in that language. A language, or conceptual framework is, therefore, at one and the same time both an opportunity and a threat . . . both a springboard and a straitjacket.<sup>52</sup>

The potential power of the economic elite increased substantially with the growing professionalisation of the discipline in the early decades of the present century. This introduced some of the elements of the narrow scientific training emphasised by Kuhn. (Another crucial element, the role of paradigmatic textbooks, had been present since the days of John Stuart Mill.) More significantly, perhaps, professionalisation was accompanied by – and the term itself served as a euphemism for – a process of proletarianisation, whereby the search for economic knowledge became a career and a sole or principal source of income, instead of a hobby pursued by

the leisured rich. The economic scholar is now almost invariably a full-time worker, dependent for livelihood and access to research facilities upon employment by an academic, government or business institution, itself controlled by a small and usually authoritarian hierarchy. The pressure to conform is often compelling, and the Mertonian norm of disinterestedness increasingly difficult to maintain, in such circumstances. Submission to existing dogma becomes a condition for individual advancement; and not just in Chicago.<sup>53</sup>

### III

This picture of intellectual rigidity must not be left unqualified. It is true that 'one aspect of the development of economic theory can be seen as an attempt to fight one's way out of the [linguistic] straitjacket.'<sup>54</sup> Scientific ideas do change, whether by gradual accretion of new knowledge, revolutionary catastrophe, or some untidy combination of both. Theories dismissed as outrageous or derided as the property of amateur pseudoscience do win acceptance: evolution before Darwin, Mendelian genetics, the theory of continental drift, herbal medicine, hypnotism, osteopathy, psychoanalysis: these are some of the better-known examples of deviant ideas developed independently of orthodox science, taken over and adapted to its purposes, or elevated by their own adherents to the status of a (more or less) reputable new specialism.<sup>55</sup> To understand why some heresies achieve respectability while others – probably the great majority – fail to make it, an explanation must be sought of the sources of scientific change.

The two extreme positions are easily stated. One is expressed in Joseph Spengler's almost Hegelian insistence on the internal logic of economic thought as a series of self-contained mental events almost entirely immune to influence from the external world.<sup>56</sup> The other is epitomised in Karl Marx's famous dismissal of post-Ricardian economists as 'hired prize-fighters' of the bourgeoisie, motivated exclusively by a desire to defend the existing political and social order regardless of the dictates of scientific method or commitment to the truth.<sup>57</sup>

Needless to say, neither extreme is at all convincing. Spengler's dogmatic internalism is very difficult to defend. Even if thought were somehow entirely disconnected from material reality, it is not the case that scientists do nothing but think. They read, argue,

conduct experiments, run laboratories and research institutions, interact with other scientists, and live their own lives in the everyday world. Scientific activity, in short, is a form of culture. As such it can never be completely isolated from the wider society of which scientists themselves are a part.<sup>58</sup> Nor is the Marxian position credible as a general rule, and was not intended to be by Marx himself.<sup>59</sup> Neither professional recognition nor (as far as is known) financial reward accrues predominantly on the basis of an economist's skill in defending the *status quo*. The flood of complaints in the 1960s and 1970s about the irrelevance of mainstream economic theory<sup>60</sup> suggests an increasing tendency for theorists to divorce themselves from any contact with reality, thereby also disarming themselves as potential apologists.

Only a little light is shed on the problem by the discussion in the sociological literature of internal and external influences on the development of science. One of the relatively few points on which Karl Popper, Thomas Kuhn and Imre Lakatos were all agreed was the autonomy of science, and hence the preponderance of internal factors in scientific change. Kuhn in particular observed that 'there are no other professional communities in which individual creative work is so exclusively addressed to and evaluated by other members of the profession.' Collective self-definition of the problems to be investigated and self-appraisal of the solutions to them permit the scientific community a very considerable degree of insulation from external influences and pressures.<sup>61</sup> Others have argued that this insulation, never too obvious in the more applied sciences, has been greatly exaggerated even in the case of pure science. The institutional identity of scientists as academics has been attenuated as more and more found employment in business organisations and government agencies, and the majority of those remaining in the universities have been required to seek research funding from outside bodies. There is evidence, too, of an increasing politicisation of science, as expert testimony is sought in defence of competing material interests (for example regarding the environmental impact of industrial expansion and energy policies). The notion of an autonomous and increasingly arrogant scientocracy is an illusion.<sup>62</sup>

Kuhn intended his analysis to apply only to the natural sciences. His internalism seems especially inapplicable to social sciences such as economics, where issues which impinge directly upon the distribution of wealth, status and power can hardly be avoided. Historians sympathetic to orthodox theory have in the main,

however, rejected any significant role for external influences, at least regarding developments over the last century or so.<sup>63</sup> This was very clearly the position of Joseph Schumpeter, if only in the context of economic analysis.<sup>64</sup> Schumpeter's conclusions were endorsed and amplified by George Stigler in an influential essay which argued that most economic events had left no mark upon economic theory, and most important changes in the theory had come about independently of outside economic events. 'The dominant influence upon the working range of economic theorists', Stigler concluded, 'is the set of internal values and pressures of the discipline.' Even intellectual currents in other subjects have failed significantly to impinge upon the progress of economic theory.<sup>65</sup>

Very similar conclusions were reached by Joseph Spengler in his survey of the period 1870–1950. Spengler was careful to distinguish the 'core' of (orthodox) economic theory from the 'shell' surrounding it. The latter includes ideology, value judgements, systems of belief and Schumpeterian 'vision', where exogenous influences may well be more pronounced.<sup>66</sup> Professionalisation can again be invoked to explain the increasing autonomy of economics since the 1870s, since it engendered both a narrowing of the 'social circle' to whom economists addressed themselves and a corresponding restriction of the range of economic events affecting the production of economic knowledge.<sup>67</sup>

One aim of the present study is to see whether these assessments are borne out by the treatment of heterodox ideas in the (increasingly professional) mainstream literature. It should be noted at the outset that Schumpeter and Spengler have shielded themselves from criticism by confining their argument to developments within the narrow field of neoclassical economic analysis. While serving as an effective defence mechanism, this constriction also renders their historical judgement largely irrelevant where economic heretics are concerned for, almost without exception,<sup>68</sup> the dissident economists studied here were not technicians but ranged widely over precisely those questions of values, beliefs, differing economic systems and conflicting social visions from which the internalism of the orthodox historians of economic thought is expressly excluded. It is therefore possible to accept (if only for the sake of argument) the proposition that external influences played no significant role in the development of neoclassical analysis after 1870, while simultaneously investigating the nature and impact of exogenous factors in the reception of economic heterodoxy.



What external influences might have been important? In his study of the recent revival of Austrian economics, A. W. Coats points to two such factors: the emergence of compatible trends in the philosophy of science, and the growing dissatisfaction with the quality of modern society and its technology, its materialism and its large-scale organisation. He concludes, in marked contrast to Stigler, that ‘the development of economics has seldom for long been effectively insulated from societal pressures and inducements . . . the revival of subjectivism is, itself, a product of the age.’<sup>69</sup> A more elaborate classification is provided by Spengler. The ‘direct external influences’ which he lists – the growing number of economists, increasing communications networks, a widening variety of tools – are best regarded as internal to the development of the economics profession. There are four ‘indirect external influences’: *ideological*, defined in terms of conscious or unconscious attitudes towards vested interests in society; *ideational*, exerted by changes in other disciplines; *conceptual*, operating through the economist’s vision of the economic universe, which has become more stochastic and (Spengler argues, very contentiously) more aware of the social context of economic action; and *non-intellectual*, involving changes in economic events and policies. Coats’s account of the Austrian revival, for example, emphasises ideational and non-intellectual influences. This apparently very useful taxonomy will be put to the test in what follows.

#### IV

This book is concerned principally with the ways in which heretics have been treated by mainstream economists and the reasons for their fate. Some provisional hypotheses can now be advanced, their credibility to be assessed in the concluding chapter after the nine case studies have been presented. It is convenient to separate two closely related questions: why are heretics generally resisted or ignored? and why, occasionally, do orthodox economists become much more receptive to their case?

Resistance to heterodoxy can be ascribed to four sources. The first is *defence of scientific rigour*: unorthodox ideas may be rejected because they are adjudged (and may actually be) deficient in logic, lacking in clarity, devoid of empirical content, or factually incorrect. Second is *wounded professional pride*, which might come into play when heretics are found also to be amateurs or trespassers from

another specialism. This factor is probably historically specific to the period after the emergence of economics as a formal (and predominantly an academic) discipline, and therefore cannot easily be invoked before about 1870. The third basis for opposing economic dissidence may be termed *professional conservatism*, which renders the practitioners of 'normal science' reluctant to part company with accepted dogma. As already noted, this can be viewed in either a favourable or an unfavourable light. Without tenacious adherence to an established conceptual framework no growth in scientific knowledge is possible; but critics of received opinions also threaten the rapid obsolescence of intellectual fixed capital, giving its owners a direct material stake in the theoretical *status quo*.<sup>70</sup> The more far-reaching the challenge, the greater the resistance that may be anticipated. Thus interdisciplinary heretics are likely to be received with particular hostility, as are those who attempt to undermine the methodological foundations as well as the substantive theoretical apparatus of the specialism. Fourth, there is the role of *political, and especially class, interests*, an issue stressed by the Marxists but not (as will be seen) their exclusive domain. Put most crudely, it is argued that heretics offend the rich and powerful, who control academic purse strings and therefore also economists' minds. A more subtle version would allow for divisions of opinion and interest within the ranks of the rich and powerful, and unconscious in addition to conscious ideological motivation.

By analogy, increased receptivity to dissident ideas may result from *improved scientific standards* of argument and presentation on the part of their adherents. Tighter reasoning, greater clarity, more empirical content, increased factual corroboration: all provide legitimate grounds for taking heretical notions more seriously. A second factor, operating (if at all) only from the 1870s, is *loss of professional self-confidence*, bringing with it a greater readiness to tolerate outside intervention in intradisciplinary disputes. This could be the product of ideational or conceptual influences (to use Spengler's terms). It may (but need not) be associated with *a state of (Kuhnian) scientific crisis*, in which established patterns of thought are disturbed by the discovery of serious empirical or analytical anomalies which existing theories appear unable to accommodate or to explain. Finally, conditions of *social, political or economic crisis* may promote intellectual radicalisation and enhanced openness to ideas hitherto considered absurd, dangerous, or extreme. Spengler's ideological and non-intellectual influences are inevitably present if

social crises impinge upon the development of economic theory. They may also play a role in precipitating a scientific crisis which – since anomaly is in the eye of the beholder – could result from a reinterpretation of existing difficulties without the appearance of completely new ones.

The remainder of the book is structured as follows. One chapter is devoted to the ideas of each of the nine economic exiles, together with an account of their reception by orthodox theorists and a preliminary appraisal of the treatment they received. In the conclusion I return to the general hypotheses explored in this chapter, and assess their validity in terms of the historical record.

## NOTES

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4. C. E. Ayres, *The Theory of Economic Progress* (New York: Schocken Paperbacks, 1962); G. Routh, *The Origin of Economic Ideas* (London: Macmillan, 1977), cited by H. Katouzian, *Ideology and Method in Economics* (London: Macmillan, 1980), p. 12; and A. Aspromourgos, 'Political Economy and the Social Division of Labour: the Economics of Sir William Petty', *Scottish Journal of Political Economy* 33, 1986, pp. 28–45.
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6. K. Marx, *Capital*, volume I (Moscow: Foreign Languages Publishing House, 1961), p. 15; cf. J. E. King, 'Marx as a Historian of Economic Thought', *History of Political Economy* 11, 1979, pp. 382–94.
7. V. Walsh and H. Gram, *Classical and Neoclassical Theories of General Equilibrium* (Oxford: Oxford University Press, 1980).
8. Gordon, *op. cit.*, p. 124.
9. T. W. Hutchison, 'From "Dismal Science" to "Positive Economics" – a

- Century-and-a-Half of Progress?', pp. 192–211 of J. Wiseman (ed.), *Beyond Positive Economics?* (London: Macmillan, 1983).
10. T. W. Hutchison, *On Revolutions and Progress in Economic Knowledge* (Cambridge: Cambridge University Press, 1978), pp. 286–95.
  11. J. Jalladeau, 'Research Programme Versus Paradigm in the Development of Economics', *Journal of Economic Issues* 12, 1978, pp. 583–608.
  12. T. S. Kuhn, *The Structure of Scientific Revolutions* (Chicago: University of Chicago Press, second edn, 1970).
  13. *Ibid.*, pp. 103–11, 202. On the elusive concept of a 'paradigm' see *ibid.*, pp. 174–87; and B. J. Loasby, 'Hypothesis and Paradigm in the Theory of the Firm', *Economic Journal* 81, 1971, pp. 863–85. Because of its ambiguities I have avoided the use of the term wherever possible.
  14. B. Barnes, *T. S. Kuhn and Social Science* (London: Macmillan, 1982), p. 57.
  15. 'Community' is probably the most ill-used word of the present century. Readers of John le Carré will appreciate the euphemism involved in applying the term to the world of spies, torturers, secret policemen and hired assassins depicted in his novels about the 'intelligence community'. The position with respect to the 'scientific community' is a little better.
  16. Barnes, *op. cit.*, p. 46.
  17. Kuhn, *op. cit.*, p. 64.
  18. *Ibid.*, p. 158; Barnes, *op. cit.*, p. 13.
  19. I. Lakatos, *The Methodology of Scientific Research Programmes* (Cambridge: Cambridge University Press, 1978); M. Blaug, 'Kuhn Versus Lakatos, or Paradigms Versus Research Programmes in the History of Economics', *History of Political Economy* 7, 1975, pp. 399–433; S. J. Latsis (ed.), *Method and Appraisal in Economics* (Cambridge: Cambridge University Press, 1976).
  20. Hutchison, *On Revolutions*, pp. 285–320.
  21. On the 'Keynesian Revolution' see C. D. Goodwin, 'Toward a Theory of the History of Economics', *History of Political Economy* 12, 1980, pp. 610–19.
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  25. M. W. Reder, 'Chicago Economics: Performance and Change', *Journal of Economic Literature* 20, 1982, p. 19.
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30. T. S. Kuhn, 'Scientific Paradigms', pp. 80–104 of B. Barnes (ed.), *Sociology of Science: Selected Readings* (Harmondsworth: Penguin, 1972); R. Whitley, *The Intellectual and Social Organisation of the Sciences* (Oxford: Clarendon Press, 1984), p. 13.
  31. N. Elias, 'Scientific Establishments', pp. 3–69 of Elias, H. Martins and R. Whitley (eds), *Scientific Establishments and Hierarchies, Sociology of the Sciences VI* (Dordrecht: D. Reidel, 1982), citing from pp. 48–9.
  32. Polanyi, *op. cit.*, pp. 536–40.
  33. *Op. cit.*, pp. 58, 69, 433–4.
  34. N. W. Storer, 'The Sociological Context of the Velikovsky Controversy', in D. Goldsmith (ed.), *Scientists Confront Velikovsky* (Ithaca: Cornell University Press, 1977), p. 36.
  35. M. Mulkay, 'Cultural Growth in Science', in Barnes, *Sociology*, p. 129.
  36. D. Stove, 'The Scientific Mafia', pp. 5–12 of the Editors of *Pensée, Velikovsky Reconsidered* (London: Sidgwick & Jackson, 1976); H. M. Kallen, 'Shapley, Velikovsky, and the Scientific Spirit', pp. 20–32 of *ibid.*
  37. Stove, *op. cit.*, pp. 9–10.
  38. Kallen, *op. cit.*; I. Velikovsky, 'H. H. Hess and My Memoranda', pp. 32–55 of *Velikovsky Reconsidered*; Goldsmith, *op. cit.* (Velikovsky refused to allow his contribution to the symposium to be published in this volume).
  39. C. Sagan, 'An Analysis of *Worlds in Collision*', pp. 41–104 of Goldsmith, *op. cit.*
  40. D. Goldsmith, 'Introduction' to Goldsmith, *op. cit.*, p. 20; I. Asimov, 'Foreword: the Role of the Heretic', in *ibid.*, p. 10.
  41. Mulkay, *op. cit.*, p. 128; Storer, *op. cit.*, p. 37.
  42. W. Mullen, 'The Center Holds', pp. 239–49 of *Velikovsky Reconsidered*; D. Morrison, 'Planetary Astronomy and Velikovsky's Catastrophism', in Goldsmith, *op. cit.*, p. 147.
  43. Dean B. McGlaughlin, Professor of Astronomy at the University of Michigan, to the Macmillan Company, 20 May 1950, cited in L. E. Rose, 'The Censorship of Velikovsky's Interdisciplinary Synthesis', in *Velikovsky Reconsidered*, p. 14.
  44. K. Dixon, *The Sociology of Belief* (London: Routledge & Kegan Paul, 1980), pp. 70–6; Polanyi, *op. cit.*; Mulkay, *op. cit.*
  45. P. D. Allison, 'Experimental Parapsychology as a Rejected Science', pp. 271–91 of R. Wallis (ed.), *On the Margins of Science: the Social Construction of Rejected Knowledge* (University of Keele: *Sociological Review* Monograph 27, 1979).
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  47. Allison, *op. cit.*, pp. 283–8.
  48. W. O. Hagstrom, *The Scientific Community* (New York: Basic Books, 1965), pp. 192–243; Collins and Pinch, *op. cit.*, pp. 253–4.
  49. R. G. A. Dolby, 'Reflections on Deviant Science', pp. 9–47 of Wallis, *op. cit.* Note also that increasing democracy within a particular

specialism does not preclude authoritarian attitudes towards other disciplines.

50. See Whitley, *op. cit.*, p. 169 for a convenient summary of the argument.
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52. A. Coddington, 'Positive Economics', *Canadian Journal of Economics* 5, 1972, p. 14.
53. H. Katouzian, *Ideology*, pp. 114–34; Katouzian, 'The Hallmarks of Science and Scholasticism: a Historical Analysis', pp. 89–109 of Elias, *op. cit.*; A. W. Coats, 'The Methodology of Economics; Some Recent Contributions', *Kyklos* 35, 1982, pp. 310–21. For a rather more cynical 'behavioural' view of academic conformity see P. Earl, 'A Behavioural Theory of Economists' Behaviour', pp. 90–125 of A. Eichner (ed.), *Why Economics Is Not Yet a Science* (London: Macmillan, 1983). The professionalisation of economics in Britain is described by A. W. Coats, 'The Origins and Early Development of the Royal Economic Society', *Economic Journal* 78, 1968, pp. 349–71; see also Coats, *Reflections on the Professionalisation of Economics* (Newcastle, N.S.W.: 1980 Newcastle Lecture in Political Economy).
54. Coddington, *op. cit.*
55. Dolby, *op. cit.*, pp. 19–23, 41–2.
56. Spengler, *op. cit.*, pp. 164–8.
57. *Capital* I, p. 15.
58. B. Barnes, *Scientific Knowledge and Sociological Theory* (London: Routledge & Kegan Paul, 1974), p. 155.
59. King, 'Marx as a Historian', *op. cit.*
60. A good representative of a vast literature is B. Ward, *What's Wrong With Economics?* (London: Macmillan, 1972).
61. Kuhn, *Structure*, pp. 164–5; on Lakatos see Blaug, *op. cit.*, pp. 408–9, 429–33.
62. P. Weingart, 'The Scientific Power Elite: A Chimera', pp. 71–87 of Elias (ed.), *op. cit.*
63. For exceptions see Hutchison, *On Revolutions*, pp. 298–303; and A. F. Chalk, 'Relativist and Absolutist Approaches to the History of Economic Theory', *South Western Social Science Quarterly* 48, 1967, pp. 5–12.
64. *Op. cit.*, ch. 4.
65. G. J. Stigler, 'The Influence of Events and Policies on Economic Theory', in Stigler, *Essays in the History of Economics* (Chicago: University of Chicago Press, 1965), pp. 18–23, 28–30.
66. *Op. cit.*, pp. 187–8.
67. R. V. Eagly, 'Discussion' of Spengler, *op. cit.*, pp. 188–9.
68. One may quibble over the case of P. W. S. Andrews.
69. A. W. Coats, 'The Revival of Subjectivism in Economics', pp. 87–103 of Wiseman, *op. cit.*
70. For rather extreme (and thus illuminating) statements of these two perspectives, see Polanyi, *op. cit.* and Earl, *op. cit.*, respectively.

## 2 Sir James Steuart (1713–1780)

It was with reference to Sir James Steuart that T. W. Hutchison wrote: ‘In no branch of the subject is the dictum about history being the reward of the victors more valid than in the history of economics.’<sup>1</sup> Steuart’s *Inquiry into the Principles of Political Oeconomy* was the first systematic economic treatise to be published in Britain, and introduced the very term ‘political economy’ into the English language.<sup>2</sup> But he was eclipsed by his compatriot Adam Smith, if not within his own lifetime then most definitely in the eyes of subsequent generations. In recent decades there has been something of a Steuart revival, accompanied, however, by fundamental differences in the interpretation of his ideas. For some commentators Steuart was a moderate liberal, a pioneer proponent of the mixed economy, and an important predecessor of Keynes on both theoretical matters and issues of economic policy.<sup>3</sup> Others see him as the ‘apotheosis of mercantilism’, an enemy of the free market who urged the establishment of a corporate state.<sup>4</sup> A third view, influenced by Steuart’s own ideological background as well as by the assessment of Karl Marx, is that he was essentially an early historical materialist whose prime concern was the interrelationship between economic development and sociopolitical change.<sup>5</sup> The real Sir James Steuart embodies, as will be seen, elements of all three *personae*.

### I

Steuart was born on 10 October 1713 and died on 26 November 1780. His life thus spanned almost exactly two-thirds of a century notable for the vigour and richness of intellectual life in his native Scotland. The Scottish Enlightenment<sup>6</sup> had deep roots in the culture of a country which (despite the Union with England) retained its own legal system, educational institutions and religious establishment and preserved a strong sense of national identity. Centuries of political and military alliance with France and the Low Countries, together with the exclusion of Presbyterians from the English universities and the quite different nature of English law, led to a

long tradition of Scottish students going to the Continent to continue their education. The typical Scottish gentleman was, in fact, much closer to the mainstream of European philosophy and social thought than his more insular English contemporaries. The Scottish school of historical sociology flourished in this fertile soil.<sup>7</sup> So, too, did a related and uniquely Scottish heritage of economic thinking,<sup>8</sup> of which Adam Smith and Sir James Steuart were, for all their differences, the most prominent representatives.

The Steuart family<sup>9</sup> were wealthy and respected members of the Scottish aristocracy, with a country seat just outside Edinburgh. Sir James's father had been Solicitor-General for Scotland and a member of the Union Parliament. Steuart himself attended school in Edinburgh and then the University, where he presumably followed the syllabus which was standard in eighteenth-century higher education in Scotland, involving Natural Theology (including Natural Philosophy), Justice and Law.<sup>10</sup> After further legal studies he passed bar examinations in 1735 and almost immediately embarked on a five-year Grand Tour which took him to France, Spain and Italy. Steuart was enchanted by the city of Rome and captivated by one of its most illustrious inhabitants, the Old Pretender to the English throne. When he returned to Scotland in 1740 Steuart was a dedicated Jacobite, but for personal reasons rather than on political or religious grounds.

In religion he was a nominal Presbyterian and in practice a Deist, without a hint of Roman Catholic leanings. He turned against the political establishment in Scotland both under the personal influence of the Pretender and as the result of a bitter electoral dispute with the Dundases of Arniston. Steuart came from a Whig background, and was described by a friend as 'a Jacobite on some Whig principles, but not the whole of them'. He himself denied that the *Principles* expressed either a Whig or a Tory viewpoint, and is best regarded as an independent. He was certainly not a supporter of political or religious despotism.<sup>11</sup>

As the second Jacobite rising approached, Steuart's involvement increased. At Lord Elcho's Buck Club he made contact with leading Edinburgh Jacobites and in 1745 he came out (somewhat tardily) for the Young Pretender, who sent him to Paris to encourage a French invasion in support of the Stuart cause. He was unsuccessful, and the ensuing debacle at Culloden ended both hopes of a restoration and Steuart's own prospects of high government office under a new regime. He spent the next eighteen years in exile on the Continent,



first in Angoulême and then in Paris, where he met the future Physiocrat Mercier de la Rivière, Montesquieu and (probably) Mirabeau. He began his researches into political economy in France and continued them, in the later 1750s, in Brussels, Frankfurt and Tübingen; it was in the latter town that he started work on the *Principles*. Fluent in French, Spanish, Italian and German, Steuart read widely in the European as well as the English and Scottish literature, and his writings reveal the depth and the breadth of the international influences on his thinking.<sup>12</sup>

By 1762 he was living in the Low Countries. England was again at war with France and Steuart was briefly held at Spa by the French military authorities, having been caught in possession of coded plans for the seizure by British forces of Santo Domingo (now known as Haiti). The author was none other than Mercier de la Rivière, who had a personal pecuniary interest in an English invasion of the island and may also have realised that it would do his friend Steuart no harm in the eyes of London if he were arrested by the French.<sup>13</sup> On his release Steuart was permitted to return to his estate in Scotland, where he lived quietly and continued work on the *Principles*. The book was published in two weighty volumes in 1767. Five years later Steuart was granted a formal pardon, and the seal was set on his rehabilitation when the East India Company appointed him to advise on the currency problems in Bengal. In addition to his report on this question Steuart wrote at considerable length on the German coinage, on the economic development of the County of Lanark, on government policy for the grain market, and on weights and measures. Disillusioned with the critical reaction to his *Principles*, he turned in the closing years of his life to philosophical and theological matters. The *Principles* remains his only major economic work.

## II

By any standards it is a very substantial book. It occupies four of the six volumes of Steuart's *Works*, which were published in 1805 by his son and reprinted in 1967. Even A. S. Skinner's edited version, which omits approximately one quarter of the original text, runs to 725 pages in two volumes.<sup>14</sup> Modern presentations of Steuart's ideas differ considerably, and with them the weight that is to be attached to the various sections of the *Principles*. Most commentators agree with E. A. J. Johnson that the core of the argument is to be found

in the first two of the five books into which the *Principles* are divided, which deal respectively with population and agriculture, and with trade and industry. In general only subsidiary importance is placed upon Book III (on money) and Book IV (on credit and debt), with slightly more attention being paid to Book V (which deals with taxation and public expenditure).<sup>15</sup> A few writers have emphasised in particular chapter XIV of Book II, where Steuart praises the planned slave economy of Lycurgus's Spartan republic.<sup>16</sup>

My own reading of Steuart stresses his historical pessimism, which is derived from his analysis of cycles of economic growth and decline and is set out most clearly in chapters X to XIX of Book II. From this perspective most of the apparent contradictions in his writing can be resolved. But Steuart himself begins, as already indicated, with a discussion of population and agriculture, since the object of the 'art' of political economy is 'to provide food, other necessaries, and employment to every one of the society'.<sup>17</sup> As with animals, so with humans: the population is limited by the supply of food. Industrial development requires an agricultural surplus, or 'superfluity of grain'. The most important dimension to the division of labour, for Steuart, is that between farmers and non-farmers (whom he rather misleadingly refers to as 'free hands'). Agriculture and industry must grow in balance, so that supply and demand are equal for both categories of product.<sup>18</sup>

Steuart now distinguishes two historical stages. In the first, when human wants are small, only slavery can guarantee the production of an agricultural surplus. 'The reason is plain. If mankind be not forced to labour, they will labour for themselves only; and if they have few wants, there will be little labour.' In the second, more modern stage, the farmers produce a surplus voluntarily, in order to exchange it for the industrial commodities which will satisfy their increased wants. The increase in wants has increased output, and with it given rise to a transformation in the structure of society: 'Men were then forced to labour because they were slaves to others; men are now forced to labour because they are slaves to their own wants.'<sup>19</sup> Book I closes with a long account of the factors determining the allocation of the population between agriculture and industry (which hinges on the relative size of the surplus agricultural product) and with a brief and enthusiastic endorsement of labour-saving machinery.

The second book sets out Steuart's theory of value and price. The 'real value' of a commodity depends on the quantity of labour

embodied in it; on 'the value of the workmen's subsistence and necessary expence' [*sic*]; and on the value of the raw materials used to produce it. Profit is the difference between price and real value, and depends upon demand. Steuart writes of 'the two constituent parts of every price; the value, and the profit'. This is a characteristically Mercantilist view, but also one which – allowing for Steuart's failure to separate out profit from rent – is not wholly alien from Adam Smith's 'adding-up theory' of price.<sup>20</sup>

More central to Steuart's purpose is the ensuing discussion of the supply and demand for labour. He insists on the need to maintain 'a perfect balance between the hands employed in work and the demand for their labour'. Failing such equilibrium in the labour market there will be either unemployment or excess demand for labour, and the latter means that 'work [that is, real wages] will rise, and manufactures will not be exported.' Steuart seems to regard such a loss of international competitiveness as inevitable: 'For want of this just balance, no trading state has ever been of long duration, after arriving at a certain height of prosperity.' He cites the cases of Sidon, Tyre, Carthage, Alexandria and Venice, 'not to come nearer home'. (This last may be a reference to the Netherlands.) The task of the 'statesman' – Steuart's invariable term for the public authorities – is to intervene in the markets for labour and food in order to preserve equilibrium and if possible to avert the loss of export markets.<sup>21</sup>

There follows an interesting digression on relations of subordination and dependence – of which more will be said below – and the previously mentioned, highly favourable description of the Spartan republic, 'the most perfect plan of political economy, in my humble opinion, ever to be met with, either in ancient or in modern times'.<sup>22</sup> The main thread of the argument is resumed some twenty pages on (in the Skinner edition of the *Principles*), with a succinct account of the essentials of economic planning. It is the duty of the statesman to promote 'oecconomy, frugality and a simplicity of manners, discourage the consumption of every thing that can be exported, and excite a taste for superfluity in neighbouring nations.' He should protect domestic agriculture, subsidise farm exports, compensate industrial exporters for any increase in costs due to rising agricultural prices, and apply the proceeds of taxation to 'the keeping of an even balance between work and demand [for labour]'.

Steuart is no Puritan, even in the domestic context. If attempts to stimulate the export trade fail, the statesman should encourage

luxury at home to provide employment for those who previously supplied overseas customers. 'If this plan be pursued', Steuart concluded,

foreign trade will increase in proportion to the number of inhabitants; and domestic luxury will serve as an instrument only in the hands of the statesman to increase demand at home, when the supply becomes too great for foreign consumption. In other words, the rich citizens will be engaged to consume what is superfluous.<sup>23</sup>

The extent of Steuart's mistrust of the market mechanism is very apparent in this argument. Adam Smith was to claim that capitalist economies are essentially self-regulating and that resources would flow smoothly from uncompetitive sectors into more profitable activities under the simple stimulus of private gain and loss. Steuart would have none of this. The statesman 'must do what he can, constantly to proportion the supply [of luxuries] to the demand made for them.' He must take responsibility for increasing the supply of labour to those exporting sectors where profits and wages have risen due to increased overseas demand. Otherwise the higher incomes will be 'consolidated' into the 'real value' of the commodities concerned, their prices will rise, and loss of international competitiveness will necessarily result. When market conditions deteriorate the statesman must buy up the surplus output, or subsidise its sale, 'until the supernumerary hands can be otherwise provided for'. Steuart calls, too, for a conscious regional policy designed to promote industry in provinces where wages are low and pull down excessive wage levels in the more prosperous cities.<sup>24</sup>

Even if the statesman takes all this in hand, he is rather unlikely to succeed. Steuart is deeply pessimistic about the prospect of an inexorable decline in foreign markets due to the consolidation of higher incomes into prices; because of increasing food costs which will result from the onset of diminishing returns in agriculture; and through the emergence of overseas competitors with superior natural advantages and equally prudent statesmen of their own.<sup>25</sup> Such concerns were shared by many British economists in the eighteenth century,<sup>26</sup> but they were probably articulated most clearly by Steuart. He was certainly the only writer to devise a theory according to which capitalist economies would pass through three distinct stages of capitalist development, which he termed 'infant', 'foreign' and 'inland trade'. 'Infant trade' is conducted only within national

boundaries. It is followed by 'foreign trade', but only if the statesman so decides after due examination of foreign needs and domestic production possibilities. 'He must provide his people with the best masters; he must supply them with every useful machine; and, above all, he must relieve them of their work [output?], when home-demand is not sufficient for the consumption of it.' Soon, however, foreign competition will emerge:

And when the natural advantages of other nations constitute a rivalry, not otherwise to be overcome, the statesman must counterbalance these advantages by the weight and influence of public money; and when this expedient becomes also ineffectual, foreign trade is at an end; and out of its ashes arises the third species, which I call inland commerce.<sup>27</sup>

The general tenor of Steuart's argument is that the loss of overseas markets cannot be avoided.<sup>28</sup> He does not regard this as a disaster, so long as it is properly managed by the statesman. Instead of using their money to finance foreign trade, merchants will now lend it to the landlords, who can thus acquire a taste for luxury. 'Thus by degrees we see a rich, industrious, frugal, trading nation transformed into a rich, ingenious, luxurious, and polite nation.'<sup>29</sup> This rather relaxed attitude towards the disappearance of foreign trade is strikingly similar to John Stuart Mill's account of the potential benefits of a Ricardian stationary state. It is certainly not a vision of a totalitarian slave economy in which the state dominates every aspect of social life and wages have been driven down to their physical subsistence minimum.<sup>30</sup> Such a vision would have been profoundly inconsistent, not only with Steuart's emphasis on luxury and on the need for 'an equable circulation of the domestic wealth, through the hands of the lower classes' but also with his analysis of developing human wants as the basis for an agricultural surplus.<sup>31</sup> Nor could it easily be reconciled with Steuart's historical materialism, in terms of which 'modern liberty' was the inescapable and welcome consequence of the growth of a market economy. 'Commercial dependence' between buyers and sellers had replaced 'political dependence' between lords and vassals, or masters and servants. The growth of industry and commerce had destroyed 'hereditary subordination', eliminating 'the remaining fierceness of the feudal constitution'.<sup>32</sup> There is no evidence to suggest that Steuart believed these changes to be reversible. On the contrary, he argued that the

economic influence of the modern state was increasing despite the decline of political despotism.<sup>33</sup>

There remains the riddle of Steuart's praise for Lycurgus's Sparta. For Walter Eltis, 'the analytical device he is using which is extremely familiar today is the limiting case.'<sup>34</sup> Some doubt is cast upon this interpretation – though very little light shed on Steuart's own intentions – by a passage cited by Eltis himself, in which the example is introduced 'to serve as an illustration of general principles, and as a relaxation to the mind, like a farce between the acts of a serious opera'.<sup>35</sup> Illustration of general principles or farce? Here, as so often in the *Principles*, Steuart's obscurity of style and ambiguity of structure do him a grave disservice. There may, however, be some virtue in quoting the title of the chapter in which the Spartan example occurs: 'Security, ease and happiness, no inseparable concomitants of trade and industry'. It is possible that this reveals the purpose of this rather bizarre interlude. Steuart evidently valued 'security, ease and happiness', and perhaps intended Lycurgus's republic to serve as a warning that economic efficiency and the good society need not go hand in hand.

It is typical of Steuart that Book II of the *Principles* contains a long discussion of monetary policy, which one might have expected to find reserved for the third book. The goal of the monetary authorities, he argued, must be 'to maintain a just proportion between the produce of industry, and the quantity of circulating equivalent, in the hands of [his] subjects, for the purchase of it.' And if 'stagnation' is to be avoided, 'symbolical money' rather than specie may be required. The effect of David Hume's proposal for the abolition of paper money might be disastrous, owing to 'the sudden revolution, and the violent overturn thereby produced on the balance of work and demand' [for labour]. Hume's quantity theory of money was inadequate, because an increase in the quantity of money leads to a rise in prices only if it raises the demand for commodities, and will not do so if it is 'locked up, or converted into plate'. Prices do not depend simply upon the size of the money supply, but 'are regulated by the complicated operation of demand and competition.'<sup>36</sup> Book III adds relatively little to this, except the argument that the quantity of money is determined by the volume of transactions, rather than the opposite.<sup>37</sup> In the fourth book Steuart advances a monetary theory of the rate of interest and uses it to urge an increase in the supply of paper money.<sup>38</sup>

His treatment of taxation and the national debt occupies the end

of the fourth and the whole of the fifth books of the *Principles*. Steuart argues that the statesman, controlling the public finances, can use receipts from taxation on luxuries to subsidise industrial exports. 'Luxury at home will then cease to hurt the foreign trade of the nation', he concludes, for once on an optimistic note.<sup>39</sup> He thoroughly approves of deficit financing:

the effect of public borrowing, or national debt, is to augment the permanent income of the country, out of stagnating money, and balances of trade . . . if stagnations in one part be found to interrupt circulation in another, public borrowing, for domestic purposes, has the good effect of giving vent to the stagnation, and throwing the money into a new channel of circulation.<sup>40</sup>

Higher taxes have beneficial supply-side effects, increasing the supply of effort and encouraging 'sobriety and application'. They also stimulate demand by transferring income from the rich, who tend to consume a rather small proportion of it, to the poor, who have a much lower savings propensity. Almost at the end of the *Principles*, Steuart anticipates the Keynesian balanced budget multiplier theorem in justifying high taxation in the following terms: 'It is no objection to this representation of the matter, that the persons from whom the money is taken, would have spent it as well as the state. The answer is, that it might be so, or not; whereas when the state gets it, it will be spent undoubtedly.'<sup>41</sup>

### III

Both the author and his publisher, Andrew Millar, were disappointed by the reception of the *Principles*. The latter, who had paid £500 for the work, reported ruefully that 'it did not sell fast'. Just before his death Steuart himself wrote, of his dead dog, 'were I to write his life, it would be a work as voluminous as my *Political Oeconomy* and perhaps as little relished by the public.'<sup>42</sup> Adam Smith's *Wealth of Nations* appeared nine years after Steuart's book and, it is widely believed, swept all before it. Smith pointedly refused to refer to Steuart by name. In 1772 he had written, in a letter to William Pulteney: 'I have the same opinion of Sir James Stewarts [*sic*] book that you have. I flatter myself, that every false principle in it, will meet with a clear and distinct confutation in mine.' The two men were personally acquainted, and Smith evidently found Steuart's ideas easier to assimilate in conversation than through the printed

word. For his part Steuart benefited little from his meetings with 'the Glasgow Theorists', and by 1777 refused to debate with them any further: 'I know my opinions have little weight; they have long been printed, little red [*sic*], and less considered.'<sup>43</sup>

It seems excessive to claim that Steuart was the chief (albeit invisible) butt of the *Wealth of Nations*,<sup>44</sup> but Smith's immediate success in hitting the target has rarely been doubted. 'Steuart was surely the unluckiest of men', Ronald Meek concluded; 'seldom has one great work been so completely and so soon eclipsed by another.'<sup>45</sup> It is now clear that this is something of an exaggeration and that Smith's victory, total though it did eventually become, was considerably more protracted than has sometimes been made out.<sup>46</sup> Consider first the publication history of the *Principles*. It was never likely that a serious work of scholarship in an area as arcane and ill-explored as political economy would appeal to a large readership, even by the standards of the 1760s. Steuart's prolixity cannot have helped the sales of his book, any more than his ponderous and discursive style. And yet the *Principles* were reprinted in Dublin in 1770 in an edition which was widely distributed in the colonies, and in Basel in 1769. An apparently separate North American edition, published in 1771, exerted a considerable influence upon Alexander Hamilton and Benjamin Franklin. Two German translations appeared almost simultaneously, one in Hamburg in 1769–70 and the other in Tübingen in 1769–72, and there was a French edition in 1789.<sup>47</sup> Finally there were the six volumes of the *Works*, which may not have represented anything more than filial piety or, alternatively, could have been a response to a genuine demand (I know of no evidence concerning the publication or sales history of the *Works*). At all events, it cannot be said that Steuart was ill-served by his publishers.

Nor had he any real cause to complain about the reviews.<sup>48</sup> The *Scots Magazine* praised him for having 'displayed a most comprehensive and accurate knowledge of his subject', in which 'a capacious philosophical genius has been employed in producing a composition which cannot fail of being admired by all who are able to comprehend it.' The book was, however, rather like a weapon of war in that its effect depended on the use to which it would be put.<sup>49</sup> The *Critical Review* complained of the difficulties which arose in appraising a treatise on such a little-investigated subject. It was, however, favourably impressed by 'this intelligent author', who 'adapts the principles of true philosophy to those of civil policy' to



show 'that the science of government is a study far from being so simple, or so easily attained, as is commonly imagined.'<sup>50</sup> The anonymous reviewer prints long extracts from Steuart's discussion of population, the exchange rate, and the theory of taxation, challenging some of his statements on these questions (and also on the varieties of feudal law), but making no criticism whatever of the arguments with respect to free trade and government intervention. 'Upon the whole', he concludes, 'we must consider this work as a code for future statesmen and ministers in Great Britain, and as opening sources of political knowledge not hitherto investigated, that at some time (which perhaps is not very distant) may be attended with the most salutary effects to her interests.'<sup>51</sup>

A rather more balanced assessment was provided by the *Critical Review's* chief rival. While the *Monthly Review* conceded that Steuart 'has displayed a most comprehensive and accurate knowledge of his subject', it was less convinced by his faith in the abilities of the statesman and concerned 'lest they should injure the societies they govern under a false idea of their own *omniscience*.' Steuart had been too deeply influenced by his Continental experiences, which had made him over-sympathetic to governments and insufficiently aware of the rights of peoples. His defence of Lycurgus was astonishing, and 'cannot fail to raise the indignation of every intelligent friend to the liberties of mankind.'<sup>52</sup> 'Upon the whole', the *Monthly Review* concluded (with phrasing identical to that of its competitor),

though we may differ widely from our Author in some of his *political principles*; and think many of his *oeconomical* principles would lead to regulations much *too minute* to be consistent with a just spirit of manly freedom, and self-government in the common affairs of life; yet we cannot help admiring his penetrating genius, and being pleased with the clear light which he has thrown upon many obscure subjects: nor can we take leave of this respectable Writer without paying him the tribute of our grateful thanks for the pleasure and instruction which we have received from his masterly performance; nor without earnestly recommending it to the perusal and attention of those, whose peculiar duty it is, to hear and examine every plausible scheme to promote the order and happiness of the political and moral world.<sup>53</sup>

Many authors would have been more than satisfied with this, but Steuart wrote to complain. In reply the editor of the *Monthly*

*Review* repeated his opposition to the use of Lycurgus's republic as a model for Britain, and chided Stewart for not having expressed himself clearly. While he had indeed defined the statesman as an 'ideal Being' rather than a 'reality', he had left it open for ministers to 'make the same mistake that Sir James says we have done with respect to them, and take themselves to be statesmen.' Perhaps in a revised edition of the *Principles* he would remove the grounds for such misunderstandings.<sup>54</sup>

On balance the book had a good press. It was also referred to approvingly in the works of Arthur Young, the most prolific author of the 1760s and 1770s, and was used as the chief source on economics for the new *Encyclopaedia Britannica* in 1771 (and indeed as late as 1796). David Hume declared himself 'exceedingly pleased' with the manuscript, his later criticisms relating to the style of the book rather than the content.<sup>55</sup> In fact the *Principles* were probably more favourably received than was the *Wealth of Nations*. Before 1790 none of the leading critical journals regarded Adam Smith as the main authority on political economy. Government policy reflected Stewart's ideas more than Smith's, and there was no general feeling at the time of Smith's death that his passing represented a major intellectual loss for the nation. (One of Stewart's obituarists actually accused Smith of plagiarising him.)<sup>56</sup>

By 1806 all this had changed. Adam Smith was now the dominant influence on economic thinking, and the reviews of the *Works* were noticeably cooler than those of the *Principles* had been forty years previously. The *Annual Review* described Stewart's writings as unoriginal and unclear. His ideas were supported by bureaucrats and less far-sighted politicians, who hoped to profit by them, but were deservedly unpopular with the more far-sighted statesmen because 'they sacrifice the productive to the devouring classes; they paralyze liberty, and patronize inequality.' Stewart's proposals for state intervention in the markets for grain were especially objectionable.<sup>57</sup> In similar vein James Mill, reviewing the *Works* for the *Literary Journal*, took strong exception to the editor's flattering comparison of Stewart with Adam Smith. Stewart had 'laboured zealously, but his labours came to nothing . . . The general principles of Political Economy seem to become more obscure in his hands than they were before.'<sup>58</sup> While the *Monthly Review* considered that Stewart 'has deserved well of mankind, and has intitled his memory to respect, on account of the services which he has rendered to a most important branch of knowledge', it was also critical of his

failure to 'soar above the prejudices of the mercantile system . . . Sir James's work, even at this day, possesses a respectable share of merit, but it has been left at a vast distance behind the immortal production of Dr. Smith.'<sup>59</sup>

To a very large extent this decline in Steuart's reputation was inevitable. Rashid invokes Smith's superiority as a writer, his established eminence as a moral philosopher, and his explicit endorsement by William Pitt and other important public figures to explain the rise of the *Wealth of Nations* at the expense of the *Principles*. He suggests, too, that the notorious chapter on the Spartan republic may have repelled upper-class opinion in the wake of the French Revolution. If this is true – and it is plausible, though there is very little direct evidence of its significance – then Steuart's lack of clarity and fondness for literary and historical embellishment contributed to his own downfall. I am inclined, however, to place much more weight on another factor (also mentioned by Rashid): the dramatic emergence of Britain's industrial superiority. Between 1770 and 1800 exports grew, in value terms, by no less than 2.3 per cent per annum and there was every indication that this explosive expansion would continue indefinitely. A text based on the belief that Britain's foreign trade was in imminent danger of drastic decline could no longer be taken seriously.<sup>60</sup>

As the nineteenth century progressed, so Steuart's interest for British economists faded further. Ricardo is known to have studied his writings on money and coinage, citing them with approval in his own work and once (in correspondence with Malthus) showing an awareness of Steuart's views on the relation between population growth and food supply.<sup>61</sup> But on all major issues of theory and policy Smith was the main influence on Ricardo. Steuart's name is absent from the index of John Stuart Mill's *Principles*, and by the end of the century he featured in Palgrave's *Dictionary of Political Economy* as a minor pre-Smithian, an eclectic writer from the pre-scientific stage of economic thought.<sup>62</sup> Alfred Marshall made three passing references to Steuart in his own *Principles*, while Cunningham, who as a supporter of the historical school might have been expected to show some sympathy at least for Steuart's general outlook, dismissed his work as 'for the most part mere truisms . . . dull reading after all'.<sup>63</sup>

In contemporary Germany Steuart was much more highly respected. By 1772 there were, as we have seen, two German editions of the *Principles*. The *Wealth of Nations*, on the other hand,

was translated only in 1794–6, and Smith was never as dominant in Germany as he soon became in Britain. The reconciliation of the individual and society was a persistent theme in German philosophy at this time, and Steuart's writings seem to have exerted some influence on Kant, Schiller and Fichte. Most significant, however, was the impact of his ideas on Hegel and – both directly and indirectly through Hegel – on Marx.

By a strange coincidence Hegel shared Adam Smith's failure to mention Steuart in his published work, but he is known to have studied the *Principles* in great depth. A strong case has been made out by Paul Chamley both that Steuart was largely responsible for Hegel's interest in political economy and that Hegelian philosophy itself owes much to Steuart's thought. Hegel, like Steuart, stresses the central role of labour in human history; the dialectic between the growth of individual needs and the growth of free labour; and the function of emulation between producers and between consumers, with its emphasis on the role of fashion and luxury. Both writers are suspicious of the supposedly self-regulating properties of the capitalist economy and argue that the use of money permits disequilibria between supply and demand which can be rectified only by the intervention of the state. The relationship between Steuart and Hegel is itself a dialectical one. Hegel is indebted to Steuart, while it can be argued that Steuart's own thought makes more sense if placed in a broader philosophical perspective and seen through Hegelian eyes.<sup>64</sup>

Later in the nineteenth century Steuart proved popular with several members of the German historical school, who were attracted both by his implied criticism of English classical economics and by his historical method.<sup>65</sup> It was the latter which won him the warm praise of Hegel's most illustrious and most critical disciple, Karl Marx. Marx accused both Malthus and Smith of plagiarising Steuart (on population and money respectively),<sup>66</sup> and it is interesting to speculate how he would have reacted to evidence of Hegel's unacknowledged debt to the *Principles* (a debt at which, in the absence of access to the latter's private papers, he can only have guessed). Marx read Steuart independently in the course of his own intense researches into the history of political economy, the first (brief) citation coming in 1847.<sup>67</sup>

Twelve years later, in the *Critique of Political Economy*, Marx quoted Steuart's views on money at some length; identified him as the first to distinguish abstract and concrete labour, and hence to

separate use value and exchange value; and praised him for avoiding the historical abstractions of Smith and Ricardo and for recognising the historically specific nature of the capitalist mode of production.<sup>68</sup> This theme recurs in Marx's later references to Steuart, 'a writer altogether remarkable for his quick eye for the characteristic social distinctions between different modes of production'. Especially important was Steuart's account of the 'primitive [that is, original] accumulation' of capital, through the destruction of household production and the concentration of property in the hands of a minority class which extracts a surplus agricultural product from the propertyless labourers. Not until the writings of Richard Jones in the mid-nineteenth century, Marx concluded, was this 'sense of the *historical* differences in modes of production' restored to English [*sic*] economics. Despite its neglect, Steuart's work 'permanently enriched the domain of political economy.'<sup>69</sup>

In the early decades of the present century the general neglect of Steuart by English-speaking economists continued largely unchallenged. Writing in the 1920s, Edwin Cannan dismissed him as 'the last and most systematic of the school to whom Adam Smith was so hostile', and as 'a thorough believer in the old mercantilist beggar-my-neighbour-nation policy'. E. A. J. Johnson's volume on Adam Smith's predecessors, published in 1937, contained a full chapter on Steuart, 'the apogee of eighteenth-century British economic thought', whose chief characteristics were scepticism with respect to free trade and belligerent nationalism.<sup>70</sup>

Such relatively unsympathetic interpretations presumably explain J. M. Keynes's failure to take account of Steuart in his own rewriting of the history of economic thought. Steuart's name does not appear in the index of the *General Theory*, and I know of nothing to indicate that Keynes was aware of his existence, let alone the affinities between their ideas, which extend to a shared interest in pyramid building as a remedy for unemployment and a common usage of the terms 'full employment' and 'propensity to consume'. Paul Chamley has suggested that Keynes was fully conversant with the *Principles* but suppressed any reference to them in order to avoid being associated with Steuart's supposedly illiberal views. It seems more likely, however, that Keynes never read Steuart, and absorbed his ideas at one remove via Malthus. Virtually the only source on which Keynes relied for information about pre-Smithian economics was Heckscher's *Mercantilism*, which ignores Steuart. Keynes's library did not contain the *Works* or the *Principles*, and

this constitutes *prima facie* evidence against his having read either, as he was well known for his reluctance to borrow books that he wished to read instead of buying them.<sup>71</sup> Whatever the truth of the matter, Keynes's neglect of Steuart does little to enhance his reputation as a doctrinal historian.

In 1947 his omission was put right by S. R. Sen, who located Steuart as part of a tradition which included Malthus, List, and Keynes himself. Sen suggested that Steuart's nationalism was no more blinkered than that of Keynes: 'Cosmopolitan in outlook but realist in spirit, both accept economic nationalism of a moderate form as the basis upon which to build up a world system. Both believe that natural forces are potent but not always beneficial and both have a great faith in the directive ability of the state.' Sen took a similar line ten years later in his book, which remains the only volume dealing exclusively with Steuart's thought.<sup>72</sup> Several later writers have concurred. Douglas Vickers identified Steuart as a leading member of a coherent eighteenth-century school of monetary economists, describing his analysis of the 'balance' between industrial output and the quantity of money as 'the most complete anticipation of Keynes's general theory of equilibrium' of his age. In a subsequent review of the *Works* Vickers suggested, indeed, that Steuart's claim to permanent fame rests on his monetary theory rather than on any other aspect of his thought.<sup>73</sup> Andrew Skinner emphasised repeatedly the qualifications attached to Steuart's protectionism, which was intended 'to be seen against the background of the liberal state, [and] it can only be understood against that background.'<sup>74</sup> T. W. Hutchison also regarded Steuart as an early analyst of the mixed economy, and 'a pioneer of the anti-quantity "income" or almost "Radcliffe" approach to the theory of money'.<sup>75</sup> Most recently, M. A. Akhtar has pointed to Steuart's rejection of the Quantity Theory and Say's Law, and to the importance of his discussion of effective demand.<sup>76</sup>

Steuart's rehabilitation has not, however, been complete, nor have modern commentators been unanimous in regarding him chiefly as a forerunner of Keynes. Schumpeter praised Steuart for his attempts to build an anti-metallist theory of money, but warned that 'he made so little headway and slipped up so often that the promising beginning was lost in the metallist current' of late-eighteenth-century theory. He deserved more credit, Schumpeter believed, for anticipating Malthus and Ricardo on population and rent.<sup>77</sup> Cutting across this assessment, Marxist and non-Marxist

writers alike have focused on Stuart's contribution to historical materialism,<sup>78</sup> while conservative economists have recently exposed what they consider to be his 'detailed vision of a rationally planned dictatorship'.<sup>79</sup> More restrained is Walter Eltis's appraisal of 'Steuart's solid and substantial argument', which 'is the detailed case he consistently develops for the establishment of what is nowadays called a "corporate state", where the interests of both capitalists and workers as producers are paramount.' This, it might be argued, is largely consistent with the Keynesian view of Stuart, since corporatism appears to be an inevitable political consequence of Keynesian demand management.<sup>80</sup>

Ronald Meek has expressed more general reservations about Stuart's proto-Keynesian credentials. He argues that the process of intellectual rehabilitation is a dangerous one. Too often it engenders the separation of ideas from their historical context and discourages efforts to relate them to contemporary economic and social development:

We cannot postulate the existence of a 'path' leading from Mercantilism to socialism merely on the basis of certain formal similarities between Steuart's work and the 'economics of control'. If we do so, we will certainly escape the Scylla of relativism, but we will do so only to drown on the Charybdis of teleology.

At the time he wrote, progress demanded the defeat of Steuart's ideas. Neither Britain's industrial growth nor the emergence of classical political economy would have been possible in the absence of an era of unrestrained economic individualism, and a victory for Steuart 'would have been most unfortunate for both economic practice and economic theory'.<sup>81</sup>

The truth of this was grasped by future generations, if not always by economists and statesmen of Steuart's own generation. Although Steuart was his own worst enemy, his neglect can be blamed only in part on poor English and the 'proliferation of ponderous inanities that repelled the reader'.<sup>82</sup> Doubtless his frank admission of the brutality of primitive accumulation also shocked later, more apologetic writers.<sup>83</sup> More significant than both these factors, though, was the anachronistic nature of his economic vision and the unpalatable political prescriptions it entailed.

## NOTES

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10. MacFie, *op. cit.*, p. 83.
  11. Chamley, *Documents*, pp. 34, 115 (Miss Elizabeth Mure to Mrs Calderwood Durham, 20 December 1787), and p. 131 (Steuart's dedication of a manuscript of the *Principles* to Lady Wortley Montagu, 11 August 1759).
  12. E. A. J. Johnson, *Predecessors of Adam Smith* (London: P. S. King, 1937), pp. 209–10; J. A. Schumpeter, *History of Economic Analysis* (London: Allen & Unwin, 1954), p. 176, n. 9.
  13. Chamley, *Documents*, pp. 44–6, 110–11.
  14. Sir James Steuart, *Works, Political, Metaphysical and Chronological*, six volumes, ed. General Sir James Steuart (London: Cadell & Davies, 1805; reprinted New York, Kelley, 1967); for details of the Skinner edition see note 1.
  15. Johnson, *op. cit.*, p. 213. Sen and Vickers are important exceptions.
  16. Anderson and Tollson, *op. cit.*, pp. 463–4.
  17. *Works* I, pp. 19–20 (*Principles*, p. 28).
  18. *Works* I, pp. 36–40 (*Principles*, pp. 40–3).
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  22. *Works* I, p. 332 (*Principles*, p. 218).
  23. *Works* I, pp. 348–58 (*Principles*, pp. 229–35).
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  26. E. S. Furniss, *The Position of the Labourer in a System of Nationalism* (New York: Kelley, 1965; first published 1920), pp. 157–97, 201.
  27. *Works* I, pp. 398–403 (*Principles*, pp. 261–3).
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  29. *Works* II, pp. 20–1 (*Principles*, pp. 302–3).
  30. J. S. Mill, *Principles of Political Economy*, ed. W. J. Ashley (London: Longmans, Green, 1909; first published 1848), pp. 748–51; cf. Anderson and Tollson, *op. cit.*, p. 459.
  31. *Works* I, p. 423 (*Principles*, pp. 276–7).

32. *Works* I, pp. 316–29 (*Principles*, pp. 207–15).
33. *Works* I, p. 426 (*Principles*, p. 278).
34. *Op. cit.*, p. 30.
35. *Works* I, p. 346 (*Principles*, p. 227).
36. *Works* II, pp. 52–5, 82–6, 93, 96–7 (*Principles*, pp. 323–5, 344, 348, 351).
37. *Works* III, p. 147 (*Principles*, p. 444).
38. *Works* III, p. 175 (*Principles*, p. 462).
39. *Works* IV, p. 231 (*Principles*, p. 711).
40. *Works* IV, pp. 130, 172 (*Principles*, pp. 644, 671–2).
41. *Works* IV, pp. 201–3, 230, 272 (*Principles*, pp. 692–3, 710, 726).
42. Anon. [George Chalmers], ‘Anecdotes of the Life of Sir James Steuart, Baronet’, in *Works* VI, p. 377; Skinner, ‘Biographical Sketch’, p. liv. (For evidence of the authorship of the ‘Anecdotes’ see Chamley, *Documents*, pp. 27–8.)
43. Smith to William Pulteney, 3 September 1772, in E. C. Mossner and I. S. Ross, *The Correspondence of Adam Smith* (Oxford: Clarendon Press, 1977), p. 164; Chamley, *Documents*, pp. 66–7, 141 (Letter from Steuart to Chalmers(?) on the price of grain, 14 October 1777).
44. Anderson and Tollson, *op. cit.*, p. 465.
45. Meek, ‘Rehabilitation’, p. 6.
46. S. Rashid, ‘Adam Smith’s Rise to Fame: a Re-examination of the Evidence’, *The Eighteenth Century* 23, 1982, pp. 64–85.
47. A. S. Skinner, ‘Appendix D: Published Writings of Sir James Steuart’, in Steuart, *Principles*, p. 740; Perelman, *Classical Political Economy*, pp. 147–9.
48. Reviews (all of them anonymous) appeared in *Scots Magazine* 29, 1767, pp. 199–201; *Critical Review* 23, 1767, pp. 321–9 and 24, 1767, pp. 24–32; and *Monthly Review; or, Literary Journal* 36, 1767, pp. 279–84, 365–78, 464–76 and 37, 1767, pp. 116–25.
49. *Op. cit.*, p. 199.
50. *Op. cit.*, pp. 321, 329.
51. *Ibid.*, p. 32.
52. *Op. cit.*, pp. 280, 367, 564 (original stress).
53. *Ibid.*, p. 125; original stress.
54. ‘Correspondence’, *Monthly Review* 37, 1767, pp. 319–20 (original stress deleted). Steuart’s letter is not reprinted; this is regrettable, as it may well have shed light on his attitude towards Spartan economics.
55. Rashid, *op. cit.*, pp. 71, 78.
56. *Ibid.*, pp. 76–9; *Edinburgh Weekly Magazine*, 7 December 1780, pp. 261–2.
57. Anonymous review of *Works*, *Annual Review* 4, 1805, pp. 252–7.
58. Anon. [James Mill], review of *Works*, *Literary Journal* 1, 1806, pp. 225–35.
59. *Monthly Review*, second series, 50, 1806, pp. 115–21.
60. Rashid, *op. cit.*, pp. 80–1; P. Deane and W. A. Cole, *British Economic Growth 1688–1959* (Cambridge: Cambridge University Press, 1967), p. 33, table 8.
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  65. Sen, *Sir James Steuart*, pp. 20–2, 187.
  66. K. Marx, *Capital* I (Moscow: Foreign Languages Publishing House, 1961), pp. 352n, 616n, 657n (Malthus); *Critique of Political Economy* (London: Lawrence & Wishart, 1971), p. 168 (Smith).
  67. K. Marx, *The Poverty of Philosophy* (Moscow: Progress Publishers, 1973), p. 133.
  68. *Op. cit.*, pp. 57–8, 188–9.
  69. *Capital* I, p. 332n; Marx, *Theories of Surplus Value* I (London: Lawrence & Wishart, 1969), pp. 41–3; III (London: Lawrence & Wishart, 1972), p. 399; *Capital* III (Moscow: Foreign Languages Publishing House, 1962), p. 766; F. Engels, *Anti-Dühring* (London: Lawrence & Wishart, 1942), p. 278 (the relevant chapter was written by Marx, not Engels).
  70. E. Cannan, *Theories of Production and Distribution in English Political Economy From 1776 to 1848* (London: P. S. King, 1920; first published 1893), p. 4; cf. Cannan, *Review of Economic Theory*, p. 24; Johnson, *op. cit.*, pp. 209–34.
  71. P. Chamley, 'Sir James Steuart, Inspirateur de la théorie générale de Lord Keynes?', *Revue d'Économie Politique* 72, 1962, pp. 303–13; P. Lambert, 'Steuart et Keynes: bref commentaire sur l'étude de M. Chamley', *ibid.*, 73, 1963, pp. 104–5; Chamley, 'Steuart et Keynes: réflexions sur le commentaire de M. Lambert', *ibid.*, pp. 105–9.
  72. Sen, 'Sir James Steuart's General Theory', p. 35; Sen, *Economics of Sir James Steuart*, p. 188; on Steuart's nationalism see G. E. Davie, 'Anglophobe and Anglophil', *Scottish Journal of Political Economy* 14, 1967, pp. 291–304.
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  74. A. Skinner, 'Sir James Steuart: Economics and Politics', p. 36; Skinner, 'Economics and History'; Skinner, 'Analytical Introduction', p. lxxxiv.
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77. *Op. cit.*, pp. 250, 255, 259, 263, 296.
  78. Perelman, *Classical Political Economy*, *op. cit.*; Skinner, 'Sir James Steuart: Economics and Politics', *op. cit.*
  79. Anderson and Tollson, *op. cit.*, p. 459.
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  81. Meek, 'Rehabilitation', pp. 11, 17.
  82. H. W. Spiegel, *The Growth of Economic Thought* (Englewood Cliffs, N.J.: Prentice-Hall, 1971), p. 215.
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### 3 Edward Stillingfleet Cayley (1802–1862)

Free trade was probably the least contentious of all the major theoretical issues of economic policy in early nineteenth-century Britain. Of reputable economists only Malthus defended the Corn Laws, and with scant success. The virtual unanimity of the classical economists on this question has led historians almost to ignore the theoretical (as opposed to the political) case for protection.<sup>1</sup> One undeserved victim of this neglect has been E. S. Cayley, one of the most distinguished of that small minority who used serious economic arguments to defend import controls, not merely in the interests of the landed classes but also because of their contribution to the general welfare. Cayley was the author of one full-sized book, *On Commercial Economy* (1830), and of several pamphlets. He sat in Parliament for thirty years, frequently contributing to debates on economic and financial matters. His case for protection combined an analysis of capital accumulation and the impact of machinery with unorthodox monetary views and a thoroughgoing opposition to Say's Law.<sup>2</sup>

#### I

Edward Stillingfleet Cayley was born on 13 August 1802 at Newbold Hall near Market Weighton, in the East Riding of Yorkshire; both his parents were deaf and dumb. On his father's side Cayley could claim descent from the Norman lords of Cailli, near Rouen, who came over with the Conqueror. A cousin, Sir George Cayley, is still celebrated in Yorkshire as 'the father of British aeronautics'. Cayley's mother was descended from the noted theologian and Bishop of Worcester, Edward Stillingfleet. He was educated at Rugby and Brasenose College, Oxford, where he excelled with 'the boat, the bat and the chase' rather than in scholastic pursuits. He was a particularly fine cricketer: an obituarist proudly recalled one innings of 277 not out, 'a greater feat than we believe has ever been performed by any other player'.<sup>3</sup>

Cayley left Oxford without taking a degree and probably without having received much mental stimulation, for 'Oxford was asleep

and no one could possibly regard the remnants of Aristotelian scholasticism taught in her schools as a living intellectual tradition.<sup>4</sup> Certainly he learned no economics there, for it was not until 1825 that Nassau Senior occupied the first Drummond chair. By this time Cayley had settled down, marrying his cousin Emma (Sir George's daughter) and commencing his studies in political economy, in which he seems to have been entirely self-taught. In 1826 he published his opinions on the recent commercial crisis in a forty-six-page pamphlet, *Corn, Trade, Wages and Rent*, and four years later there appeared the more polished and systematic *On Commercial Economy*. A farmer, magistrate and (eventually) Deputy Lieutenant of the county, Cayley was active in local agricultural societies and soon became well known as a supporter of increased parliamentary representation for Yorkshire.

In 1832 he was elected as member for the North Riding, a two-member constituency in which he narrowly defeated the official Whig for second place behind the Tory, who headed the poll. Cayley campaigned as an independent liberal, having earned the displeasure of the great Whig families for his idiosyncratic ideas on the Corn Laws and the currency. 'Liberal but cautious' on other issues, his platform included reform of Church and State, retrenchment in public expenditure, and the abolition of slavery. He proudly proclaimed himself to be 'unconnected with the aristocracy, and a plain country gentleman'.<sup>5</sup> In 1835 Cayley retained his seat, pushing the second Tory candidate into third place due to his immense popularity among the farmers, who voted for him irrespective of any political differences. After this triumph he was unopposed at the next four elections.

If not quite 'the leader of the agricultural party in the House of Commons',<sup>6</sup> as his constituents liked to believe, Cayley was a vigilant defender of the farming interest inside and outside Parliament. He was a member of the Commons Select Committee on Handloom Weavers (1834-5), on Agricultural Distress (1836) and on Commercial Distress (1848), and several of his speeches on economic and financial questions were printed as pamphlets. In 1834-5 Cayley edited the *Agricultural and Industrial Magazine* for the Society for the Encouragement of Domestic Industry, and he was to speak and write for several protectionist organisations over the next fifteen years. In all this he remained very much his own man: 'Over scrupulous and at times crotchety, there was no counting upon his vote until the time to give it arrived.'<sup>7</sup> Gradually, however,

the logic of his economic opinions propelled Cayley towards Conservatism. By the early 1850s he was declaring his qualified support for Derby and Disraeli, and in private correspondence the reservations disappeared entirely.<sup>8</sup> In his constituency Liberal dissatisfaction with Cayley increased, and at the general election of 1857 he was opposed (unsuccessfully) by an official Whig candidate. He died in London on 25 February 1862, among the last of the genuinely independent county members.<sup>9</sup>

## II

*Corn, Trade, Wages and Rent*<sup>10</sup> appeared in the year after the disastrous crisis of 1825, when the author was still in his early twenties. Cayley's aim was to argue, against Ricardo, that the social good was best served by a high (and not a low) price for corn:

My first endeavour shall be, to prove to the manufacturer that, under the present state of taxation, cheap corn is *not* necessary to fair profits; that labour is *not* solely or so much dependent for its price on the price of food, as on the demand for commodities; and that a high rate of profits is *not* necessary to the prosperity of a nation, although a high rate of wages is certainly beneficial to the labourer. (p. 7)

Historically, Cayley argues, the rate of profit in industry has been positively rather than negatively related to the price of corn (p. 8). A low price for corn reduces the agriculturalists' demand for goods and hence also the demand for labour, depressing both wages and employment (pp. 9–10, 15–18). This is Cayley's principal argument in favour of high corn prices. 'The manufacturing classes', he points out, depend upon

the prosperous or unprosperous state of their customers; particularly their home customers, who purchase four-fifths of the whole goods that are manufactured; that the landholders with those immediately depending upon them, the farmers, the labourers, the country towns and villages, form the principal portion of these home consumers; that although their prices are opposed, the manufacturing and agricultural interests must be identified, their prosperity mutually depending on each other, and the prosperity of both, on a good and remunerating price for each of their respective products . . . (pp. 14–15)

There are two subsidiary arguments: high prices reduce the real burden of the national debt (pp. 34, 36, 44–5) and move the terms of trade in Britain's favour (p. 42n). Cayley concludes that 'every branch of trade prospers more under a high than low price of corn' (p. 31).

Free trade, he suggests, is rather like republicanism: it is excellent in principle, but not to be tried in practice for several centuries – certainly not as long as the national debt remains so crippling and the taxes on farmers so severe (pp. 35–6, 41). Britain has innate advantages in very few branches of industry (p. 18). Conversion of arable land to pasture will depopulate the rural areas, as in the sixteenth century (pp. 19–20). The withdrawal from cultivation of poor soils will cause capital to flow into industry. As 'the change in our system will not increase the demand for our manufactured goods', this will depress profits and wages in industry. Even if exports increased, it would be at the expense of the home trade: 'we should be enriching the importing country, whilst we were impoverishing our own' (pp. 21–2). What is needed instead is the guarantee of a 'remunerating price'<sup>11</sup> for corn, with a fixed duty of 21s per quarter set to protect a price of 70s. The quantity of money in circulation should be established at a level (Cayley suggests £35 millions) sufficient to support this price, and should consist of gold, Bank of England notes and country bank notes (p. 46).

In *Corn, Trade, Wages and Rent*, Cayley shows himself to be familiar with the work of Smith, Ricardo and Malthus, all of whom he cites. The basis of his own theoretical system is already apparent, especially in the crucial role attributed to agriculture and the emphasis placed on demand in general and the home market in particular. These two themes are brought together to justify Cayley's conclusion that there exists a fundamental harmony of interests in society, rather than the conflict imagined by the Ricardians: 'the health of all classes is inseparable' (p. 45), since each provides the others' customers. At the same time he rejects the notion that harmony will be secured automatically by the free play of market forces. On the frontispiece of the pamphlet there are two rhyming couplets from Pope, of which the second reads:

Self-love forsook the path it first pursued,  
And found the private, in the public good.



## III

The 1826 pamphlet is clearly only a provisional statement. Cayley has yet to develop a coherent analysis of capital accumulation and the underconsumptionist tendencies inherent therein, and to fill out his rather sketchy ideas on money. In his major work, *On Commercial Economy*, published in 1830, these omissions are rectified.<sup>12</sup>

Significantly, the book begins with a discussion of machinery which, Cayley asserts, is expanding production much more rapidly than consumption (p. 14). Say's Law is valid in a stationary state, but it breaks down under dynamic conditions:

We are not to be put off by the abstract axiom of political economy, that the amount of products in demand, will always dictate the wholesome number of producers. If the thing produced never varied in the quantity of labour it required from century to century, the relations between labour and goods would, it is true, preserve their proportion; and the gradual declension of demand would re-act on the population, without much apparent distress; but new mechanical discoveries disconcert entirely the grounds of a supposed graduation in the change . . . The progress of Machinery has been so rapid, that it has outproportioned the market of [or?] demand for goods (and not in this country only), while it has, by a necessary consequence, surfeited that of manual labour. No wonder that Misery stalks abroad, when the healthy proportion is lost, between the demand and supply, which alone can constitute the sound condition of a commercial country; nor need it be expected that the proper adjustment will ever be made between the great market for goods, the prolific capacity of Machinery, and the employment of manual labour, otherwise than by an artificial expansion of the first, a partial oblivion of the second, or a proportionate diminution of the third. (pp. 16–17)

Here Cayley supplies what is lacking in the earlier pamphlet: a frontal assault on the notion that generalised over-production is impossible. His argument differs from that of Ricardo, for example, in placing deficiencies in aggregate demand at the centre of the analysis. Say's Law holds good only in conditions of economic tranquillity. When there is rapid technical change production expands faster than demand, and it is this (rather than an increase in

the fixed relative to the circulating component of capital) which gives rise to mass unemployment.

In the second chapter he sets out his analysis of the over-accumulation of capital. The central problem, once again, is that production tends to run ahead of consumption. Overproduction is most pronounced in manufacturing, 'especially if the increase in manufacturing production have not the effect of raising the price of agricultural produce; which, as it was the original source, continues to be the barometer of the powers of consumption in a nation' (p. 27). There is a particular difficulty with respect to luxury goods, the demand for which is 'much more difficult to estimate than those for simple conveniences; and this cause, added to the eager competition of accumulated capital after profits, produced those intervals of distress which have arisen from production exceeding consumption' (pp. 28-9).

There follows a remarkable passage in which Cayley expresses the equilibrium (full-capacity utilisation) rate of growth as the product of the rate of profit and the propensity to consume of the capitalists:

Capital appears to me to have a tendency to exceed population in its increase quite as much (at present, even more) as population tends to exceed agricultural produce in its increase. If £1,000, by compound interest doubles itself in fifteen years, which it does, this is at a rate four times greater than the increase of population, (taking sixty years as the average rate of doubling). Now, when we consider that ten per cent used, until lately, to be below the average remuneration from capital actively invested, i.e. in trade, commerce, agriculture, etc., we may fairly presume that not more than one half of this, or five per cent of the profits, was expended on the capitalist's own consumption, the remaining five per cent going to multiply production. This will cause an accumulation of capital equal to that of money at five per cent compound interest, and four times greater than the average increase of population; and when we remember the fifteen and twenty per cent so often made in manufactures in prosperous times, I do not think this an exaggerated estimate. (pp. 29-30)

If Cayley had possessed a taste for algebra he could hardly have avoided writing the modified Harrod-Domar equation  $g_w = s_c \cdot r$ , where the warranted growth rate ( $g_w = 5\%$ ) is the product of the capitalists' savings propensity ( $s_c = \text{one half}$ ) and the rate of profit ( $r = 10\%$ ). There are echoes of both Ricardo and Malthus in this. The

notion that the growth rate depends on the profit rate is a Ricardian one, as is the argument that the capitalists' savings propensity is high enough to induce a substantial rate of accumulation out of profits. Cayley shares Malthus's concern that production will tend to outrun consumption and insists with him on the importance of consumption out of agricultural income. His position on population and the Poor Laws is also essentially Malthusian (though these questions do not figure prominently in his argument). But there is no suggestion of diminishing returns in *On Commercial Economy*. Cayley's opposition to Say's Law and rejection of the falling rate of profit set him apart from Ricardo: his assertion that high wages stimulate consumption are at odds with Malthus; and heretical views on money distance him from both writers.<sup>13</sup>

Evidence of over-accumulation can be found in the short term, Cayley argues, in 'all the bubbles' in British economic history from the South Seas scandal to the crisis of 1825 (p. 31). In the longer term it is demonstrated by the secular decline in the rate of interest, notably in Holland (pp. 32–4) and by the growth of the 'unproductive class' which helps to 'balance the great scales of production and consumption' (p. 39).<sup>14</sup> It will soon be manifested in the export of surplus capital which, unless it be directed to India, will threaten Britain's competitive position in the world economy (p. 40).

The next two chapters fill out the argument. Cayley stresses the importance of working-class consumption, which is continually threatened by the progress of machinery:

Moreover, machinery seems to contain within itself the seminal principles, as it were, of an endless supply to a glutted market; for capital being fixed in machinery, cannot, as its particular trade proves unproductive, turn off its hands, and apply itself to some other branch; because, unless the machinery, which is not a probable case, be applicable also to another trade, it must either continue working, or the capital invested in it be entirely lost; if worked, it must be with less human labour, and even then at a great diminution of profits, such as will increase inordinately the accumulation of goods in the market. The distress of the labouring class, thus thrown out of employment, must be accompanied by diminished power to purchase goods, in the most numerous class of consumers; and it is an evil of growing magnitude. (pp. 44–5; cf. pp. 69–70, 72)

Now the 'natural cure' for over-production is 'cheapness' (p. 56). But price reductions will no longer significantly increase the demand for goods, because 'unfortunately, the principal agent in cheapness is machinery, which not only is a very diminutive consumer itself, but like the dog in the manger, objects to consumption by that class which had before contributed most to it' (p. 51).

Increased productivity also reduces the working-class share in total output: 'It is calculated, on the estimate of remunerating wages, that every labourer, on an average, produces fourfold the value of what he consumes, i.e. quadruple the amount of his wages' (p. 55). And 'consumption will always be greatest where income is the most minutely spread' (p. 243). What is required, therefore, is 'the most natural of the artificial remedies for overproduction', since 'cheapness' can no longer be relied upon; this is 'to increase the quantity of goods' (pp. 56–7). In fact Cayley identifies a separate 'consumption interest' (p. 84), consisting in particular of the agriculturalists and the unproductive classes, who are described as 'wholesome consumers' because they contribute to the demand for manufactured goods without adding to the supply (p. 60; cf. pp. 67, 82). In order to stimulate the consumption interest, he again concludes, it is necessary to depreciate the monetary standard.

The long fifth chapter on 'Currency' incorporates the whole of Thomas Attwood's *Cause and Remedy of the Agricultural Distress*,<sup>15</sup> and Attwood's influence is apparent throughout. Cayley also cites Sir James Steuart (an unusual source in the year 1830), Smith, Say, Tooke, Sinclair and the report of the Bullion Committee. His argument will be familiar to anyone who knows Attwood's writings. The return to a convertible currency in 1819 was a gross error, enriching creditors at the expense not only of debtors but also (through its depressing effect on aggregate demand) of society as a whole. A controlled depreciation should be implemented by the introduction of a silver standard (p. 151), or preferably a paper currency (pp. 152–3) or a metal alloy (p. 154). Cayley's proposals are more cautious than was commonly the case with monetary heretics in this period. There is no suggestion that continuous depreciation will be necessary, and Cayley specifically insists upon a gradual change which

will have much less tendency to excite a quick overproduction than a sudden alteration, which would give to the powers of consumption too great immediate capacity, and induce the

producer to miscalculate their [*sic*] permanent market, and so lead to hurrying on the next mercantile catastrophe. (pp. 161–2)

Finally Cayley arrives at the question of free trade. There could be no objection to ending protection if the market were unlimited (p. 181), or if the currency had been sufficiently depreciated to ease the burden of the national debt on the British farmer (pp. 236–9). Cayley reverts to the central theme of his 1826 pamphlet: a high price for corn means a strong home demand for manufactures, and the reverse is also true (pp. 218, 221, 226–30). There are subsidiary arguments for protection, in terms of the needs of infant industries (pp. 184–9), the uncertainty engendered by overspecialisation on a limited range of products (pp. 192–3), and the apparent dangers of foreign – especially United States – competition (pp. 194–7, 200–16). But Cayley returns to the need for high prices in his specific proposals for monetary reforms to raise the price of wheat to 8s per bushel (pp. 241–2). And free trade? ‘What can we say more than on the subject, than that since the only real wealth of a country is that which proceeds from a full employment of its industrious population, whenever free trade gives this, it is beneficial; when it does not, it is detrimental’ (p. 239).<sup>16</sup>

#### IV

*On Commercial Economy* was Cayley’s major work, and his last substantial contribution to political economy.<sup>17</sup> The subsequent development of his ideas can, however, be traced through the pamphlets he wrote in the 1840s, his Commons speeches on economic matters, and his election addresses and orations at the hustings. Two issues almost monopolised his attention: reform of the currency, and the case for protection.

After an early flirtation with what seems to be a version of the ‘real bills’ doctrine,<sup>18</sup> Cayley soon espoused an orthodox Ricardian theory of the value of money, according to which new gold discoveries would reduce the embodied labour content of gold, decreasing its value and increasing the price of corn.<sup>19</sup> He also developed a monetary theory of cyclical crises. A rudimentary version of the argument was offered to the Commons in 1839: a rise in imports produces an outflow of gold, contracting the domestic money supply and forcing down prices, which leads to depression by forcing bankruptcies and wage reductions. In 1857 Cayley set out a

rather more sophisticated analysis. The low rate of interest, he argued, had encouraged investment; the resulting increase in wages had pushed up the price level and reduced exports; and this had produced the bullion drain which precipitated the recent crisis.<sup>20</sup>

There is a certain tension here between Cayley's labour theory of the value of money and his quantity theory of the overall price level. Similar uncertainty is evident in his attitude towards the Bank of England. Given the central role of the money supply in his political economy, one might have expected Cayley to demand a managed currency under the control of a duly enlightened monetary authority. But – like almost all his contemporaries of virtually every persuasion – he was deeply suspicious of the Bank. 'Supposing that the Castle Yard were filled with water', he asked his York constituents in 1832, 'and that all the persons in it were fish, and that the Directors of the Bank of England held the plug, by which they could either let in more water, or drain the place dry, would they think that right? And yet it was exactly the case.'<sup>21</sup> 'Tampering with the currency' had given rise to 'the unsuitable and iniquitous standard of 1819',<sup>22</sup> and Cayley was against it. The aim of monetary reform was clear enough:

Money was an instrument for diminishing the inconveniences of barter . . . from a servant it had risen to be a master, from a master to a tyrant . . . [It was necessary to restore] its subservience to the end for which it was created. That end was, to keep a sufficient and steady supply of circulating medium, proportioned to the scope and energies of trade. So that the gigantic stakes of commerce should not be periodically forfeited by the counters being filched away in the midst of the game.<sup>23</sup>

Exactly how this end might be achieved was another matter, and his early enthusiasm for a paper currency was not maintained.

There was less hesitancy in Cayley's defence of the Corn Laws. In his manifesto written in 1844 for the Agricultural Protection Society, he emphasised once again the beneficial effect of a high corn price on the level of aggregate demand:

If agricultural produce falls beneath this proper price, the effect is felt, not by owners, or occupiers, or agricultural labourers alone; but it is felt by the tradesmen and artisans of all towns and villages, and by the great mass of the manufacturing operatives; –

because the largest body of consumers of their manufactures cannot then afford to buy them.<sup>24</sup>

The rest of this pamphlet breaks no new ground, but the *Letters to Lord John Russell* (1846) are rather more systematic. Here Cayley argues against repeal of the Corn Laws on methodological grounds. Economics is not a precise science, as Ricardo had unwittingly revealed in his erroneous assertion that the return to convertibility in 1819 would reduce prices by only 4 per cent. The economist 'deals with materials of a much more mysterious and complicated and evanescent character than those which are the subjects of the purer sciences.' Only 10 per cent of all mechanical patents ever succeed:

What a lesson to speculative political philosophers of the present day! Since they cannot forget that, as regards the practical concerns of any great nation, we have as yet no experience of free trade; so that their view of it, in application to this country, must be purely hypothetical.<sup>25</sup>

Cayley repeats the infant industry and terms of trade arguments for protection, and reiterates that cheap corn will depress wages both directly and (through the competition of displaced farm labourers for industrial employment) indirectly.<sup>26</sup>

Cayley was especially concerned about the political and social repercussions of free trade. He believed strongly that the harmony of interests of the various classes and branches of industry must be defended by appropriate economic policies and would be endangered by unfettered economic liberty. As he told the inaugural meeting of the Yorkshire Agricultural Association, 'he entirely agreed with the opinion that the manufacturing and agricultural interests were closely united. There was, however, a line which too many forgot to draw. If the manufacturers would have corn at 5s per bushel when they ought to pay 8s then that connection must cease.'<sup>27</sup> His 1844 pamphlet stressed the working-class stake in protection. British industry was uniquely handicapped by the burden of the national debt:

Except, therefore, under some extraordinary superiority of machinery (which can only be considered as a temporary and accidental advantage), to admit, by free trade, the cheap, comparatively untaxed labour of foreign countries, to compete with the heavily taxed labour of this country, would be to commit an act of the worst injustice to the mass of its population. It would

be, in other words, for the sake of a selfish advantage to capital, unnaturally to prefer a foreign to a British workman.

Even Adam Smith had endorsed protection under such circumstances.<sup>28</sup> It was the unemployment caused by several years of cheap corn that had provoked the Swing riots of 1830.<sup>29</sup> 'Foreign goods was foreign labour' and free trade meant 'war to the knife between British wages and foreign wages'.<sup>30</sup> The outcome might be disastrous: 'I fear the result, in one generation, of a second great prostration of industry, from a fall in prices, that might be followed by a revolution, which, even in England, might not again prove a peaceful one.'<sup>31</sup>

These words were written in 1846. Five years later Cayley had repudiated protection and switched his energies to a campaign against the malt tax and other agricultural duties.<sup>32</sup> There was more to his change of heart than a simple recognition of political reality. He had always argued that the currency question and the issue of free trade were closely connected. For Cayley they were important less in their own right than because of their impact on the price of corn. By the early 1850s it was apparent that agricultural prices were rising, and would continue to do so. The new gold discoveries were depreciating the currency just as Cayley had demanded for a quarter of a century. His 1852 election address described California and Australia as 'the unanticipated sheet anchors of the present system'.<sup>33</sup> In 1857 they could be seen as vindication of his life's work:

In the year 1830 I stated in a book I wrote that I didn't care about protection so long as we have cheap money. Give me gold – give me cheap paper – and I don't care for protection. We have Australia – we have, thanks to a beneficent Providence, California, and that settled the question of free trade.<sup>34</sup>

## V

Cayley's work may be assessed according to three criteria: the originality of his arguments, their coherence, and their impact. Taken individually, most of his ideas were unoriginal. His views on the currency were largely derived from Thomas Attwood, with the later addition of a more orthodox Ricardian component. The origins of the underconsumptionist strand in Cayley's thought can of course be found in Malthus and Lauderdale, who influenced lesser Tory



figures such as Rosebery and David Robinson.<sup>35</sup> Early radical and socialist writers had explained deficiencies in aggregate demand in terms of the restricted purchasing power of the working class, which they often traced to the displacement of labour by machinery.<sup>36</sup> Malthus himself had defended the Corn Laws because of the stimulating effect on the home market of high prices, and the consequent reduction in the real burden of the national debt.<sup>37</sup> Cayley's originality lies more in his integration of these disparate elements, particularly in his synthesis of what would now be termed the 'monetary' and 'real' aspects of the macroeconomic problem. This was far from common practice at the time. Enthusiastic monetary reformers tend to lose sight of everything else, while for the more orthodox, Robbins argues that

. . . these speculations about money and credit tended to be something of a thing apart. The problem was recognised to be important; but the solution, whatever it was, was not conceived to involve other parts of the market mechanism . . . rightly or wrongly, there was a certain presumption that if anything went wrong with finance it could be put right without modification of arrangements which were thought to be appropriate to the other parts of the system.<sup>38</sup>

This was not a criticism which could be made of Cayley.

Among the intrinsic merits of Cayley's ideas, his persistent emphasis on the role of demand in determining the level of economic activity must be rated very highly indeed. His attitude to capital accumulation, to machinery, to the currency, and to the Corn Laws was determined by their effect on 'the full employment of the people',<sup>39</sup> which he regarded as the only true standard of economic welfare. In a period when employment was generally held to depend entirely on the relationship between the size of the wage-fund and the wage rate, and was therefore little discussed,<sup>40</sup> this was a significant advance. Cayley's attempts to formulate a monetary theory of the trade cycle are also praiseworthy, if ultimately less than entirely convincing. Finally, in an era when more respectable economists 'applied to the monetary standard a devotion to creed and dogma that they deprecated in religion and social philosophy', his scepticism as to the virtues of an automatic gold standard counts strongly in his favour.<sup>41</sup> His was a powerful voice in opposition to the moral and scientific authority of Ricardian political economy.

On the negative side there are mistakes, inconsistencies and

hesitations to be reckoned with, although Cayley was not, of course, unique in this respect. His analysis of international trade correctly emphasises against Ricardian theory that the full employment of resources cannot be taken for granted; but it is weakened by his confusion of absolute and comparative disadvantage, and by his neo-Mercantilist insistence that trade is a zero-sum game.<sup>42</sup> His ideas on money are interesting rather than completely coherent, and there is an obvious methodological difficulty for anyone who constructs an analytical system of his own which sets 'the dictates of commonsense' above the 'modern economist, bemused with abstract theories'.<sup>43</sup>

Cayley's own discussion of over-accumulation would have benefited from more abstract theory rather than less. Like all nineteenth-century underconsumptionists he has nothing at all to say about the demand-generating effects of investment spending. Nor did he effectively integrate his treatment of the agricultural and manufacturing sectors. He argues that the crucial problem faced by the manufacturers is deficient demand, and that the farming interest represents their principal customer. Evidently great significance attaches to the precise relations between these two branches of the economy, but Cayley does not develop a model of balanced agricultural/industrial growth like that which Marx was later to present (in his reproduction scheme) for the two main departments of secondary industry.<sup>44</sup>

Cayley's career as an economist was not a success. None of his more illustrious contemporaries took his work seriously enough to polemicise with him. As for posterity, anyone who escaped the attention of both Karl Marx and Joseph Schumpeter can hardly be said to have left his mark on the history of political economy. In Parliament, too, Cayley's influence was limited and many of the policies he fought for were defeated: the Corn Laws were repealed, the standard of 1819 remained unaltered, the malt tax continued to be levied. Even his own loyal constituents showed little understanding of his economic ideas, voting for him rather in spite of his 'mystifying harangues on the currency', as they were described by one local newspaper.<sup>45</sup>

Interest in currency reform was in itself almost enough to deny Cayley a sympathetic hearing, monetary dissenters being commonly regarded 'as if they were lunatics or enemies of society'.<sup>46</sup> Blind prejudice apart, there were good reasons for his neglect. Defective in certain important respects, Cayley's system was also incomplete.

Although he insisted to the end that economic crises were 'not an inevitable necessity',<sup>47</sup> he could offer no compelling remedy. As the mistakes of 1819 receded into history a simple depreciation of the currency appeared increasingly inadequate, and after 1852 the reintroduction of the Corn Laws was no longer practical politics.

If, analytically, Cayley had much to offer, on questions of policy he was far less incisive. On monetary matters he advocated neither the inflationist proposals of the Birmingham School nor discretionary powers for the Bank of England. While the economist in Cayley recognised the advantages of unproductive consumption, the political reformer could not overcome his hostility to 'the placeman, the pensioner, the annuitant, and the Jew'.<sup>48</sup> Nor did he even mention the possibility of countercyclical public works programmes. Finally, he was no egalitarian. Socialist critics of capitalist instability urged support for trade unions, statutory wage-fixing machinery, a universal eight-hour day and generous relief for the poor, in order to maintain the consumer power of the working people and ameliorate depression.

Cayley was too much of a conservative for this,<sup>49</sup> and his lifelong support for 'dear bread' would have denied him a mass working-class following had he ever sought one. In fact he had very little to offer by way of positive action. 'If there had been among the back-bench squires men able to cope in debate with Cobden and Bright,' Jacob Viner argued, 'the reign of Mercantilism in England might not have had its 1846 to 1916 intermission.'<sup>50</sup> Cayley was not quite of this calibre, nor was he suited temperamentally to such a role. Something of a political loner, he refused to attach himself to any party or faction (unlike Thomas Attwood, who was for a time a prominent Chartist). His economic exile was largely self-imposed.

## NOTES

1. See, for example, the extremely cursory discussion in D. P. O'Brien, *The Classical Economists* (Oxford: Oxford University Press, 1975), p. 276. See also F. W. Fetter, *The Economist in Parliament: 1780-1868* (Durham, North Carolina: Duke University Press, 1980), pp. 34-44, and W. D. Grampp, *The Manchester School of Economics* (Stanford, California: Stanford University Press, 1960), especially pp. 16-38.
2. Cayley's arguments are briefly and sympathetically summarised in B. J.

- Gordon, *Non-Ricardian Political Economy: Five Neglected Contributions* (Boston, Mass.: Baker Library, 1967), pp. 13–19, which remains the only substantial appraisal of his work.
3. 'Memoirs of Edward Stillingfleet Cayley, Esq', *The Farmer's Magazine*, second ser., vol. X, no. 2, August 1844, pp. 81–4 (which includes a portrait); obituary in *ibid.*, vol. XXI, 1862, pp. 354–6; Boase, *Modern English Biography*, vol. I, p. 577; Mrs. Chomley, *Yorkshire Heritage* (Malton: The Author, 1981), pp. 35–7; J. Lawrence Pritchard, *Sir George Cayley: the Inventor of the Aeroplane* (London: Max Parrish, 1961).
  4. E. Halevy, *A History of the English People in 1815* (3) (London: Penguin, 1938), p. 212.
  5. *Times*, 19, 24 December 1832; *York Herald*, 15, 22 December 1832; *Yorkshire Gazette*, 8, 22 December 1832.
  6. *The Yorkshireman*, 5 August 1837.
  7. P. Richards, 'The State and Early Industrial Capitalism: the Case of the Handloom Weavers', *Past and Present* 83, 1979, pp. 101–25; F. W. Fetter, *The Development of British Monetary Orthodoxy 1797–1875* (Cambridge, Mass.: Harvard University Press, 1965), pp. 164, 214, 228; *Times*, 27 February 1862 (obituary).
  8. Twenty letters from Cayley to Disraeli are now held at the Bodleian Library, Oxford (B/XXI/C105–24). The most interesting of these (C110–16) cover the period 1851–3 and reveal the depth of Cayley's support for Disraeli against both the Manchester School and the bigoted protectionists in his own party. In the absence of Disraeli's replies it is impossible to judge how seriously the Tory statesman took Cayley. The absence of the latter's name from the indexes of the standard biographies by Blake, and Money Penny and Buckle, suggests that he was not a major influence on Disraeli's economic ideas.
  9. *York Herald*, 10 July 1852, 4, 11 April 1857, 1 March 1862 (obituary); *Yorkshire Gazette*, 1 March 1862 (obituary). His replacement as member for the North Riding was a Tory, who was endorsed by Cayley's supporters (*Yorkshire Gazette*, 8 March 1862).
  10. *Corn, Trade, Wages and Rent; or, Observations on the Leading Circumstances of the Present Financial Crisis, as They Affect the Artisan, the Manufacturer, the Labourer, the Tenant, and the Landlord, Serving to Elucidate the True Interests of Each* (London: James Ridgeway, 1826). Gordon (*op. cit.*, p. 47) notes a second, revised edition in 1827. All page references in section II of this chapter are to the first edition of the pamphlet.
  11. Here Cayley is rendering precise a concept attacked in Parliament by Ricardo as impossibly vague: W. Smart, *Economic Annals of the Nineteenth Century 1801–1820* (London: Macmillan, 1910, p. 733).
  12. *On Commercial Economy in Six Essays: viz., Machinery, Accumulation of Capital, Production, Consumption, Currency and Free Trade* (London: James Ridgeway, 1830), reprinted in 1972 by the Irish University Press at Shannon, from which edition all page references in section III are taken.
  13. On Ricardo, see L. L. Pasinetti, *Lectures on the Theory of Production*

- (London: Macmillan, 1977); on Malthus, W. A. Eltis, 'Malthus's Theory of Effective Demand and Growth', *Oxford Economic Papers*, vol. 32, 1980, pp. 19–56. In *On Commercial Economy* Cayley endorses 'strict attention to the administration of the poor laws, (thus, by a gradual prevention of support to able bodied labourers, curtailing the growth of population)' (p. 162). This brief reference is incidental to the main thrust of his argument. See also *ibid.*, p. 259.
14. As will be seen below, Cayley's attitude towards unproductive consumption was deeply ambivalent.
  15. *An Exposition of the Cause and Remedy of the Agricultural Distress*, by Thomas Attwood, Esq., etc. Cayley notes that this was 'an exposition made by Mr Attwood, to the Agricultural Committee, on the 9 April, 1821, which was *refused insertion* in the Minutes of evidence, but which Mr Attwood himself published, July 4, 1829' (*On Commercial Economy*, p. 95; original stress).
  16. 'Foreign trade and exchanges are the mere creatures of the national convenience': Thomas Attwood, *A Letter to the Earl of Liverpool* . . . (1819), p. 28, reprinted in F. W. Fetter (ed.), *Selected Economic Writings of Thomas Attwood* (London: L. S. E. Reprints of Scarce Works on Political Economy, 1964).
  17. Gordon (*op. cit.*, p. 19) speculates that this was due to Cayley's frustration at his inability to influence economic policy. I suspect that his chronic illness after 1840 was equally important, along (perhaps) with a recognition that in analytical terms he had little more to say.
  18. 'It was a mistake to suppose that the circulation of the country was dependent upon the quantity of specie in it. The amount and value of the circulation depended upon the property and security of those who issued notes': *Hansard*, vol. 18, 1 July 1833, col. 1384.
  19. *Parliamentary Papers*, 1837 V, Cayley's evidence to the House of Lords Committee on Agricultural Distress, 14 March 1836, p. 239; cf. *Hansard*, vol. 28, 1 June 1835, col. 274; vol. 148, 7 December 1857, cols 287–8.
  20. *Hansard*, vol. 46, 12 March 1839, col. 398; vol. 148, 7 December 1857, col. 286.
  21. *York Herald*, 22 December 1832. On the general mistrust of the Bank of England in this period, see Fetter, *British Monetary Orthodoxy*, p. 142; and O'Brien, *op. cit.*, pp. 152–9.
  22. *Hansard*, vol. 33, 12 May 1836, col. 874.
  23. *Hansard*, vol. 140, 28 February 1856, col. 1527.
  24. E. S. Cayley, *Reasons for the Formation of the Agricultural Protection Society, Addressed to the Industrious Classes of the United Kingdom* (London: John Ollivier, 1844), p. 14.
  25. E. S. Cayley, *Letters to the Right Honourable Lord John Russell, M.P., on the Corn Laws* (London: John Ollivier, 1846), p. 18; cf. *ibid.*, pp. 8, 19, 29.
  26. *Ibid.*, pp. 22–4, 26–8.
  27. *Yorkshire Gazette*, 22 December 1832.
  28. Cayley, *Reasons* . . . pp. 7–8; cf. *ibid.*, pp. 13–14.
  29. *Ibid.*, p. 19.

30. *Farmer's Friend and Freeman's Journal*, 26 January 1850, reporting Cayley's speech at a large protectionist meeting in York. (This was a protectionist weekly newspaper in York, in which Cayley had an interest.)
31. Cayley, *Letters* . . . p. 28.
32. *Hansard*, vol. 116, 8 May 1851, col. 682; cf. *ibid.*, vol. 123, 25 November. Cayley was not well supported, as is suggested by Lord Stanley's diary entry for 8 May 1851: 'Cayley raised his annual debate on the malt tax. My Father [Derby], in a printed letter, had declined to strike five millions off the revenue without equivalent. Disraeli voted for the motion, guarding himself in an ingenious harangue. I stayed away purposely, as did many of the country gentlemen' (J. R. Vincent (ed.), *Disraeli, Derby and the Conservative Party: Memoirs of Edward Henry, Lord Stanley, 1848-1869*, Brighton: Harvester, 1978, pp. 64-5). A year later Cayley endorsed John Stuart Mill's proposal for a general 10 per cent sales tax as the fairest source of government revenue (Cayley to Disraeli, 16 August 1852: B/XXI/C113).
33. *York Herald*, 10 July 1852.
34. *York Herald*, 11 April 1857.
35. M. Bleaney, *Underconsumption Theories: A History and Critical Analysis* (London: Lawrence & Wishart, 1976); B. Gordon, *Economic Doctrines and Tory Liberalism 1824-1830* (London: Macmillan, 1979), p. 159; S. Rashid, 'David Robinson and the Tory Macroeconomics of "Blackwood's Edinburgh Magazine"', *History of Political Economy* 10, 1978, pp. 258-70.
36. J. E. King, '“Perish Commerce!” Free Trade and Underconsumption in Early British Radical Economics', *Australian Economic Papers* 20, 1981, pp. 235-57; M. Berg, *The Machinery Question and the Making of Political Economy, 1815-1848* (Cambridge: Cambridge University Press, 1980), ch. 12.
37. P. James, *Population Malthus* (London: Routledge & Kegan Paul, 1979), pp. 261-3.
38. L. Robbins, *The Theory of Economic Policy in English Classical Political Economy* (London: Macmillan, 1952), p. 32.
39. Cayley, *Reasons* . . . p. 11. See also his support for Factory Acts: Fetter, *Economist in Parliament*, pp. 70, 73, 75.
40. B. A. Corry, *Money, Saving and Investment in English Economics 1800-1850* (London: Macmillan, 1962), pp. 63-7.
41. Fetter, *British Monetary Orthodoxy*, p. 142. Cayley's 1835 description of open-market operations is cited by Jacob Viner, *Studies in the Theory of International Trade* (New York: Harper, 1937), p. 259, n. 17. His perceptive interrogation in 1848 of the Governor and Deputy Governor of the Bank of England showed 'a concern about the level of employment and the relation to it of the rate of interest [which] had quite a modern ring': B. Thomas, *Migration and Economic Growth* (Cambridge: Cambridge University Press, 1973), pp. 181-2.
42. *On Commercial Economy*, pp. 182-4, 190-9; cf. *ibid.*, p. 181: 'So long as the market can be considered unlimited, it matters little how trade is arranged.'

43. *Corn, Trade, Wages and Rent*, p. iv, citing Lord Chatham; *Letters* . . . p. 29.
44. I owe this point to John Singleton.
45. *York Courant*, 15 July 1841. Marx does mention Cayley while citing his interrogation of Overstone at the 1857 Select Committee, but appears to have been unaware of his writings: K. Marx, *Capital*, vol. III (Moscow: Foreign Languages Publishing House, 1962), p. 417. Cayley's name is omitted from the index of this edition.
46. L. Robbins, *Robert Torrens and the Evolution of Classical Economics* (London: Macmillan, 1958), p. 253, cited Fetter, *British Monetary Orthodoxy*, p. 237.
47. *Hansard*, vol. 149, 3 May 1858, col. 2170.
48. *Hansard*, vol. 100, 7 July 1848, col. 271; see also the inconsistency between pp. 38 and 39 of *On Commercial Economy*, where 'the receivers of fixed payments' are alternately damned and praised.
49. Although he was in the majority on the 1834–5 Select Committee in recommending minimum wage protection for the handloom weavers, Cayley seems to have done nothing more about it. He supported the Ten Hours Bill of 1847, but was more reluctant to endorse restrictions on working hours in the mines (*York Courant*, 12 August 1847; *Hansard*, vol. 159, 13 and 22 June 1860, cols 410, 849). On the other hand, he was a consistent supporter of the New Poor Law of 1834 (*On Commercial Economy*, pp. 259–60; *York Herald*, 17 January 1835; *Yorkshire Gazette*, 12 August 1837). David Roberts, *Paternalism in Early Victorian England* (London: Croom Helm, 1979), p. 228, is quite wrong on this point, and on balance his description of Cayley as a paternalist may be doubted. See, however, a quite uncharacteristic denunciation of 'the physical check of Malthus, which left redundant human beings to starve down to the fit and proper number' (*Hansard*, vol. 86, 11 May 1846, col. 411). Significantly, this was in the crucial debate on the repeal of the Corn Laws.
50. J. Viner, *Studies in the Theory of International Trade* (New York: Harper, 1937), p. 118, cited S. R. Sen, *The Economics of Sir James Steuart* (London: London School of Economics/Bell, 1957), p. 78.

## 4 John Francis Bray (1809–1897)

### I

The third and fourth decades of the nineteenth century were a period of unprecedented social instability in which a vigorous and increasingly radical working-class movement confronted both the institutions and the ideology of the capitalist order. During the deep depression which followed the peace of 1815 there emerged a great popular movement for political reform, which was halted only temporarily by legal repression and military force. The ideals of democracy and working-class self-government survived Peterloo, and towards the end of the 1820s resurfaced in dozens of local political associations and unions, serviced by a hard-hitting and often illegal (because unstamped) weekly press. The trade unions continued to grow, despite many setbacks and in the face of criminalisation under both the Combination Acts (in force between 1799 and 1825) and the common law. More and more voices were heard urging the formation of a general union bringing together members of all trades and of none. Robert Owen preached socialism to an increasingly receptive audience, proclaiming the virtues of co-operation in place of competition. If his communistic colonies failed, his ideas found a home in the 'labour exchanges' or 'bazaars' of the early 1830s. Pressure was mounting also for legislation to defend the interests of working people, both by guaranteeing minimum wages for outworkers and by limiting hours of work for those incarcerated in textile factories.<sup>1</sup>

Hand in hand with the growth of popular organisation and militancy went a challenge to capitalist ideology as radical activists sought to identify the underlying social, economic and political causes of working-class grievances. There were two central themes. According to the 'old theory' most tirelessly propagated by William Cobbett, the problem was primarily political. For Cobbett the web of political patronage and gerrymandering which had developed in the eighteenth century formed the mainstay of a fiscal system which taxed the poor heavily and for the exclusive benefit of the rich. The



remedy was also political: democratic reform, clean government, economy in administration and a drastic reduction in taxation would restore working people to the prosperous conditions they had enjoyed when 'old corruption' was in its infancy.

Economics rather than politics were central to the ideas of Robert Owen and the so-called 'Ricardian Socialists', represented most prominently by Thomas Hodgskin, John Gray, Thomas Rowe Edmonds and William Thompson. For these exponents of the 'new theory' it was the relationship between wage labourers and their employers which was responsible for injustice, inequality and mass poverty. The existence of non-wage incomes was at odds with the natural right of the producer to the whole product of his labour and violated the labour theory of value; the capitalist system was therefore unjust. It was also unworkable, since the continuous downward pressure on real wages exerted by cut-throat competition in the labour market reduced workers' purchasing power and gave rise to crises of underconsumption, with consequent mass unemployment and deep depression. Some writers, following the maverick Tory banker Thomas Attwood, urged a sustained expansion of the money supply. Many (with Hodgskin a notable exception) called for the replacement of capitalism in its entirety by a system of co-operative production and distribution, with equality of exchange.<sup>2</sup>

John Francis Bray came of age in 1830, a year which saw arson and machine-breaking across the English countryside and a series of urban riots in support of political reform. The next seven years witnessed the passage of the Reform Act of 1832, which enfranchised the middle class but left proletarian radicals with a deep sense of betrayal; the 'war of the unstamped' between radical journalists and papersellers and the agents of a repressive state; and the sudden rise and equally sudden fall of mass unionism, together with the transportation of the Tolpuddle farm labourers and the prosecution of the Glasgow cotton spinners. They saw the disappointment of hopes for factory reform as it became clear that the 1833 Act was largely unenforceable, and the Whig government's provocative and detested New Poor Law. By 1837 the apparent failure of co-operative, trade-unionist and pressure-group action had revived interest in political reform. A group of London militants drew up the People's Charter, whose famous six points laid claim to political rights for working men and advanced the case for democracy. It was to the new mass Chartist audience that Bray addressed his first (and

only really significant) work, *Labour's Wrongs and Labour's Remedy*.<sup>3</sup>

## II

John Francis Bray<sup>4</sup> was born in Washington, D.C. in 1809, the son of an immigrant comedian and singer from Leeds. The family lived for some years in Boston until, in 1822, father and son returned to England, where the former was to seek medical treatment. Following his father's death soon after their arrival, John remained in Yorkshire in the care of his sister and attended Leeds Grammar School. He was apprenticed as a printer in Pontefract and later worked in Selby, but also suffered spells of unemployment during which he went 'on the tramp' to look for work. The tramping artisan was a common enough figure in the early 1830s,<sup>5</sup> and the hardships he suffered led Bray to reflect upon the causes. 'He conceived the idea of the necessity for industrial reforms', he wrote of himself many years later, 'while wearily plodding from town to town in search of work as a "tramp" . . . walks of twenty to thirty miles in a day, half fed and a shelter in some low lodging-house where vermin prevented sleep was enough to set any man to thinking about the causes of these miseries.'<sup>6</sup>

By 1833 Bray was in Huddersfield, sufficiently committed as a radical to take over the editorship of Joshua Hobson's unstamped *Voice of the West Riding* while Hobson was in jail.<sup>7</sup> The next year he was in York working as a compositor on the *Yorkshireman*,<sup>8</sup> and it was here that he wrote the five pseudonymous 'Letters to the People' which appeared in the *Leeds Times* in 1835–6 and formed an early draft of parts of *Labour's Wrongs*. When Bray returned to live in Leeds in 1837, it was to a city in ferment. The Charter was being propagated throughout the country by missionaries from the London Working Men's Association, two of whom (John Cleave and Henry Vincent) arrived in Leeds in August. At a huge public meeting on Woodhouse Moor Bray seconded the resolution calling for the establishment of a Leeds Working Men's Association, of which he was elected treasurer. He addressed the Association's first general meeting in the following month, urging the working class to examine the entire social system and stressing the necessity of social as well as purely political change. The same themes were to the fore in the public lectures which he delivered in November 1837 entitled 'The

Working Class – Their True Wrong and Their True Remedy’, which constituted a final draft of his work. The book itself came out in weekly parts at the end of 1838 and was published in one volume early in 1839 by Bray’s friend and fellow Leeds Owenite, David Green.<sup>9</sup>

*Labour’s Wrongs* begins by declaring that change is perpetual, in society as in nature. It is not to be feared; nothing is stationary, and conservatism is therefore nonsense. To combat the ignorance of working people about the real causes of their present plight, it is necessary to go to first principles. History shows, Bray maintains, that changes in political institutions and religious beliefs have done nothing to redress the grievances of the people. Only a fundamental social reconstruction can succeed:

. . . although we may distinguish them by the names of monarchies and republics, yet the attributes of each are the same, the ends of each are the same, the wrongs inflicted upon the working classes by each are the same. By thus going to the origin of the thing, we shall find that every form of government, and every social and governmental wrong, owes its rise to the existing social system – to the institution of property as it at present exists – and that, therefore, if we would end our wrongs and our miseries at once and for ever, **THE PRESENT ARRANGEMENTS OF SOCIETY MUST BE TOTALLY SUBVERTED**, and supplanted by those more in accordance with the principles of justice and the rationality of man.<sup>10</sup>

Political equality and social inequality cannot be reconciled. Republicanism offers no solution, for ‘the vulture money-monger is the same, whether he be called a monarchist or a republican.’<sup>11</sup> The true source of the evil is the division of society into classes, which cannot be done away with by political change alone.

The first principles of society and government, ‘as promulgated in the great book of Nature’, are four in number:

1. All men are alike, in regard to their substance, their creation, and their preservation: therefore the nature of all is the same, and the absolute wants of all are the same.
2. . . . as the life of no human being can be maintained without a due provision of food, clothing, and shelter, and as these cannot be procured without labour, it follows that every human being ought to labour.

3. As the nature and wants of all men are alike, the rights of all must be equal; and as human existence is dependent on the same contingencies, it follows, that the great field for all exertion, and the raw material of all wealth – the earth – is the common property of all its inhabitants . . .

4. As self-preservation is the end of all labour, and as a general natural equality of powers and wants prevails amongst men, it should follow, that all those who perform *equality of labour* ought likewise to receive *equality of reward*.<sup>12</sup>

The principle of equal rights, Bray here argues, entails a common obligation to work, equal access to the land, and equality of rewards for equal labour. The existence of an idle class violates these principles, for ‘if labour be evaded by any human being, it can be thus *evaded by individuals* only on the condition of *increased labour by the mass*.’<sup>13</sup>

By means of an assessment of orthodox political economy Bray establishes the economic implications of these basic principles. The economists specify three conditions for the production of Utility: human labour; the accumulation of past labour (that is, capital); and exchange. All three, he argues, are negated in contemporary society. The rich perform no labour, while for the poor work is not a blessing but a curse; accumulation is the exclusive province of a small wealthy minority; and exchange is conducted on unjust terms and thereby fails to benefit the working man. Unequal exchange is fundamental to Bray’s case, for the inequality of the exchange between worker and capitalist is the basis of exploitation. Justice, he maintains, requires the exchange of equal values, and hence of equal quantities of labour. But

the capitalist gives no labour, for he does not work – he gives no capital, for his store of wealth is being perpetually augmented . . .

The whole transaction, therefore shows that the capitalists and proprietors do no more than give the working man, for his labour of one week, a part of the wealth which they obtained from him the week before! – which just amounts to giving him *nothing* for *something* . . .

And the consequence of this ‘barefaced though legalised robbery?’ It is ‘an inevitable condition of inequality of exchanges – of buying at one price and selling at another – that capitalists shall continue to

be capitalists, and working men be working men – the one a class of tyrants and the other a class of slaves – to eternity.<sup>14</sup>

Bray concludes, once again, that no political reform can right this wrong. Equality of exchange is needed, and the virtual equality of possessions which this would produce. Capital is essential to production, but not the capitalist. Labour and mother earth are the parents of wealth, ‘and were every capitalist and every rich man in the United Kingdom to be annihilated in one moment, not a single particle of wealth or capital would disappear with them; nor would the nation itself be less wealthy, even to the amount of one farthing.’<sup>15</sup>

In the fifth chapter of *Labour’s Wrongs* Bray demonstrates – against the radical ideology of an earlier generation – that government expenditure and taxation account for only a small part of the ‘burthens’ borne by the working class. The ‘social burthens’ are much more important than the governmental, he urges in chapter VI, as indeed they must be if, for a population of twenty-five million, only six million are producers and one million of them are unemployed.<sup>16</sup> Following earlier writers (especially John Gray), Bray uses Colquhoun’s pioneering national income statistics to assess the proportion of their product which working people are permitted to enjoy. In 1815 the national income was estimated at £430 million, he reports, of which the expenses of government amounted to £60 million; the cost of the ‘wealthy drones, and idlers, and unproductive labourers’ to £100 million; and profits and interest to a further £140 million. Only £130 million was left for the working population, which represents three-quarters of the nation. ‘*This* is the great wrong – *this* is the evil for which the working classes want a remedy – *this* is the secret enemy that devours them.’<sup>17</sup>

Bray now examines the remedies proposed by political and social reformers, and by conventional economists. He rejects them all, since they deal only with effects and not with causes. Working-class political associations and unions ignore the possibility of radical social change, and seek only ‘the partial amelioration of the condition of the working class *as a working class* – a class confessedly doomed, by the unalterable nature of things, to be the servants or slaves of other classes.’<sup>18</sup> Trade unions are similarly limited both in vision and – as shown by their recent comprehensive defeats by the employers – in effectiveness. Factory reform offered no more: curtailment of working hours would reduce output and thus, assuming the relative shares of workers and capitalists to remain

unchanged, wages would fall. The political economists, for their part, urged the labourers to force up wages by reducing their numbers. The wage-fund theory, however, assumed there to be a general 'glut of labour'. This could be so, Bray maintained, only if wants were satiated or the available machinery and raw materials were inadequate to employ the entire workforce. Neither condition held true. Unemployment is the product of the prevailing social system, and it is this which must be changed.<sup>19</sup>

When Bray sets out the 'Requisites of a Social System', in chapter VIII of *Labour's Wrongs*, it is as a loyal follower of Robert Owen. Equality of exchange entails universal labour, he concludes, and this means a classless, communist society. Human character is the product of the environment and is thus extremely malleable; self-love can be turned to social advantage in a society based upon co-operation instead of competition. Bray's optimism is tempered slightly in the next chapter, where he considers the objections raised against communism by the economists and capitalists. It is alleged that the working class will be unable to purchase the means of production from their present owners (and Bray is wholly opposed to confiscation). A second charge is that isolated communities invariably fail because of the 'immorality or general bad habits' of their members, or from their inability to compete with that part of society remaining under the present system.<sup>20</sup> Bray concedes the pertinence of some of these criticisms, at least in the short term. Human nature has been corrupted by capitalism, and the difficulties of financing the desired transformation of society are substantial. He thus proposes an alternative scheme which offers many of the benefits of Owenite communism without (so he claims) demanding enormous changes either in human nature or in the existing mode of wealth creation and distribution. This leads him to a discussion of money.

Money, Bray asserts, 'is, in reality, no more than a *representative of real capital* – a thing personifying or standing in place of houses, implements, or food . . . Money is to capital, or real wealth, what the alphabet is to the written language.'<sup>21</sup> It follows that any generally acceptable material can serve as money. There is nothing sacrosanct about gold, which could be replaced by silver, iron, paper or pottery if the need arose. And the need is a compelling one, he argues, for shortage of money is the principal cause of unemployment. An expansion of the money supply would 'give a vast stimulus to trade' and, by boosting purchasing power, would greatly increase

employment. There is nothing to be said in favour of the present monetary system, which is a powerful tool in the hands of the exploiters:

If the capitalists dug for gold in the bowels of the earth, and thus exchanged their own labour against the labour of others, the transaction between them and the working men would be a foolish one, but there would be no injustice in it. But the capitalists neither dig nor beg. They issue a medium for which they receive commodities, and these commodities they give in exchange for the gold. Thus neither the gold nor the commodities cost the capitalists any labour.

Since the bankers have nothing of value to exchange with the workers, their wealth is obtained unjustly. Working men make things worse for themselves by depositing their savings in banks, and for a 'trifling bait' in interest 'provide the capitalists with weapons to conquer them'. Such savings should be used, Bray concludes, to purchase real capital and employ the working classes '*by and for themselves*, on the system of community of possessions and equality of rights'.<sup>22</sup>

Exactly what he had in mind becomes clear in the eleventh chapter. Here he proposes the setting up of joint stock companies, each containing from 100 to 1,000 men, which will buy or rent the means of production and employ all working men, including those at present unemployed. Production would be financed by a newly issued paper currency and controlled by 'boards of trade' under the management of 'the most able and business-like men that can be found' without any need to resort to competition. The producers would be paid weekly wages, 'after the manner of the present system', but with equality of exchange guaranteed. 'Each person would exchange the wages he individually received, for commodities of the same value as his respective wages; and in no case could the gain of one man or trade be a loss to another man or trade. The labour of every individual would alone determine his gains and losses.' Child-rearing would be socialised and women freed from dependence upon men. Social needs would be supplied from the proceeds of direct taxation, and the full benefits of specialisation and free trade would at last be achieved.<sup>23</sup>

In the final pages of the book, Bray returns to his original theme. The labourers should reject every remedy which 'professes only to modify the position of the working class *as a working class* – every

remedy which does not go at once to first principles.' Political power is unattainable without a change in the social system, and if attained would be useless. But the transformation of society must be achieved by persuasion and not by force. Bray is in no doubt that history is on his side: 'Whatever may be the immediate prospects, there are to be seen harbingers of brighter and better times. The light of Mind is beaming through the gloomy boundaries of the Age of Might, and ushering in the Age of Right!'<sup>24</sup>

### III

The book was widely reviewed. The *Leeds Times* seems to have typified the reaction of the middle-class press, which mingled praise for Bray's motives and literary ability with hostility to his proposals: 'The work gives marks of a mind in earnest with its subject, and is written in some parts with considerable power, rising often into eloquence.' But his scheme is based on 'extremely one-sided and imperfect views of human nature', and is no less impracticable than those of Rousseau and Owen. Similar sentiments were expressed by the *Yorkshireman* (Bray's old employer), by the *Sheffield Iris*, and by the *Spectator*.<sup>25</sup> The radical press was a little more enthusiastic. Only *Cleave's Penny Gazette* was uncritical – but Cleave was also Bray's London publisher! As expected the Owenite *New Moral World* recorded a favourable verdict, but the *Chartist* displayed doubts as to 'the perfect practicability of this scheme'. Equally lukewarm was the response of the *Northern Star*, Leeds-based but already becoming the national mouthpiece of the Chartist movement. Although commending the book to its readers and lauding the eloquence of Bray's English, the *Star* found his joint stock proposals 'un peu trop fort . . . though we may think the great majority of our readers will allow that Mr. Bray has by no means overrated the wrongs of labour . . . yet we hold that comparatively few of them will be inclined to agree with him in the remedy he proposes.'<sup>26</sup>

Bray was disappointed at the reception of *Labour's Wrongs*, which sold so badly that by 1842 he had recovered only a little of the £70 he had invested in its publication.<sup>27</sup> But it cannot have been entirely unexpected. There were signs aplenty that the relationship between Owenite socialism and the rapidly expanding Chartist movement was becoming increasingly uneasy, and by 1838 Bray and his Owenite associates had withdrawn from the Leeds Working Men's Association. Chartists and Owenites disagreed profoundly on



both ends and means. The Chartists were united only in their demand for political democracy, and there were sharp differences over the economic and social reforms that a working-class Parliament would introduce. Only a minority were convinced socialists. Although the Owenites were the more adventurous in their ultimate aims, they were very cautious when it came to the means of attaining them. 'Peaceably if we may, forcibly if we must' was the Chartist slogan, reflecting the general acceptance of the legitimacy of threatening violence if 'moral force' were to fail. This alarmed the Owenites who, like Bray himself, insisted that reasoned argument was the only permissible lever of change.<sup>28</sup>

The tension between socialists and Chartists must not be exaggerated, for in many towns and cities they co-operated amicably, with a considerable overlap of personnel. Chartist lecturers criticised the operation of the capitalist economy in terms very similar to those of *Labour's Wrongs*, which Joshua Hobson reprinted (in part) as a penny pamphlet in his *Labourers' Library* in 1842, and which was cited with approval in the *Northern Star* in the following year.<sup>29</sup> If it was hardly the 'standard work' among the Chartists that Max Beer suggests,<sup>30</sup> its arguments were more influential (often at third or fourth hand) than the meagre sales might suggest. Underconsumptionist explanations of economic crises and unemployment were commonplace in Chartist circles throughout the 1840s, as indeed were arguments in favour of monetary expansion.<sup>31</sup> In some respects Feargus O'Connor's Chartist Land Company bore a close resemblance to Bray's joint stock scheme, and the notion that working people could secure co-operative control of the means of production by purchasing them with their collective savings was being advanced at Lancashire strike meetings as late as 1853.<sup>32</sup>

The problem, as many Chartists saw only too clearly, was a practical one. Ernest Jones, both a socialist and a Chartist, had no doubt as to which must come first. Higher wages certainly would promote employment by expanding the home market, Jones wrote in 1851, and co-operation undoubtedly would ensure higher wages. But

you fail a leverage: the prosperity of the working classes is necessary to enable your co-operation to succeed; and, according to your own argument the success of your co-operation is necessary to make the working classes prosperous! Do you not see you are reasoning in a circle? You are beating the air. You want some

third power to ensure success. In fine you want political power to reconstruct the bases of society.<sup>33</sup>

By denying the necessity of political reform Bray had cut himself off from the mainstream of the contemporary working-class movement.

His next literary activity was a reflection of this growing isolation. *A Voyage From Utopia to Several Unknown Regions of the World* was written in 1840 and described the journey of an inhabitant of Utopia to Brydone, Franco and Amrico. In it Bray attacked the social system of Brydone at great length, emphasising the inequality and injustice of its class system in which the commos (working class) are exploited by aristocs, sharkos and pestos (priests); religion and the law are used to legitimise repression. The main difference in Amrico is that there are black slaves as well as white ones. In both states, as in Franco, women are subjugated by marriage. A repetitive and rather heavy-handed satire, the *Voyage* remained unpublished in Bray's lifetime.<sup>34</sup> In May 1842, following a brief visit to France, he returned to the United States after an absence of some twenty years.

Apart from a brief spell in Boston Bray spent the rest of his life in Michigan, first as a small farmer, then as a printer and portrait photographer, and finally (from 1865 until his death in 1897) as a farmer once again.<sup>35</sup> With the exception of a series of tracts on spiritualism in the mid-1850s he wrote nothing of any consequence until the appearance in 1864 of a pseudonymous pamphlet entitled *American Destiny, What Shall It Be, Republican or Cossack?* This was a spirited defence of the Confederacy's right of secession which fell only slightly short of support for slavery. Although *American Destiny* is rightly considered something of an aberration, Bray's views on the Civil War were similar to those of many British radicals, who regarded wage labour as little better than chattel slavery and were disgusted by what they regarded as the hypocrisy of the Manchester School emancipationists.<sup>36</sup>

By the early 1870s Bray was back in more familiar territory, expounding his plans for social reform in the labour press and at meetings of working men near his home in Pontiac. The letter he sent to the third Annual Convention of the American Labor Reform League in 1873 revealed no significant change in his thinking since the publication of *Labour's Wrongs*:

I see no hope for society except in a perfect union of labor with capital – not based on the existing conditions of master and man,

but a union that is equitable and equalitarian so far as men are equal. The earnings and profits of toil must belong to toil. The present system of distribution is robbery. The poverty of the masses is a necessary concomitant of the wealth of the millionaire. The near future will tolerate neither millionaires nor poor men and women. The wrongs of labor flow from inequality of exchanges. Equal values must exchange for equal values, or there will always be rich men to oppress poor men, and constant but useless revolutions and wars to remedy the governmental defects which are inherent in the constitution of society.<sup>37</sup>

Five years later he was asserting man's right to the whole produce of his labour and calling for 'a declaration of the independence of labor from the control of capital, with its right to self government and self employment'.<sup>38</sup> Bray became a vice-president of the American Labor Reform League and a member of the Knights of Labor. He was highly respected in labour and socialist circles, and might well have been the Greenback Labor Party's presidential nominee in 1880 if the socialist delegates had not walked out of the Party's convention in Chicago.

There were now, however, some subtle alterations to Bray's ideas. In keeping with the political realities of the time he included small farmers with wage labourers as victims of capitalist oppression – after all, he was a farmer himself. More important, he began to call for a partnership between capital and labour founded on profit-sharing, instead of the communist society of his youthful writings. This formed the core of his last book, *God and Man a Unity* (1879),<sup>39</sup> and also many of his letters to the labour press. But he continued to press the case for the demonetisation of gold and silver and their replacement by a federally issued paper currency; urged an income tax on all incomes over \$5,000 per annum; and (in a thinly veiled attack on Henry George) denounced the 'money millionaire' as vehemently as the 'land millionaire'.<sup>40</sup> Bray remained both physically and mentally alert until the very end, caring for his widowed son's young children in his early eighties and publishing his last letter in the *Paterson Labor Standard* just five months before his death in February 1897.

#### IV

If *Labour's Wrongs* made no great impact on the working-class

movement in Britain, it was entirely neglected by the economic orthodoxy of the time. With the exception of Thomas Hodgskin, none of the Ricardian Socialists was taken seriously by the economic establishment. Hodgskin – ‘a name to frighten children with’ in the 1820s and early 1830s<sup>41</sup> – was subjected to critical scrutiny only because of the influence of his writings in radical circles during the Reform Crisis. The others were totally ignored – even by John Stuart Mill, whose *Principles of Economics* was the standard text for two generations of students and who was himself not unsympathetic to socialism.<sup>42</sup> In a phrase reminiscent of Marx’s views on the rise of ‘vulgar economy’, Foxwell ascribed this oversight to the intellectual decline of political economy after the death of Ricardo, its practitioners ‘being largely given over to sterile logomachy and academic hair-splitting’.<sup>43</sup>

Rightly or wrongly, the economists believed the theoretical battle against socialism to have been won well before the appearance of *Labour’s Wrongs*. They had demolished, at least to their own satisfaction, all the pillars of the radical case. The labour theory of value was discredited, profits and interest were justified as the due reward for thrift and ‘abstinence’, Say’s Law had disposed of the possibility of underconsumption, and discretionary paper money had been exposed as an unnecessary and inflationary danger. Equally striking was the atrophy – already noticeable by the early 1840s and clearly irreversible by the end of the decade – of the independent working-class movement to which Bray and his predecessors had addressed their arguments. For almost half a century (and perhaps much longer) liberal ideas dominated the trade unions and consumer co-operatives. Communism was neither a threat nor an opportunity, and Bray’s book could be brushed aside, as it was by G. J. Holyoake, as energetic but of no permanent relevance.<sup>44</sup>

The first detailed discussion of early English socialism was the work of the jurist Anton Menger, a cousin of the marginal utility theorist and fellow-traveller with the Austrian Social Democratic Party. Menger, whose book on the right of the labourer to the whole produce of his labour appeared in 1886, was more concerned with the ethical basis of property incomes than with economic analysis narrowly defined, and made only passing reference to Bray.<sup>45</sup> The English translation, published in 1899, contained a long scholarly introduction by the liberal economist and bibliophile H. S. Foxwell, whose appraisal of *Labour’s Wrongs* was remarkably

generous. 'Within its limits', wrote Foxwell, 'which though narrow are not more narrow than those of the *laissez-faire* school of economists whom he was opposing, Bray's essay must be considered a closely-reasoned and philosophical piece of work.'<sup>46</sup> Though 'as weak on the theory of money as socialists usually are', Bray's joint stock scheme was much more practical than pure communism. By retaining private ownership of the product alongside common property in the productive powers, it offered a reconciliation of efficiency and equity and foreshadowed the contemporary co-operative and labour banking movements. But the chief significance of *Labour's Wrongs*, for Foxwell, was its anticipation of Marx's theory of profit, which it revealed to be entirely unoriginal. Foxwell's discussion of Bray ends, indeed, with an indirect accusation of plagiarism against Karl Marx.<sup>47</sup>

A more cautious conclusion was reached in 1911 by Esther Lowenthal, a student of another ardent book collector, the distinguished U.S. economist E. R. A. Seligman. Lowenthal did not regard Bray as primarily an economic theorist: 'the economic process does not interest him, and he has little grasp of its complexities. This could not be better illustrated than by his crude ideas about money . . .'<sup>48</sup> Bray asserted *both* the natural rights, equality and perfectibility of man, *and* the labour theory of value and a materialist conception of history. Even more than the earlier Ricardian Socialists, Lowenthal argued, Bray was a transitional figure, midway between the Utopian arguments of Owen, Fourier and Saint-Simon on the one hand and Marxian scientific socialism on the other.<sup>49</sup> Her conclusion contrasts starkly with Joseph Schumpeter's curt dismissal: 'All I wish to say about [Bray] is that Marx should not be insulted by its being said that Bray anticipated him in any point.'<sup>50</sup>

Marx himself would not have taken it as an insult.<sup>51</sup> He read *Labour's Wrongs* while exiled in Brussels in the first half of 1845, and studied the book further during a visit to Engels in Manchester in July of the same year. In 1847 he invoked Bray ('an English *Communist*') and several other Ricardian Socialists to refute Proudhon's claim to originality.<sup>52</sup> Marx's lecture notes on 'Wages', written in December 1847, summarise approvingly Bray's views on savings banks and paraphrase (this time without attribution) his underconsumptionist theory of economic crises: 'the employer cannot employ the workers because he cannot sell his product. He cannot sell his product because he has no buyers. He has no buyers because the workers have nothing to offer in exchange but their

labour, and precisely for that reason they cannot exchange their labour.<sup>53</sup> There are scattered reference's to Bray's 'remarkable work' throughout Marx's later writings, including six pages of extracts from *Labour's Wrongs* in the third volume of *Theories of Surplus Value*, which suggests that he would have undertaken an extensive analysis of Bray's ideas had he completed his projected history of economic thought.<sup>54</sup>

While Foxwell's charge of plagiarism is far too strong, it is true that Marx failed to do justice to Bray (and, indeed, to the other Ricardian Socialists). Many of the themes in *Labour's Wrongs* run parallel to his own ideas and a convincing case can be made that Bray exerted a major influence upon Marx in the mid-1840s, at a crucial stage in his intellectual development.<sup>55</sup> It is well known that Marx drew heavily upon German philosophy (especially Hegel) and on English classical economics (above all Ricardo), from whom he obtained, respectively, a dialectical conception of history and a conviction that labour was the only source of value.

The conventional account of the further evolution of his ideas, which we owe to Engels, is that Marx himself deduced the fundamental notions of capitalism as a historically necessary but transient mode of production and of surplus value (derived from surplus labour) as the key to its essential character.<sup>56</sup> In both respects, however, he had been anticipated by the Ricardian Socialists, and in particular by Bray, whose arguments owe much to Thompson, Hodgskin and Gray but are sharper, more coherent and more lucidly expounded.<sup>57</sup> There are many aspects of Bray's thought with which Marx cannot easily be associated: for example the predominantly ethical basis of his critique of capitalist society, and his emphasis on unequal exchange as the source of exploitation.<sup>58</sup> But the concepts of surplus labour and surplus value are transparent throughout his book without the terms themselves ever being used,<sup>59</sup> and Bray repeatedly stresses the production and reproduction of the capital-wage labour relation as the essence of labour's wrongs and its abolition as labour's only true remedy.

## V

Bray's communistic message was never likely to appeal to the orthodox economists of his day, even though a considerable number of them shared his rejection of Say's Law and several (including Cayley) agreed that the intensity of competition in the labour

market was a major cause of crises. His failure to attract more support in the labour movement reflected the paradox of his position. Basically hostile to political action, Bray nevertheless needed a flourishing working-class opposition in which to propagate his ideas; and in the contemporary context such a mass opposition could only take a political form. Towards the end of his life he became much less reluctant to associate with political campaigners, and, had he lived in Britain until 1897, there might have been a quite different story to tell. One can imagine Bray meeting, arguing with, perhaps even teaching Karl Marx; Bray lecturing to the First (and later possibly the Second) International; Bray as one of the intellectual mainsprings of English socialism when it revived in the 1880s. At the very least he would have been a major figure. In the United States, however, his influence was never more than marginal. North American radicalism was to produce a quite different brand of economic heresy.

## NOTES

1. E. P. Thompson, *The Making of the English Working Class* (Harmondsworth: Penguin, 1968).
2. P. Hollis, *The Pauper Press: a Study in Working Class Radicalism of the 1830s* (Oxford: Oxford University Press, 1970); N. Thompson, *The People's Science: the Popular Political Economy of Exploitation and Crises 1816-34* (Cambridge: Cambridge University Press, 1984); J. E. King, "'Perish Commerce!'" Free Trade and Underconsumption in Early British Radical Economics', *Australian Economic Papers* 20, 1981, pp. 235-57.
3. For the 1830s generally see J. T. Ward (ed.), *Popular Movements, c. 1830-1850* (London: Macmillan, 1970); on the origins of Chartism, D. Thompson, *The Chartists* (London: Temple Smith, 1984), chs 1-3.
4. Unless otherwise stated, biographical details are taken from M. F. Joliffe, 'John Francis Bray', *International Review of Social History* (first series), 4, 1939, pp. 1-36; see also H. J. Carr, 'A Critical Exposition of the Social and Economic Ideas of John Francis Bray, and an Estimation of His Influence Upon Karl Marx', unpublished Ph.D dissertation, University of London, 1939. The thesis is summarised in Carr, 'John Francis Bray', *Economica* n.s. 7, 1940, pp. 397-415.
5. E. J. Hobsbawm, 'The Tramping Artisan', *Economic History Review* n.s. 3, 1951, pp. 299-320.
6. From Bray's notes in his own copy of *Labour's Wrongs*, cited by M. F. Joliffe, 'Fresh Light on John Francis Bray, Author of "Labour's Wrongs

- and Labour's Remedy"', *Economic History* (supplement to the *Economic Journal*) 3, 1939, p. 241.
7. J. F. C. Harrison, 'Chartism in Leeds', in A. Briggs (ed.), *Chartist* (London: Macmillan, 1959), p. 70.
  8. *Yorkshireman*, 2 February 1839 (review of *Labour's Wrongs*), cited by Carr, *op.cit.*, p. 80.
  9. Harrison, *op.cit.*, pp. 65–70. *Labour's Wrongs and Labour's Remedy* has been reprinted twice (in facsimile editions with identical pagination): in 1931 by the London School of Economics and Political Science, and in 1968 by Augustus M. Kelley of New York.
  10. *Labour's Wrongs*, p. 17. All stress is in the original, both here and in subsequent quotations from the book.
  11. *Ibid.*, p. 19.
  12. *Ibid.*, pp. 28–30.
  13. *Ibid.*, p. 31.
  14. *Ibid.*, pp. 48–50.
  15. *Ibid.*, p. 59.
  16. *Ibid.*, pp. 81–2. Bray treats half the male population as unproductive and (rather inconsistently with his feminist sympathies) all the women.
  17. *Ibid.*, pp. 84–5. Elsewhere in the book Bray offers different estimates, and when he converts this one to a *per capita* basis the resulting numbers are not consistent with the aggregate statistics (£50 to the idle, £11 to the workers; this is not in the ratio £300:£130: see *ibid.*, p. 85).
  18. *Ibid.*, p. 98.
  19. *Ibid.*, pp. 98–106.
  20. *Ibid.*, p. 127.
  21. *Ibid.*, pp. 140–1.
  22. *Ibid.*, pp. 144, 151, 153.
  23. *Ibid.*, pp. 157–60, 165–8, 180–4.
  24. *Ibid.*, pp. 214–16.
  25. *Leeds Times*, 23 February 1839. For details of other reviews see Carr, *op. cit.*, pp. 80–4.
  26. *Northern Star*, 7 September 1839.
  27. Carr, *op. cit.*, p. 86.
  28. Harrison, *op. cit.*, p. 75; D. J. V. Jones, *Chartism and the Chartists* (London: Allen Lane, 1975), pp. 47–8.
  29. Harrison, *op. cit.*, p. 70; *Northern Star*, 20 May 1843.
  30. M. Beer, *A History of British Socialism*, volume I (London: Bell, 1929), p. 244, n. 1.
  31. King, "Perish Commerce!". . .', *op. cit.* See for example J. Campbell, *An Examination of the Corn and Provision Laws from Their First Enactment* (Manchester: Heywood, 1841).
  32. H. I. Dutton and J. E. King, *Ten Per Cent And No Surrender: the Preston Strike, 1853–4* (Cambridge: Cambridge University Press, 1981), p. 45.
  33. *Notes To The People*, No. 2, May 1851.
  34. It was eventually published in 1957 by Lawrence & Wishart of London, with a useful introduction by M. F. Lloyd-Pritchard.



35. On his later life see Joliffe, 'John Francis Bray', pp. 9–15; a selection from his later writings is in *ibid.*, pp. 16–36.
36. J. Dorfman, *The Economic Mind in American Civilization*, volume II (New York: Harrap, 1947), pp. 961–2; M. Ellison, *Support For Secession* (Chicago: Chicago University Press, 1972).
37. *The Word* (Princeton, Mass.) No. 2, June 1873, reprinted Joliffe, *op. cit.*, p. 17.
38. *Detroit Socialist*, 12 January 1878, reprinted *ibid.*, p. 20.
39. Carr, *op. cit.*, pp. 267–94; Joliffe, *op. cit.*, pp. 10–11.
40. *Paterson Labor Standard* (New Jersey), 31 December 1892, reprinted in Joliffe, *op. cit.*, pp. 30–1; *The Irish World*, 10 June 1882, reprinted in *ibid.*, pp. 21–3; J. Dorfman, *The Economic Mind in American Civilization*, volume III (New York: Viking Press, 1959), pp. 46–7, 232–3.
41. R. L. Meek, *Studies in the Labour Theory of Value* (London: Lawrence & Wishart, 1973), p. 124.
42. H. S. Foxwell, 'Introduction' to A. Menger, *The Right to the Whole Produce of Labour* (London: Macmillan, 1899), p. lxxvii.
43. *Ibid.*, p. lxxii.
44. G. J. Holyoake, *The History of Co-operation*, volume I (London: T. Fisher Unwin, 1906, p. 148); see also T. R. Tholfsen, *Working Class Radicalism in Mid-Victorian England* (London: Croom Helm, 1976).
45. Menger, *op. cit.*, pp. 61, 98n. There was apparently a cheap abridgement of *Labour's Wrongs* in German, along with other Ricardian Socialist texts (J. Edwards, 'John Francis Bray', *Socialist Review* Nov.–Dec. 1916, p. 330). Edwards laments the neglect of Bray by English socialists and interprets his joint stock scheme as a forerunner of Guild Socialist ideas (*ibid.*, p. 333).
46. Foxwell, *op. cit.*, p. lxx.
47. *Ibid.*, pp. lxxvii–lxxi.
48. E. Lowenthal, *The Ricardian Socialists* (Clifton, N. J.: Kelley, 1972 reprint of 1911 edn), p. 100. Her discussion of *Labour's Wrongs* is in *ibid.*, pp. 84–98.
49. *Ibid.*, p. 99.
50. J. A. Schumpeter, *A History of Economic Analysis* (London: Allen & Unwin, 1954), p. 460, n. 24.
51. J. E. King, 'Utopian or Scientific? A Reconsideration of the Ricardian Socialists', *History of Political Economy* 15, 1983, pp. 345–73.
52. K. Marx, *The Poverty of Philosophy* (Moscow: Progress Publishers, 1973), p. 60.
53. K. Marx and F. Engels, *Collected Works*, volume 6 (London: Lawrence & Wishart, 1976), pp. 421–2 and 424–5. Compare the latter passage with that in *Labour's Wrongs*, p. 156.
54. K. Marx, *Grundrisse* (Harmondsworth: Penguin, 1973), p. 136; *A Contribution to the Critique of Political Economy* (London: Lawrence & Wishart, 1971), p. 86n; *Capital*, volume I (Moscow: Foreign Languages Publishing House, 1961), p. 68n; and *Theories of Surplus Value*, volume III (London: Lawrence & Wishart, 1972) pp. 319–25.

55. J. P. Henderson, 'An English Communist, Mr. Bray [and] His Remarkable Work', *History of Political Economy* 17, 1985, pp. 73–95.
56. F. Engels, *Herr Eugen Dühring's Revolution in Science (Anti-Dühring)* (London: Lawrence & Wishart, 1942), pp. 32–3.
57. And Marx did not read Hodgskin seriously until the early 1850s, several years after he had studied Bray in depth (Henderson, *op. cit.*, pp. 75–6).
58. But it is not the case, at least for Bray, that 'exploitation was located in the exchange process' to the exclusion of concern with production (N. Thompson, *op. cit.*, p. 106, n. 97).
59. 'The workmen have given the capitalist the labour of a whole year, in exchange for the value of only half a year' (*Labour's Wrongs*, p. 48; cf. *ibid.*, pp. 37, 56, 153, and Henderson, *op. cit.*, pp. 80–4).

## 5 Henry George (1839–1897)

Imagine a society located upon a small island which is owned by a minority class of landlords; there are no capitalists as such. The other inhabitants either rent the land from the owners or work for them for wages. Competition for access to the land, or for employment, pushes wages down to a bare subsistence and enables the landlords to obtain all the remaining produce of the island. Any improvements in the efficiency of labour benefit only the landowners, and leave the mass of the population no better off.

Now add to the island a shopkeeper, an inventor, a pirate and a gambler. The pirate and the gambler grow wealthy by preying upon the other inhabitants, and the shopkeeper's monopoly of trade is a lucrative source of profit, while if the inventor discovers a means of increasing the productivity of labour he can demand a royalty for its use. He becomes very rich, and some of the gains from the invention accrue also to the pirate and the gambler. Although their labour has become more productive, working people do not benefit from it; only the unproductive elements have done well out of social progress.

The poor inhabitants now get together and agree to drive the pirate and the gambler off the island, and to form a co-operative society to eliminate the profits of the shopkeeper. The labourers can now live more cheaply. But they must still compete for land or for work, and are thus forced to give up their advantage by accepting lower wages or paying higher rents. Once again progress has failed to improve the lot of the working people. All these social reforms simply force up the price of land and raise the incomes of the landowners.

Henry George's parable<sup>1</sup> encapsulates his political economy. Reform of the government, establishment of consumer co-operatives, abolition of industrial and railway monopolies: none of these otherwise desirable measures would have any lasting effect other than to increase rents. All social evils stem from private ownership of the land. This simple message won George a huge audience, and forced the orthodox economists to take note.

## I

Henry George was born in Philadelphia on 2 September 1839 into a rather poor seafaring family of Episcopalian and abolitionist beliefs. His father owned a small and struggling religious publishing business. Although a voracious reader George had very little formal education, and what one biographer has called the Gradgrindian nature of Philadelphian society contributed both to the intellectual impoverishment of his upbringing and to that distaste for the academic mind that was to be revealed in later life.<sup>2</sup> In 1855–6 he travelled to Australia and India as a foremast boy on a sailing ship. Upon his return to Philadelphia he took up typesetting, but soon tired of life in the East. In December 1857 he sailed to Oregon via the Magellan Strait and spent several months in British Columbia. By 1859 he was living the life of a tramp in California. Although he eventually found work as a printer in San Francisco, where he married an Australian girl in 1861, George was in almost continuous poverty and suffered long spells of unemployment throughout the early 1860s. His circumstances improved only after he took up freelance journalism, which led to his appointment first as a reporter and then as managing editor of the San Francisco *Times*. In 1868 George travelled to New York as correspondent of the San Francisco *Herald*. Appalled by the scale of human misery in the metropolis, he also fell foul of the Western Union's wire monopoly of communications with California. He returned to the West Coast in the following year.

The California to which George had come epitomised the paradox of progress and poverty that was to form the core of his economic ideas. Huge fortunes coexisted with mass privation, corrupt oligarchic rule with vibrant democracy. Railroad and telegraph companies profited from entrenched monopolies while workers struggled to feed their families; the public lands were sold off cheaply to the rich while the frontier closed in on the little man. Dreams of independence and modest self-sufficiency were dashed by the growing concentration of wealth and power, which distorted the political system no less than the economy. Had not similar forces undermined the Roman Empire, George began to ask himself. He thought he saw the lessons of history writ large in contemporary California. Much more than a mere economist, he aspired to a theory of the rise and fall of human civilisation.<sup>3</sup>

He first became a state-wide celebrity in 1869 when he

corresponded with John Stuart Mill in the course of a journalistic campaign against Chinese immigration. Under the influence of Mill's *Principles of Economics* – probably his only theoretical source at this time – George's views suddenly crystallised. Private monopoly in the land was the root of all social evils; unless it were combatted, retrogression and decay were inevitable. In July 1871 he published his first real economic work, a forty-eight-page pamphlet, *Our Land and Land Policy*, which attacked private land-holding as unjust on the grounds that no one could rightly own anything that was not the product of his own labour. Later that year he founded the San Francisco *Post* with two friends, and remained in charge of the paper until it ceased publication in 1875. For these four years George was a successful and reasonably prosperous newspaperman, using his position to preach free trade and fiscal reform to his predominantly Irish readership. At this stage he was arguing for three taxes rather than one, with licence fees (for example on liquor sales) and death duties supplementing the taxation of land values. But he was already close to his mature position: private property in land was wrong in principle, and land value taxation (rather than outright confiscation) was right in practice.<sup>4</sup>

After the collapse of the *Post* George became an Inspector of Gas-meters, a political appointment from the Democratic state administration which he used to finance the writing of *Progress and Poverty*. The book was privately published in a limited edition in San Francisco in 1879. When the first commercial edition appeared in New York in the following January George was again facing destitution, as a change in political control in California was to cost him his sinecure there. But *Progress and Poverty* soon took off, and although George seems never to have made much money from the book it did establish him as a national figure. He lectured throughout the United States and – after meeting the Irish land reformer Michael Davitt and writing a broadside on *The Land Question* – he was sent to Ireland by the New York *Irish World* to write a series of articles. If George's message had been timely in a North America racked by labour unrest and only slowly recovering from deep depression it was doubly relevant to Ireland, where all the repressive

In the autumn of 1882 George came home to a hero's welcome in New York, where he now had substantial trade-union support. He published a collection of essays on *Social Problems* in the following year, and a lively discussion of *Protection or Free Trade* in 1886. The latter year saw what was both his greatest political triumph and easily the best-known incident in his life. Alarmed by the increasing use of vicious conspiracy laws against the trade unions, the Central Labor Union of New York appealed to him to stand as their candidate in the election for Mayor. George agreed, having demanded (and received) 30,000 voting pledges in advance of his decision. Although he forced the future President Theodore Roosevelt into third place, George was well beaten by the Tammany Hall Democrat Abram Hewitt, amid accusations (which continue to be made) of electoral fraud.<sup>5</sup>

The 1886 Mayoralty campaign was the apogee of George's political influence, and very nearly marked the end of his relationship with organised labour. His endorsement of the execution of the Haymarket anarchists in 1887 alienated his trade-union supporters, and later that year he lost heavily in the election for Secretary of State of New York. An increasing conservatism in both his outlook and his following was now apparent, along with a decline in his health accelerated by a slight stroke after his return from a tour of Australia, New Zealand and the British Isles in 1890. George was still able to polemicise with his opponents, most notably in debate with prominent university professors at the Saratoga meeting of the Social Science Association in the same year, and in tracts against Pope Leo XIII (*The Condition of Labour*, 1891) and the philosopher Herbert Spencer (*A Perplexed Philosopher*, 1892). For all his contempt for the professors, George was sufficiently stung by their rejection of his ideas to spend his declining years on what was intended to be a systematic treatise on political economy, refuting the academic critics and setting out a comprehensive theory of his own. *The Science of Political Economy* was unfinished when he died, on 29 October 1897, just five days before he was due to contest his second election for Mayor of New York. It is an intriguing but deeply flawed work. Henry George's reputation as an economist rests – almost as completely as his popular appeal – squarely on his one masterpiece, *Progress and Poverty*.

## II

The paradox from which George begins is the familiar one of

poverty in the midst of plenty. It was especially pronounced in the 1870s, a decade of more than usually severe economic crisis: 'From all parts of the civilized world come complaints of industrial depression; of labour condemned to involuntary idleness; of pecuniary distress among business men; of want and suffering and anxiety among the working classes.' The purpose of George's book was to establish the causes of poverty and to propose a remedy. He was drawn to political economy by the evident failure of all existing political systems:

There is distress where large standing armies are maintained, but there is also distress where the standing armies are nominal; there is distress where protective tariffs stupidly and wastefully hamper trade, but there is also distress where trade is nearly free; there is distress where autocratic government yet prevails, but there is also distress where political power is wholly in the hands of the people; in countries where paper is money, and in countries where gold and silver are the only currency. Evidently, beneath all such things as these, we must infer a common cause.<sup>6</sup>

This quest for a 'common cause' determined the structure of *Progress and Poverty*, which is not only beautifully written but also presents an immaculately constructed argument. George first criticises the two accounts of the causes of poverty most prominent in the contemporary popular literature, the wage-fund theory and the Malthusian population principle; this occupies the first two parts of the book. Having decided that the organisation of society rather than the laws of nature are to blame, he develops (in part III) his own theory of the distribution of income to explain the tendency for rent to increase its share of the total product at the expense of wages and interest. In parts IV and V he applies this theory to historical reality, showing how material progress and the growth of population benefit the landlord rather than the rest of society, and how land speculation is the fundamental cause of industrial depression. The next stage in the argument (presented in part VI) is a critical analysis of alternative remedies and a demonstration that the socialisation of rent is superior to them all. In parts VII–IX George establishes the ethical justification for his proposals and provides a detailed discussion of the advantages which would stem from their implementation. The book concludes (in part X) with George's ambitious attempt to enunciate a 'Law of Human Progress', or a theory of world history, on the basis of his economic theory.

According to the wage-fund theory, the total wage bill was limited by the size of the fund of circulating capital previously set aside for the payment of wages. Hence in the short run wages and employment were inversely related: an increase in wages could come only if employment fell, and vice versa. (More precisely, in modern terminology, there was a unitary short-run elasticity of labour demand with respect to the wage rate.) In the long run the wage-fund theory implied that wages could increase only through an increase in the ratio of capital to labour, either by the accumulation of capital or by a reduction in the number of workers seeking jobs. George rejected both the premise and the conclusions. Workers are always paid in arrears and never in advance, he argued, and the source of their wages is their own product rather than any prior accumulation of capital: 'It is from the produce of labour, not from the advances of capital that wages come.' In effect it is workers who advance capital to their employers rather than the reverse, and 'mankind really live from hand to mouth'.

Malthus's population principle declared poverty to be the consequence of the tendency for population to grow more rapidly than the production of food. Thus poverty resulted from a law of nature and could not be cured by institutional reforms, though sexual restraint and improved education might be effective remedies. George believed Malthusianism to be a powerful ideological weapon: 'the great cause of the triumph of this theory is, that, instead of menacing any vested right or antagonising any powerful interest, it is eminently soothing and reassuring to the classes who, wielding the power of wealth, largely dominate thought.' But it was false, in logic and in fact. There were many historical examples of long-term population decline, and considerable evidence that agrarian poverty in India and Ireland was the product of English colonial rule rather than overpopulation. Malthus's argument by analogy from the plant and animal kingdoms was misleading because man, unlike animals, creates his own food and develops his own faculties and needs. Economies of scale overcome the law of diminishing returns, and ensure that the growth of human population leads to increasing rather than decreasing wealth. If wages fall as population grows, this is due not to the niggardliness of nature but to social injustice. Malthusianism is 'a gratuitous attribution to the laws of God of results which . . . we may infer really spring from the maladjustment of men.'<sup>7</sup>

Thus the focus shifts to the distribution of wealth. George was a



severe critic of classical political economy in this respect, for it had produced no coherent theory of distribution: 'The law of rent is clearly stated, but it stands unrelated. The rest is a confused and incoherent jumble.' His own theory of rent is essentially that of David Ricardo: the difference between production on more fertile land and that at the margin of cultivation accrues to the landlords on account of the private monopoly of the land, leaving wages and interest as a residual. George extends the Ricardian analysis to urban building land, but takes it no further. His most significant achievement – and it is a contribution of real originality – is in extending the principle of productivity at the margin to the other agents of production. John Bates Clark is generally regarded as the father of marginal productivity analysis, but he acknowledged his debt to Henry George. Probably the first clear exposition (at least in English) of the neoclassical theory of income distribution is to be found in *Progress and Poverty*.<sup>8</sup>

George's theory of wages is derived from Frederick Jackson Turner's frontier thesis in conjunction with a simple economic axiom: 'The fundamental principle of human action – the law that is to political economy what the law of gravitation is to physics – is that men seek to gratify their desires with the least exertion.' If free land is available on the frontier, no one will work as a wage labourer for an income less than that which could be obtained as an independent farmer. Hence the general level of wages is determined by the productivity of self-employed labour on no-rent land. Anyone wishing to hire another person as an employee 'will have to pay only what the labour yields at the lowest point of cultivation'. Wages, then, tend to equality with the average product of labour at the margin of cultivation, and this law applies to both 'simple' and 'highly civilized' societies.<sup>9</sup>

More serious problems are posed by the theory of capital, and the discussion of interest in *Progress and Poverty* is less satisfactory. George is anxious to demonstrate the justice of interest as 'a natural thing', and to repudiate any notion of an inverse relationship between the real wage and the rate of interest. He attacks abstinence theories of interest; dissociates pure interest payments from risk premia (which cancel out in the aggregate, like gambling winnings and losses); and insists that monopoly profits 'are not to be confounded with the legitimate returns of capital as an agent of production.' In several places George appears to deny any connection between productivity and interest, only to conclude that 'interest

springs from the power of increase which the reproductive forces of nature . . . give to capital . . . were the quality and capacity of matter everywhere uniform, and all productive power in man, there would be no interest.' Interest results from the ability of capital to increase the productivity of labour in production processes which use natural resources. This is not exactly a marginal productivity theory of interest, and it has a strange, almost Physiocratic tinge which is quite alien to more orthodox neoclassical writers. George represented himself as the Copernicus of political economy and claimed to have established the 'harmony and correlation of the laws of distribution'. One can appreciate the reasons for his influence on John Bates Clark without going quite that far.<sup>10</sup>

The stark implication of his theory of distribution is that economic development benefits the owners of land rather than labour or capital. This law of increasing rent applies alike to agricultural and urban land. It is the necessary outcome (George argues) both of population growth without advances in technology and of technical progress with a static population. At the limit, full automation would eliminate wages (and in some unexplained way also interest) altogether, leaving rent to absorb the entire net product. Free trade and clean government cannot improve the lot of the masses, for the betterment of 'government, manners and morals' simply increases rent:

It is a well-provisioned ship, this on which we sail through space. If the bread and beef above decks seem to grow scarce, we but open a hatch and there is a new supply, of which before we never dreamed. And very great command over the services of others comes to those who as the hatches are opened are permitted to say, 'This is mine!'<sup>11</sup>

It is not merely the trend of economic development which is governed by the law of rent. Recurrent fluctuations in the level of activity are themselves the product of speculation in land. George's theory of the trade cycle is an ingenious one. There is an initial upsurge in speculative land purchases as investors anticipate long-run increases in its rental yield. This increases land prices and encourages an extension of the margin of cultivation beyond its normal limit. The resulting decline in the rate of return to labour and capital leads to a fall in their employment, 'in as much as there is a minimum of return below which labour cannot exist nor capital be maintained.' Depression continues until land prices and rents

return to their usual, pre-speculation levels, or increasing productivity restores the wage and interest rates, or labour and capital accept lower returns. Thus deficient demand, which results from reduced incomes, is the effect of the downturn rather than its cause. Once again, progress goes hand in hand with poverty.<sup>12</sup>

None of the existing remedies is adequate, George argues. Economy in government, like education, industry and thrift, would serve only to increase rent still further. In principle trade unions can raise wages at the expense of the landowners, and without damaging production. In practice only craft unions enjoy any success, while the great mass of workers will find the landlords better able to combine and hold out against them. Unions also entail a serious infringement of individual freedom, and misdirect their energies: the really important conflict is that between society and the landlords, not between labour and capital. Nor does co-operation hold out any prospect of relief. Co-operative distribution would simply increase efficiency and thereby raise rent, while co-operative production on private land would amount to a form of sharecropping for the benefit of the landowners. As for socialism, it may be possible in the distant future, but if attempted at present it would produce 'a retrogression that would involve anarchy and perhaps barbarism'. Finally, George rejected land reform: 'An equal distribution of land is impossible, and anything short of that would be only a mitigation, not a cure, and a mitigation that would prevent the adoption of a cure.'<sup>13</sup>

The true remedy is the 'substitution for the individual ownership of the land a common ownership'. George is led to this conclusion by his natural rights theory of property. The only just way to acquire a title to something is by producing it by labour. Hence property rights in 'the gratuitous offerings of nature' cannot be defended, and the landlords have no right to compensation for their loss. Private property in the land is 'an usurpation, a creation of force and fraud', whether it results from feudal oppression (as in Europe) or the disastrous alienation of the public domain, as in the United States. Private ownership is not essential to provide work incentives for farmers, who need only security for their improvements. Equity and efficiency point in the same direction, since at present production is lower than it could be because of the speculative withholding of land from use.<sup>14</sup>

George asserts the fundamental conservatism of his proposals:

‘Everything could go on as now, and yet the common right to land be fully recognized by appropriating rent to the common benefit.’ There is no need to confiscate the land. Only rent should be confiscated, by taxation. This would allow the abolition of all other taxes: ‘In this way the State may become the universal landlord without calling herself so, and without assuming a single new function.’ Taxing rent accords fully with Adam Smith’s four canons of taxation: it is efficient, cheap to collect, certain (and hence unlikely to corrupt the agencies of government), and also just. Its virtues have been widely recognised, above all by the Physiocrats, but it was never consistently advocated by classical political economy because of the prevailing ‘indisposition to endanger or offend the enormous interest involved in private ownership in land, and from the false theories in regard to wages and the cause of poverty which have dominated economic thought.’<sup>15</sup>

Once implemented, a ‘single tax levied upon the value of land’ would bring enormous gains to society, in both economic and political terms. Production would increase due to the abolition of other taxes and the ending of speculative withholding of land. There would be no more trade depressions, and wages would rise because of the ability of labour to employ itself. Thus the value of land would rise, generating ‘a new surplus which society might take for general purposes’. Economic inequality would diminish, and the burden of taxation would shift from the country to the towns. Population densities would tend to equalise, allowing city-dwellers to have gardens and hitherto isolated farmers to enjoy the advantages of small-town life. Government would become simpler, and the opportunities for political corruption would diminish. It would become possible to approach the ideal of Jeffersonian democracy, which George believed to require the abolition of the state, ‘but of government only as a directing and repressive power. It would at the same time, and in the same degree, become possible for it to realise the dream of socialism.’ Public expenditure could be lavished on education and public buildings, on the promotion of science and the provision of free heat, light and power. Government would change its character and would become the administration of a great co-operative society. It would become merely the agency by which the common property was administered for the common benefit. The disappearance of want would destroy greed as a principal motive of human action; wages would rise and hours of work be reduced;

production would probably be placed on a co-operative basis, 'since the more equal diffusion of wealth would unite capitalist and labourer in the same person.'<sup>16</sup>

The book ends on a more sombre note. George is haunted by the spectre of historical decline and by the vision of those 'fixed, petrified civilisations' which, like India and China, cannot be understood by the 'hopeful fatalism' of Social Darwinists like Herbert Spencer. Spencer was right to regard increasing social differentiation as the basic law of human progress but failed to see that differentiation engenders inequality, which destroys freedom and halts improvement. The inexorable growth of rent not only concentrates wealth in ever fewer hands, it also perverts political institutions. Democracy cannot survive, nor is it worth anything, without economic justice. And economic justice means access to the land.<sup>17</sup>

### III

'It is a matter of deep significance that such a book should have reached a circulation of far upwards of a hundred thousand copies.' This was J. A. Hobson's comment on *Progress and Poverty* in the year of its author's death.<sup>18</sup> George's argument was not especially original, Hobson observed, since English classical political economy had displayed a consistent hostility towards private landlords since the days of Adam Smith, and the idea of the single tax was all but explicit in the writings of the Physiocrats. Nor was George's analysis of distribution adequate. It rested upon a theoretical fallacy – that the landowner was the residual claimant – and had been refuted in practice by the rapid growth of non-rent property incomes. George's astonishing popularity stemmed rather from 'a certain dramatic opportuneness' surrounding the publication of *Progress and Poverty* in a year of depression when the increasing concentration of landownership was causing great concern in both America and Britain:

The real importance of Henry George is derived from the fact that he was able to drive an abstract notion, that of economic rent, into the minds of a large number of 'practical' men, and to generate therefrom a social movement . . . [he] may be considered to have exercised a more directly powerful formative and educative

influence over English radicalism of the last fifteen years than any other man.<sup>19</sup>

For this reason alone the book could not be ignored. On both sides of the Atlantic it received the critical attention of professional economists, to such an extent that there exists for George – uniquely among economic heretics – a sizeable secondary literature on the reaction to his work.<sup>20</sup> Only a few representative authors can be cited here. On the Continent his work was reviewed by Gustav Schmoller and Adolph Wagner and attracted the attention of Leon Walras. In Britain Alfred Marshall was his most distinguished opponent, while among his U.S. contemporaries this honour belonged to J. B. Clark and E. R. A. Seligman.

Schmoller objected that George's assumptions, although valid for the United States, were inapplicable to Europe. In North America excessive population growth posed no problems, speculation in land was a principal cause of crises, the interests of capitalists and labourers were not dissimilar, and wages bore a close relation to the productivity of the farmers. None of this was relevant to the Old World, and George was guilty of the Ricardian crime of excessive abstraction and overgeneralisation. His case for the old Physiocratic remedy of a single tax was 'so childish, so unhistorical, that it can scarcely be taken seriously'. Wagner, too, complained of George's naivety in supposing that all social conflicts could be eliminated by the single tax, which would not resolve the fundamental conflict between capital and labour. But George was an honourable man and an acute observer, whose strictures against the corruption of republican government should serve as a warning to anti-monarchists in Germany. His only error was to make out the social problem to be simpler than it really was.

Neither Schmoller nor Wagner used their reviews of *Progress and Poverty* to propose alternative measures of land reform. I suspect (though I have been unable to document) a connection between George's popularity in Europe and Gossen's scheme (published in 1881) for purchase of the land by the state, with compensation to be paid by the authorities from the rents they would collect. This was open to the objection that it left the burden of rent payments unaltered, simply interposing the state as an intermediary between the cultivators and the landlords (now converted into rentiers). Leon Walras therefore proposed that the compensation price should

take account only of current productivity levels, so that the debt could be discharged from the increased rents which would result from future agrarian progress. This he regarded as 'a scientific and just solution to the question of returning the land to the community, of which M. Henry George has only given a socialist and revolutionary solution.' The flaw in Walras's proposal, of course, lay in its assumption that landlords would sell voluntarily at prices which did not already capitalise the anticipated gains from future technical advances; he seems to have opposed compulsory purchase.<sup>21</sup>

In 1883 the young Alfred Marshall gave three public lectures on *Progress and Poverty*, and in the following year he engaged George in a public debate at Oxford. Marshall asserted that land cannot easily be separated from other forms of property, and stressed the value to society of productivity and thrift (both rejected by George as benefiting no one but the landlords). Real wages had risen for the great majority of the English working class, and the appropriate cure for poverty was to increase the demand for labour (through raising productivity) or to decrease its supply; both required improvements in education, which George again disparaged. In the analysis of income distribution Marshall argued for a supply and demand approach in which all factor incomes were determined simultaneously, instead of giving logical priority to rent. It would also be impossible to distinguish pure rent from the value of improvements, he believed, so that the single tax would after all affect the allocation of resources. Even if these difficulties could be overcome, Marshall concluded, rent was simply not important enough for George's proposals to have the dramatic effects he claimed for them.<sup>22</sup>

Many British writers were more sympathetic, to the principle of land value taxation if not to the 100 per cent single tax. In this policy sense Marshall himself was a consistent Georgeite, from the closing remarks of his 1883 lectures, through his *Principles of Economics*, to his defence of Lloyd George's 1909 Budget. John Elliotson Symes, who taught political economy at the new University College, Nottingham, took a similar stand and made himself very unpopular with local politicians by doing so.<sup>23</sup> Other academic economists to endorse the spirit of Henry George's proposals were T. E. Cliffe Leslie, Thorold Rogers and Philip Wicksteed, who described in a letter to George how *Progress and Poverty* had opened 'a new heaven and a new earth' for him.

American academics were more hostile, especially after 1890.<sup>24</sup>

J. B. Clark went further than Marshall in denying the unique status which George accorded to the land.<sup>25</sup> For Clark land is simply one type of asset, one form in which wealth might be held. It is in fact a part of capital. Individuals who own no land are in this position for one of two reasons. Either they have chosen freely to hold their capital in other forms; or they are propertyless, and therefore unable to purchase any form of capital asset. In the first case there is obviously no injustice. In the second the objection should be to the distribution of wealth as a whole, and the implications are socialistic. George might consistently argue for the expropriation of all wealth (though Clark would be as fervently opposed to this as George himself). But he could not justify the confiscation of only one form of capital. Nor would the single tax leave the level of output unchanged:

It can be shown without difficulty that a maintenance comes to men generally more easily and in ampler measure under the system that assigns land for actual uses to private owners than it would do in any other way. Though the immediate ownership is private, the ultimate ownership and the actual benefit are public.<sup>26</sup>

A narrower perspective was adopted by E. R. A. Seligman, who confronted George with three important principles of taxation: universality, equality, and justice. George was right to argue that a tax on land values would fall entirely upon the landlords, but this meant that other classes would escape scot-free. Hence the single tax failed to meet the criterion of universality ('all owe a duty to support the State'). Nor was it equal as between new purchasers and long-established owners of land. Only the latter have enjoyed any unearned increment, and to tax the former would be confiscatory. Finally, justice demanded that taxation be levied according to the ability to pay. There is no necessary relationship between wealth and unearned increment. Even if there were, a single tax on land values would still be unjust, since the ability to secure economic rents is not confined to owners of land:

Why is not the fortunate owner of railroad bonds, or of books or pictures, or the manager of a successful pool or ring or corner in produce, equally liable to pay for the unearned increment which the mere action of society has added to the value of his possessions?



Seligman concluded that the single tax would be ineffective as well as unjust:

Wages can be increased in only one of three ways, – through the increase of capital, through the increased efficiency of the laborer, or through the increased standard of living which will enable the workman to compel higher wages. But the single tax can accomplish none of these things . . . Into what does all this fair dream of economic felicity resolve itself? Into mere mist, into mere nothingness.<sup>27</sup>

This onslaught came, like Clark's more restrained objections, at the 1890 Saratoga meeting of the American Social Science Association, which was devoted to the single tax. At the time George's chief reaction was to accuse his critics of conscious servility to the landed interest. In *The Science of Political Economy* he turned to the substance of their case. In the opinion of one sympathetic biographer, however, the book would have been better left unpublished.<sup>28</sup> Only the first two parts, on methodology and the theory of value, appear to have been completed: the third (on the theory of production) has some analytical depth but is clearly unfinished; and the two sections dealing with distribution and with money are fragmentary and add little to George's earlier writings.

The book begins with a vigorous defence of the deductive method. George declares the principle of least exertion to be the cornerstone of his analysis. Its rejection by academic economists in favour of the fallacious assumption of universal selfishness has led them to abandon deduction in favour of the inductive method. The result has been a 'destructive revolution' in university economics,<sup>29</sup> of which the most serious manifestation is an erroneous theory of value and wealth. For George, the theory of value must be based on the principle of least exertion. The value of anything is 'the amount of toil which the possession of that thing will save the possessor.'<sup>30</sup> Echoing Smith's distinction between labour embodied and labour commanded, George insists that value depends on the quantity of labour that will be offered for an object, not on the quantity used to produce it in the past.

There are in fact two sources of value: the exercise of labour in production, and 'obligation' or the possession of monopoly power. Only the former creates wealth. Wealth is defined as those natural products changed by labour in order to fit them for human enjoyment, and therefore 'value from obligation' cannot create

wealth. As land is the most important representative of this form of value, it follows that it cannot be deemed part of social wealth. Hence land cannot be treated as one component of capital, for capital is 'that part of wealth . . . devoted to the production of other wealth', and this definition excludes non-wealth assets like land.<sup>31</sup>

None of this is at all convincing.<sup>32</sup> George's methodological arguments are particularly weak. He fails to explain why the adoption of the principle of universal selfishness should entail abandonment of the deductive method. The principle itself is an axiom rather than an inference from observed facts, and its most enthusiastic supporters (the Austrian School) espoused rationalism and explicitly rejected empiricism. Thus methodologically they were closer to George than many of the classical economists he so admired. In fact he failed to understand Austrian economics, or even Marshall, and seems never seriously to have wrestled with post-classical developments in economic theory.<sup>33</sup>

This is evident again in the theory of value presented in *The Science of Political Economy*. George's attempted resurrection of Adam Smith was unsuccessful. It fell neatly between two stools, offering neither a thoroughgoing subjectivist analysis comparable to the marginal utility approach nor an objective labour-embodied theory like that of the Marxists. The notion of 'value from obligation' is most unclear. It can be interpreted as a generalised theory of economic rent as the return to monopoly. There are hints of this in George's earlier writings. In the parable of the island, for example, the shopkeeper and the inventor both enjoy monopoly power, and according to his marginal productivity theory the latter should receive the increased output which results from inventions (the pirate and the gambler are simply parasites). But this would lay George open to the Clark-Seligman charge that land is simply one form of capital asset and that the single tax would be confiscatory. There is very little discussion of the theory of capital in the book, and nothing at all on the theory of cyclical depressions, which provided one of the most important elements in *Progress and Poverty*. The earlier work, 'a wonderful example of old-style classical economics, was 30 years out of date the day it was published.'<sup>34</sup> *The Science of Political Economy* was less wonderful, and nearly half a century behind the analytical times.

Inevitably it satisfied none of George's professional critics. Seligman later summarised the case against the single tax with great clarity.<sup>35</sup> The natural rights defence of property had been superseded

by a utilitarian theory in which the crucial factor was the contribution to general welfare. The justice of the single tax could not be deduced even from a natural rights theory, for in modern economics nothing is the exclusive product of any one individual's labour. 'Society, from this point of view, holds a mortgage upon everything that is produced. The socialists have been in this respect more logical' than George. Viewed more narrowly as a proposition in the theory of taxation, the single tax was defective both in principle and in practice. It violated the canon of ability to pay; its revenue yield would be inadequate and would fail to grow sufficiently rapidly over time; the inevitable injustices in assessment would promote inequality; it would prevent the imposition of other desirable taxes (for example on alcohol); and it would destroy the citizen's sense of responsibility for clean government, since only a small minority of the population would be taxpayers. The single tax would ruin small farmers. It could never be applied in poor frontier areas, where it would generate very little revenue. Even in urban areas it would be undesirable, as the building boom it induced would suck capital away from other, more socially desirable, uses. The single tax was thus 'as unjust as it is one-sided, as inconsistent as it is inequitable'.<sup>36</sup>

#### IV

The socialist reaction to George was as complex as his own attitude to socialism. This was ambivalent in *Progress and Poverty*, but hardened considerably in the final two decades of his life.<sup>37</sup> J. A. Hobson noted the paradox:

George himself stood out boldly in his repudiation of Socialism and entered a strong and ingenious defence of profit and interest. How comes it, then, that Georgeism is so closely associated in the public mind with Socialism? It is not due to mere laxity of thought. For while George has many followers who stand by his ideal of full free trade, there are many more to whom *Progress and Poverty* has been a stepping-stone to a more or less formal Socialism.<sup>38</sup>

George's early British tours were sponsored by the nascent socialist movement. He stayed in London as the house guest of H. M. Hyndman (whom he horrified by eating whelks in a London street), spoke on many socialist platforms, and exercised a powerful influence on intellectuals like the Fabians George Bernard Shaw,

Edward Pease and Frank Podmore.<sup>39</sup> In the opinion of Sidney and Beatrice Webb, George had transformed the British trade-union movement:

If we had to assign to any one event the starting of the new current of thought, we should name the wide circulation in Great Britain of Mr. Henry George's *Progress and Poverty* during the years 1880–2. The optimistic and aggressive tone of the book, in marked contrast with the complacent quietism into which the English working-class movement had sunk, and the force of the popularisation of the economic Theory of Rent, sounded the dominant note alike of the 'New Unionism' and of the English Socialist Movement of today.<sup>40</sup>

Socialist support for George was never uncritical. Arnold Toynbee's 1883 lectures on *Progress and Poverty* foreshadowed many subsequent objections. Toynbee agreed with George that economic development had increased the concentration of wealth, and that private landownership was not necessary to good agricultural practice. But the growing concentration of capital, rather than land, was the main problem. Profits had risen much more than rents, and this was why real wages had grown so slowly. A limited degree of land reform was desirable, but far from sufficient. Labour must be strengthened in relation to capital both by the growth of trade unionism and by statutory reform, and taxation should be extended to the income from capital as well as from land.<sup>41</sup>

Similar problems were raised by the Fabian socialists. Pease's history of the movement explains how the early Fabians were especially attracted to George because the single tax could be implemented peacefully through Parliament by legislation. But they soon saw the inadequacy of his analysis. Away from the frontier, it was obviously untrue that the entire surplus product went to the landlord: 'Taxation to extinction of the rent of English land would only affect a small fraction of England's wealth.' Hence Olivier and Sidney Webb were led to assert 'the economical and moral identity of capital and interest with land and rent', echoing the arguments of conservative American economists but drawing the radically different conclusion that capital and interest must also be socialised. The Fabian Society eventually excluded from membership land nationalisers and supporters of the single tax.<sup>42</sup>

Karl Marx reacted to George with what Hyndman described as 'a sort of friendly contempt'.<sup>43</sup> Soon after its publication Marx had

received no fewer than three copies of *Progress and Poverty* from correspondents seeking his views, which he gave at some length in a letter to his old friend F. A. Sorge in New York. George was a writer of talent, Marx admitted, but 'he also has the repulsive presumption and arrogance that invariably distinguish all such panacea-mongers.' His book was significant 'because it is a first though abortive attempt at emancipation from orthodox political economy.' There was nothing new about George's proposals, which could be found in the writings of James Mill; radical disciples of Ricardo had long since called for the appropriation of rent by the state. He and Engels themselves had included the demand as one of the 'transitional measures' in the *Communist Manifesto*, Marx reminded Sorge, while explicitly recognising its contradictory nature. Little could be said in George's favour: 'Theoretically the man is utterly backward. He understands nothing about the nature of *surplus value*, and so wanders about in speculations . . . about the portions of surplus value that have attained independent existence, i.e., the relation of profit, rent, interest, etc.' On the political level, writers such as George

leave *wage labour* and hence *capitalist production* in existence and try to bamboozle themselves or the world into believing that by transforming land rent into a state tax *all the evils* of capitalist production would vanish of themselves. The whole thing is thus simply a socialistically decked-out attempt *to save capitalist rule* and actually *re-establish* it on *an even wider basis* than its present one.<sup>44</sup>

Marx's opposition to George has rarely been challenged by his followers.<sup>45</sup>

## V

George himself was in no doubt as to the reasons for his hostile reception at the hands of the orthodox critics. One element was the prevalence of false theories concerning wages and the causes of poverty, in particular the wage-fund doctrine.<sup>46</sup> More significant was the wounded professional pride of the established academics:

What were their training and laborious study worth if it could thus be ignored, and if one who had never seen the inside of a college, except when he had attempted to teach professors the fundamentals

of their science, whose education was of the mere common-school branches, whose *alma mater* had been the fore-castle and the printing-office, should be admitted to prove the inconsistency of what they had been teaching as a science? It was not to be thought of . . . Thus the professors of political economy seemingly rejected the simple teachings of 'Progress and Poverty', refrained from meeting with disproof or argument what it had laid down, and treated it with contemptuous silence.<sup>47</sup>

By far the most important factor, George believed, was their crude subservience to vested interests:

Professor Seligman . . . said that the professors of political economy as a class are against us. Unfortunately, that is true. But is it astonishing? Given a great social wrong that affects the distribution of wealth, and it is in the nature of things that professors of political economy should either belong to or consciously or unconsciously be influenced by the very class who profit by the wrong, and who oppose, therefore, all means for its remedy. Professor Seligman intimates that we who are not of the colleges ought to accept what professors of political economy tell us of that science, as we accept what professors of the physical sciences tell us of their domain. The difference, which he ignores, is that researches into the physical laws of nature do not affect the 'pocket nerve': political economy does.<sup>48</sup>

This remarkably open accusation, made in debate with Seligman and others at Saratoga, brings to mind Marx's famous description of post-Ricardian economists as the 'hired prize-fighters' of the bourgeoisie; later at the same meeting, George withdrew it grudgingly.<sup>49</sup> But similar charges abound in his writings.<sup>50</sup>

It is impossible to avoid the suspicion that George was on to something here, though charges of class bias and deliberate falsification are much easier to make than to substantiate. Certainly radical economists like Veblen and Commons suffered for their views, and even a mild dissident such as Davenport was the victim of persecution.<sup>51</sup> The other part of George's explanation – that he offended professional susceptibility – is undeniable. It was his misfortune as an autodidact to be writing at precisely the time when academic economists were establishing themselves as a profession, with increasingly formal entry requirements and accepted canons of belief. As early as 1877 George had alienated a professorial audience

at Berkeley, and the jaundiced view of academia which he acquired then stayed with him for the rest of his life. The mistrust was mutual.<sup>52</sup>

George contributed to his own rejection in other ways. He refused to take account of contemporary developments in economic thought, clinging obstinately to his belief that progress in political economy had ended with Ricardo and John Stuart Mill. The weaknesses in his own analysis were never corrected. In particular, he proved unable to articulate a convincing theory of capital, interest and profit, or to take account of the deep-rooted conflict of interest between capital and labour. His vision of a society divided between landowners and the rest would soon become irrelevant even in California. Finally, the excesses of his arguments invited his dismissal (unjustified though it was) as a single-issue fanatic.<sup>53</sup>

More than a century after the publication of *Progress and Poverty*, however, its arguments remain attractive. There has recently been a revival of interest in the 'natural rights' defence of property, which had fallen into disfavour in Seligman's day. Many modern political philosophers would be inclined to take seriously George's moral claim that landowners have no legitimate right to the land and therefore no entitlement to compensation if it should be taken from them. The truth of this claim, it can be argued, is independent of the manner in which the current owners of the land came to obtain it. Can I legitimately expect compensation when a slave I acquired innocently is emancipated, or the stolen goods I bought in good faith are repossessed? Compensation from whom? The answers to these questions are not self-evident, and the ethical basis of George's system is considerably stronger than contemporary critics were prepared to admit.<sup>54</sup>

At a more concrete level, George's influence is equally pervasive. Land value taxation has been implemented at local government level in some parts of the United States and in the Antipodes, while the principle of taxing the unearned increment was accepted in the British legislation (since repealed) of 1947. Modern technology permits the exploitation of the ocean bed and of the Antarctic; the resources of space may soon become available. These new frontiers, these potential new public domains, offer great scope for the application of George's ideas.<sup>55</sup> His disciples still propagate the single tax in classes and lectures throughout the English-speaking world; a reputable scholarly journal, the *American Journal of Economics and Sociology*, is in effect a Georgeite quarterly; and a

serious book-length attempt to apply his theory of industrial fluctuations to the economic crises of the 1970s received a favourable review in the British press.<sup>56</sup>

A lively interest in George is still taken by eminent economists of many persuasions. Milton Friedman has been cited as a sympathiser with the single tax.<sup>57</sup> Frank Knight, the doyen of the conservative economists of his day, took a different view. He recognised that the 'theory of confiscatory taxation of land value' was a logical inference from the analysis of Ricardo and Mill. But the administrative problem of imputing rent to self-employed farmers was insuperable, and the single tax would also discriminate arbitrarily between recent purchasers of land and long-established owners. If society intended to tax the winners, Knight argued, it should also compensate the losers. Rent 'is a *profit* like any other, a speculative gain due to an unanalyzable mixture of superior foresight and "luck".' Speculation should be encouraged as a socially productive activity, and for this reason alone the single tax is undesirable.<sup>58</sup>

Among liberals one notable endorsement of George has come from Kenneth Boulding, for whom rent is the ideal base for taxation on both economic and moral grounds. Moreover, *Progress and Poverty* 'advocates a special case of what might be called the "public grants economy"', and hence anticipates Boulding's own work. There are defects in the argument for the single tax, among them its inadequate yield, the dangers of mistaken assessments with a 100 per cent tax rate, and the superior virtues of the progressive income tax. But Boulding is greatly impressed by the land speculation theory of the trade cycle and compares George with Karl Marx, very much to the latter's disadvantage.<sup>59</sup>

The taxation of land values was a live issue in United States politics as late as the 1960s, under the influence of the distinguished economist and long-serving Democratic Senator Paul H. Douglas. Convinced as a young man by George's case, Douglas hung his portrait on the walls of his study along with Ricardo, John Stuart Mill, Jevons, von Thünen and Marshall. After his electoral defeat in 1966 Douglas was appointed to the Presidential Commission on Urban Problems where he proposed, without success, a 20 per cent tax on the increase in land values – estimated at some \$250 billion – which had occurred over the previous ten years. In his support for the spirit of George's proposals Douglas was part of a radical tradition going back to John R. Commons and Thorstein Veblen.<sup>60</sup>

George's followers continue to complain of misrepresentation and



neglect by mainstream professional economists. A survey of U.S. college texts of the 1950s found that thirty-five out of seventy-six books ignored George altogether, and a further seven made only a brief reference. Few of the remainder treated the single tax as practical politics, or gave any information on its implementation.<sup>61</sup> To the best of my knowledge no similar study has been made subsequently. Introductory texts are probably not the best place to look for a systematic and balanced discussion of minority ideas, but among the best-sellers of the 1960s and 1970s the Georgeite charges of neglect and distortion are not substantiated. Both R. G. Lipsey and P. A. Samuelson offer brief but balanced assessments, while Martin Bronfenbrenner devotes four pages of his major textbook on the theory of income distribution to a critical exposition of George.<sup>62</sup> Historians of economic thought have been equally fair to him, as the popular works of Robert Heilbroner and Mark Blaug demonstrate.<sup>63</sup>

Joseph Schumpeter's assessment was no less generous. Unlike most profferers of panaceas, Schumpeter wrote, George *was* an economist. Although self-taught, he managed to obtain 'most of the knowledge and the ability to handle an economic argument that he could have acquired by academic training as it then was'. The only fault with the single tax was unwarranted optimism concerning its yield; it was certainly not nonsense. Indeed, if Ricardo's prognosis about the long-term growth in rent had proved correct, George's proposals would have been 'obvious wisdom'.<sup>64</sup> There are few, if any, economic heretics of whom that would be said.

## NOTES

1. Henry George, *Social Problems* (London: Kegan Paul, Trench, Trubner & Co., 1906; first published 1884), pp. 187–91.
2. Albert Jay Nock, *Henry George* (New York: William Morrow, 1939), pp. 22–3, 31–2, 43–4. The best brief biographical sketch of George is Charles A. Barker, 'Henry George', *International Encyclopaedia of the Social Sciences* (ed. Sills), 6 (New York: The Macmillan Co. and The Free Press, 1968), pp. 151–5. I have drawn heavily upon George R. Geiger, *The Philosophy of Henry George* (New York: Macmillan, 1933); Anna George De Mille, *Henry George: Citizen of the World* (Chapel Hill, North Carolina: University of North Carolina Press, 1950); and especially on the definitive critical biography by Charles Albro Barker, *Henry George* (New York: Oxford University Press, 1955).

3. See especially the very eloquent passages in *Progress and Poverty*, Book X. (All page references are to the 50th anniversary edition published in 1935 in New York by the Robert Schalkenbach Foundation.)
4. Barker (1955), pp. 184, 194.
5. Barker (1955), p. 481 voices the common suspicion that George was defrauded out of victory.
6. *Progress and Poverty*, pp. 5–6.
7. *Ibid.*, pp. 56, 70, 75, 98, 150.
8. *Ibid.*, p. 160; John Bates Clark, *The Distribution of Wealth: a Theory of Wages, Interest and Profits* (London: Macmillan, 1927; first published 1899), pp. viii, 84–5, 87–8.
9. *Progress and Poverty*, pp. 204–7.
10. *Ibid.*, pp. 174–6, 185, 188, 193–4, 219, 221–2.
11. *Ibid.*, pp. 243, 252–3.
12. *Ibid.*, p. 264.
13. *Ibid.*, pp. 321, 327.
14. *Ibid.*, pp. 328–84.
15. *Ibid.*, pp. 400, 406, 423.
16. *Ibid.*, pp. 433, 456–7, 468.
17. *Ibid.*, pp. 480–1.
18. J. A. Hobson, 'The Influence of Henry George in England', *Fortnightly Review*, 1897, p. 837.
19. *Ibid.*, pp. 836–7, 844.
20. Two entire books have been devoted to this question: Steven B. Cord, *Henry George: Dreamer or Realist?* (Philadelphia: University of Philadelphia Press, 1965) and Robert V. Andelson (ed.), *Critics of Henry George: A Centenary Appraisal of Their Strictures on 'Progress and Poverty'* (Cranbury, N.J.: Associated University Presses, 1979). See also Charles F. Collier, 'Henry George's System of Economics: Analysis and Criticism' (Duke University Ph.D dissertation, 1976), pp. 41–236; and Mason Gaffney, 'Two Centuries of Economic Thought on Taxation of Land Rents', in Richard W. Lindblom and Arthur D. Lynn Jr, *Land Value Taxation: The 'Progress and Poverty' Centenary* (Madison, Wisc.: University of Wisconsin Press, 1982), pp. 151–95.
21. G. Schmoller, review of *Progress and Poverty*, *Jahrbücher für Gesetzgebung, Verwaltung und Volkswirtschaft* 6, 1882, pp. 354–9; A. Wagner, review of *Progress and Poverty*, *Zeitschrift für die Gesamte Staatswissenschaft* 37, 1881, pp. 619–24; W. Jaffé (ed.), *The Correspondence of Leon Walras and Related Papers* (Amsterdam: North-Holland, 1965), I, p. 753, II, p. 83, III, pp. 199–201. Böhm-Bawerk also criticised George for repeating Physiocratic errors and failing to give an adequate explanation of interest on capital (E. von Böhm-Bawerk, *Kapital und Kapitalzins*, Innsbruck: Verlag der Wagnerschen Universitäts-Buchhandlung, 1884, pp. 470–7).
22. [Ronald Coase], 'Three Lectures on Progress and Poverty by Alfred Marshall', *Journal of Law and Economics* 12, 1969, pp. 184–226; Robert F. Hébert, 'Marshall: a Professional Economist Guards the Purity of His Discipline', in Andelson, *op. cit.*, pp. 56–71.
23. Hébert, *op. cit.*, p. 67; A. W. Coats, 'John Elliotson Symes, Henry

- George and Academic Freedom in Nottingham During the 1880s', *Renaissance and Modern Studies* 7, 1963, pp. 110–38.
24. Barker, *Henry George* (1955), pp. 314–15, 381, 528–9. Barker concludes that academic economists in the United States were least hostile to George in the middle and late 1880s (*ibid.*, pp. 556–8, 565–7).
  25. John Bates Clark, 'The Moral Basis of Property in Land', in F. A. Sanborn (ed.), *The Single Tax Discussion Held At Saratoga September 5 1890* (Concord, Mass.: The American Social Science Association, 1890), pp. 21–8.
  26. *Ibid.*, p. 28.
  27. E. R. A. Seligman, 'Address of Professor Edwin R. A. Seligman', in Sanborn, *op. cit.*, pp. 35–44, and 'Remarks of Professor Seligman', *ibid.*, pp. 86–98.
  28. Barker, *op. cit.*, p. 587.
  29. Henry George, *The Science of Political Economy* (London: Kegan Paul, Trench, Trubner & Co., 1898), p. 95.
  30. *Ibid.*, p. 245.
  31. *Ibid.*, pp. 257–60, 264–5, 271–2, 276, 293.
  32. For a more sympathetic assessment see Charles F. Collier, 'Henry George's System of Political Economy', *History of Political Economy* 11, 1979, pp. 64–93.
  33. George regarded the Austrians in particular as affecting a deliberate obscurity of exposition to prevent simple people seeing the truth: *Science of Political Economy*, p. 208.
  34. Mark Blaug, *Economic Theory in Retrospect* (London: Heinemann, second edn, 1968), p. 89.
  35. E. R. A. Seligman, 'The Single Tax', in Edna D. Bullock (ed.), *Selected Articles on the Single Tax* (New York: The H. W. Wilson Coy., 1917), pp. 42–61.
  36. *Ibid.*, pp. 142, 160–1.
  37. Above, pp. 84–5; compare *Science of Political Economy*, pp. 391–3, 402–3.
  38. Hobson, *op. cit.*, p. 842.
  39. H. M. Hyndman, *The Record of an Adventurous Life* (London: Macmillan, 1911), pp. 290–3; Edward R. Pease, *History of the Fabian Society* (London: A. C. Fifield, 1916), pp. 19–21; Roy Douglas, *Land, People and Politics: A History of the Land Question in the United Kingdom 1878–1952* (London: Allison & Busby, 1976), pp. 117–18; Elwood P. Lawrence, *Henry George in the British Isles* (East Lansing: Michigan State University Press, 1957), pp. 77, 119, 170–3.
  40. Sidney and Beatrice Webb, *The History of Trade Unionism* (London: printed by the authors for the trades unionists of the United Kingdom, 1913; first published 1894), pp. 361–2.
  41. Arnold Toynbee, 'Progress and Poverty': A Critique of Mr. Henry George. *Being Two Lectures Delivered in St. Andrew's Hall, Newman Street, London* (London: Kegan Paul, Trench & Co., 1884).
  42. Pease, *op. cit.*, pp. 21, 261–2.
  43. Hyndman, *op. cit.*, p. 281.
  44. Marx to F. A. Sorge, 20 June 1881, in Karl Marx and Friedrich Engels,

- Selected Correspondence* (Moscow: Progress Publishers, 1965), pp. 342–3. In 1872 Marx had written in support of land nationalisation and against peasant proprietorship and rural co-operatives. Although badly expressed, the meaning of his argument is quite clear: all the means of production must be socialised, not just land (Karl Marx, ‘The Nationalisation of the Land’, in Karl Marx and Friedrich Engels, *Selected Works in Three Volumes*, volume 2, Moscow: Progress Publishers, 1969, pp. 288–90). The point is worth stressing, as Marx’s statement that ‘the nationalisation of the land will work a complete change in the relations between labour and capital, and finally, do away with the capitalist form of production, whether industrial or rural’ has often been misinterpreted (*ibid.*, p. 290).
45. Fred Harrison, ‘Gronlund and Other Marxists’, in Adelson, *op. cit.*, pp. 196–221. For an attempted synthesis of George and Marx see Matthew Edel, ‘Capital, Profit and Accumulation: the Perspectives of Karl Marx and Henry George Compared’, in Lindblom and Lynn, *op. cit.*, pp. 205–20.
  46. *Progress and Poverty*, p. 423.
  47. *Science of Political Economy*, p. 204.
  48. Sanborn, *op. cit.*, pp. 84–5.
  49. *Ibid.*, p. 87; cf. K. Marx, *Capital I* (Moscow: Foreign Languages Publishing House, 1961), p. 15.
  50. *Progress and Poverty*, pp. 364–6, 423, 427–9; *Science of Political Economy*, pp. xxxiii, 136, 480–1.
  51. Cord, *op. cit.*, p. 32, and the sources cited *ibid.*, p. 32, n. 14.
  52. *Ibid.*, pp. 26–33; cf. Hébert, *op. cit.*, for Marshall’s reaction. (In the case of Marshall there was no obvious political motive, for he endorsed the taxation of land values.)
  53. The best balanced treatment of George’s analysis is that of Collier (above, notes 20 and 32). For a technical critique of the single tax see George F. Break, ‘Henry George and Tax Reform – One Hundred Years Later’, in Lindblom and Lynn, *op. cit.*, pp. 129–37; and Martin Feldstein, ‘The Surprising Incidence of a Tax on Pure Rent: a New Answer to an Old Question’, *Journal of Political Economy* 85, 1977, pp. 349–60.
  54. I owe these points to Hillel Steiner. I am not, however, convinced that George has established his case that private ownership of the land is in principle less defensible than private ownership of the *produced* means of production. On this see G. Hodgson, *Capitalism, Value and Exploitation: a Radical Theory* (Oxford: Martin Robertson, 1982) and J. E. Roemer, *A General Theory of Exploitation and Class* (Cambridge, Mass.: Harvard University Press, 1982).
  55. Colin Clark, ‘Land Taxation: Lessons From International Experience’, in Peter Hall (ed.), *Land Values* (London: Sweet & Maxwell, 1965), pp. 126–46; Break, *op. cit.*, p. 136; W. Lissner, ‘On the Centenary of “Progress and Poverty”’, *American Journal of Economics and Sociology* 38, 1979, pp. 1–16; Terence M. Dwyer, ‘Henry George’s Thought in Relation to Modern Economics’, *American Journal of Economics and Sociology* 41, 1982, pp. 363–73.

56. Fred Harrison, *The Power in the Land: Unemployment, the Profits Crisis and the Land Speculator* (London: Shephard Walwyn, 1983), reviewed by Richard Norton-Taylor, *The Guardian* (London), 8 June 1983, p. 21.
57. Harrison, *The Power in the Land*, *op. cit.*, p. 299.
58. Frank H. Knight, 'Fallacies in the Single Tax', *The Freeman*, 10 August 1953, pp. 809–11.
59. Kenneth E. Boulding, 'A Second Look at "Progress and Poverty"', in Lindblom and Lynn, *op. cit.*, pp. 5–17.
60. Paul H. Douglas, *In The Fullness of Time: the Memoirs of Paul H. Douglas* (New York: Harcourt, Brace, Jovanovich, 1971), pp. 445–6, 604; cf. Cord, *op. cit.*, pp. 72, 95–8.
61. E. R. Brown, 'How College Textbooks Treat Land Value Taxation', *American Journal of Economics and Sociology* 20, 1961, pp. 147–67.
62. Richard G. Lipsey, *An Introduction to Positive Economics* (London: Weidenfeld & Nicolson, fifth edn, 1979), pp. 370–1; Paul A. Samuelson, *Economics* (Tokyo: McGraw-Hill-Kogakusha, tenth edn, 1976), pp. 564–6; Martin Bronfenbrenner, *Income Distribution Theory* (London: Macmillan, 1971), pp. 355–8.
63. Robert Heilbroner, *The Worldly Philosophers* (London: Allen Lane, 1969), pp. 170–2; Blaug, pp. 87–9.
64. Joseph A. Schumpeter, *A History of Economic Analysis* (London: Allen & Unwin, 1954), p. 865.

## 6 J. A. Hobson (1858–1940)

Those economic dissidents who rejoice in their status as heretics are few indeed. One such was John Atkinson Hobson, whose early exclusion from academia neither embittered nor silenced him. Towards the end of a long and immensely productive life, which saw the publication of no fewer than fifty-three books in forty-nine years, Hobson wrote his memoirs. *Confessions of an Economic Heretic* has been described as ‘perhaps the most reticent autobiography ever written’<sup>1</sup> and in some ways its title is its most revealing feature, demonstrating that this modest, friendly and cheerful man, now approaching his eightieth birthday, was still proud to proclaim his heterodoxy.<sup>2</sup> Ironically, it was at this late stage (*Confessions* appeared in 1938) that Hobson was closer to the economic mainstream than ever before – or since.

### I

He was born in Derby in 1858, in comfortable middle-class surroundings. His father, William Hobson, was the editor and joint proprietor of the *Derbyshire Advertiser*, a Liberal Unionist and twice Mayor of Derby. Another son, Ernest, became Professor of Pure Mathematics at Cambridge, where he taught the young J. M. Keynes. Hobson himself read classics at Lincoln College, Oxford, before becoming a schoolteacher in Faversham and then in Exeter. In 1887 he was appointed to a University Extension Lectureship in English and (briefly) Economics. Ten years later the death of his father provided him with a private income and allowed him to become a full-time writer. In addition to the flood of books Hobson was also a prolific journalist, contributing regularly to *Progressive Review*, the *Manchester Guardian*, the *Daily Chronicle*, the *Nation* and the *New Statesman*.<sup>3</sup>

Hobson was a close associate of Fabians like Graham Wallas and the Webbs, and of such Liberals as L. T. Hobhouse and William Beveridge. He was, in the words of another friend, ‘typical of the generation which made the difficult journey from Liberalism to Socialism’.<sup>4</sup> Hobson personified the ‘New Liberalism’, which

represented a synthesis of liberalism and socialism rather than any clear transition from one philosophy to another. Drawing upon Ruskin and Henry George as much as on Mill and Spencer, both aware and distinctly wary of Karl Marx, the New Liberalism was an intellectual hybrid of a peculiarly British sort. 'Throughout his writings, Hobson exemplifies the vagueness confronting young radicals of his period. A great deal of intellectual wrestling was needed in order to decide exactly what elements of which socialism were to be assimilated into the body of rejuvenated liberal thought.'<sup>5</sup> There was a strong flavour of eclecticism also about his political economy, which drew upon such diverse influences as Malthus, Marshall and Marx. 'In economics', Joseph Schumpeter concluded, 'he was self-taught in a wilful way that made him both able to see aspects that trained economists refused to see and unable to see others that trained economists took for granted.'<sup>6</sup>

Those theoretical ambiguities were reflected in Hobson's political activities. He was a long-term member of the Liberal Party until he resigned in 1916 in protest at its policy regarding the War. In 1921 he served on the committee set up by the Labour Party to investigate Major Douglas's Social Credit proposals,<sup>7</sup> but it was not for another three years that he finally joined the Party (along with its rather more radical affiliate, the Independent Labour Party). After the rejection of his own plans for a 'Living Wage' in 1926<sup>8</sup> Hobson's involvement in practical politics diminished, and he refused Ramsay MacDonald's offer of a peerage in 1931. Hobson remained president of the anti-militarist Union for Democratic Control until his death in January 1940. It was 'the only strictly political activity which he continued to the end of his life'.<sup>9</sup>

## II

Hobson's first book, *The Physiology of Industry*, was published in 1889. It was written with A. F. Mummery, an Exeter businessman and distinguished mountaineer who died attempting the ascent of Nanga Parbat in 1895.<sup>10</sup> The central theme of the book, which evokes Malthus and Lauderdale, is that trade depressions result from over-saving. J. S. Mill's belief that 'saving enriches and spending impoverishes the community along with the individual' is false. There is a necessary relation (or equilibrium ratio) between the total capital stock and the level of aggregate consumption.

Saving both increases capital and reduces consumption: 'any undue exercise of this habit must, therefore, cause an accumulation of Capital in excess of that which is required for use, and this excess will exist in the form of general over-production.'<sup>11</sup>

To deny this possibility orthodox economists had relied upon the wage-fund theory, in which increased savings by capitalists would expand the fund available for payment as wages (the 'wage-fund'). As workers were assumed not to save, this would increase the volume of working-class consumption by an amount equal to the capitalists' savings: 'This wages-fund was a bottomless vessel into which you might go on pouring any amount of saving without any chance of an overflow or surplus.' Once this theory fell into disrepute (as it had done very rapidly after Mill's recantation in 1869), the possibility of general overproduction due to excess saving could no longer be denied. In everything but name Hobson and Mummery identified what Keynes would later term the 'paradox of thrift': an increased desire to save is frustrated by the resulting decline in income, which reduces the ability to save. Neither lower prices nor a fall in the rate of interest could prevent overproduction, they argued against the orthodox economists. The former is accompanied by a fall in money incomes, leaving real incomes unchanged; the latter simply intensifies the depression.<sup>12</sup>

This argument differs from other theories of underconsumption in several significant ways. Two common themes in such theories are monetary distortions and low wages (see the chapters on Bray and Douglas for examples). Hobson and Mummery, however, explicitly deny that consumption is inadequate because of deficiencies in the money supply, and regard low wages as an effect rather than a cause of economic crisis. The root cause of excess saving is in fact excessive investment, induced by 'the spirit of competition':

If the full number of material forms of machinery, raw material and goods requisite to complete the economic Capital of the community is already present, is it not still open to the individual to save and create new forms, and apply them so as to oust the forms of his competitors? A certain amount of machinery may be economically required to supply the number of shoes for the retail market. The full amount of this machinery may already be in existence. But that will not prevent me from applying my Saving to the production of other shoemaking machines if I think that I can produce the more efficient machines, which will render useless



some of those existing at present and do the work which they would otherwise have done . . .<sup>13</sup>

This analysis is clearly unsatisfactory, since such investment will itself involve an increase in total expenditure. 'Excessive saving' cannot in fact be defined without reference to the level of investment. Hobson's and Mummery's inability to provide a clear treatment of investment as a component of effective demand is the most serious defect in their theory of overproduction, and the most significant difference between their work and that of Keynes. They seem at one point to be arguing that investment is a function of increases in consumer demand. It is certainly possible to formulate a coherent theory of underconsumption along these lines, but Hobson and Mummery were unable to do so with sufficient rigour and clarity.<sup>14</sup>

Their practical conclusions were limited, but still intensely provocative. Fiscal policy should actively discourage thrift, and the burden of taxation should fall on property (and thus on savings) rather than on expenditure. Without quite endorsing protection, Hobson and Mummery point out that the orthodox case for free trade is irrelevant since it assumes the full employment of resources. Finally, they express support for trade-union wage bargaining, immigration controls and a statutory eight-hour day (the latter on an international scale), to offset the adverse effects on labour of industrial depression.

For 1889 these were radical views, placing Hobson in the vanguard of the 'New Liberalism' and displaying the influence of the Fabian socialists with whom he was soon to become more closely associated. The implications for labour policy were derived from the book's often neglected theory of income distribution, in which shifts in aggregate demand affect the three factors of production differently according to their elasticities of supply. A detailed examination of the early 1870s led Hobson and Mummery to the belief that labour's share in national income could increase significantly in a boom, when it became the 'limiting requisite': that is, the factor with the least elastic supply. But labour

is affected, and disastrously affected, by insufficiency in the quantity demanded. From being the Requisite of Production, limiting industry and receiving in consequence within a fraction of the whole of the ultimate product, it becomes a non-limiting Requisite, and receives the smallest fraction of the ultimate product which a section of its owners will accept in preference to

receiving nothing and remaining idle . . . Wages, under these circumstances, are determined at the lowest conceivable point, and, so long as quantity demanded is insufficient, wages must remain there. The labourers, therefore, are the chief sufferers from the saving habits of the rich, and, in so far as evil proceeds from poverty, the highly-extolled virtues of thrift, parsimony, and saving are the cause.

Hence the shocking conclusion: poverty was the result of excessive thrift.<sup>15</sup>

Note the direction of causation. Hobson was not yet ready to assert that inequality of incomes might be the *cause* of excessive saving, nor to demand higher wages as a remedy for depression. But most of the elements of his mature economic thought are already present in *The Physiology of Industry*: worries about the viability of free trade when there are unemployed resources; concern with a distribution of income seriously biased against labour; scepticism as to the self-regulating economic mechanisms identified by orthodox theorists; and, above all, the notion of excessive saving as the root of all evil.

After the publication of *The Physiology of Industry*, Hobson concentrated his attention on the theory of income distribution. In 1888 his friend Sidney Webb, the Fabian socialist and historian of the British trade-union movement, had published in the *Quarterly Journal of Economics* an important article on the theory of interest. Webb generalised the theory of economic rent from the exclusive preserve of the landowners to allow for its payment to the suppliers of labour, capital and entrepreneurship. The result was a distinctive non-Marxian theory of 'surplus value'.<sup>16</sup> 'In this sense', Webb concluded,

the whole product is divided between rent and wages; between what can be produced by the average workman at the margin of cultivation, without skill or capital, and what is actually produced in each case throughout the industrial community by the aid of land, instruments, and skill of varying superior efficiency.<sup>17</sup>

In papers in the same journal three years later<sup>18</sup> Hobson extended Webb's analysis. In 'The Law of the Three Rents' he set out a marginal productivity theory of the distribution of income based upon the law of diminishing returns. Land at the margin of employment pays zero rent, Hobson argued. Capital at the margin

of employment pays the minimum rate of interest (perhaps 3 per cent) required to induce its owners to permit it to be used. Labour at the margin of employment is paid 'a minimum subsistence wage, because otherwise the owner will prefer to beg, borrow, steal or starve.' All payments in excess of these minima are rents. Hobson claimed that his theory refuted the 'residual legatee' approaches of such earlier writers as Karl Marx and Henry George. Repeating a central theme of *The Physiology of Industry*, he concluded that changes in the relative shares of labour, capital and land depend upon their respective elasticities of supply.<sup>19</sup>

There was nothing in this to outrage more orthodox economists, one of whom (John Bates Clark) had indeed arrived at very similar conclusions simultaneously with Hobson but independently of him.<sup>20</sup> The second article, 'The Element of Monopoly in Prices', was more distinctively Hobsonian. It begins with a rather idiosyncratic version of the labour theory of value. In free competition the value of a commodity is given by the quantity of effort (including the capitalist's 'abstinence') necessary to produce it. Generally, however, to this 'will be added . . . a number of monopoly rents, measuring the various restrictions in supply which at various stages of production have enabled various classes of producers to raise the "expenses of production" above the limit indicated by natural "cost of production."' <sup>21</sup> The resulting rents are created by society, Hobson asserts with more than an echo of Henry George, and in justice belong to society rather than to the individuals who at present enjoy them.<sup>22</sup>

The implications for social policy are drawn much more clearly in his treatise *The Economics of Distribution*, which was published in 1900. A long, intensely theoretical and rather ponderous work, it is highly uneven in both the merit and the originality of its analysis. Hobson's critics focused upon its theoretical weaknesses, most notably on the confusion between marginal and average product which now led him to repudiate the Clarkian marginal productivity theory of distribution.<sup>23</sup> More important for the core of Hobsonian political economy was his assertion (following Cairnes) that competition only sets limits to price determination; prices depend critically upon the bargaining powers of the parties to the transactions concerned. 'Forced gains' accrue to the stronger at the expense of the weaker. In particular, owners of capital enjoy considerable monopoly power and benefit at the expense of the sellers of labour power, whose bargaining position is generally very weak. Trade

unionism should be encouraged to redress the balance.<sup>24</sup> Furthermore, as the excess profits of the capitalists represent 'surplus value', they can be taxed away without destroying incentives. There is thus no reason to fear the expansion of government spending financed by increased taxation, and there is a *prima facie* case for the nationalisation of private monopolies.<sup>25</sup>

### III

*The Economics of Distribution* appeared in the middle of the Boer War, an event which had a profound impact on Hobson. In 1898 he had published an important article in *Contemporary Review* on the relationship between foreign trade, imperialism and economic growth at home. This was partly responsible for his being sent to South Africa in the following year as correspondent for the *Manchester Guardian*, and what he saw there was eventually significantly to affect his economic thinking. His initial reactions were reported in 1900 in *The War in South Africa*. Hobson saw a sinister conspiracy behind the patriotic rhetoric. The war was being waged in the interests of 'a small group of international financiers, chiefly German in origin and Jewish in race . . . We are fighting in order to place a small international oligarchy of mine-owners and speculators in power at Pretoria.' Their aim was to secure from Rhodesia and the Portuguese colonies 'a cheap adequate supply of labour' for the South Africa mines, for which purpose they sought control over the government and state treasury of the Transvaal.<sup>26</sup> Thus Hobson attributed imperialist expansion to the parasitic influence of small but powerful vested interests, and denied that the British people as a whole had anything to gain from the war. In this he found himself part of a long tradition of liberal and radical critics of Empire, extending from Adam Smith through the opponents of 'Old Corruption' to the mid-nineteenth-century internationalism of Cobden and Bright.<sup>27</sup>

Two years later this interpretation was more fully documented (but also contradicted) in Hobson's most famous work, *Imperialism: a Study*. Two quite inconsistent themes dominate the book. The first is that British imperialism is not good business: 'The distinctive feature of modern Imperialism, from the commercial standpoint, is that it adds to our empire tropical and sub-tropical regions with which our trade is small, precarious and unprogressive.'<sup>28</sup> Overseas trade as a whole accounted for a rather small and decreasing

proportion of national income; the share of the colonies in British exports was static; and the older, self-governing colonies were better trading partners than the new tropical possessions. In short, there was no evidence that 'trade follows the flag'.<sup>29</sup> Nor did the new Empire offer a significant outlet for surplus population. The only gainers were (another graphic chapter title) 'the economic parasites of imperialism': heavy-armaments manufacturers, producers of textiles, engineering goods, spirits and guns for the export market, shipping interests, the armed forces and the Indian Civil Service. The colonies represented, in James Mill's words, 'a vast system of outdoor relief for the lower classes'.<sup>30</sup>

Most important among the beneficiaries of imperialism, however, are financial interests. The returns from foreign investments greatly exceed the profits from trade, and are growing much more rapidly. 'It is not', Hobson argues, 'too much to say that the modern foreign policy of Great Britain has been primarily a struggle for profitable markets of investment.' At this point the second central theme of *Imperialism* emerges: the relationship between overseas investment and the extent to which 'modern capitalism has placed large surplus savings in the hands of a plutocracy or of a thrifty middle class'.<sup>31</sup> This connection is traced in detail in the following chapter, where it is identified as 'the economic taproot of imperialism'. Hobson cites the recent history of the United States to illustrate his argument.<sup>32</sup> The initial 'era of cut-throat competition' was characterised by chronic overproduction. This was intensified by the subsequent emergence of trusts and combines, which 'at once limits the quantity of capital which can be effectively employed and increases the share of profits out of which fresh savings and fresh capital will spring.' The trusts dump their surplus output at reduced prices in foreign markets and seek overseas outlets for their excess capital. Hence 'they are tempted more and more to use their Governments in order to secure for their particular use some distant undeveloped country by annexation and protection'.<sup>33</sup>

Two points must be stressed here. First, Hobson has filled the most serious gap in the argument of *The Physiology of Industry*. Developing a theme first advanced in 1896 in his book *The Problem of the Unemployed* and reiterated two years later in an important article in the *Contemporary Review*, he now provides a *theory* of over-saving which attributes it to the maldistribution of income and wealth:

If a tendency to distribute income or consuming power according to needs were operative, it is evident that consumption would rise with every rise of producing power, for human needs are illimitable, and there could be no excess of saving. But it is quite otherwise in a state of economic society where distribution has no fixed relation to needs, but is determined by other conditions which assign to some people a consuming power vastly in excess of needs or possible uses, while others are destitute of consuming power enough to satisfy even the full demands of physical efficiency.<sup>34</sup>

Second, the analysis of imperialism as the result of excess saving is inconsistent with Hobson's original thesis of parasitism.<sup>35</sup> 'Imperialism is the endeavour of the great controllers of industry to broaden the channel for the flow of their surplus wealth by seeking foreign markets and foreign investments to take off the goods and capital they cannot sell or use at home.'<sup>36</sup> 'The economic parasites of imperialism' have now become 'the great controllers of industry', in other words the most important sections of the capitalist class. From being a lucrative side-show for particular vested interests, imperialism is now the outcome of fundamental forces inherent in modern capitalism. The scene is set for the Leninist account of imperialism as the final, historically inevitable stage of capitalist development.<sup>37</sup>

Not quite inevitable, for Hobson. He insists that there is an alternative. Social reform, expanding the home market by raising wages and increasing state expenditure, can eliminate excess saving: 'Trade Unionism and Socialism are thus the natural enemies of Imperialism, for they take away from the "imperialist" classes the surplus incomes which form the economic stimulus of Imperialism.'<sup>38</sup> If they fail, the consequences for domestic politics are extremely serious. Imperialism is the negation of 'peace, economy, reform and popular self-government'; it entails jingoism, swelling military spending, a corresponding reduction in the resources available for social reform, and an accretion of power to vested interests hostile to democracy.<sup>39</sup> In the final chapter of the book Hobson asks whether these evils can be avoided; whether imperialism can be stopped. He offers no clear answer, but the pessimistic tone of his writing implies that it cannot.

By 1911 Hobson's attitude to imperialism had altered appreciably, to the point where he could describe international finance as a

possible tool of peace.<sup>40</sup> The precise reasons for this *volte-face* are unclear. The social reforms introduced by the Liberal Party after its landslide election victory in 1906 undoubtedly raised Hobson's hopes for progress in Britain. The logic of his analysis of excess saving may also have influenced him: if foreign investment could avert crises of underconsumption by stimulating export demand for British goods, then there was something to be said for it after all.<sup>41</sup> Finally, he had as early as 1902 pointed to the possibility of an international capitalist alliance for the exploitation of China. This prospect seems to have loomed larger for Hobson in subsequent years. It followed that increasing international rivalry, militarisation and the growing threat of war were not necessary consequences of overseas investment, even in the absence of domestic social reform.<sup>42</sup> Of course this Cobdenite optimism soon proved to be tragically unfounded. Like the German Marxist Karl Kautsky (whose notion of 'Ultra-imperialism' has obvious affinities with Hobson's concept of 'economic internationalism'), Hobson displayed a remarkable blindness to the imminence of world war.<sup>43</sup>

Liberal opponents of the so-called 'economic interpretation' of imperialism have repeatedly observed (correctly) that the new Empire never absorbed more than a small proportion of the foreign investments of the advanced capitalist countries and did not, therefore, provide a significant outlet for their excess savings.<sup>44</sup> But Hobson had said exactly this in the early chapters of his book, so that (somewhat paradoxically) his inconsistency can be invoked to rescue him from charges of historical inaccuracy.<sup>45</sup> It could further be argued that the link between excess saving and overseas investment was intended as a prediction for the future more than an explanation of the past<sup>46</sup> and that Hobson's prognosis was vindicated by the violent expansion of German and Japanese capitalism in the 1930s. But this is possibly rather more charitable to Hobson than he deserves.

At all events, these issues featured less prominently in his later writings. In the context of Hobson's political economy, indeed, the real significance of *Imperialism* is to be found in its thorough integration of the themes of economic surplus and over-saving. These 'rents, monopoly profits, and other unearned or excessive elements of income, which, not being earned by labour of head or hand, have no legitimate *raison d'être*'<sup>47</sup> dominate the analysis of *The Industrial System* (1909) and its popularisation in *The Science of Wealth* (1911). These two books represent the most coherent

expressions of Hobson's mature economic thought. He distinguishes three categories of income, which he terms A, B and C. 'Costs of maintenance' (A) are required to reproduce the factors of production at a constant level; they comprise subsistence wages and depreciation of capital. 'Costs of increase' (B) are necessary if there is to be economic growth; they consist of interest payments at the minimum rate needed to induce abstinence from present consumption, and 'wages of progressive efficiency' which must increase in order to improve the health and cultivate the skills of the labour force over time. The 'unproductive surplus' (C) includes all land rents, together with interest and wage payments over and above those already described.<sup>48</sup>

As in his previous works, Hobson emphasises that the bargaining power of capital is generally superior to that of labour, so that interest and profits tend to absorb almost all the surplus apart from rents. Thus surplus income accrues in large part to the wealthy, who save a much larger proportion of their income than do the poor. Its existence is the principal cause of excess saving, and hence of unemployment. Monetary dislocations, financial panics and the loss of business confidence are the effects of economic crises, not their causes. Hobson sets out an explicit underconsumptionist model of the trade cycle,<sup>49</sup> in which any increase in saving above that required to maintain the optimum ratio between saving and consumption leads to a reduction in aggregate demand, a general fall in incomes, and a consequent decline in savings. This eventually restores the appropriate relationship between savings and consumption, ushering in a period of prosperity which continues until savings rise sufficiently for the next depression to begin. Economic fluctuations can be prevented by diverting the surplus income to wages or public expenditure, thereby forestalling excess saving.<sup>50</sup> The policy is that of *The Physiology of Industry*, but the supporting economic analysis is both more comprehensive and more coherent than before.

#### IV

One further topic in the final chapter of *The Industrial System* was to emerge as the ethical foundation of all Hobson's subsequent thinking. This was what he termed the 'human interpretation of industry'. The surplus was not only pernicious in its implications for distribution and thereby for aggregate demand; it also exerted an injurious effect upon its producers, the nature and conditions of



whose working lives were all too often neglected by conventional economics. Hobson concluded his book with a call for the replacement of a 'coarse quantitative economy' by 'a new qualitative economy of adaptive variety and human art', in which work would become a pleasure rather than a chore and productive activities would be assigned an intrinsic significance equal to that of consumption.<sup>51</sup>

Hobson had already published a sympathetic account of the life and thought of John Ruskin, whose critique of the orthodox concept of economic welfare was a major influence on his own ideas.<sup>52</sup> In a short essay written for a Ruskin centenary volume in 1920, Hobson praised him for his realisation that 'wealth is primarily a quality, not a quantity'. Political economy had become 'the bondslave of the rising manufacturing and trading classes', who disposed it 'to build up a theory to support the current capitalist control of industry with its demand for increasing quantity of output, expanding markets and abounding profits.' Against this Ruskin had argued that economic man was a fallacy; that it was impossible to abstract from non-pecuniary motives; and that the nature of work was a crucial determinant of the human character. Value, Ruskin had shown, depends on what people ought to desire instead of on what they actually want. The true value of anything was thus represented by the intrinsic human service it could provide, if properly used and correctly distributed. And the real cost of a commodity, for Ruskin, was measured by the amount of human toil and drudgery required to produce it. Only by taking account of these facts was it possible to convert commercial into human factors.<sup>53</sup>

With much of this Hobson was in full agreement. He parted company with Ruskin, however, in two respects. In the first place, Ruskin was no democrat. Refusing to appeal to the masses, he was forced to rely upon converting the capitalist philistines; not surprisingly, the necessary miracle had not been forthcoming. More important, Hobson concluded, was the non-scientific nature of Ruskin's vitalist critique. In his hands social reform was an art, not a precise science, and Ruskin's claims to the contrary were nothing but cant.<sup>54</sup>

After lecturing on these themes at the Brookings Institution in 1924,<sup>55</sup> Hobson returned to them six years later in his last major economic treatise, *Wealth and Life*, the professed purpose of which was to complete Ruskin's work by achieving 'the humanisation of economic science'.<sup>56</sup> The eclectic nature of Hobson's own thought is

very apparent in this volume, which is a sort of humanist answer to A. C. Pigou's *The Economics of Welfare*. Hobson cites J. S. Mill, Marshall and even Jevons with approval.<sup>57</sup> All had attempted to convert economic into human values, but none had gone far enough. They had failed to treat production and consumption on an equal footing, although both were in fact inextricably linked with the very nature of life as a fine art. None had allowed for the utility which could be yielded by production, nor for the pains and injuries incurred in consumption. Nor had they analysed the implications for human welfare of the fundamental distinction between costs and surpluses.<sup>58</sup> Hobson's proposed 'New Utilitarianism', in which 'physical, intellectual and moral satisfactions will rank in their due places', would allow for differences in the quality of satisfactions. It would emphasise the production of social co-operation as the criterion of 'Human Welfare in its higher reaches', and avoid the orthodox fallacy of regarding only material goods as constituting wealth. Economics will increasingly be subordinated to ethics, Hobson argued, becoming nothing more than a branch of social philosophy.<sup>59</sup>

There is an obvious (and perhaps inescapable) vagueness in all this, which is partly recognised in Hobson's own admission that 'the organic character of man and society is such that no purely quantitative analysis can do all that is needed for understanding and direction.' Precisely what he meant by organic welfare, in fact, is never made clear.<sup>60</sup> More effective are the later sections of the book, where Hobson deals with specific problems and issues of social policy. Here he shows how the struggle over the distribution of economic surpluses – what would these days be termed 'rent-seeking' behaviour – produces social disharmony, while bargaining necessarily engenders selfishness.<sup>61</sup> Hobson criticises mass-production because of its coarsening effect upon human nature, and demands that 'as much as possible of production and consumption [should] participate of the nature of the fine arts.' 'Fair play' in the allocation of work and the distribution of its product is also essential to social justice, along with 'conditions of work and of employment best calculated to evoke personal interest in the work and some sense of the social service that it renders'. As will be seen in subsequent chapters, quite similar concerns with the consequences of alienated work and consumption featured prominently in the writings of Paul Baran and E. F. Schumacher.<sup>62</sup>

## V

Although increasingly interested in the economics of welfare, Hobson remained a tireless defender of the theory of underconsumptionism. Surveying the British and European economies for the *Journal of Political Economy* soon after the end of the First World War, he began with what seemed an impeccably orthodox call for increased production to satisfy the vastly expanded claims of the working class, who must be persuaded to abandon restrictive work practices and increase their effort levels. Then the true Hobson took over, linking the question of work incentives to the redistribution of wealth, which was necessary both to remove suspicions of profiteering and to allay working-class fears that they would be working themselves out of a job. Hobson argued for a fair settlement of the reparations issue in order to raise European purchasing power, thus expanding the market for British industry and promoting the acceptability of a return to free trade. He concluded with a call for the establishment of 'a finance committee of a completed League of Nations' to foster global co-operation in the provision of credit and 'a closer international government of finance'.<sup>63</sup>

These twin issues – redistribution at home and co-operation abroad – dominated Hobson's writing in the final two decades of his life. In his *Economics of Unemployment* (1922) he provided by far the most systematic exposition of his underconsumptionism. Restrictive practices by trade unions, limitation of output by trusts, business support for protection and imperialism: all showed that everyone now accepted that markets were limited. The 'failure of consumption', Hobson argued, was due both to the fact that human needs lagged behind production and to the maldistribution of wealth, which concentrated income in the hands of those with a relatively low propensity to spend. The resulting lack of demand was not self-correcting, as conventional economists continued to claim. Neither a fall in the rate of interest nor a reduction in the general price level would restore purchasing power. If over-saving did reduce interest rates the effect on consumption would be small, as the significance of 'automatic saving' was such as to render total saving highly inelastic with respect to the rate of interest. As for a falling price level, this might well not occur in a depression due to price rigidity in monopolised industries. Even if it did take place, 'the conservatism of consumption' might induce higher saving instead of greater

expenditure, and in any case lower money incomes would mean reduced demand.<sup>64</sup> Hobson was to employ closely related arguments both in correspondence with Keynes and in defending underconsumptionism against the classical orthodoxy of Lionel Robbins and (in a less extreme form) of Robbins's pupil Evan Durbin.<sup>65</sup>

Three novel themes appear in *The Economics of Unemployment*. The first is an extended discussion of the role of credit in depressions, stimulated by the sudden upsurge in popularity of C. H. Douglas's Social Credit ideas (which form the subject of the following chapter). Hobson criticises Douglas in some detail, drawing on articles published in the Independent Labour Party's monthly *Socialist Review*. As for credit crises in general, he concludes that they represent 'a secondary and dependent process . . . [whose] operation only quickens, exaggerates, and facilitates changes that are otherwise produced' by the deficiency of aggregate consumption.<sup>66</sup> The second innovation is a dissection of capitalist demands for wage reductions as a remedy for depression. Hobson opposes cuts in both money and real wages. Real wage reductions, in particular, will undermine productivity growth by reducing the physical efficiency of the workforce and lowering the incentive to introduce labour-saving machinery. By redistributing income in favour of profits, which is inevitable under monopoly conditions, they will reduce consumption without any of the beneficial effects on output and employment claimed for them. A more popular version of the same arguments appeared in the I.L.P.'s pamphlet, published in the aftermath of the 1926 General Strike and making the case for a 'living wage', together with family allowances to boost consumption and industrial reorganisation to increase the ability to pay of low-productivity industries.<sup>67</sup>

The third significant argument in *The Economics of Unemployment* is a striking anticipation of modern anxieties over de-industrialisation, in which Hobson returned to a prognosis first made in an article in 1891 and repeated in his *Imperialism*. Drawing now upon the bitter experience of the post-war recession, Hobson pointed to the prospect of a competitive downward spiral of wage reductions as 'the greatest single peril to the progress of the working classes in the higher-waged industrial countries'. To the extent that international differences in wage levels are not eradicated in this way, 'each recurring period of depression must be reflected in a higher rate of

unemployment in the high-waged countries than in the low-waged', as buyers shift to cheaper sources of supply. The long-run implications are extremely serious:

If it be found feasible to produce standard manufactures more cheaply in Russia, China or Japan, having regard to the joint economy of improved machine production and cheap labour, it seems inevitable that a good deal of our past industry will leave England and pass into these cheaper areas of production.

But Hobson remains an uncompromising internationalist:

we must come to some definite arrangement with other countries supplying the world-market to march along the same road of economic progress at something like the same pace. Unless we do this, an even stronger tendency will operate to draw industries from this country and place them in countries where the net costs of production are lower.<sup>68</sup>

By 1930, when his book *Rationalisation and Unemployment: an Economic Dilemma* was published. Hobson had in effect repudiated the 'living wage' proposals. He continued to oppose wage reductions, which would only spark off 'a contest in sweating', but he had come to rule out wage increases within a single national economy as a feasible method of increasing aggregate demand. The threat from cheap labour overseas made it preferable to increase the living standards of the working class by fiscal means.<sup>69</sup> Rationalisation carried out by monopolistic combinations does increase productivity and lower costs of production. But cartels also restrict output, maintain prices above competitive levels, and exacerbate the already serious maldistribution of income, in addition to 'the concealed waste of excessive selling apparatus' and the related attempts at 'mind standardisation'. There should be an excess profits tax, which would be paid out of the economic surplus rather than passed on to consumers and could be used to finance improved social services.<sup>70</sup> The book ends with a lucid summary of Hobson's economic system as a whole. The capitalists

are afraid that a fair approach towards equality of incomes must mean the 'confiscation' of those rents, surplus profits, monopoly, and other excessive gains, contrived, fortuitous, or inherited, that constitute great wealth. And no doubt they are right. Economic equity will involve a distribution of income and property along

these lines, with a larger share for the workers and for the State. But this process is the only security for prosperous trade, good wages, and secure employment.<sup>71</sup>

## VI

Hobson's first encounter with economic orthodoxy was a decisive and unfortunate one. *The Physiology of Industry* was reviewed in the journal *Education* by F. Y. Edgeworth, who was about to become Professor of Political Economy at Oxford and editor of the newly founded *Economic Journal*. The review was extremely hostile, and Edgeworth's intervention was also to cost Hobson two extension lecturing posts, one in London and the other in Oxford. He was also barred from the Political Economy Club and prevented (because of the supposed unsoundness of his views) from lecturing on economics for the Charity Organisation Society. Apart from very occasional book reviews Hobson was never to publish in the *Economic Journal*, and until the 1920s his estrangement from British academia was almost complete.<sup>72</sup>

This intellectual blackballing was less devastating than might have been expected. Hobson was not by nature a man to bear grudges. His fear of isolation in ivory towers softened the blow of his exclusion from the universities, and the substantial private income from his father's estate provided a useful financial cushion. Indeed, it can be argued that he benefited from enforced independence, which enabled him to develop broad multidisciplinary interests which confinement to a department of economics might well have stifled.<sup>73</sup> All the same, he never allowed the incident to be forgotten. It must significantly have retarded the acceptance of his ideas within and on the fringes of the economics profession in Britain, in addition (one suspects) to playing its part in denying him the offer of an appointment at the London School of Economics, which was the creation of his close Fabian friends.<sup>74</sup>

Apart from *The Physiology of Industry*, the *Economic Journal* did review all but one of his major books in the period before 1914. L. L. Price criticised the 'atmosphere of mustiness' which, he claimed, surrounded the analysis of *The Evolution of Modern Capitalism*, and dissented forcefully from Hobson's under-consumptionism. In his review of *The Economics of Distribution* A. W. Flux was a little more complimentary, although he denied the importance of 'forced gains', asserted the strength of competition

throughout the economy, and rejected the notion that rents of capital and labour were at all important. E. J. Urwick took a similar line with respect to *The Industrial System*, arguing that Hobson's concept of an unproductive surplus was a contradictory one since 'rents' which enter into prices are not rents at all but necessary factor payments. The only glimmer of sympathy for Hobson's underconsumptionism was revealed in 1904 by C. F. Bastable in his assessment of one of his lesser works, *International Trade*.<sup>75</sup>

The treatment of Hobson's ideas in the *Economic Journal* did conform to the established scientific norms of detachment and impartiality. The only really harsh review was of his *Gold, Prices and Wages* (not a book for which Hobson is now well known), and ironically was written by J. M. Keynes. Interestingly, there was no review of *Imperialism*. This omission, presumably on the grounds that the subject matter lay outside economics, is itself a commentary on the narrow vision of the contemporary British professoriate. Not until the middle of the First World War was there any attempt to grapple with Hobson's analysis of imperialism, and then Edwin Cannan simply rejected 'the economic interpretation of hostile feelings' as 'generally a fraud'.<sup>76</sup>

Hobson also attracted the attention of the international socialist press. The future revisionist Eduard Bernstein (as yet still a pillar of Marxist orthodoxy) described *The Evolution of Modern Capitalism* as a 'very lucidly written and rich handbook on the development of modern capitalism', which nevertheless revealed that Hobson had much to learn from Marx on the notion of underconsumption. Bernstein's review of *The Problem of the Unemployed and Problems of Poverty* was also very favourable, although it did again stress the insufficiency of underconsumptionist explanations of unemployment.<sup>77</sup> Further east one 'V. I. Ilyin' found *The Evolution of Modern Capitalism* to be strong on empirical detail but very weak on theory, as shown by Hobson's ignorance of Marx and declared preference for J. S. Mill. 'Ilyin' derided Hobson's 'heap of scholastic arguments about "saving"', which he confused with the accumulation of capital, and concluded that the book provided evidence that progressive English writers were, unconsciously but inexorably, approaching Marxism under the pressure of events. In fact, it was the Marxists who were moving towards Hobson: 'Ilyin' was none other than the young V. I. Lenin.<sup>78</sup>

It was, however, in the United States that Hobson found least prejudice, and indeed managed to establish something of a following.

There was nothing quite comparable with Marshallian orthodoxy among North American economists, who were deeply divided on issues of methodology and substantive analysis alike. The very rapid expansion of the U.S. university system in the final two decades of the nineteenth century prevented the establishment of a repressive orthodoxy, and the widespread practice of obtaining doctorates from German institutions served repeatedly to introduce historicist and anti-classical ideas into North American economics. Hence institutionalism secured a foothold which it was unable to obtain in the much smaller, less rapidly expanding and more insular world of British academia.<sup>79</sup> Hobson's wife came from New Jersey and he had many friends in the U.S., among them Thorstein Veblen and the influential Richard T. Ely. He visited the continent in 1888 and 1905 and his *Evolution of Modern Capitalism* was adopted as a standard text in many American universities, despite its underconsumptionist heresies.<sup>80</sup> As already noted Hobson was able, although effectively barred from access to the *Economic Journal*, to publish in both the *Quarterly Journal of Economics* and the *Journal of Political Economy* (the *American Economic Review* was inaugurated only in 1910). His *Economics of Distribution*, in particular, was taken very seriously, although both T. N. Carver and J. L. Laughlin took issue with the fundamentals of Hobson's argument.<sup>81</sup> Even J. B. Clark, probably the closest to neoclassical orthodoxy of any U.S. economist before 1914, cited Hobson approvingly in his *Distribution of Wealth*, together with such authorities as Marshall and Taussig.<sup>82</sup> Such an endorsement would have been unthinkable from a leading British economist.

Hobson's reputation in Marxist circles was greatly enhanced by the appearance in 1917 of Lenin's pamphlet *Imperialism*, in which he quoted Hobson at some length in his polemic against Kautsky.<sup>83</sup> It would be unwise to exaggerate the theoretical influence of Hobson upon Lenin, who owed much more to Rudolf Hilferding's *Finance Capital*. Strangely, Hilferding himself ignored Hobson altogether.<sup>84</sup> The full story of the impact of Hobson's underconsumptionist ideas on Western and Russian Marxism remains to be told, though it was vigorously denied in 1927 by the British Communist Party's leading theoretician R. Palme Dutt in his attack on the 'living wage' proposals of the I.L.P.<sup>85</sup> Hobson's impact on economic thought in the United States, however, which was already significant before 1914, grew considerably thereafter, especially on the institutionalist and neo-institutionalist fringes of the discipline. John R. Commons



published a long and sympathetic review of Hobson's *Economics of Unemployment*. His *Work and Wealth* was reviewed at length by the institutionalist Walter Hamilton, who with some justice accused Hobson of falling between the two stools of conventional market-oriented individualism and a consistently sociological collectivist approach to the assessment of welfare. J. M. Clark's appraisal was also critical but sympathetic in tone.<sup>86</sup>

If Hobson's welfare economics failed to convince, his macroeconomic theory was by the 1920s attracting the attention of such writers as John R. Commons and Wesley Mitchell. Hobson's views on the maldistribution of income and its effect on savings accorded closely with the statistical researches of F. C. Mills and, in the 1930s, with the underconsumptionist explanations of the depression put forward by J. M. Clark, Rexford Tugwell and the Brookings Institution economists led by H. G. Moulton and Edwin Nourse.<sup>87</sup> By 1940 Clark could write in his obituary:

Today the central idea of Hobson's original heresy has been adopted, in altered form and with a shifted emphasis, by economists of unquestioned standing, and around it centers what is perhaps the most active and potent body of frontier economic thinking. Serious investigation of this former heresy has become unqualifiedly respectable.<sup>88</sup>

In Britain too Hobson's recognition came late in life, but come it did. He corresponded with Keynes in 1931 over the latter's *Treatise on Money*<sup>89</sup> and seems, from the published letters, to have been close to agreement with him on everything except the possibility that a fall in the rate of interest due to excess saving might stimulate consumption and investment expenditures. Keynes maintained that 'it is the failure of the rate of interest to fall fast enough which is the root of much evil', while Hobson replied that 'the efficiency of its action as a stimulus or a check raises many doubts. In certain situations of boom or slump its action seems very slight and unreliable.'<sup>90</sup> Keynes's subsequent pessimism regarding the interest-inelasticity of investment suggests that it was Hobson who had the better of this exchange.<sup>91</sup> He undoubtedly held his own with Lionel Robbins and Evan Durbin in their *Economica* debate on the same issue,<sup>92</sup> fully earning Keynes's generous tribute in the *General Theory*, where he proclaimed the publication of *The Physiology of Industry* to mark 'in a sense, an epoch in economic thought'.<sup>93</sup>

Keynes sent Hobson a copy of the *General Theory* as soon as it

was published, and there was another brief flurry of correspondence between the two men. Hobson thanked Keynes for 'the handsome recognition' now afforded him, but continued to stress the differences in his own perspective. In particular, he argued, depressions occurred in situations of general over-investment: 'The order of events, as I have seen it, is underconsumption or over-saving, over-investment, stoppage of new investment, check on saving and upon all production processes with simultaneous and proportionate unemployment of all factors of production.' For his part Keynes emphasised that over-investment was relative to the prevailing rate of interest rather than an absolute phenomenon. In social (as opposed to private) terms, any investment was profitable if it yielded a rate of return in excess of zero. Keynes also denied that deficiencies in aggregate consumption in a slump were due to a failure of 'consuming power'; they were rather the result of the drop in incomes caused by declining investment. 'But I am ashamed', Keynes concluded, 'how blind I was for many years to your essential contention as to the insufficiency of effective demand.'<sup>94</sup>

Hobson's influence on the political left was also both pervasive and profound. In 1928 the U.S. writer Paul Homan remarked that 'he might be made economist "by special appointment" to the British Labour Party.'<sup>95</sup> If academic economists remained suspicious of Hobson's refusal to isolate economics from politics and ethics,<sup>96</sup> their aloofness meant that he was trusted by working people like no other economic writer. 'If Marxism finally fails to dominate English and American working-class thought', the philosopher C. E. M. Joad told a rationalist memorial meeting at the South Place Ethical Society, 'Hobson will perhaps be more responsible for that fact than any other man.'<sup>97</sup> The blend of 'new liberal' and socialist ideas which guided the policies of the Labour government after 1945 owed much to Hobson, who 'may well go down as the most important single intellectual inspiration of that particular phase of British economic history and policy.'<sup>98</sup>

## VII

Hobson never quite attained full academic respectability, though he came quite close to it posthumously in 1950 when the fourth edition of *The Science of Wealth*, complete with sympathetic preface and critical epilogue by R. F. Harrod, won a friendly *Economic Journal* review by the future Chicagoan Harry Johnson.<sup>99</sup> He had the good

fortune, as Schumpeter somewhat cynically commented, 'to establish himself as an archheretic in the heyday of Marshallian supremacy and to survive into a time when this had become a badge of honour.'<sup>100</sup> If he was neither a Keynes nor a Lenin he was an important influence on both, as well as a significant and original thinker in his own right. He deserved more than the reflected glory he finally achieved.

## NOTES

1. H. N. Brailsford, *The Life-Work of J. A. Hobson* (London: Oxford University Press, 1948), p. 5.
2. G. D. H. Cole, obituary, *Economic Journal* 50, 1940, pp. 351–60 (this contains the best brief character sketch of Hobson).
3. J. Allett, *New Liberalism: The Political Economy of J. A. Hobson* (Toronto: University of Toronto Press, 1981); P. F. Clarke, 'Introduction' to J. A. Hobson, *The Crisis of Liberalism* (Hassocks: Harvester Press, 1974; first published 1909), pp. ix–xxxviii; E. E. Nemmers, *Hobson and Underconsumptionism* (Amsterdam: North-Holland, 1956).
4. Brailsford, *op. cit.*, p. 3.
5. M. Freeden, 'J. A. Hobson as a New Liberal Theorist: Some Aspects of His Social Thought Until 1914', *Journal of the History of Ideas* 34, 1973, p. 432; see also P. F. Clarke, *Liberals and Social Democrats* (Cambridge: Cambridge University Press, 1978) and M. Freeden, *The New Liberalism: an Ideology of Social Reform* (Oxford: Clarendon Press, 1978).
6. J. A. Schumpeter, *A History of Economic Analysis* (London: Allen & Unwin, 1954), p. 832, n. 5.
7. See chapter 7 below.
8. See below, note 67.
9. C. Delisle Burns, 'John A. Hobson', *New Statesman and Nation*, 6 April 1940, p. 459.
10. A. F. Mummery, *My Climbs in the Alps and Caucasus* (London: Fisher Unwin, second edn, 1908), which includes an appreciation by Hobson; W. Unsworth, *Tiger in the Snow: the Life of A. F. Mummery* (London: Gollancz, 1967).
11. A. F. Mummery and J. A. Hobson, *The Physiology of Industry* (New York: Kelley, 1971; first published 1889), pp. iii, v.
12. *Ibid.*, pp. 45–6, 113, 118–32.
13. *Ibid.*, pp. 112–13, 180–2, 186–201; cf. M. P. Schneider, 'Underconsumption', in *The New Palgrave: A Dictionary of Economic Theory and Doctrine* (London: Macmillan, 1987).
14. *Ibid.*, pp. 98–9; a formal Hobsonian model is developed by M. P.

- Schneider, 'A Model of Underconsumption Theories', mimeo., Melbourne, 1982; and Schneider, 'Underconsumption and Imperialism: A Study in the Work of J. A. Hobson', unpublished M.Sc. dissertation, University of Cambridge, 1959, ch.1.
15. *Physiology*, pp. 20, 181–2, 203–15.
  16. S. Webb, 'The Rate of Interest and the Laws of Distribution', *Quarterly Journal of Economics* 2, 1888, pp. 188–208; see also D. M. Ricci, 'Fabian Socialism: a Theory of Rent as Exploitation', *Journal of British Studies* 9, 1969, pp. 105–21.
  17. S. Webb, 'The Rate of Interest', *ibid.*, p. 472.
  18. J. A. Hobson, 'The Law of the Three Rents', *Quarterly Journal of Economics* 5, 1891, pp. 263–88; 'The Element of Monopoly in Prices', *ibid.*, 6, 1891, pp. 1–24.
  19. *Op. cit.*, pp. 267, 279, 282.
  20. See 'Editorial Note', *ibid.*, p. 288. Oddly, neither Hobson nor the anonymous editor credits Webb with priority over them both.
  21. *Op. cit.*, pp. 12–13.
  22. *Ibid.*, p. 24.
  23. J. A. Hobson, *The Economics of Distribution* (Clifton, N.J.: Kelley, 1972; first published 1900), ch. 4; F. Y. Edgeworth, *Papers Relating to Political Economy* (London: Macmillan for the Royal Economic Society, 1925), I, p. 19, n. 3 and II, pp. 382–4; J. A. Hobson, 'Marginal Units in the Theory of Distribution', *Journal of Political Economy* 12, 1904, pp. 449–72; T. N. Carver, 'The Marginal Theory of Distribution', *ibid.*, 13, 1905, pp. 257–66; Hobson, 'The Marginal Theory of Distribution: a Reply to Professor Carver', *ibid.*, pp. 587–90. See also J. L. Laughlin, 'Hobson's Theory of Distribution', *ibid.*, 12, 1904, pp. 305–26.
  24. *Economics of Distribution*, pp. 19–22, 31–2, 218–19, 336–9.
  25. *Ibid.*, pp. 322, 334–51, 349–52, 359–61.
  26. J. A. Hobson, *The War in South Africa, Its Causes and Effects* (New York: Garland Publishing, Inc., 1972; first published 1900), pp. 189, 197, 231; cf. Hobson, 'Free Trade and Foreign Policy', *Contemporary Review* 74, 1898, pp. 169–76.
  27. P. J. Cain, 'Hobson, Wilshire and the Capitalist Theory of Capitalist Imperialism', *History of Political Economy* 17, 1985, pp. 455–60.
  28. J. A. Hobson, *Imperialism: a Study* (London: Allen & Unwin, 1961; first published 1902), p 38.
  29. *Ibid.*, pp. 39–40.
  30. *Ibid.*, pp. 46–51.
  31. *Ibid.*, pp. 53–4.
  32. Hobson quotes the American socialist H. Gaylord Wilshire, whose significance is emphasised by N. Etherington, 'The Capitalist Theory of Capitalist Imperialism', *History of Political Economy* 15, 1983, pp. 38–62. See also C. P. Parrini and M. J. Sklar, 'New Thinking About the Market, 1896–1904: Some American Economists On Investment and the Theory of Surplus Capital', *Journal of Economic History* 43, 1983, pp. 559–78.
  33. *Imperialism*, pp. 74–81. In 1904 Hobson published a technical analysis

- of dumping which foreshadows the theory of price discrimination in Joan Robinson's *Economics of Imperfect Competition*, which appeared in 1933. See W. P. Culbertson Jr and R. B. Eklund Jr, 'John A. Hobson and the Theory of Discriminating Monopoly', *History of Political Economy* 9, 1977, pp. 273–82.
34. *Imperialism*, p. 83; cf. Hobson, *The Problem of the Unemployed* (London: Methuen, 1896); Hobson, 'Free Trade and Foreign Policy', *Contemporary Review* 74, 1898, pp. 167–80.
  35. The inconsistency is noted but not (perhaps) sufficiently stressed by N. Etherington, *Theories of Imperialism: War, Conquest and Capital* (Beckenham: Croom Helm, 1984), pp. 69–70; H. Mitchell, 'Hobson Revisited', *Journal of the History of Ideas* 26, 1965, p. 409; and B. Porter, *Critics of Empire: British Radical Attitudes to Colonialism in Africa 1895–1914* (London: Macmillan, 1968), pp. 215–19.
  36. *Imperialism*, p. 85.
  37. The first and by far the best Marxist analysis is that of R. Hilferding, *Finance Capital* (London: Routledge & Kegan Paul, 1981; first published in German in 1910), part V.
  38. *Imperialism*, p. 90.
  39. *Ibid.*, pp. 126–49.
  40. Nemmers, *op. cit.*, p. 49, citing J. A. Hobson, *The Economic Interpretation of Investment* (London: Financial Review of Reviews, 1911). See also J. A. Hobson, *The Science of Wealth* (London: Williams and Norgate, 1911), p. 240.
  41. P. J. Cain, 'J. A. Hobson, Cobdenism, and the Radical Theory of Economic Imperialism, 1898–1914', *Economic History Review* n.s. 31, 1978, pp. 565–84; P. F. Clarke, 'Hobson, Free Trade, and Imperialism', *ibid.*, 34, 1981, pp. 308–12; P. J. Cain, 'Hobson's Developing Theory of Imperialism', *ibid.*, pp. 313–16; Nemmers, *op. cit.*, p. 50.
  42. *Imperialism*, pp. 364–5; cf. Cain, 'J. A. Hobson . . .', pp. 578–80.
  43. K. Kautsky, 'Der Erste Mai und der Kampf gegen den Militarismus', *Die Neue Zeit* 30, 1911–12, pp. 97–109.
  44. D. K. Fieldhouse, 'Imperialism: an Historiographical Revision', *Economic History Review* n.s. 24, 1961, pp. 187–209; cf. Schneider, 'Underconsumption and Imperialism,' chapters 3–4.
  45. Porter, *op. cit.*, pp. 217–19.
  46. This is the interpretation of Etherington, *Theories . . .*, ch. 3.
  47. *Imperialism*, p. 85.
  48. J. A. Hobson, *The Industrial System: an Inquiry Into Earned and Unearned Income* (London: Longman, Green & Co., second edn, 1910), ch. IV; cf. *The Science of Wealth*, ch. V.
  49. *Industrial System*, pp. 274, 290–301.
  50. *Ibid.*, pp. 305–7; cf. *Science of Wealth*, pp. 115–16.
  51. *The Industrial System*, pp. 332–4.
  52. J. A. Hobson, *John Ruskin, Social Reformer* (London: James Nisbet, 1898).
  53. J. A. Hobson, 'Ruskin as Political Economist', pp. 83–98 of J. H. Whitehouse (ed.), *Ruskin the Prophet and Other Centenary Essays* (London: Allen & Unwin, 1920).

54. *Ibid.*, pp. 88, 93–4.
55. J. A. Hobson, *Free Thought in the Social Sciences* (New York: Macmillan, 1926), p. 64.
56. J. A. Hobson, *Wealth and Life: a Study in Values* (London: Macmillan, 1930), p. xiii.
57. *Ibid.*, pp. xiii, xviii, 103, 108–9.
58. *Ibid.*, pp. vii–xxi.
59. *Ibid.*, pp. 16, 73, 103, 136–7.
60. *Ibid.*, p. 108; cf. N. Merkowich, 'The Economics of John A. Hobson', *Indian Journal of Economics* 23, 1942, pp. 175–85, who also points to the similarities between Hobson's views and those of Henry Sidgwick in his *Elements of Politics*.
61. *Wealth and Life*, pp. 200, 212–13.
62. *Ibid.*, pp. 327, 373–4; cf. chs 8 and 10.
63. J. A. Hobson, 'Britain's Economic Outlook on Europe', *Journal of Political Economy* 30, 1922, pp. 469–93.
64. J. A. Hobson, *The Economics of Unemployment* (London: Allen & Unwin, 1922), pp. 14–23, 32, 52–5.
65. See his 'Notes on Over-saving' (1931), in *The Collected Works of John Maynard Keynes*, volume XIII (London: Macmillan, 1973), pp. 330–1; and Hobson, 'Underconsumption: an Exposition and a Reply', *Economica* 13, 1933, pp. 402–17.
66. *Economics of Unemployment*, pp. 28, 66, 119–27; cf. Hobson, 'The Douglas Theory', *Socialist Review*, February 1922, pp. 70–7, and 'A Rejoinder to Major Douglas', *ibid.*, April 1922, pp. 194–9.
67. H. N. Brailsford, J. A. Hobson, A. Creech Jones and E. F. Wise, *The Living Wage* (London: Independent Labour Party, 1926).
68. *Economics of Unemployment*, pp. 100–4; cf. Hobson, 'Can England Keep Her Trade?' *National Review* 18, 1891, pp. 1–11. Hobson's early interest in de-industrialisation has been emphasised by P. J. Cain, 'International Trade and Economic Development in the Work of J. A. Hobson Before 1914', *History of Political Economy* 11, 1979, pp. 406–24; and 'J. A. Hobson, Financial Capitalism and Imperialism in Late Victorian and Edwardian England', *Journal of Imperial and Commonwealth History* 13, 1985, pp. 1–27.
69. J. A. Hobson, *Rationalisation and Unemployment: an Economic Dilemma* (London: Allen & Unwin 1930), pp. 117–24, 134–5.
70. *Ibid.*, pp. 65–81, 92–100.
71. *Ibid.*, p. 136.
72. T. W. Hutchison, *A Review of Economic Doctrines 1870–1929* (Oxford: Clarendon Press, 1953), pp. 118; Allett, *op. cit.*, pp. 10–11. See also F. Y. Edgeworth, *Papers Relating to Political Economy* (London: Macmillan for the Royal Economic Society, 1925), pp. 19, 382–4. For an explanation of the vehemence of Edgeworth's reaction see Schneider, 'Underconsumption and Imperialism', pp. 14–22.
73. Allett, *op. cit.*, p. 11.
74. *Ibid.*, p. 11n; Hobson, *Confessions of an Economic Heretic* (London: Allen & Unwin, 1938), pp. 30–1.
75. L. L. Price, *Economic Journal* 4, 1894, pp. 673–6; A. W. Flux,

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76. J. M. Keynes, *Economic Journal* 23, 1913, pp. 393–8; E. Cannan, *ibid.*, 26, 1916, pp. 365–8.
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80. Allett, *op. cit.*, pp. 13, 30.
81. The former on the grounds that Hobson had confused average and marginal productivity, with the latter accusing him of taking too theoretical an approach to distribution analysis: T. N. Carver, 'The Marginal Theory of Distribution', *Journal of Political Economy* 13, 1905, pp. 257–66; J. L. Laughlin, 'Hobson's Theory of Distribution', *ibid.*, 12, 1904, pp. 305–26.
82. J. B. Clark, *The Distribution of Wealth: a Theory of Wages, Interest and Profits* (New York: Macmillan, 1899), p. ix.
83. V. I. Lenin, *Imperialism, the Highest Stage of Capitalism* (Moscow: Progress Publishers, 1968), pp. 5, 86, 96–8.
84. R. Hilferding, *Finance Capital* (London: Routledge & Kegan Paul, 1981; first published in German in 1910); cf. Etherington, *Theories*, *op. cit.*, ch. 6.
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87. J. Dorfman, *The Economic Mind in American Civilization. Volume V. 1918–33* (New York: Viking Press, 1959), pp. 440, 659; M. Rutherford, 'Institutionalism, Underconsumptionism and J. A. Hobson' (mimeo., Victoria, B.C., 1985), who notes that this influence was two-way, Hobson owing more to Veblen (and possibly less to Marshall) than his writings would lead one to expect.

88. J. M. Clark, 'John A. Hobson: Heretic and Pioneer (1858–1940)', *Journal of Social Philosophy* 5, 1940, pp. 356–9.
89. Keynes, *Collected Works, op. cit.*, volume XIII (London: Macmillan, 1973), pp. 330–6.
90. Keynes to Hobson, 2 October 1931; Hobson to Keynes, 14 October 1931, in *ibid.*, pp. 333–5.
91. For a discussion of Hobson and Keynes to the former's advantage see Clarke, 'Introduction', pp. xxvi–xxvii, and D. J. Coppock, 'A Reconsideration of Hobson's Theory of Unemployment', *Manchester School* 21, 1953, pp. 1–21.
92. L. Robbins, 'Consumption and the Trade Cycle', *Economica* 12, 1932, pp. 413–20; Hobson, 'Underconsumption: an Exposition', *op. cit.*; E. F. M. Durbin, 'A Reply to Mr. Hobson', *Economica* 13, 1933, pp. 417–25.
93. J. M. Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936), pp. 365–70. In private correspondence Keynes argued that Mummery rather than Hobson deserved the greater credit for their joint work: Keynes to R. F. Kahn, 30 July 1935, in Keynes, *Collected Works*, volume XIII, p. 634.
94. Hobson to Keynes, 3 and 10 February 1936; Keynes to Hobson, 14 February 1936, in Keynes, *Collected Works*, volume XXIX (London: Macmillan, 1979), pp. 208–11.
95. *Op. cit.*, p. 373.
96. Cole, *op. cit.*, p. 355.
97. *Monthly Record* (of the South Place Ethical Society), May 1940, p. 7 (this is in the Hobson archive at Hull University).
98. Hutchison, *op. cit.*, p. 129.
99. J. A. Hobson, *The Science of Wealth* (Oxford: Oxford University Press, fourth edn, 1950), pp. vii–viii and 204–9; review by H. G. Johnson, *Economic Journal* 60, 1950, pp. 569–71.
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# 7 Major C. H. Douglas (1879–1952)

## I

As we have seen, it is a frequent complaint of economic heretics that they are ignored by the practitioners of 'normal economic science', who rarely engage dissidents on their own or any other terrain. Heretics ask embarrassing questions, investigate problems which are not generally accepted as legitimate, and provide answers which rely upon unusual concepts, unfamiliar reasoning and inadmissible evidence. In short, they operate outside and cut across the paradigm which guides orthodox analysis.<sup>1</sup> Karl Marx's persistent complaint concerning the reception of his work was not the harshness of the criticism but its absence, which forced Friedrich Engels to tout for reviews and then (in desperation) to write his own.<sup>2</sup>

Heterodox ideas are sometimes taken sufficiently seriously for their refutation to command the attention of the established and normally complacent scientific community. This occurred in the case of Marxian political economy once the socialist movement which invoked Marx's name had grown sufficiently large and threatening.<sup>3</sup> It happened, also, to the subject of this chapter: Major Clifford Hugh Douglas, pioneer of 'Social Credit'. Despite the imprecise and often evasive nature of his social philosophy and monetary analysis, this rather incoherent, cranky, slightly paranoid amateur economist attracted critical attention (and some cautious praise) from several of the most prominent orthodox economists of his day, including Robbins, Hawtrey and Keynes. Douglas was also a constant thorn in the side of both Fabian and Marxian socialism and provoked a vigorous (and sometimes intemperate) response from such socialist economists as Dobb, Durbin, Lewis and Strachey, and from the neo-socialist J. A. Hobson. The reception of his ideas in Britain thus offers an opportunity to study not only the reaction of a scientific community to popular heresy but also the complex interrelations between liberal and socialist economics between the wars.

Major Douglas was an immensely secretive man. He left no personal papers and gave instructions in his will that no biography

was to be written. Very little is known about his early life.<sup>4</sup> He was born in January 1879 in Stockport, the son of a draper. By 1904 he was a member of the Institute of Electrical Engineers, although it was another six years before he went up to Pembroke College, Cambridge, at the unusual age of thirty-one; he left after four terms, without taking a degree. Thereafter Douglas worked as an engineer for the British Westinghouse Company on Tyneside and in India, and was also employed as Chief Electrical Engineer on the Buenos Aires and Pacific Railway. In the First World War he joined the Royal Flying Corps, and between 1916 and 1918 served (with the rank of major) as Assistant Superintendent of the Royal Aircraft Establishment at Farnborough. It was here that he gained the experience of accountancy on which his financial theories were to be based. By 1918 Douglas had become a wealthy man, although the source of his fortune remains a mystery. At all events, he was able to retire from his profession and devote his time to the propagation of his ideas. A prolific writer, he published a series of books as well as hundreds of articles. In 1923 Douglas testified to the Canadian Banking Enquiry, returning to Canada eleven years later during a world tour which took him also to Australia and New Zealand. Briefly, in 1935–6, he was Chief Reconstruction Advisor to the provincial government in Alberta, but this experience was not a happy one.<sup>5</sup> He died in September 1952 during surgery.

Maurice Reckitt, a Christian Socialist and former supporter of Douglas, remembered the Major with little affection: 'as a sociological thinker Douglas has always seemed to me unreliable and ill-equipped, and as the political leader which he later aspired to become, he has shown himself to be autocratic, susceptible to flattery, and entirely without good judgement.'<sup>6</sup> In Western Canada and New Zealand, however, there developed in the early 1930s not only a mass audience for his ideas but also successful political parties which bore the name of Social Credit and were pledged to implement its proposals. The remarkable political success of Social Credit in Canada found no parallel in Britain, but the movement did enjoy substantial support. Douglas had begun his intellectual career as a Guild Socialist, and many of his earliest disciples were socialists. They included A. R. Orage, the influential editor of the *New Age*, and (at various times) G. D. H. Cole, John Strachey, John Wheatley, the Clydeside shop steward John Paton, and Hugh McDiarmid.<sup>7</sup> The propagation of Social Credit in Alberta owed much to its links with charismatic religious sects like William Aberhardt's Prophetic

Baptists, while in Britain Douglas's ideas made a deep impact in Catholic, Anglican and Nonconformist circles. The movement appealed also to lay intellectuals, especially to poets like Ezra Pound, Aldous Huxley, Wyndham Lewis and T. S. Eliot.<sup>8</sup> One adult education tutor encountered so many Douglas enthusiasts in his classes that he was driven to write a book denouncing the Major's ideas.<sup>9</sup>

## II

Douglas's ideas are not easy to summarise. Repeatedly critics have condemned the continual shift of argument in his technical writings, and the juxtaposition of apparently unrelated ideas without any hint of the connection between them. It is difficult not to agree with C. B. MacPherson's verdict on Douglas's A + B Theorem, the crux of his analysis, of which the 'characteristic quality [is its] false clarity which made it impossible either to understand it or to refute it in simple terms.'<sup>10</sup> Douglas was convinced that humanity possessed the technical ability to master its environment and create an age of leisure and plenty. Goods and services could be produced to meet the needs of all, with a minimum of labour. They should be distributed to the community in the form of a national dividend. Scarcity and want persisted only because of defects in the existing monetary system which prevented the distribution of sufficient purchasing power. Reform was obstructed by popular ignorance, itself deliberately fostered by a conspiracy of financiers whose interests (and whose interests alone) were threatened by Social Credit.

Fundamental to the argument was the belief that the incomes of individual consumers were inevitably and increasingly insufficient to enable them to purchase the total national output. The A + B Theorem hinged on the distinction between A payments, made by companies to individuals in the form of wages, salaries, and dividends; and B payments, consisting of raw materials bills, bank charges, and similar 'external costs', which are made to other firms. (In modern terms, the B payments represent expenditure on intermediate inputs.)

The problem arises because

... the rate of flow of purchasing-power to individuals is represented by A, but since all payments go into prices, the rate

of flow of prices cannot be less than  $A + B$  . . . but since A will not purchase  $A + B$ , a proportion of the product at least equivalent to B must be distributed by a form of purchasing-power which is not comprised in the descriptions grouped under A . . . this additional purchasing-power is provided by loan-credit (bank overdrafts) or export credit.<sup>11</sup>

According to Douglas the very existence of B payments results in a deficiency of purchasing power, which is the root cause of depression. That the economy continues to function at all is due to the offsetting influences of bank loans and export demand. But neither of these factors can sustain the system indefinitely. The struggle for export markets leads to intensified international rivalry and thus inexorably to world war, while industry's increasing reliance upon bank finance – which puts the bankers into a dangerously powerful position – offers no permanent relief. Since bank advances create deposits, Douglas argues, the reverse must also be true: the repayment of loans destroys deposits, and by restricting the availability of credit reduces effective demand. There is only one remedy: Social Credit must replace private credit, for only the distribution of a national dividend can bridge the gap between A and  $A + B$ .

All these central elements in Douglas's thought can be found (if sometimes only in embryo) in his first book, *Economic Democracy*, published in 1919. At this early stage in the development of his ideas Douglas was still very much a Guild Socialist, and opposed both individualism and collectivism in the name of 'the interest of man which is self-development'. He denounced the emerging Servile State and criticised orthodox socialists for failing to see the real enemy, 'the will-to-power'. Nationalisation would merely increase the concentration of economic power and give rise to tyranny. It was 'this centralisation of the power of capital, and the credit which is based on it', which was for Douglas the real foe. As for scientific management, this greatly increased productivity but also encouraged output restriction and 'ca'canny' on the part of the workers. It thereby promoted 'a spirit of revolt against a life spent in the performance of one mechanical operation devoid of interest, requiring little skill, and having few prospects of advancement other than by the problematical acquisition of sufficient money to escape from it'. But Morris and Ruskin were wrong to repudiate machinery itself, Douglas believed, for modern technology can release the

individual's time for pursuits more rewarding than the mere maintenance of life.<sup>12</sup>

In modern society scarcity was only apparent, for 'it has been estimated that two hours per week of the time of every fit adult between the ages of 18 and 45 would provide for a uniformly high standard of physical welfare under existing conditions.' The real problem, Douglas argued, was lack of purchasing power, for which the fault lies not with the profit motive but with the power of finance: 'the root of the evil accruing from the system is in the constant filching of purchasing power from the individual in favour of the financier, rather than in the mere profit itself.' Douglas was as yet unclear as to exactly how this 'filching' is carried out. He was quite emphatic, however, that the centralising power of finance and the chronic deficiency of purchasing power were simply two sides of the same coin. They must be opposed by a radical decentralisation of power, in which the shop stewards' movement would play a major part. But the shop stewards could not claim exclusive control over production, still less over the distribution of the product. Labour was not the source of all wealth, since 'the simple fact is that production is 95 per cent a matter of tools and process, which tools and process form the cultural inheritance of the community not as workers, but as a community . . .'<sup>13</sup> Similar ideas permeate the work of Veblen, whose idealisation of engineers and bitter hostility towards financiers may also have influenced Douglas. Friedrich Engels makes a similar point in *Anti-Dühring*. There is a curious analogy, too, with Edwin Cannan's notion of the 'heritage of improvement', set out in an article published in 1934 with the explicit intention of downgrading capital as a factor of production.<sup>14</sup> This vital concept of the 'cultural inheritance' is not, at this stage, clearly defined. Douglas would later explain it in terms of the skills, techniques and knowledge which constitute the common heritage of humanity and account for the great bulk of its productive achievements.

He called for the means of production to be taken into common ownership, under decentralised management. This would permit the establishment of a sound system of income distribution in which profits and wages were progressively replaced by a more appropriate type of income, the social dividend. Policy would be decided by 'a system not dissimilar from the existing Shop Steward system, but with its members acting in the role of Citizens and not as Artisans', while its execution could safely be left to experts. Competition

(other than with regard to efficiency) would disappear 'and with it, the primary cause of war'. As a transitional arrangement Douglas suggested that the national debt be 'redistributed' to the population as a whole, so that eight million heads of families would each be credited with £50 per annum of additional purchasing power. Production should be planned, 'with[in] broad limits'. Commodities would be sold below cost, according to a formula determining the 'Just Price'. This 'bears the same ratio to the cost of production that the total consumption and depreciation of the community bears to the total production.' Douglas's intention here seems to have been – anticipating the terminology of the A + B Theorem and ignoring his reference to depreciation – that goods with a cost of production of A + B would be sold for A. The resulting fall in prices would increase the purchasing power of money, so that effective demand would rise.<sup>15</sup>

Douglas's second book, *Credit-Power and Democracy*, which appeared in 1920, repudiated socialism and defended capitalists against the charge of parasitism, seeing in the private dividends of the capitalist joint stock company the precursor of the social dividends which he was proposing. Given public control of credit, free competition among private entrepreneurs would best serve the public good.<sup>16</sup> The book also contained an influential 'draft scheme for the mining industry', which envisaged a form of co-partnership between capital and labour and a jointly owned industrial bank to supply credit to the industry.<sup>17</sup> Its most significant feature, however, was Douglas's first explicit statement of the A + B Theorem.<sup>18</sup> There was no mention of the Theorem in Douglas's next book, *Social Credit* (1924), which has led some commentators to conclude that Douglas abandoned it in his later writings.<sup>19</sup> It reappeared, however, in his written evidence to the Macmillan Committee in 1930. Here he restated the Theorem in terms of a "double circuit" of money in industry', apparently identifying the B items exclusively with loan repayments involving the destruction of effective demand. Douglas now introduced a second, supposedly separate, source of disparity between costs and demand due to saving out of the A payments, and appeared to be edging closer to more conventional underconsumption theory.<sup>20</sup>

Similar ideas were expressed in his last major text, *The Monopoly of Credit* (1931). The A + B Theorem now featured as one argument in support of a rather diffuse underconsumptionism in which both low wages and the savings–investment relation play an

important part. Douglas stressed the effects of mechanisation which, he claimed, had increased labour productivity by forty times since the early nineteenth century. Citing Paul H. Douglas, he identified a tendency for real wages to rise less rapidly than output per employee. As 'wages, costs and purchasing power are only different aspects of the same thing', this would have consequences for aggregate demand every bit as serious as the growing tendency for workers to save a significant proportion of their incomes. Here Douglas seems to be edging towards a Hobsonian 'over-investment' theory of economic crises.<sup>21</sup> The gap between A and A + B was filled, Douglas now asserted, by 'mounting debt', so that in Britain 90 per cent of trade and industry is controlled by the banks. The ensuing struggle for markets will lead inevitably to war.<sup>22</sup>

The book ends on a much more positive note. Somewhat like Marx, Douglas saw the germ of the new society in the contradictions of the old. Productivity was growing continually, and since 'the genuine consumptive capacity of the individual is limited, we must recognise that the world, whether consciously or not, is working towards the Leisure State.' Old Age Pensions and the Dole already presaged the National Dividend, and unemployment could be regarded as a release rather than a misfortune, the more so as dividends (to which individuals were entitled as their share of the cultural inheritance) increasingly replace wages and salaries as the chief source of income. Production will be dethroned as the sole object of existence, allowing the full realisation of human potential: 'Not being dependent upon a wage or salary for subsistence, he [the dividend recipient of the future] is under no necessity to suppress his individuality, with the result that his capacities are likely to take new forms of which we have so far little conception.' Such was Douglas's (not unattractive) vision of the new age of plenty.<sup>23</sup>

### III

Serious critical reaction to Douglas was confined largely to two relatively brief periods: the early 1920s, when Social Credit was fresh and original, and the early to middle 1930s, when it was given renewed mass appeal by the onset of world depression. Among orthodox theorists relatively little attention was paid to him until 1932 when *The Monopoly of Credit* was reviewed in the *Economic Journal*,<sup>24</sup> although Social Credit certainly was discussed at Cambridge in the early 1920s. Harrod describes a breakfast session

(perhaps in 1921) with Keynes and the philosopher H. W. B. Joseph, who gave a long and complicated refutation of Douglas's arguments which Keynes declared to be 'the most clear and admirable exposure of Major Douglas's fallacies that I have ever heard'.<sup>25</sup> The lofty undergraduate discussions recalled by Kingsley Martin, the future editor of the *New Statesman*, produced a more lasting contribution when Frank Ramsey published a remarkable mathematical paper foreshadowing his celebrated *Economic Journal* article on the optimum rate of saving.<sup>26</sup>

Ramsey was concerned with the ratio of selling price to cost price which was necessary if distributed purchasing power was to be capable of buying all consumer goods produced. In a stationary state, he argued, this ratio must equal unity. The rate of flow of the cost of such goods is  $A + B$ , and purchasing power is distributed at rate  $B$ .

But the rate of other payments  $A$  being made by these factories, represents payment in dividends and wages made at some previous time by other factories producing intermediate products. Therefore, on the hypothesis of unchanging production, the distribution of purchasing power by all these other factories proceeds at rate  $A$ . So that the total rate of distribution of purchasing power is  $A + B$ , which equals the rate of flow of cost prices of consumable goods.<sup>27</sup>

Note that Ramsey, citing the 'sixpenny pamphlet' author W. Allen Young, inverts Douglas's  $A$  and  $B$  payments. His own analysis shows, by means of integral calculus, that the required ratio of price to cost differs from unity only under two special circumstances, neither related to Douglas's arguments. Similar, less elegant analyses would recur repeatedly in academic and also in socialist critiques of Social Credit. But Ramsey went further, unlike most later writers, to establish the conditions under which the required ratio of price to cost would equal unity in a growing (as opposed to a stationary) economy. This theoretical *tour de force* seems to have been too much even for professional economists, few of whom (in 1922) would have felt at ease with Ramsey's use of integral calculus.<sup>28</sup> It marked the end of academic interest in Douglas for almost a decade.<sup>29</sup>

Not surprisingly, Social Credit attracted much more interest among those in the socialist movement. There is something of Robert Owen's Utopianism in Douglas's touchingly naive belief that



he need only expose influential people to his ideas in order to secure their adoption.<sup>30</sup> Pursuing Labour intellectuals rather than crowned heads and Tory statesmen, he met with no greater success. In October 1919 A. R. Orage introduced him to Sidney and Beatrice Webb, who invoked the assistance of their friend Bertrand Russell. Douglas's 'philosophical position seems a strange jumble of separate propositions with regard to the facts and social expediency', Beatrice Webb wrote to Russell. 'As for his scheme, I cannot visualise it, and his use of economic and commercial terms is bewildering. However, if such an able man as Orage has been enthused by it, there must be something in it, and it is exactly this something that I want to get at. But at the present time I have not the remotest idea what it is.' The Webbs accepted Russell's unfavourable report, apparently without reservation.<sup>31</sup>

In 1921 Douglas did arouse the interest of the Miners' Federation of Great Britain after publishing (with Orage) a plan for the reorganisation of the coal industry. Under pressure from Douglas's sympathisers the union sought the opinion of the National Executive of the Labour Party, which set up a committee to investigate the proposal. Its report, published in July 1922, was sharply critical. The A + B Theorem was false, since all payments ('wages, interest, salaries and everything else') were eventually paid to individuals and constituted 'effective purchasing power'. Banks did not destroy credit, as Douglas claimed, since it was normal banking practice to make new loans as fast as old loans were repaid. Douglas's proposals for reducing prices were impractical, for the 'continuous flooding of the nation with paper money' must inevitably generate inflation. Although the banking system was indeed far from perfect it was but a small part of the capitalist organisation of industry and finance, which must be reformed in its entirety. Financial stability would best be achieved by the nationalisation of all joint stock banks and the encouragement of municipal banking.<sup>32</sup>

J. A. Hobson had served on the committee (along with Hugh Dalton, G. D. H. Cole and Sidney Webb), and Douglas regarded Hobson and Dalton as the principal authors of the report.<sup>33</sup> Hobson's critique of Douglas did make use of a line of attack against the A + B Theorem very similar to that of the Labour Party, but he used it to advance his own radical theory of underconsumption. The root cause of economic crises was not lack of monetary purchasing power but its maldistribution. Total income is adequate to purchase aggregate output, but an excessive proportion of this income is

saved, 'i.e., applied to the purchase of more capital goods instead'. Douglas's proposed 'trade-banks' offered no remedy for depression as they would function, in practice, just like any ordinary bank.<sup>34</sup>

Also in February 1922 the *New Statesman* carried an unsigned editorial attack on Douglas in response to requests from many readers. While it was correct to worry about the monopolisation of credit which was threatened by bank amalgamations, his proposals were 'moonshine, a postposterous fraud'. His argument

is founded upon the analysis of Marx, doubtfully apprehended and clumsily expressed. Even the old Marxian fallacy of the 'time-energy' unit of value reappears, and the central Douglas doctrine of the means by which the 'credit-mongers' deprive the working community of its just rights is in essence only a cumbrous re-statement of Marx's theory of 'Surplus Value'. On top of this comes a crude and invalid application of the Quantity Theory of Money, and a misunderstanding of Mr. J. A. Hobson's theory of underconsumption.<sup>35</sup>

The *New Statesman's* very contentious allusion to Marx must have infuriated the small Marxist movement which had only recently been united under the banner of the Communist Party of Great Britain. The Party's spokesman, the young Maurice Dobb, denounced Social Credit as 'merely a modern version of the inflationist fallacy'. Credit expansion would raise prices rather than output. This would disorganise production by inducing excessive expansion in particular sectors of the economy, which would inevitably end in a renewed depression. There are strong elements in Dobb's argument of the Austrian analysis of the trade cycle which was to prove a fertile source of anti-Douglas propaganda in the 1930s. When he himself returned to the subject, in 1933, it was to denounce the 'purely Fascist significance' of Social Credit.<sup>36</sup>

#### IV

In 1930 serious academic interest in Social Credit revived briefly when Douglas submitted evidence to the Macmillan Committee. He was unusually subdued and strangely reluctant to specify, under close questioning, the precise details of his plans, especially the mechanics of his proposed price subsidies. After more than a hundred questions and answers Professor Gregory remained unclear (Q. 4502) as to whether Douglas really was arguing that purchasing

power tended to lag behind output. Others, like Macmillan, Brand and McKenna, were sceptical about the possibilities of expanding credit without causing inflation. Keynes, who asked nearly all the theoretical questions, took issue with the A + B Theorem, asking Douglas whether the difficulties would vanish if there was complete vertical integration, and why an equilibrium volume of credit could not be maintained under the present financial system (Qs 4470–88). Douglas's rather unclear reply introduced the issue of depreciation provisions and led to an inconclusive exchange. Keynes intervened only once more, to no greater effect (Q. 4499), and the mutual incomprehension remained.<sup>37</sup>

Although the Macmillan Committee remained entirely unimpressed by Social Credit, the collapse of the world economy was beginning to provide Douglas with a larger audience and this in turn forced both orthodox economists and socialist writers to reconsider his ideas. First into the fray was Lionel Robbins, whose paper on 'Consumption and the Trade Cycle', read to the British Association at York in 1932, was devoted to underconsumptionism in general and to Douglas (and also J. A. Hobson) in particular.<sup>38</sup> Robbins condemned Social Credit as dangerously inflationary. It was certainly true that the sum of wages, salaries and other distributed incomes amounted to less than the aggregate turnover of the economy. But this was a condition for equilibrium, not a breach of it: in any economy characterised by a vertical division of labour the gross turnover must exceed the net product, or a crisis would ensue: 'If those payments which are not net income did not continue to be made, "many-stage production" in financially dependent firms could not profitably persist.'<sup>39</sup> This was true *a fortiori* of a growing economy, where the gap between gross output and the sum of distributed incomes must be even larger than in a stationary state, to allow for net saving. Attempts to maintain consumers' purchasing power, whether by credit expansion or by the encouragement of wage rigidity, would be counterproductive. They would jeopardise the attainment of equilibrium and deepen the depression.

Like his later, detailed analysis of the Great Depression, Robbins's argument has close affinities with the Austrian theory of capital most vigorously propounded by Friedrich von Hayek. For the Austrians the rate of interest determined the time structure or average 'roundaboutness' of production, and hence the division of the gross output between consumer goods and intermediate products. Hayek argued that the depression was the result of excessive credit

expansion, which had lowered interest rates and induced an unwarranted expansion of investment at the expense of consumer-goods production. The deficiency of consumers' purchasing power was the symptom rather than the cause of the world crisis.<sup>40</sup>

Hayek referred to Douglas only in passing,<sup>41</sup> but his omission was soon rectified by Evan Durbin, whose *Purchasing Power and Trade Depression* provided a powerful and systematic critique of underconsumption from an Austrian standpoint. Durbin distinguished two categories of theory: those asserting that over-saving was the cause of depression, and those which claimed that underconsumptionism would arise even if saving equalled zero. Douglas's A + B Theorem, which fell into the second class, represented 'the last extreme to which the theories of underconsumption reach'. It is 'based on a simple fallacy. It is not in the least necessary that consumers' income should cover the total current costs in the industrial system as a whole, but only the current costs of producing consumption goods.'<sup>42</sup>

This much was standard criticism. What was new in Durbin's presentation was a diagrammatic analysis taken straight from Hayek. There are in Durbin's example four stages of production, each with a net output (or value added) of £100 per period. In the first stage ploughs are made by direct labour and capital alone, using no intermediate products. In the second farmers buy the ploughs and employ labour and capital to the value of £100, with total costs of £200. At the third stage the miller pays £200 for the farmer's wheat and adds £100 in labour and capital costs to produce flour. Finally, the baker adds value of £100 to the £300 of flour, producing bread which sells at £400. This is exactly equal to the total incomes of the consumers, who are the recipients of the value added in each stage of production. 'The total cost of producing everything', as Durbin puts it, is  $£400 + £300 + £200 + £100 = £1,000$  per week. This is the value of the aggregate turnover, or (in Douglas's terms) A + B. Consumers' income, which is the value of the net output (Douglas's A payments) amounts to £400. There is no shortage of purchasing power and no need to increase consumers' incomes by £600. The example, illustrated in Figure 1 below (for which Durbin acknowledged his debt to Hayek), proves that 'Major Douglas's proposals would merely involve a large, continuous and disastrous inflation.'<sup>43</sup>

Durbin's argument is not conclusive, since it relates only to a static economy and says nothing about the rate of flow of the various

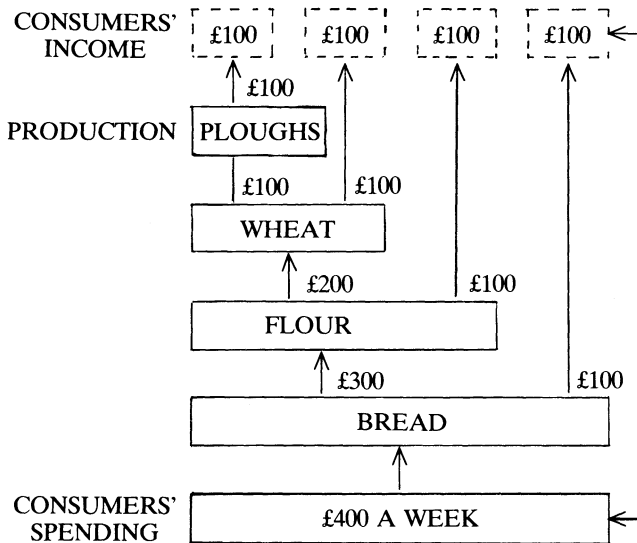


Figure 1 Durbin's Diagrammatic Illustration of Monetary Equilibrium

Source: E. F. M. Durbin, *Purchasing Power and Trade Depression* (1933), p. 190. (Reproduced by permission of the Estate of E. F. M. Durbin and Jonathan Cape Ltd.)

magnitudes which would be required to maintain equilibrium growth. Net saving is zero in his example, and he abstracts altogether from fixed capital and the consequent problems of depreciation and sinking funds which were to worry R. G. Hawtrey; Durbin's ploughs are items of circulating capital, which wear out every week. Despite its technical shortcomings Durbin's critique was enormously influential, not least among socialist opponents of Social Credit. He himself was a dedicated Fabian, and in 1933 reprinted the anti-Douglas Appendix to *Purchasing Power and Trade Depression* in a Fabian pamphlet on socialist credit policy.<sup>44</sup> An almost identical analysis was presented, with due acknowledgement to Durbin, by the future leader of the Labour Party, Hugh Gaitskell, who included Douglas (with Frederick Soddy, Silvio Gesell and Robert Eisler) in an extended discussion of 'Four Monetary Heretics'. Gaitskell's essay, replete with Hayekian diagrams, was also published in 1933.<sup>45</sup>

A less lucid but similar analysis was offered two years later by H. R. Hiskett, whose book contained a preface by the future Labour Chancellor of the Exchequer, Hugh Dalton, who had

denounced Social Credit as anti-socialist in the Labour Party's 1922 Report. Durbin, Gaitskell and Hiskett also collaborated in a popular version of their critique of Douglas, which appeared under the imprint of the Labour Party in 1935.<sup>46</sup>

Austrian arguments featured prominently in books by academic writers whose socialism was of a more radical strain. The theme of M. A. Abrams's *Money and a Changing Civilisation* was that economic stability, unattainable under capitalism, could be achieved only in a market socialist economy. The familiar Hayekian diagrams were used to illustrate the requirements of the capitalist economy for a stable money supply which, Abrams argued, was constantly threatened by the normal behaviour of the commercial banks.<sup>47</sup> A similar analysis is found in Erich Roll's *About Money*, also published in 1934,<sup>48</sup> and in John Strachey's influential *Nature of Capitalist Crisis*, which appeared in the following year. While citing Durbin and Gaitskell in his Austrian critique of the A + B Theorem, Strachey did detect in Douglas's analysis 'a reaching out after the central contradiction of capitalism, namely, the conflict between the accumulation of capital and the distribution of consumers' goods'.<sup>49</sup>

Other Marxist reactions to Social Credit varied. Maurice Dobb's attitude was, as we have seen, hostile.<sup>50</sup> At the other extreme was N. A. Holdaway's sympathetic criticism in *Adelphi* magazine of this 'honest and distinguished thinker', C. H. Douglas.<sup>51</sup> Less obscure than Holdaway's – but also less original – was John Lewis's attack on 'Douglas Fallacies', which appeared in 1935. Lewis was a prolific populariser of Marxian theory, although his economic criticisms of Social Credit were eclectic in the extreme. On the one hand he attacked the failure of such orthodox economists as Robertson, Durbin and Gaitskell to get to grips with Douglas, which resulted from their unwillingness to admit that 'capitalist accumulation necessarily over-expands the productive equipment relative to the purchasing power which it distributes.' On the other he insisted that Douglas's proposals would be inflationary, citing Bastiat, no less, in defence of a simple Quantity Theory of the price level. Further authorities cited with approval were the Labour Party's 1922 report, Durbin's numerical refutation of the A + B Theorem, Keynes on saving and investment, and Robertson on the banking system.<sup>52</sup>

Lewis suggested ironically that Marx was the real discoverer of the A + B Theorem and found parallels between Marxism and Social Credit in several respects. Both focused on the paradox of poverty in the midst of potential plenty, and treated employment

not as an end in itself but as a means to the production of wealth. They both agreed that the wages system had failed as a method of distribution and that a national dividend was required. Douglas and the Marxists saw mechanisation as a source of unemployment, and regarded economic nationalism as one symptom of the crisis of overproduction. Finally, they concurred on the critical point that 'credit' for increased output belonged to the community as a whole rather than to any one section of it. But 'social distribution of the national dividend cannot take place until social ownership of the productive apparatus has been achieved.' Like Dobb, Lewis ascribed Douglas's popularity to his *petit-bourgeois* class position and saw ominous similarities between Social Credit and the Corporate State.<sup>53</sup>

Following a book by H. R. Hiskett and J. A. Franklin which added little to Hiskett's earlier work,<sup>54</sup> the final socialist verdict was given by G. D. H. Cole in 1944. Although he used a Hayekian diagram to establish against Douglas the validity of what he termed 'Say's Theory', Cole showed himself to be sympathetic to many of the Major's ideas. 'I am a Socialist', Cole concluded, 'and I do not believe Social Credit can be made to work without the institution of the socialistic measures which I have outlined.'<sup>55</sup>

## V

Three liberal economists who owed less to Austrian theory than most of the socialists were D. H. Robertson, R. G. Hawtrey and J. M. Keynes. Robertson's academic writings contain only one fleeting reference to Social Credit, an aside in a long discussion of the American underconsumptionists Foster and Catchings. In June 1933, however, Robertson took part in a radio debate with Douglas in which Douglas stressed the implications of his arguments for international relations, competition for export markets being the principal cause of war. Robertson agreed 'that our present international troubles are largely due to the tendency of nations to regard a large export trade as an end in itself, instead of as a means to procure useful imports.' He also endorsed public works schemes and 'look[ed] forward to the time when public opinion will be much more enlightened in these matters than it is now' in permitting the giving away of money by the state as a remedy for slumps. The A + B Theorem, however, was utterly false, and Douglas himself seemed recently to have weakened in his defence of it. 'Production is a

continuous process', Robertson urged, 'and so long as no producer or dealer who forms a link in a chain allows his working capital – that is, his goods in process of manufacture or in stock – to become depleted, there is clearly no reason here for any failure of purchasing power.' Since Douglas's proposals were intended not as emergency measures but to be permanent, their adoption would be either grossly inflationary or (if social credits could not be employed again by their recipients) completely ineffective.<sup>56</sup>

For a senior Treasury official R. G. Hawtrey had remarkably little fear of heterodox ideas, as he demonstrated by his endorsement of Silvio Gesell's 'perishable money'.<sup>57</sup> He confronted Douglas more than once, having debated with him in Birmingham in 1933 and lecturing, as part of a series which included the Major, at the Conservative Centre, Bonar Law College, Ashridge in 1936. The two men corresponded at some length in 1933 and again (more briefly) in 1937.<sup>58</sup> Hawtrey devoted an entire chapter of his *Capital and Employment* (1937) to Social Credit, placing Douglas on a par with Keynes, Hayek, Pigou and Harrod. Three years previously Hawtrey had acknowledged Douglas as an early discoverer of the important truth that 'depreciation differs from other costs of production in that it does not of itself generate incomes', unlike wages, salaries, interest, profit and rent. 'If all costs are composed of incomes and all incomes are either spent or invested, and if investment is equal to capital installed, the equilibrium is secured. But if a part of costs does not generate any income, there is a deficiency of demand.'<sup>59</sup> The reference to Douglas had irritated Gustav Cassel and others, but 'as it really was a correspondence with Major Douglas that led me to the conclusion that depreciation ought not to be treated as itself generating incomes on the same footing as other costs, it is only fair to him to say so.'<sup>60</sup>

Hawtrey's chapter on Social Credit was based on a careful reading of all Douglas's principal works and attacked the A + B Theorem from a quite original angle. Douglas had confused two distinct meanings of 'deficiency of purchasing power'. In the early stages of production incomes are distributed to individuals in advance of output, so that there is temporary excess demand and a tendency for prices to rise. This does give rise to a decrease in purchasing power, since real incomes have fallen. Later, when the output is put on sale, much of this purchasing power has already been spent. Again there is a deficiency of purchasing power, but in the opposite sense from that in which the term was first employed:



In practice all stages of production are in operation simultaneously. Those which cause an excess of demand and those which cause an excess of supply tend to neutralise one another. But if we apply the same description, a deficiency of purchasing power, both to the rise of prices in the one case and to the shortage of money offered in the other, it is fatally easy to be misled into the idea that as each stage of production taken separately tends to cause a 'deficiency' of purchasing power, therefore when they co-exist they must reinforce one another.

Once depreciation was reckoned with, however, arguments for an inherent deficiency of demand appeared in a much more favourable light. This was especially the case in a growing economy, in which current replacement expenditure, equal to the fixed capital installed in the past and now wearing out, would be less than the current depreciation allowance. Douglas was wrong to confuse this gap with overhead charges in general, most of which were distributed as incomes. But equilibrium did require capital outlays equal to the sum of savings and depreciation allowances, and credit should be regulated accordingly. In conditions of underemployment, Hawtrey argued, increased demand would raise output faster than prices. The validity of Social Credit proposals thus depended on the circumstances of the time. In 1919, when the first of Douglas's writings were published, there was general excess demand, and 'to counteract inflation by subsidising prices is like drying a lump of ice by the fire.'<sup>61</sup> Eleven years later, when he testified before the Macmillan Committee, inflation was precisely what was needed, 'and Major Douglas's subsidy is one among many devices that have been proposed for bringing it about.' Douglas's discussion of 'the imponderables of economics' was of considerable value, Hawtrey concluded, but his technical analysis was often entirely wrong: 'This portion of his theory is about as helpful as a misprint in the multiplication table.'<sup>62</sup>

In *A Treatise on Money* John Maynard Keynes had had some kind words for 'the army of heretics and cranks, whose numbers and enthusiasm are extraordinary'. After the publication of his *Tract on Monetary Reform* Keynes had been bombarded with letters and pamphlets from amateur monetary reformers. He found their 'fierce discontent' to be 'far preferable to the complacency of the bankers', and regarded the *Treatise* as an attempt to reconcile their views. The heretics asked why the bankers failed to create enough credit to

sustain full employment, and observed that it was always profitable for monopolists to restrict supply. Their error, Keynes pointed out, was to ignore the possibility that bank profits would be increased by monetary expansion through the inflation resulting from an excess of investment over saving; the bankers, in their ignorance, were creating profit deflation.<sup>63</sup>

Douglas was not mentioned by name in the *Treatise*, nor is there any record of correspondence between him and Keynes.<sup>64</sup> In the *General Theory* he appeared in the company first of Karl Marx and Silvio Gesell, and then (in a more subordinate role) with Mandeville, Malthus, Gesell and Hobson, with whom 'he has scarcely established an equal claim to rank – a private, perhaps, but not a major in the brave army of heretics . . .'<sup>65</sup> Keynes's linking of Douglas and Marx has always appalled Marxists, and it is true that Keynes offers no justification for such an unexpected amalgam. In an early draft of chapter 2 of the *General Theory*, however, he had attempted precisely such an exercise, interpreting both Marx and Douglas in terms of the Marxian circulation formula  $M-C-M'$  and advancing his own claim to have reconciled these two schools of thought while 'leaving the classical economists still high and dry in their belief that  $M$  and  $M'$  are always equal!'<sup>66</sup> Although there are gross errors in Keynes's exposition of Marx, it is interesting that this rare attempt to place his own analysis in the context of Marxism should come in a discussion of Douglas.

The question was not, however, pursued in subsequent drafts, nor in the published version of the *General Theory*. In the later drafts of the book, Keynes's analysis of company sinking funds as a potential source of deflation reminded Hawtrey so much of Douglas that he raised the matter in correspondence, urging Keynes either to acknowledge his debt to the Major or to make his differences more sharply apparent. Keynes replied that he had removed a reference to Douglas from an earlier draft, as the resemblance in ideas was really very slight.<sup>67</sup> This was substantiated in the one significant allusion to the Major in the finished book, which came in chapter 23 where Keynes presented a history of the principle of effective demand. His verdict here on Douglas's theoretical analysis was very similar to Hawtrey's.<sup>68</sup> On the practical proposals of Social Credit, however, Keynes was always scathing.<sup>69</sup>

## VI

With the current concern over mass unemployment, the new technology and the onset of a 'post-industrial' economy Major Douglas's social philosophy shows some signs of making a comeback, at least in respect of his rejection of the work ethic and his advocacy of a national dividend in place of wages and salaries. An early reaction to 'cybernation' was a revival of interest in a guaranteed income independent of work or property ownership.<sup>70</sup> On the right something very similar is urged today by proponents of 'people's capitalism', while on the left the French neo-Marxist André Gorz has explicitly endorsed 'the distribution of a "social income" (or "social dividend", as the Creditists called it 60 years ago)'.<sup>71</sup> There is little chance of a similar revival of the economic analysis of Social Credit. The technical merits of Douglas's economic writings are not great, although they are rather more substantial than some of his adversaries were prepared to admit.<sup>72</sup> If the Austrian critique did him less than full justice, it is difficult to quarrel with the assessment of Hawtrey and Keynes. As economic theory, narrowly defined, Social Credit has no future.

The puzzle is that it had such a vigorous past. Few indeed of the inhabitants of the economic 'underworlds' have featured so prominently in specialist textbooks,<sup>73</sup> or received such sustained attention from their more respectable contemporaries. Douglas was certainly writing at an opportune time. Between the wars orthodox economics was in a state of crisis. An important part, at least, of the dominant paradigm had been placed in question because of its apparent inconsistency with the global depression, which represented a major anomaly for established modes of thought.<sup>74</sup> At such times scientists are necessarily more open-minded than is their normal practice, and rival ideas are taken seriously instead of being ignored or treated with contempt. Thus the writings of Major Douglas, with all their evident fallacies and irritating lacunae, became a legitimate object of scrutiny.

No less important a stimulus was the interest which Social Credit aroused outside the economics profession: among the poets, churchmen and socialists who knew that something had to be done about the monetary system, and the Canadian farmers broken by depression and debt and resentful of interest, 'the crop that never fails'. Without their extraordinary appeal both to elites and to the masses, it is hard to believe that Douglas's ideas would ever have

impinged so directly upon the consciousness of so many academic economists. Professional reactions were very largely (and rightly) negative, and Douglas's impact on the development of Keynesian macroeconomics was negligible. Indirectly, though, his writings were rather more influential. By convincing a very large lay audience of the ever-present danger of deficient aggregate purchasing power, Douglas must have played some part in rendering public opinion receptive to Keynes's analysis. To that extent, at least, Social Credit did significantly affect the course of intellectual progress.

## NOTES

1. See chapter 1.
2. K. Marx and F. Engels, *Letters on 'Capital'* (London: New Park Publications, 1983), pp. 119–23, 149–51; W. O. Henderson, *The Life of Friedrich Engels* (London: Cass, 1976), I, pp. 403–4.
3. K. Wallis, 'The Introduction and Critical Reception of Marxist Thought in Britain, 1850–1900', *Historical Journal* 20, 1977, pp. 417–59.
4. What little there is can be found in J. L. Finlay, *Social Credit: The English Origins* (Montreal and London: McGill-Queens University Press, 1972), pp. 88–96; see also the obituary in *The Times*, 1 October 1952.
5. J. A. Irving, *The Social Credit Movement in Alberta* (Toronto: University of Toronto Press, 1959); C. H. Douglas, *The Alberta Experiment* (London: Eyre & Spottiswoode, 1937).
6. M. B. Reckitt, *As It Happened: an Autobiography* (London: Dent, 1941), p. 171.
7. P. Mairet, *A. R. Orage: A Memoir* (New York: University Books, 1966); Reckitt, *As It Happened*, chs IX–X; Finlay, *Social Credit*, chs 8–9.
8. W. E. Mann, *Sect, Cult and Church in Alberta* (Toronto: University of Toronto Press, 1955), pp. 153–8; Finlay, *Social Credit*, ch. 10; Hewlett Johnson, *Searching for Light: An Autobiography* (London: Joseph, 1968), pp. 136–9; H. Kenner, *The Pound Era* (London: Faber, 1975), pp. 301–17, 407–13, 430–1, 463–4; E. Davis, *Vision Fugitive: Ezra Pound and Economics* (Lawrence, Kansas: University Press of Kansas, 1968); R. Kojecky, *T.S. Eliot's Social Criticism* (London: Faber, 1971), pp. 21–2, 79–85, 220.
9. G. Walker, *Economic Journal* 46, 1936, pp. 129–30, reviewing E. F. Nash, *Machines and Purchasing Power* (London: Routledge, 1935).
10. C. B. MacPherson, *Democracy in Alberta: Social Credit and the Party System* (Toronto and London: University of Toronto Press, 1972), p. 108. This book offers an excellent account of Social Credit as a

- political philosophy, but (like Finlay, *Social Credit*) is weaker on Douglas as an economic theorist.
11. C. H. Douglas, *Credit-Power and Democracy* (London: Cecil Palmer, 1920), p. 22 (stress deleted).
  12. C. H. Douglas, *Economic Democracy* (London: Cecil Palmer, 1919, second edn 1921), pp. 7, 23–5, 27, 36, 47.
  13. *Ibid.*, pp. 68, 71, 86–7, 92.
  14. J. Dorfman, *The Economic Mind in American Civilization, Volume III, 1865–1918* (New York: Viking Press, 1959), pp. 437–42; E. Cannan, ‘Capital and the Heritage of Improvement’, *Economica* n.s. 1, 1934, pp. 381–92; C. E. Ayres, ‘Ideological Responsibility’, in W. J. Samuels (ed.), *The Methodology of Economic Thought* (New Brunswick, U.S.A.: Transaction Books, 1980) pp. 15–22; J. Lehr, ‘K. Marx, Das Kapital, Kritik der Politischen Ökonomie’, *Vierteljahrschrift für Volkswirtschaft* 23, 1886, pp. 108–9.
  15. *Ibid.*, pp. 114–19, 126–9, 135–6, 139–40.
  16. Douglas, *Credit-Power*, pp. 9–13, 40–4, 81, 145–92.
  17. *Ibid.*, pp. 147–51; commentary by A. R. Orage, *ibid.*, pp. 152–212.
  18. *Ibid.*, pp. 21–3.
  19. C. H. Douglas, *Social Credit* (London: Cecil Palmer, 1924); MacPherson, *Democracy*, pp. 112.
  20. C. H. Douglas, *The Monopoly of Credit* (London: Eyre & Spottiswoode, 1931; second edn 1937), pp. 125–52, especially pp. 145–7.
  21. *Ibid.*, pp. 28–35. There are, however, two reasons for doubting whether Douglas was ever a true underconsumptionist. First, money and credit play a much more significant role in his analysis than is generally true of underconsumptionists. The second difference is more fundamental: underconsumption theories typically refer to an economy in which excessive net savings are productively invested. For Douglas aggregate purchasing power would be deficient even if net investment were zero. (I owe both these points to M. P. Schneider.)
  22. *Ibid.*, pp. 45–6, 50, 74, 94–5, 98–100.
  23. *Ibid.*, pp. 104–16.
  24. By G. Biddulph: *Economic Journal* 42, 1932, pp. 268–70.
  25. R. F. Harrod, *The Life of John Maynard Keynes* (London: Macmillan, 1951), pp. 139–40.
  26. F. P. Ramsey, ‘A Mathematical Theory of Saving’, *Economic Journal* 38, 1928, pp. 543–59; see K. Martin, ‘Introduction’, in W. R. Hiskett and J. A. Franklin, *Searchlight on Social Credit* (London: P. S. King, 1939), p. vii.
  27. F. P. Ramsey, ‘The Douglas Proposals’, *Cambridge Magazine* 11, 1922, pp. 74–6.
  28. None of the later critics of Social Credit refers to Ramsey, apart from the brief and rather misleading reference by Martin cited in note 26 above. Apart from the intrinsic difficulty of the paper, its publication in the *Cambridge Magazine* rather than in a specialist journal must have restricted its readership.
  29. There is a short uninformative reference to Douglas in W. C. Mitchell,

- Business Cycles: The Problem and Its Setting* (New York: National Bureau of Economic Research, 1927), p. 41n.
30. MacPherson, *Democracy*, pp. 120–1; cf. R. Miliband, ‘The Politics of Robert Owen’, *Journal of the History of Ideas* 15, 1954, pp. 233–45.
  31. N. Mackenzie (ed.), *The Letters of Sidney and Beatrice Webb. Volume III: Pilgrimage 1912–1947* (Cambridge and London: Cambridge University Press/London School of Economics, 1978), p. 127.
  32. The Labour Party, *Labour and Social Credit: A Report on the Proposals of Major Douglas and the ‘New Age’* (London: The Labour Party, 1922); Finlay, *Social Credit*, pp. 198–201.
  33. C. H. Douglas, *The Labour Party and Social Credit* (London: Cecil Palmer, 1922), p. 29.
  34. J. A. Hobson, ‘The Douglas Theory’, *Socialist Review*, February 1922, pp. 70–7; see also C. H. Douglas, ‘The Douglas Theory: A Reply to Mr. J. A. Hobson’, *ibid.*, April 1922, pp. 194–9; and Hobson, ‘A Rejoinder to Major Douglas’, *ibid.*, April 1922, pp. 194–9. The first edition of Hobson’s *Economics of Unemployment* (1922) contained a critical chapter on Douglas which was, apparently, dropped from the second (1931) edition: J. Allett, *New Liberalism: The Political Economy of J. A. Hobson* (Toronto: University of Toronto Press, 1981), p. 111n.
  35. ‘The “Douglas Credit Scheme”’, *New Statesman*, 18 February 1922, pp. 552–4.
  36. M. H. Dobb, ‘Does the World Need More Money? A Reply to Major Douglas’, *Communist Review*, May 1922, pp. 29–41; Dobb, ‘“Social Credit” and the Petit-Bourgeoisie’, *Labour Monthly* 15, 1933, pp. 552–7. On Austrian analysis see section IV below. In the early 1930s ‘Fascist’ was a very widespread all-purpose term of abuse in Communist circles.
  37. The transcript of Douglas’s examination is reprinted in W. R. Hiskett, *Social Credits or Socialism: An Analysis of the Douglas Credit Scheme* (London: Gollancz, 1935), pp. 33–78.
  38. L. Robbins, ‘Consumption and the Trade Cycle’, *Economica* 12, 1932, pp. 413–20. Robbins had in fact been led to the study of economics as a reaction against Douglas’s popularity among socialists in the early 1920s: L. Robbins, *Autobiography of an Economist* (London: Macmillan, 1971), pp. 65–7.
  39. Robbins, ‘Consumption’, p. 416.
  40. F. A. von Hayek, *Monetary Theory and the Trade Cycle* (London: Cape, 1933); *Prices and Production* (London: Routledge, 1931; second edn 1935); cf. L. Robbins, *The Great Depression* (London: Macmillan, 1934).
  41. F. A. von Hayek, ‘The “Paradox of Saving”’, *Economica* 32, 1931, p. 138, citing D. H. Robertson, ‘The Monetary Doctrine of Messrs. Foster and Catchings’, *Quarterly Journal of Economics* 43, 1929, pp. 473–99.
  42. E. F. M. Durbin, *Purchasing Power and Trade Depression: A Critique of Underconsumptionism* (London: Cape, 1933), pp. 44, 52 (original stress removed). For a detailed account of Durbin’s work and influence, see Elizabeth Durbin, *New Jerusalem: the Labour Party and the*

- Economics of Democratic Socialism* (London: Routledge & Kegan Paul, 1985), especially ch. 7.
43. *Op. cit.*, pp. 53–6, 179–91; cf. Hayek, *Prices*, pp. 32–68.
  44. E. F. M. Durbin, *Socialist Credit Policy* (London: Gollancz, 1933, second edn 1936).
  45. H. T. N. Gaitskell, 'Four Monetary Heretics', in G. D. H. Cole (ed.), *What Everybody Wants to Know About Money* (London: Gollancz, 1933), pp. 346–413.
  46. Labour Party, *Socialism and Social Credit* (London: The Labour Party, 1935); Hiskett, *Social Credits*; above, section III.
  47. M. A. Abrams, *Money and a Changing Civilisation* (London: John Lane, 1934).
  48. E. Roll, *About Money* (London: Faber, 1934).
  49. J. Strachey, *The Nature of Capitalist Crisis* (London: Gollancz, 1935), pp. 22–39. A decade earlier, as the co-author of Oswald Mosley's 'Birmingham Proposals', Strachey had committed himself to the socialisation of credit as the principal means for radical social change: J. Strachey, *Revolution By Reason: An Outline of the Financial Proposals Submitted to the Labour Movement by Mr. Oswald Mosley* (London: Leonard Parsons, 1925).
  50. Above, section III.
  51. N. A. Holdaway, 'Social Credit and Surplus Value', *Adelphi*, March 1933, pp. 411–17.
  52. J. Lewis, *Douglas Fallacies: A Critique of Social Credit* (London: Chapman & Hall, 1935), pp. 2–3, 5–6, 24–5, 36–42, 44, 57.
  53. *Ibid.*, pp. 13–16, 123–7.
  54. H. R. Hiskett and J. A. Franklin, *Searchlight on Social Credit*, *op. cit.*
  55. G. D. H. Cole, *Money, Its Present and Future* (London: Cassell, 1944), pp. 288–96, 316–17; the 'socialist measures' involved central planning of production, distribution and prices.
  56. 'The Douglas Credit Scheme (Major C. H. Douglas and Dennis Robertson)', *Listener* 9, 1933, pp. 1005–6, 1039–40.
  57. R. G. Hawtrey, *Economic Destiny* (London: Longmans, Green, 1944), p. 333.
  58. The Hawtrey papers at Churchill College, Cambridge contain the correspondence between the two men, together with the texts of Hawtrey's Birmingham and Ashridge speeches (Hawtrey Papers, HTRY 10/37). The Birmingham debate is reported verbatim in *New Age*, 6 April 1933, pp. 268–79.
  59. R. G. Hawtrey, 'Monetary Analysis and the Investment Market', *Economic Journal* 44, 1934, p. 646.
  60. R. G. Hawtrey, *Capital and Employment* (London: Longmans, Green, 1937), pp. vii, 8. (The chapter on Social Credit was omitted from the second, 1952 edition.)
  61. *Ibid.*, pp. 292, 296–9; Hawtrey here cites Douglas, *Credit-Power*, pp. 21–33. His argument was anticipated by Dobb, 'Does the World Need More Money?', p. 38.
  62. Hawtrey, *Capital*, pp. 301–3, 308–9, 313–14. See also Hawtrey to Douglas, 3 March 1937, HTRY 10/37.

63. J. M. Keynes, *A Treatise on Money*, II, Volume VI of *The Collected Writings of John Maynard Keynes* (London: Macmillan/Royal Economic Society, 1971), pp. 189–200.
64. I am grateful to Judith Allen of the Royal Economic Society for this information.
65. J. M. Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936), p. 371.
66. Keynes, *Collected Writings* XIX, pp. 76–82 (the cited passage is from a footnote straddling pp. 81–2). The Marxian formula is more adequately written as  $M-C-C'-M'$ , and has the following meaning. The capitalist begins with a sum of money (M), which is used to purchase means of production and labour power of the same (labour) value. These commodities (C) are put to work in the production process, in which the performance of surplus labour permits the production of different commodities of greater value (C'). The difference between C' and C represents surplus value: it is 'realised' by the sale of the commodities, which are exchanged for a sum of money (M') equal in value to C'. The difference between M' and M represents surplus value in money form. If aggregate purchasing power is deficient, M' minus M will fall below C' minus C, and a crisis will ensue. See M. C. Howard and J. E. King, *The Political Economy of Marx* (Harlow: Longman, second edn, 1985), chapter 12.
67. Hawtrey to Keynes, 7 and 20 November, 19 December 1935; Keynes to Hawtrey, 8 and 29 November 1935, 6 January 1936, in Keynes, *Collected Writings* XIII, pp. 599, 612, 616, 624, 632.
68. Keynes, *General Theory*, pp. 370–1.
69. See *Economic Journal* 48, 1938, pp. 67–71. J. E. Meade, too, was eager to distance his countercyclical proposals from the permanent remedies urged by Douglas (*Consumers' Credits and Unemployment*, Oxford: Oxford University Press, 1938, pp. v–vi).
70. R. Theobald (ed.), *The Guaranteed Income: Next Step in Economic Evolution?* (Garden City: N.Y.: Doubleday, 1966); cf. J. Keane and J. Owens, *After Full Employment* (London: Hutchinson, 1986).
71. J. S. Albus, *People's Capitalism: The Economics of the Robot Revolution* (Baltimore: New World Books, 1976); A. Gorz, 'A World With Its Work Cut Out for the Future', *The Guardian* (London), 1 August 1983; see also Gorz, *Farewell to the Working Class* (London: Pluto, 1983).
72. See, however, the more sympathetic assessment by G. Mehta, 'The Douglas Theory: a New Interpretation', *Indian Journal of Economics* 44, 1983, pp. 121–9.
73. See, for example, Geoffrey Crowther, *An Outline of Money* (London: Nelson, 1940), pp. 160–2 and 433–45. (In the revised 1948 edition, the latter reference – an appendix devoted entirely to Social Credit – was deleted, the brief discussion of Douglas being found on pp. 160–2.) This was the standard text on money in British universities in the 1940s and early 1950s.
74. T. W. Hutchison, *On Revolutions and Progress in Economic Knowledge* (Cambridge: Cambridge University Press, 1978), pp. 121–74; A. Booth, 'The "Keynesian Revolution" in Economic Policy-Making', *Economic*



*History Review*, 2nd ser., 36, 1983, pp. 103–23; G. Mehta, *The Structure of the Keynesian Revolution* (London: Macmillan, 1977). On the inadequacy of socialist economic thought in the late 1930s, see A. Booth, 'The Labour Party and Economics Between the Wars', *Bulletin of the Society for the Study of Labour History* 47, 1983, pp. 36–42.

## 8 Paul A. Baran (1910–1964)

Most dissident economists operate either in splendid isolation or as accepted members (the more prominent of them as leaders) of an opposition school of thought. The subject of this chapter is unusual in being rejected both by mainstream academic economists and by their principal intellectual rivals, with whom he had much in common. Paul Baran was a Marxist, but his Marxism was of an idiosyncratic variety which rendered him something of an outcast among outcasts. His is the only case among those considered here of a writer who could claim to be a heretic in this double sense.

### I

In his formative years Paul Alexander Baran<sup>1</sup> was exposed to an unusually wide range of experiences and influences. Born on 8 December 1910 in Nikolaev on the Black Sea into a family of Polish Jews, he was educated up to the age of eleven by his father, a doctor who was at one time an active Menshevik. The Barans left Russia in the wake of the October Revolution, living first in Vilna (where Paul acquired Polish citizenship), then in Dresden and finally in Moscow. Paul Baran stayed behind in Germany to complete his schooling, joining the youth and student wings of the German Communist Party. In 1926 he too moved to Moscow, where he studied under Preobrazhensky<sup>2</sup> at the Plekhanov Institute of Economics. By his late teens he had been exposed both to the Marxism of the Second International, under the influence of his father, and to Leninism, during his time in Germany and the Soviet Union. Ideologically the mid-1920s were a battlefield between the emerging Stalinist orthodoxy and dissident tendencies of both left and right. Baran found himself more and more sympathetic to the Trotskyist opposition and felt increasingly uncomfortable in Moscow. In 1928 he gratefully accepted the offer of a job at the Agricultural Academy in Berlin, where he also enrolled at the University.

Baran spent the next five years in Germany. He soon broke with the Communist movement in protest at its 'Third Phase' policy of unrelenting opposition to all other working-class organisations

despite the growing Nazi menace, and joined the Social Democratic Party. His next move was to Frankfurt to work on the Soviet economy as research assistant to Friedrich Pollock at the Institute of Social Research. This brought him into contact with a quite different variety of Marxism. Under the leadership of Pollock, Theodore Adorno, Max Horkheimer and Herbert Marcuse, the Frankfurt School emphasised the *critical* rather than the purely analytical function of Marxist theory. They subjected capitalist (and also Soviet) society to a penetrating moral critique, contrasting its shabby reality with the potential uncovered by the application of human reason. Baran was never an unqualified proponent of Critical Theory, but its contribution to his economic thinking was both subtle and profound. His persistent emphasis on the wasteful, dehumanising, above all the irrational nature of the capitalist mode of production was to owe much to the Frankfurt philosophers, with whom he remained in contact in the United States.<sup>3</sup>

After some time working for the Institute in Breslau, Baran went to Berlin to write a thesis under the Social Democrat economist Emil Lederer.<sup>4</sup> Here he contributed under a pseudonym to Rudolf Hilferding's paper *Die Gesellschaft* and financed his studies, according to John Kenneth Galbraith, by writing Ph.D dissertations for other students, winning an honorary professorship for a Japanese client with one of his efforts. Baran also worked for an advertising agency, 'where he gained distinction for a memorable advertisement for a male contraceptive. It showed a gravestone on which were engraved the words: "Here lies no one. His father used NIMS"'.<sup>5</sup> After Hitler came to power Baran lived briefly in Paris and Moscow, from where he was expelled by the authorities. He eventually settled in Poland, joining the family timber business and working for the Vilna Chamber of Commerce. These duties took him to London in 1938, and it was here that he learned English.

Intent on an academic career, Baran emigrated to the United States in the following year, devoting his savings to a course of graduate studies at Harvard. He was taught by Joseph Schumpeter, E. S. Mason and J. K. Galbraith. It was at Harvard that – armed with an introduction from the Polish socialist Oskar Lange – Baran met his future collaborator and lifelong friend Paul Sweezy. Already the author of a celebrated paper on the theory of oligopoly pricing, Sweezy had progressed from being a Hayekian to a Keynesian and was in the process of becoming America's best-known Marxian economist. Sweezy remained something of a Keynesian; his masterly

*Theory of Capitalist Development*, published in 1942 with acknowledgements to Baran, placed chronic underconsumption at the forefront of the contradictions of advanced capitalism. His was the fourth, distinct (not to say idiosyncratic) Marxist influence upon Paul Baran.<sup>6</sup>

Baran himself obtained an M.A. from Harvard and then left to work first at the Brookings Institution and then for Galbraith at the Office of Price Administration. He was quickly recruited by E. S. Mason to research the German, Polish and Soviet economies for the OSS, before being drafted into the army. Baran ended the war as a Technical Sergeant in Berlin, where he collaborated with Galbraith on the Strategic Bombing Survey. Galbraith remembered him as

one of the most brilliant and, by a wide margin, the most interesting economist I have ever known. He was currently celebrating the end of the war with the Germans by intensifying his ongoing war with the United States Army . . . Baran's war with the army was tactically diverse. His uniform attracted immediate attention, for his stomach bulged over his belt, his pants were always being hitched up and his shirt was only episodically inside. His hair, like his uniform, was in a constant state of disorder, and once, he said absent-mindedly, he appeared on parade in carpet slippers.<sup>7</sup>

On his discharge from the army Baran went to Japan with the Strategic Bombing Survey, returning to the United States in 1946. His appointment as economic adviser to the United Nations Relief and Refugees Administration mission to Poland fell through when the State Department refused him a passport, and he was employed for a time at the Department of Commerce and at George Washington University. Baran spent the next three years at the Federal Reserve Bank of New York with responsibility for the British and Soviet economies, but a summer teaching appointment in Palo Alto led in 1949 to the offer of a teaching job at Stanford University. Here he was introduced to the visiting Isaac Deutscher as 'the only Marxist professor of economics in the United States'. Deutscher remembered Baran as his sole social contact at Stanford in 1950. The campus 'looked more a place of entertainment for children of rich Americans than like a seat of learning', Deutscher recalled, and he reflected at the time on the 'sad incongruity' of Baran's position there.<sup>8</sup> For all that, Baran remained at Stanford for

the last fifteen years of his life, dying of a heart attack in San Francisco in March 1964.

## II

Baran's first important writings appeared in the form of two articles in 1952. His essay on national economic planning formed part of a volume surveying the literature in various fields of economics, but was in fact a substantive contribution in its own right. The chief difficulty in planning under advanced capitalism, Baran suggested, is that capitalists will oppose government action to achieve full employment for fear that this would prove inconsistent with the maintenance of labour discipline. Under backward capitalism, planning should involve the transfer of the excess agricultural population to industrial employment, financed by progressive taxation and using rationing to restrain inessential consumption. Again this is impossible for political reasons, without a socialist revolution. Only under socialism can planning succeed, for only here (as the case of the USSR demonstrates) can the full surplus be mobilised for development.<sup>9</sup>

His article 'On the Political Economy of Backwardness' expanded on themes first developed in a paper presented to the American Economic Association in 1950.<sup>10</sup> Here Baran argued that both political and economic factors had operated, over the previous two centuries, to thwart economic development in backward areas. Politically, the native middle class in such countries was too conservative, too closely tied to feudal interests, above all (after 1917) too frightened of Soviet-style revolution, to lead a process of social and economic transformation in the way its Western counterparts had done. Economically, growth was restricted for two reasons. First, the high propensity of the rich to consume luxuries gave rise to a chronic shortage of investment finance. Second, investment opportunities were severely deficient because the poverty of the working people curtailed the demand for mass consumer goods. In principle the state could intervene, using progressive taxation to channel savings into productive outlets and undertaking investment projects on its own initiative when private capital proved unwilling to do so. But the political complexion of regimes in underdeveloped nations made this impossible, for such measures would run counter to the vested interests of the coalition of property-

owners who held power. Reformist solutions to the problems of poor countries were thus most unlikely to succeed.<sup>11</sup>

This was an early draft of part of Baran's most important work, *The Political Economy of Growth*, published in 1957, which soon earned for its author an international reputation. The central themes of the book are those of the earlier papers. Capitalism and economic growth are incompatible, Baran argues, both in advanced and in backward areas. Underconsumption in the West threatens to produce chronic stagnation there, which is only partially averted by wasteful (especially military) expenditure. Imperialist domination of the Third World retards and distorts the economic progress of underdeveloped countries. The Soviet experience shows socialist planning to be the only solution for the economic problems of rich and poor regions alike. That, in a nutshell, is the message of *The Political Economy of Growth*, which Baran augmented nine years later in a book co-authored with Paul Sweezy, *Monopoly Capital*. A volume of essays, *The Longer View*, appeared (also posthumously) in 1970.

Sweezy had in fact come to rather similar conclusions fifteen years earlier. In *The Theory of Capitalist Development* he had identified the tendency to underconsumption as the most serious contradiction of the monopoly (or, more accurately, oligopoly) stage of capitalism. Under competitive conditions deficient consumption demand might be counteracted by buoyant investment expenditure, but this was much less likely where oligopoly was concerned, for there was no longer the same compulsion to invest in the latest technology as a condition of corporate survival. Unlike competitive capitalists, oligopolists could allow for the effect of innovation on the value of their existing capital, and would thus proceed more cautiously. The principal force acting against stagnation, Sweezy had concluded, was the rising cost of distribution, which boosted both consumption and investment at the expense of an ever-increasing volume of waste.<sup>12</sup> Sweezy also took a firm position on the economic development of the colonies. Imperialism destroys traditional handicrafts, he argued, without promoting modern industry in their place. Foreign capital flows only into activities which do not compete with the manufactured products of the advanced countries, especially primary products for export and related infrastructure: 'Capital export therefore leads to a very one-sided development of the economies of the backward areas.' The resulting stagnation would be overcome, he concluded, only by a successful struggle for national liberation.<sup>13</sup>

In *The Political Economy of Growth* Baran's much more systematic analysis led him to the same conclusion. The book is in four parts. It begins by discussing the crucial concept of the economic surplus, which is the cornerstone of the entire work. Baran then turns to the political economy of advanced capitalism, focusing upon the increasing difficulty of finding profitable outlets for the surplus. The third part of the book identifies the misuse of the surplus (rather than any absolute inadequacy) as the root cause of economic backwardness in colonial and ex-colonial areas. In the final section Baran offers a detailed defence of the Soviet model of planned economic development which, he argues, is the only appropriate course for the underdeveloped areas to follow.

A concept of the economic surplus was well-known, in the eighteenth and early nineteenth centuries, to those writers termed by Marx the 'classical economists', among whom François Quesnay, Adam Smith and David Ricardo were among the most prominent.<sup>14</sup> It is most simply explained in terms of a one-commodity agricultural economy. Subtract from the harvest (or gross product) the seed necessary to maintain output in the following year, and we have the net output of corn. Then set aside enough to feed the labour force to produce the same gross output over the next twelve months. What is left is the surplus product, or economic surplus. This may be consumed by the rich, for example in supporting a large retinue of unproductive personal servants; or it may be accumulated: that is, used as extra seed corn and food for additional workers to increase production in the next year. The essential conditions for economic growth are thus that a surplus be produced, and that some part of it be devoted to accumulation.

In a multi-sector economy with both industrial and agricultural production the story is much more complicated, but in its fundamentals it is the same. Since the surplus product now consists of many diverse commodities, it has to be measured in something other than physical units. One way of doing this is in terms of the *surplus labour* needed to produce it, or 'embodied' in it. If *necessary labour* is defined as that required for the production of commodities essential to support the workers, then surplus labour is simply those hours of work performed in excess of that amount. (An early version of this idea can be found in the chapter on John Francis Bray.) This was the basis of Marx's analysis of *surplus value*, which is extracted from the labourers in a capitalist society because their class monopoly over the means of production enables the owners of

tools, machines and raw materials to enforce the working of surplus labour. For Marx economic growth is synonymous with the accumulation of capital, which occurs when surplus value is used to expand output in subsequent periods rather than for the immediate enjoyment (in consumption) of the capitalists.<sup>15</sup>

Baran's account of the economic surplus follows Marx's treatment of surplus value in broad outline, but it is also subtly different in ways which Baran himself does not always make sufficiently clear. He distinguishes three separate concepts. The *planned* economic surplus is the easiest to deal with. This is the difference between the optimum output and the optimum consumption of a socialist economy, 'optimum' being defined in terms of the 'considered judgement of a socialist community guided by reason and science'.<sup>16</sup> It is not relevant to capitalism and thus cannot be confused with surplus value, which is pertinent only to capitalist society. The *actual* surplus is also relatively straightforward. This is the difference between actual output and actual consumption; in other words, it is identical with aggregate savings.<sup>17</sup> It will be less than surplus value by an amount equal to capitalist consumption, offset to a small extent by any saving carried out by workers. The actual surplus is a feature of each and every capitalist society, and is in principle easily measured using conventional national income accounts.<sup>18</sup>

By far the most important concept for Baran's purposes, however, is the *potential* surplus, which he defines as 'the difference between output that *could* be produced in a given natural and technological environment with the help of employable productive resources, and what might be regarded as essential consumption'.<sup>19</sup> It has four components. The first is excess consumption by the upper and some sections of the middle classes; second, there is the output foregone due to the existence of unproductive workers of various kinds; third is output lost by the 'irrational and wasteful organisation of the existing productive apparatus'; and fourth is the output that would have been produced but for the effects of deficient aggregate demand. Thus the potential economic surplus is a hybrid concept, involving considerations both of existing capitalist reality and of a more rational socialist future. Its realisation, as Baran put it, 'presupposes a more or less drastic reorganisation of the production and distribution of social output, and implies far-reaching changes in the structure of society'.<sup>20</sup> The notion of potential surplus reveals very clearly Baran's debt to the Frankfurt School. It is a critical, not a solely analytical, concept.



Baran disposes of the relationship between potential surplus and (Marxian) surplus value in one brief footnote. Unlike surplus value, potential surplus includes output lost through underemployment or misuse of productive resources (the third and fourth components noted above), but it excludes essential consumption by capitalists and also 'essential outlays on government administration and the like'.<sup>21</sup> Baran does not, in *The Political Economy of Growth*, attempt to measure the potential surplus, but he does offer some guidance on the calculation of the four components.

'Essential consumption' can be established by nutritional and housing surveys, and is in effect enforced by the state as a maximum in wartime. Unproductive workers are those who produce goods and services which would not be needed in a rationally ordered society, but 'the demand for which is attributable to the specific conditions and relationships of the capitalist system.' They include makers of arms, luxury articles and objects of ostentation, government and military officials, clergymen, lawyers, advertising agents, brokers, merchants and speculators. The third element in the potential surplus is waste due to the monopolistic elements in the economy, and includes the costs of normal (that is, non-depression) excess capacity in industry; foregone economies of scale; irrational product differentiation; the suppression of technical advances to protect existing royalties and profits; and various other forms of inefficiency. Baran concludes with a discussion of deficient demand, the significance of which (he claims) was amply demonstrated during the Second World War, when the combatants managed for once to mobilise a large proportion of this fourth component of potential surplus.<sup>22</sup>

Compared with Baran's discussion in *The Political Economy of Growth*, the analysis of the surplus in *Monopoly Capital* is brief and unsatisfactory. Here it is defined as 'the difference between what a society produces and the costs of producing it . . . [and serves as] an index of productivity and wealth, of how much freedom a society has to accomplish whatever goals it may set for itself.'<sup>23</sup> Evidently it is the potential and not the actual economic surplus that Baran and Sweezy have in mind here, though the qualifying terms are not used. An appendix (written by Joseph D. Phillips) provides statistical estimates of the surplus in the U.S. economy between 1929 and 1963. Phillips treats all property income and all government spending as surplus, and adds 'wasteful expenditures' in distribution, finance, insurance, real estate and the law as well as costs incurred through

'the penetration of the productive process by the sales effort'. Strangely, he makes no attempt to measure the output foregone as a result of excess capacity and unemployment. He concludes that in 1963 the surplus accounted for slightly more than half of U.S. gross national product. Of this, 31.9 per cent took the form of property income, 51.3 per cent was absorbed by the state, and the remaining 16.8 per cent was attributable to wasteful expenditure.<sup>24</sup>

### III

In *The Political Economy of Growth* Baran argued that changes in the size and utilisation of the economic surplus offer the key to understanding economic history. Early capitalism overwhelmed feudal economies by its ability to concentrate the surplus in the hands of a frugal entrepreneurial class who cut down on their consumption, relatively to their incomes, reduced employment of unproductive labour, and greatly restricted the wasteful use of resources by the state. Thus competitive capitalism became synonymous with the maximum mobilisation of the surplus to finance economic growth. Monopoly capitalism differs from its competitive forbear in several important ways. Most obvious is the substantial and continuous increase in the amount of unused productive capacity. This is due to lack of aggregate demand. Working-class consumption grows absolutely but not relatively: real wages rise, but the share of wages in net output remains unchanged. The savings propensity of the capitalists increases because of the growing concentration of profits in fewer and fewer hands. And there is a chronic and increasingly intractable shortage of profitable investment opportunities.<sup>25</sup>

This latter is the most significant novel element in monopoly capital. Under competitive conditions there is an intimate connection between technological progress and investment, since any individual capitalist who fails to adopt the most modern cost-reducing innovations is threatened with extinction. In monopoly – a portmanteau term including oligopoly as well as rare cases of markets dominated by a single seller – things are quite different. The giant corporation is under no compulsion to innovate. It will do so only if it is deemed profitable, taking into account the loss in value of existing plant and equipment in consequence of the new technique. Other things being equal, the application of new methods

of production will be slower and the level of investment correspondingly reduced.<sup>26</sup>

The only exception to this rule occurs where corporations from the monopoly sector are able to invade the remaining competitive industries, for here the devaluation of capital imposes a loss only on the competitive capitalists. Hence monopoly capital tends to spread itself across the economy, restricting the competitive sector to an irreducible minimum. The traditional defence of monopoly because of its encouragement of technical advance is misleadingly ahistorical, Baran concludes. It is valid only in the early days of monopoly capital. Today monopoly is a barrier to technical progress. Moreover, by increasing profits while contracting the outlets for their profitable employment, monopoly capital generates a volume of investment which is inadequate to absorb the economic surplus that would be forthcoming if all productive resources were fully employed. The results are excess capacity, unemployment and stagnation.<sup>27</sup>

If neither investment nor the consumption of capitalists and workers is large enough to absorb the surplus, what other outlets are available? Wasteful expenditure and the employment of unproductive labour are only part of the answer. More important is state spending, which since the 1930s has become much more acceptable to capitalist opinion. But there are severe limits to the growth of civilian government expenditure. These are both quantitative – because of resistance to higher taxation – and qualitative, due to the corporations' insistence on confining the state to areas which neither interfere with private vested interests nor attack the ideological foundations of capitalist society. This rules out most forms of productive state expenditure and leaves only the colossal waste involved in militarism and related imperialist activities. Even here there are problems. For one thing, military research and development has civilian spin-offs which reduce costs in the private sector and further expand the economic surplus. And – since budget deficits are inflationary – the great bulk of military spending has to be financed by higher taxation, which encounters political resistance. Thus monopoly capital enjoys at best a 'highly precarious' stability.<sup>28</sup>

This is not the best-argued part of the book, and on these questions the analysis of *Monopoly Capital* is much more convincing. Here Baran and Sweezy repudiate the Marxian law of the falling rate of profit, according to which the ratio of dead to living labour grows so fast that the production of surplus value (which is attributable to living labour only) cannot keep pace. (Technically

speaking, the organic composition of capital increases faster than the rate of exploitation.) They replace Marx's proposition by a 'law of rising surplus', which states that the ratio of economic surplus to total output tends to increase; Phillips's estimates show a rise from 46.9 per cent of U.S. gross national product in 1929 to 56.1 per cent in 1963. Baran and Sweezy say very little about the consequences for the rate of profit, which is not a concept central to their argument. It is, however, implicit in *Monopoly Capital* that if the rate of profit does fall it is because of capitalists' inability to find sufficient purchasers to realise the surplus value produced by their workers, and not through any tendency for the organic composition to increase at a significant rate.<sup>29</sup>

The law of rising surplus is based upon an explicit theory of oligopoly price formation which resembles models prevalent in the mainstream economic literature of the 1940s and 1950s.<sup>30</sup> Oligopolists avoid price competition through tacit collusion, open price-fixing being illegal under U.S. law. The price of a commodity is set at the level maximising the joint profits of the firms which produce it, and this price is normally rigid downwards. Although price competition has been suppressed, Baran and Sweezy argue, technical progress still reduces costs, so that the gap between prices and costs continues to widen.<sup>31</sup> This gap represents the corporation's gross profit margin. When aggregated over the entire economy, it is 'a legitimate first approximation' to the concept of the economic surplus, which must therefore tend to rise.<sup>32</sup>

The discussion in *Monopoly Capital* of the prospects for working-class and capitalist consumption adds nothing to the treatment of this subject in *The Political Economy of Growth*, but the account of investment is rather more systematic than in the earlier work. The investment-seeking part of the surplus grows. However, a continual increase in the ratio of net investment to income would produce absurd results: the growth of output would accelerate, and there would be a constant increase in the size of the capital-goods industries relatively to those producing consumer goods.<sup>33</sup> In any case, Baran and Sweezy argue, there is no reason to suppose that capitalists could be induced to undertake such an increasing level of investment. Population growth will not supply such an inducement, for it is an endogenous factor, an effect rather than a cause. Technical innovations, even those of 'epoch-making' significance, are irrelevant since the nexus between innovation and investment has been severed. In principle overseas investment might offer an

important outlet for economic surplus, but in practice it does not. Like Britain in its imperialist heyday, the United States receives more from overseas (in the form of repatriated profits, interest and dividends) than its capital exports. The international transfer of surplus is in the wrong direction.<sup>34</sup>

The three main outlets for the surplus are assessed in great detail in *Monopoly Capital*. The book is perhaps best known for its merciless critique of the 'sales effort', which involves elaborate product differentiation and repeated model changes in addition to advertising, in the course of 'a relentless war against saving and in favour of consumption'.<sup>35</sup> In their treatment of civilian government expenditure Baran and Sweezy are much more consistently Keynesian than Baran had been, emphasising the balanced budget multiplier theorem<sup>36</sup> and denying that the tax burden (and by implication the inflationary effects of deficit finance) pose a serious problem for the expansion of state spending. The real barrier is political. Coalitions of vested interests enjoy enough power within the American political system to obstruct or emasculate the most useful project, be it the Tennessee Valley Authority or the provision of low-cost public housing. And ideological objections to the establishment of a welfare state are so strong that even educational expenditure is held back. Only highway construction, and with it 'the frightful havoc which has been wreaked on American society by the cancerous growth of the automobile complex', avoids insuperable political opposition.<sup>37</sup>

Thus stagnation is the normal condition of monopoly capital, as was revealed both by the Great Depression and, less obviously, by the plight of the U.S. economy between 1907 and 1915. The comparative prosperity of the two decades after 1945 was possible only because of the massive military spending required for the containment of Communism and the defence of the 'American Empire'. State expenditure on arms suffers from none of the drawbacks associated with civilian programmes. It does not compete with private enterprise, for whom it provides an ideal customer in a risk-free market. It also inculcates the military 'virtues' and unites otherwise conflicting interests against a supposed external enemy. But Baran and Sweezy deny that militarism offers a permanent (albeit a dangerous and extremely wasteful) solution to the economic contradictions of monopoly capital. There are purely military limits to expenditure on preparations for war, since the irrationality of the nuclear arms race is becoming apparent even to those actively engaged in it. There are also important economic constraints.<sup>38</sup>

In consequence monopoly capital is increasingly unable to function as a viable economic system. Although not directly predicted in his own writings, the economic difficulties of the 1970s and 1980s would have come as little surprise to Baran and were indeed interpreted by Paul Sweezy as a vindication of their analysis.<sup>39</sup> There is more to their critique, though, than a narrowly economic indictment. Monopoly capital is not only profoundly wasteful, but also irrational to its core. It fosters racism, denies tens of millions of Americans a decent standard of life, and dehumanises the whole population at work, in leisure and in family life. The three concluding chapters of *Monopoly Capital* are among the most eloquent in the book, and demonstrate the incontrovertibly *critical* nature of the argument.<sup>40</sup> Baran himself went further, integrating the Marxian concept of alienation with a neo-Freudian analysis of capitalism's battle against individual spontaneity and self-development in matters of sex, human relationships and culture.<sup>41</sup>

#### IV

Marx expected capitalism to be transformed into socialism through the revolutionary activity of the proletariat in the advanced capitalist countries. Such a revolution has yet to occur, and in post-war North America it seemed an extremely remote prospect. Again Baran and Sweezy grasp the nettle. 'Industrial workers are a diminishing minority of the American working class', they point out, 'and their organised cores in the basic industries have to a large extent been integrated into the system as consumers and ideologically conditioned members of the society.' The 'special victims' of monopoly capital are the 'outsiders' – ghetto residents, migrant families, the unemployed and the unemployable – who are 'too heterogeneous, too scattered and fragmented, to constitute a coherent force in society'. The only effective challenge comes, they argue, from the peoples of Asia, Africa and Latin America, who have shown their readiness to wage 'revolutionary war' against imperialism. The class struggle is now an international one, and the stimulus for change in the U.S. can come only from outside.<sup>42</sup>

*Monopoly Capital* has almost nothing to say about the economic condition of the poor countries, simply referring the reader to Baran's earlier work.<sup>43</sup> Indeed, the roots and the 'morphology of backwardness' constitute the central problems of *The Political Economy of Growth*. Baran suggests that the 'primary accumulation'

of capital,<sup>44</sup> which is a basic prerequisite for rapid industrialisation, was actually taking place in Eastern Europe, Russia, India and even China in the late seventeenth and early eighteenth centuries. It was stopped dead in its tracks by imperialist plunder. Massive unilateral transfers of wealth removed the surplus from these areas, stimulating growth in Western Europe but blocking development in what were not then, but have since become, the backward areas. Only Japan escaped economic dependency by a policy of strict isolation, and only Japan succeeded in industrialising.<sup>45</sup>

Marx's view was diametrically opposed to this. For him imperialism was an indispensable precondition for development in 'Asiatic' societies, where traditional barriers to economic change could be overcome only by external pressure.<sup>46</sup> To justify his objections to this viewpoint, Baran invokes once again the concept of the economic surplus. It is not the size of the surplus which constrains development, he suggests, citing the very large proportion of the peasant's crop which is taken by landowners, merchants, money-lenders and the state. The mode of utilisation of the surplus is the principal inhibiting factor, since the agricultural surplus is mainly consumed by the non-productive classes rather than accumulated.<sup>47</sup> The same is true of monopolistic industry:

The economic surplus appropriated in lavish amounts by monopolistic concerns in backward countries is not employed for productive purposes. It is neither ploughed back into their own enterprises, nor does it serve to develop others. To the extent that it is not taken abroad by their foreign stockholders, it is used in a manner very much resembling that of the landed aristocracy. It supports luxurious living by its recipients, is spent on construction of urban and rural residences, on servants, excess consumption and the like. The remainder is invested in the acquisition of rent-bearing land, in financing mercantile activities of all kinds, in usury and speculation. Last but not least, significant sums are removed abroad where they are held as hedges against the depreciation of the domestic currency or as nest eggs assuring their owners of suitable retreats in the case of social and political upheavals at home.<sup>48</sup>

Liberal economists (with whom Marx was in this instance in agreement) maintain that foreign investment in underdeveloped countries benefits both the investor and the host economy. Baran denies that this is so. Foreign enterprises have a very high propensity

to import and repatriate huge sums in profits, so that 'the underdeveloped world as a whole has continually shipped a large part of its economic surplus to more advanced countries on account of interest and dividends.' Such concerns offer little in the way of external economies, being 'alien bodies in a socio-economic structure into which they have been artificially injected'. At a political level the influence of foreign capital is malign in the extreme. It encourages the emergence of a *comprador* [client] bourgeoisie which, in alliance with feudal landowners and other conservative elements, does all in its power to obstruct any development which threatens its privileged position.<sup>49</sup>

Since 'the main task of imperialism in our time [is] to prevent, or, if that is impossible, to slow down and to control the economic development of underdeveloped countries',<sup>50</sup> it follows that a break with monopoly capital is necessary for sustained growth to be achieved. The final chapter of *The Political Economy of Growth* is a long and completely uncritical defence of the Soviet model of planned economic development, which is seen as the only means of mobilising the potential economic surplus. Baran endorses collectivisation of agriculture because of the need to 'liquidate subsistence farming as the principal form of agricultural activity'; cites Stalin on the necessity of 'sacrifices' in the process of accumulation; and asserts the futility of seeking the support of 'the irrational, illiterate and ignorant peasantry'.<sup>51</sup> He favours the more rapid expansion of heavy than of light industry and argues for the use of machine-intensive rather than labour-intensive techniques.<sup>52</sup>

The political implications of this are rather complicated. Like Paul Sweezy, Baran was (as we have seen) a lifelong opponent of Stalinism. He nevertheless 'steadfastly refused to criticize the Soviet Union or its leaders in public, and his attitude on the whole was sympathetic and positive'.<sup>53</sup> He was an early and enthusiastic admirer of the Cuban revolution, and sided openly with Mao Zedong (who saw himself as Stalin's true heir) at the time of the Sino-Soviet split.<sup>54</sup> Baran's views on economic development were at the opposite end of the spectrum from those of Schumacher. He considered the movement towards rural self-sufficiency and village industry as a retrograde step designed to preserve the dependency of the poor countries on the capitalist metropolis.<sup>55</sup> In economic terms, if not in any obvious political sense, Baran may justly be described as a Stalinist.



## V

Baran did not find the propagation of his ideas easy. His article 'On the Political Economy of Backwardness' took two years and several letters of rejection before its acceptance by the *Manchester School*, whose editor, W. A. Lewis, was working on a model of economic development not totally dissimilar to Baran's ideas. Baran was especially proud of two referees' letters. One, from a prominent British economist, dismissed his argument as applicable only to Latin America and as irrelevant to the British colonies. The second, from an American, denied the pertinence of the analysis to independent nations like those of Latin America.<sup>56</sup> *The Political Economy of Growth*, an elaboration of lectures given at Oxford in 1953, was contracted to Basil Blackwell but was eventually published by Sweezy's Monthly Review Press after Blackwell's readers had proposed major amendments on political grounds.<sup>57</sup>

Baran's academic status, always precarious, became more so as a result of his outspoken support for the Cuban revolution. Following complaints by wealthy alumni and corporate benefactors, the president of Stanford held a special luncheon in March 1961 to apologise for the University's inability to dismiss this troublesome, but tenured, professor. Instead he was given an above-average teaching load combined (via a salary freeze) with below-average pay.<sup>58</sup> After Baran's death in 1964 one liberal economist, Martin Bronfenbrenner, expressed his concern that he would not be replaced by a Marxist at any major university, and that this would prove damaging to the United States' image overseas. The intellectual climate of the time is illustrated by a passage written in 1959 (and reprinted without alteration in 1965) by the Chicagoan and future Nobel laureate George J. Stigler. 'It is indeed true', Stigler confirmed,

that a believer in the labor theory of value could not get a professorship at a major American university, although the reason would be that the professors could not bring themselves to believe that he was both honest and intelligent, and I hope they are not improper in their demand that a professor be at least tolerably honest and presumptively intelligent.<sup>59</sup>

Bronfenbrenner had suggested in his review of *The Political Economy of Growth* that the book 'will be effective unless killed by silence'.<sup>60</sup> In fact it proved much too successful to be ignored, being translated into several languages and winning a particularly large

readership in Latin America, where Baran's admirers included Raul Prebisch of UNECLA and the future socialist president of Chile, Salvador Allende.<sup>61</sup> 'The Political Economy of Backwardness' was reprinted in a book of readings which served as a standard text in many university courses on development economics in the 1960s,<sup>62</sup> and *Monopoly Capital*, too, won a major following both inside the United States and internationally. Baran's ideas coloured the thinking of non-Marxian economists like Dudley Seers and Keith Griffin no less than Marxists such as André Gunder Frank (probably his most important disciple), Samir Amin and Arghiri Emmanuel. His influence has not been confined to economics: the historiography of Fernand Braudel, Immanuel Wallerstein and their school draws heavily (if not always consciously) upon the concepts of the surplus, its production and extraction.<sup>63</sup> It is almost as if Baran's writings (including those co-authored with Paul Sweezy) have established a new orthodoxy.

Almost, but not quite. Although both *The Political Economy of Growth* and *Monopoly Capital* were widely reviewed, they failed (except at the margin of the discipline, among the development economists) to convince the orthodox theorists, and have made no real impact on mainstream economic analysis. Some of the reasons were summarised in 1958 by Nicholas Kaldor in a lengthy, sympathetic, but in the end highly critical review of *The Political Economy of Growth*. Kaldor's attack was largely empirical in nature. In the long term the relative income shares of property and labour had changed very little, he argued. This was inconsistent both with the Marxian law of proletarian 'immiseration' and with Baran's discussion of the supposed increase in the degree of monopoly. Nor was there any evidence to support the stagnation thesis. The growth rate of output had not declined, nor had the rate of increase in productivity slowed down (this was a corollary of Baran's theory of retarded innovation under monopoly capital). Joan Robinson found the economic analysis 'slapdash', objecting in particular to Baran's claim (not to be repeated in *Monopoly Capital*) that budget deficits were inevitably inflationary. And Martin Bronfenbrenner complained that Baran, like most 'Keynesians of the left', paid insufficient attention to the demand-boosting effects of tax cuts.<sup>64</sup>

Among the orthodox critics only Robert Heilbroner (himself an historian of economic thought with considerable knowledge of Marxism) referred in any detail to the concept of the surplus. He objected to Baran's and Sweezy's failure, in *Monopoly Capital*, to

accept that part of the wages and salaries of productive workers should be treated as surplus income. Heilbroner pointed to the absence of a theory of wages in their argument, and suggested that corporate permissiveness with respect to wage increases constituted a significant offset to the law of rising surplus.<sup>65</sup> Ronald Meek also considered that the prospects for an increasing wage share had been dismissed too lightly, as indeed had the possibility of growth in capitalists' consumption.<sup>66</sup> Several writers took issue with the political analysis of *Monopoly Capital*, Heilbroner drawing upon the historical experience of eighteenth-century England, where the ruling class had proved more intelligent and more flexible than their Bourbon counterparts, and had survived. He refused to rule out the emergence of a welfare state in the U.S. James Tobin also denied that arms expenditure had been as overwhelmingly important as Baran and Sweezy claimed, citing the huge increase in civilian state spending between 1961 and 1965.<sup>67</sup>

Although mainstream economists were much less hostile to Baran's development economics, this too came in for strong criticism. Joan Robinson dismissed his speculation concerning an eighteenth-century industrial revolution in India as 'wildly hypothetical – romantic rather than Marxian'. More cautiously, Kaldor stressed the ambiguous nature of the historical record. Japan had developed in isolation at the same time as Siam (also uncolonised) had stagnated. Political independence had done nothing to stimulate growth in Latin America, while Australia, New Zealand and Canada were deeply dependent and very prosperous. It was not in the interest of advanced capitalism to retard economic development in the Third World, Kaldor concluded. The industrialisation of Germany and Japan had increased the economic welfare of Britain and the U.S. by increasing their markets and widening the scope of the international division of labour. This helped to explain why the United States 'can boast a long tradition of anti-colonialism'.<sup>68</sup>

It would be wrong to imply that Marxian and neo-Marxian economists have been unanimous and unqualified in their rejection of Baran's work. In the United States, in fact, it has been very widely accepted in radical (as opposed to purist Marxist) circles as a foundation for critical economic theory. Both European and North American writers have paid tribute to the fruitfulness of the argument by formulating the law of the rising surplus and the tendency to stagnation in formal models, while others have attempted to render more precise the concept of the surplus itself.<sup>69</sup> In the

main, however, the response by Marxists has been distinctly chilly. They have found it hard to accept the superiority of the surplus concept which, with its emphasis on the moral critique of capitalist society, is seen as Veblenesque or Marcusean rather than Marxian, lacking both historical specificity and the theoretical cutting edge of Marx's surplus value and his distinction between productive and unproductive labour.<sup>70</sup>

Few Marxian critics find *Monopoly Capital* satisfactory in its treatment of the surplus. It is attacked as ill-defined and vague, running together the ideas of actual and potential surplus which Baran had been careful to distinguish in *The Political Economy of Growth*. Joseph Phillips's statistical estimates came in for considerable criticism for confusing income and output definitions of the surplus, for ignoring the socially necessary component of state expenditure, and for alleged double- and even (according to Ernest Mandel) triple-counting.<sup>71</sup> There is some substantial merit in these accusations, as also in Howard Sherman's view that waste should be defined in terms of real existing socialist economies rather than by reference to some ideal future state.<sup>72</sup>

Mandel concluded that the analysis of *Monopoly Capital*, although invalid for the advanced capitalist world, does apply in poor countries.<sup>73</sup> In this he reflected majority opinion among Marxian economists, for whom Baran's treatment of dependency and underdevelopment summarised and refined the prevailing Leninist orthodoxy with respect to the impact of imperialism on backward economies.<sup>74</sup> Baran's analysis of Western capitalism was, however, criticised on a number of grounds. Sherman reasserted the traditional Marxian view that an increase in the degree of monopoly simply reallocates surplus value from competitive capitalists to monopolists, without increasing its aggregate amount.<sup>75</sup> Many Marxists argued that 'monopoly capital' is really a misnomer because the system is still basically competitive, perhaps more so of late with the growth of transnational corporations which can enter any industry and cross any frontier.<sup>76</sup> (There is a fascinating parallel here with the conservative microeconomics of P. W. S. Andrews, which is discussed in a later chapter.) Others believe that Baran and Sweezy have placed insufficient stress on the role of the state, perhaps because they generalised too freely from the experience of the United States in the two decades after 1945. 'The question still to be resolved', as James O'Connor put it, 'is, does the United States show Gaullist France the future, or is it the other way round?'

Economic planning for the U.S. is not inconceivable, and the European label 'state monopoly capitalism' (or *stamocap*) may be more appropriate than 'monopoly capital'.<sup>77</sup>

The Marxists also criticised (less frequently than might have been expected) *Monopoly Capital's* abandonment of the labour theory of value and Marx's falling rate of profit theory.<sup>78</sup> Like the orthodox reviewers mentioned earlier, they expressed disappointment that Baran and Sweezy offer no theory of wage determination. Ernest Mandel and David Horowitz, who differ sharply in their assessment of the general argument, agree that this omission has crucial political implications. Class conflict in the United States would revive, they argued, once intensified international competition posed a real threat to real wage levels in North America.<sup>79</sup> The supposed law of the rising surplus, Mandel concluded, was simply a misleading extrapolation of the temporary upsurge in U.S. corporate profits in the late 1950s and early 1960s.

Thus Baran's impact has been greatest among radical non-Marxian and neo-Marxian development theorists, both in the Third World and to a lesser extent in the West. *The Political Economy of Growth* seemed to provide for the principal conclusions of contemporary development economics the conceptual framework which that sub-discipline had itself been unable to generate. The notion of imperialism, of underdevelopment as its main consequence for poor countries, of surplus extraction, and of the necessity for comprehensive economic planning if real progress was to be made – none of this was new in the development literature at the end of the 1950s. What *The Political Economy of Growth* did was to pull together all the strands into a coherent and often elegant whole. There was also a political dimension to this. By providing a theoretical justification for anti-colonialism and anti-Americanism, Baran's ideas appealed to a very broad spectrum of opinion in underdeveloped countries, to middle-class nationalists as well as to convinced socialists.<sup>80</sup> They were especially powerful in the universities of Latin America before the installation of monetarism at gunpoint in the bloody military coups of 1964–76. As the debt crisis and world recession discredit economic liberalism, and the *desaparecidos* continue to haunt its erstwhile practitioners, the intellectual legacy of Paul Baran can be expected to grow, once more, south of the Rio Grande.

In the North (and above all on the eastern shores of the Atlantic) his stock has never been particularly high. There are obvious

political reasons why the ideas of an avowed, if very individualistic, Marxist should prove unacceptable to the defenders of international capitalism. Related to this ideological factor are Baran's affinities with Keynesianism, which from the 1960s onwards began to succumb to monetarist and 'new classical' challenges. But there is more than this to his rejection by orthodox economists, more even than the real and substantial defects in his analysis. Baran denounced the *methodology* of mainstream theory, attacking the dichotomy between micro- and macroeconomics and insisting upon the inseparability of economics, politics, philosophy and history at a time when academic specialisation was growing inexorably. He posed a threat to the integrity of the discipline as much as to the political creed of its members.

Baran's uncomfortable position *vis-à-vis* Marxian economics again owes something to his politics which, as we have seen, were not Stalinist, nor Trotskyist, nor social democratic, but contained elements of all three. His independent brand of Leninism denied him the organisational base that membership of even a small communist or socialist party would have offered. It is significant that his following was greatest in the United States, where the chronic weakness of all varieties of Marxism has resulted in much less sectarian division and a greater openness to unorthodox variants of Marxian thought.<sup>81</sup> In Western Europe (and perhaps to a lesser extent in Japan) filial piety has prevailed and Marxian political economy means labour values, the falling rate of profit, and the Leninist account of capital export.<sup>82</sup> A generation after his death, Paul Baran remains a heretic among heretics.

## NOTES

1. Unless otherwise stated, all biographical detail is taken from P. M. Sweezy, 'Paul Alexander Baran: a Personal Memoir', in L. Huberman and P. M. Sweezy (eds), *Paul Baran: a Collective Portrait* (New York: Monthly Review Press, 1965), pp. 27–48.
2. Contribution by Isaac Deutscher to Huberman and Sweezy, *op. cit.*, p. 94.
3. R. Jacoby, *Dialectic of Defeat: Contours of Western Marxism* (Cambridge: Cambridge University Press, 1982), pp. 109–10; see also M. Jay, *The Dialectical Imagination* (London: Heinemann, 1973).

4. '[U]nfortunately I found no copy of the thesis among his papers and am unable to give even an outline of its contents' (Sweezy, 'Paul Alexander Baran', p. 33).
5. J. K. Galbraith, *A Life in Our Times* (London: Deutsch, 1981), pp. 220, 233.
6. Paul M. Sweezy was born in New York City in 1910 (the same year as Baran), the son of a Wall Street banker. Educated at Harvard and the London School of Economics, Sweezy worked for various New Deal agencies but dropped out of academia when it became clear that he would not be granted tenure at Harvard. During the Second World War he was employed by the Office of Strategic Services and in 1949 founded – with Leo Huberman – *Monthly Review*, a Marxist journal independent of party control but broadly sympathetic to Soviet Communism. Sweezy was the victim of considerable harassment during the McCarthy period, but survived to hold visiting appointments at Cornell, Stanford and Yale Universities between 1958 and 1972, and to serve on the executive of the American Economic Association in 1964–7. See M. Blaug, *Who's Who in Economics* (Brighton: Wheatsheaf Books, 1982), pp. 367–8; L. F. Lifschultz, 'Could Karl Marx Teach Economics in America?', *Ramparts* 12, April 1974, pp. 54–5; G. C. Harcourt, 'Lorie Tarshis', in Harcourt, *The Social Science Imperialists* (London: Routledge & Kegan Paul, 1982), pp. 367, 370–1, 375n; P. M. Sweezy, *Four Lectures on Marxism* (New York: Monthly Review Press, 1981), pp. 11–15. (Tarshis and Sweezy offer rather different accounts of Sweezy's intellectual development.)
7. Galbraith, *op. cit.*, pp. 219–21.
8. Deutscher, *op. cit.*, pp. 93–6.
9. P. A. Baran, 'National Economic Planning', pp. 355–403 of B. F. Haley (ed.), *A Survey of Contemporary Economics* (Homewood, Ill.: Irwin, 1952).
10. P. A. Baran, 'Discussion' of J. J. Spengler, 'The Population Obstacle to Economic Betterment', *American Economic Review* 41, 1951, Papers and Proceedings, pp. 355–8.
11. P. A. Baran, 'On the Political Economy of Backwardness', *Manchester School* 20, 1952, pp. 66–84.
12. P. M. Sweezy, *The Theory of Capitalist Development* (New York: Monthly Review Press, 1970; first published 1942), pp. 278–86.
13. *Ibid.*, p. 305; cf. *ibid.*, p. 326.
14. M. C. Howard and J. E. King, *The Political Economy of Marx* (Harlow: Longman, second edn, 1985), ch. 5; V. Walsh and H. Gram, *Classical and Neoclassical Theories of General Equilibrium* (Oxford: Oxford University Press, 1980).
15. Howard and King, *op. cit.*, chs 4, 11.
16. P. A. Baran, *The Political Economy of Growth* (Harmondsworth: Penguin, 1973; first published 1957), p. 156.
17. *Ibid.*, p. 132.
18. They will, however, yield data in market prices rather than labour values, driving a further wedge between surplus and surplus value.

19. *Political Economy of Growth*, p. 133; original stress.
20. *Ibid.*, pp. 133–4.
21. *Ibid.*, p. 133n. It is not entirely clear why *any* consumption by capitalists should be considered essential, given that for Baran socialism is the only rational social system.
22. *Ibid.*, pp. 141–55.
23. P. A. Baran and P. M. Sweezy, *Monopoly Capital* (Harmondsworth: Penguin, 1966; first published 1964), p. 23.
24. *Ibid.*, pp. 355–74.
25. *Political Economy of Growth*, pp. 159–62, 169, 174, 178.
26. *Ibid.*, pp. 190–200; as Baran acknowledged, Sweezy had made a similar point in his *Theory of Capitalist Development* (*op. cit.*, p. 275).
27. *Political Economy of Growth*, pp. 204–8.
28. *Ibid.*, pp. 214, 226–33, 247, 251–5, 259.
29. *Monopoly Capital*, pp. 80–1, 374. Baran and Sweezy do not explain the relevance of Phillips's ratio, and the ratio of *potential* surplus to *potential* output might in fact be more appropriate. At some points in the *Political Economy of Growth* Baran seems close to asserting the law of rising surplus, but in others he appears to deny it (compare *op. cit.*, pp. 176–7 and 258). On the falling rate of profit theory, see Howard and King, *op. cit.*, ch. 11.
30. See especially W. J. Fellner, *Competition Among the Few* (New York: Kelley, 1965; first published 1949), itself inspired by E. H. Chamberlin, *The Theory of Monopolistic Competition* (Cambridge, Mass.: Harvard University Press, 1933).
31. *Monopoly Capital*, pp. 68–9.
32. *Ibid.*, p. 80n.
33. *Ibid.*, pp. 87–9; cf. *Theory of Capitalist Development*, pp. 186–9 and the critique by N. Georgescu-Roegen, 'Mathematical Proofs of the Breakdown of Capitalism', *Econometrica* 28, 1960, pp. 225–43.
34. *Monopoly Capital*, pp. 96–103, 110–13.
35. *Ibid.*, p. 132; cf. Baran and Sweezy, 'Theses on Advertising', in P. Baran, *The Longer View* (New York: Monthly Review Press, 1970), pp. 223–35.
36. This theorem states that a £1 million increase in both government expenditure and taxation will generate an increase in national income (given unemployed resources) of £1 million.
37. *Monopoly Capital*, pp. 146–8, 165, 167–73.
38. *Ibid.*, pp. 205–13, 216–35. The passage dealing with the supposed economic limits to military expenditure is probably the weakest in the entire book (*ibid.*, p. 212), and its conclusions are not borne out by the experience of the 1980s.
39. See for example Sweezy, *Four Lectures*, pp. 71–84.
40. *Monopoly Capital*, chs 9–11.
41. Baran, 'Marxism and Psychoanalysis', in *The Longer View*, pp. 92–111.
42. *Monopoly Capital*, pp. 349–52.
43. *Ibid.*, p. 25n.
44. The German word *ursprünglich* (literally, original) is rather misleadingly



- translated in most English editions of Marx's works as 'primitive'. Baran always refers to primary accumulation, to denote the process whereby pre-capitalist modes of production are transformed into capitalism.
45. *Political Economy of Growth*, pp. 267–75, 294, 298–9.
  46. B. Warren, *Imperialism: Pioneer of Capitalism* (London: New Left Books, 1980).
  47. *Political Economy of Growth*, pp. 300–3.
  48. *Ibid.*, pp. 316–17.
  49. *Ibid.*, pp. 320–38.
  50. *Ibid.*, p. 340.
  51. *Ibid.*, pp. 424, 437.
  52. *Ibid.*, pp. 443–8.
  53. Sweezy, 'Paul Alexander Baran', *op. cit.*, p. 41.
  54. Baran, 'A Few Thoughts on the Great Debate' and 'Reflections on the Cuban Revolution', in *The Longer View*, pp. 374–87 and 388–436.
  55. *Political Economy of Growth*, pp. 316n, 448.
  56. H. Magdoff, 'The Achievement of Paul Baran', in Huberman and Sweezy, *Paul Baran*, p. 72.
  57. Sweezy, 'Paul Alexander Baran', pp. 45–6.
  58. Baran to Sweezy, 30 June 1961 and 26 June 1963, in Huberman and Sweezy, *Paul Baran*, pp. 57, 60–1; Lifschultz, *op. cit.*, pp. 55–6. The gory details were published in the *Stanford Daily* in 1971 after a 'Pentagon Papers'-style leak of secret documents.
  59. M. Bronfenbrenner, 'Notes on Marxian Economics in the United States', *American Economic Review* 54, 1964, pp. 1019–26; G. J. Stigler, *Essays in the History of Economics* (Chicago: University of Chicago Press, 1965), p. 58.
  60. M. Bronfenbrenner, review of *The Political Economy of Growth*, *Journal of Political Economy* 66, 1958, pp. 85–7.
  61. Huberman and Sweezy, *Paul Baran*, p. 100.
  62. A. N. Agarwala and S. P. Singh (eds), *The Economics of Underdevelopment* (Oxford: Oxford University Press, 1958), pp. 75–92.
  63. A. Brewer, *Marxist Theories of Imperialism* (London: Routledge & Kegan Paul, 1980), chs 7–10; M. C. Howard, 'Fernand Braudel on Capitalism: a Theoretical Analysis', *Historical Reflections* 12, 1985, pp. 469–83.
  64. N. Kaldor, review of *The Political Economy of Growth*, *American Economic Review* 48, 1958, pp. 164–70; J. Robinson, review, *Nation* 184, 1 June 1957, pp. 485–6; M. Bronfenbrenner, review, *op. cit.*, p. 86.
  65. R. Heilbroner, 'A Marxist America', *New York Review of Books*, 26 May 1966, pp. 22–4. For a formal treatment of wages as partly a share in the surplus, see P. Sraffa, *The Production of Commodities By Means of Commodities* (Cambridge: Cambridge University Press, 1960), pp. 9–10.
  66. R. L. Meek, review of *Monopoly Capital*, *Economic Journal* 77, 1967, pp. 114–16. (The *Economic Journal* carried no review of *The Political Economy of Growth*.)

67. Heilbroner, *op. cit.*; J. Tobin, *The New Economics One Decade Older* (Princeton: Princeton University Press, 1974), pp. 41–51.
68. Robinson, *op. cit.*, p. 485; Kaldor, *op. cit.*, p. 169.
69. J. Steindl, *Maturity and Stagnation in American Capitalism* (New York: Monthly Review Press, 1976; first published 1952), pp. 243–6; R. Rowthorn, *Demand, Real Wages and Economic Growth* (London: Thames Polytechnic, 1981), pp. 28–30; R. Stanfield, *The Economic Surplus and Neo-Marxism* (Lexington, Mass.: D. C. Heath, 1973).
70. W. J. Barclay Jr and M. Stengel, 'Surplus and Surplus Value', *Review of Radical Political Economics* 7, 1975, pp. 48–64; cf. D. Horowitz, 'Analyzing the Surplus', *Monthly Review* 18, 1967, pp. 49–59.
71. D. Horowitz, 'The Case for a Neo-Marxist Theory', *International Socialist Review* 28, 1967, pp. 26–8; M. Lebowitz, 'Monopoly Capital', *Studies on the Left* 6, 1966, pp. 61–71; J. O'Connor, review of *Monopoly Capital*, *New Left Review* 40, 1966, pp. 38–50; E. Mandel, 'The Labour Theory of Value and "Monopoly Capitalism"', *International Socialist Review* 28, 1967, pp. 29–42; R. Stanfield, 'A Revision of the Economic Surplus Concept', *Review of Radical Political Economics* 6, 1974, pp. 69–74. The first to levy the charge of double-counting seems to have been 'A Contributor', review of *The Political Economy of Growth*, *New Reasoner* 3, 1957–8, pp. 119–23.
72. H. J. Sherman, review of *Monopoly Capital*, *American Economic Review* 56, 1966, pp. 919–21.
73. E. Mandel, 'Surplus Capital and Realisation of Surplus Value', *International Socialist Review* 27, 1967, pp. 56–64.
74. For a more critical appraisal see Warren, *op. cit.*, and Lebowitz, *op. cit.* A balanced Marxist discussion is given by Brewer, *op. cit.*, ch. 6.
75. Sherman, *op. cit.*, p. 921.
76. Mandel, 'Surplus Capital . . .'; N. Harris, *Of Bread and Guns* (Harmondsworth: Penguin, 1983); P. Auerbach and K. Skott, 'A Critique of the Concept of "Monopoly Capital"', mimeo., 1984.
77. O'Connor, *op. cit.*; M. E. Sharpe, 'Marx and Monopoly Capital: a Symposium', *Science and Society* 30, 1966, pp. 461–70; M. H. Dobb, *ibid.*, pp. 470–5.
78. O. Nathan, *ibid.*, pp. 487–96; P. Mattick, 'Marxism and "Monopoly Capital"', *Progressive Labor* 6, 1967, pp. 34–49.
79. Mandel, Horowitz, articles cited above. See also E. Mandel, *Europe Versus America* (London: New Left Books, 1970).
80. Indeed, Warren (*op. cit.*, ch. 7) describes dependency theory as the ideology of bourgeois nationalism.
81. See for example the use of extracts from Baran's and Sweezy's writings in two popular books of readings (D. Mermelstein (ed.), *Economics: Mainstream Readings and Radical Critiques*, New York: Random House, 1970, pp. 235–44, 309–14, 395–403, 542–52; R. C. Edwards, M. Reich and T. Weisskopf (eds), *The Capitalist System*, London: Prentice-Hall, 1972, pp. 53–6, 161–8, 309–13, 435–42, 467–73); and the application of their concepts in an influential history of the labour process in the United States (D. M. Gordon, R. C. Edwards and M. Reich, *Segmented Work, Divided Workers: the Historical Transformation of Labor in the United*

*States*, Cambridge: Cambridge University Press, 1982). There exists no European counterpart to any of these works in which the concept of monopoly capital is so prominent.

82. For a typical example see B. Fine and L. Harris, *Re-Reading Capital* (London: Macmillan, 1979).

## 9 P. W. S. Andrews (1914–1971)

The first economic heretics tended, like Sir James Steuart and E. S. Cayley, to be defenders of the established order against what they considered to be ill-advised and potentially dangerous innovations. Later dissidents were, on the whole, radicals who proposed far-reaching reform of the economic and (in some cases) the social system. The subject of this chapter is of the former type. P. W. S. Andrews was a convinced conservative whose microeconomic theory, although often seen as revolutionary by its critics, had quite opposite political implications and was reactionary (or counter-revolutionary) in an intellectual sense.

Andrews was quite open about his intentions. His most important book, *Manufacturing Business*, defends the entrepreneur against ‘the niggling denigration which tends to make him ashamed of his way of life merely because success brings profits and enriches his business as well as his country’. He does so by way of a reappraisal of Alfred Marshall’s

great achievement as a practical theorist . . . [which] was to give a generally valid account of the facts of business life. It seems possible that we modern economists have been far too concerned to give a consistent marshallian theory, and have tried too much to explain Marshall in a higher-critical way than to achieve a better description of the facts of industrial economics.<sup>1</sup>

This chapter differs from the remainder of the book in one important way. I knew Philip Andrews personally. He appointed me to the staff of the Economics Department at Lancaster University, where for three years before his death I taught microeconomics under his watchful eye and took part in his graduate seminars on the economics of industry. I learned a very great deal in those three years, not least about Andrews’s own theory. He was (as will be seen) a poor writer, and those who knew his ideas only through his books and articles were at a distinct disadvantage when it came to understanding what he had to say. I have tried to bear this in mind in assessing the critical reaction to Andrewsian economics later in this chapter.

## I

Andrews's work can be appreciated only in the context of developments in the theory of the firm during the 1920s and 1930s. Alfred Marshall had been Professor of Economics at Cambridge from 1885 until 1908. His *Principles of Economics* was first published in 1890; it ran to nine editions, was constantly reprinted, and formed the sole or main text for many generations of British students. (The *Principles* were still recommended reading at Oxford in the 1960s.) Marshall's microeconomic theory is difficult to summarise. It is neoclassical to the extent that it assumes profits to be the goal of the firm, and rational behaviour to be employed in pursuing them. But (unlike his treatment of consumer demand) Marshall did not apply mathematical techniques to the analysis of the firm, and did not specify the conditions for its equilibrium in any precise way. The relevant chapters of the *Principles* are full of reservations and qualifications, firmly grounded – as Andrews suggested – in empirical observation. Marshall's refusal to be pinned down to precise conclusions strikes one as irritatingly vague and evasive or judiciously cautious, according to one's analytical taste.

One significant aspect of the Marshallian heritage was the distinction between competition and monopoly, the former characterised by lower prices and higher output levels, thereby generating greater economic welfare. Marxian and other critics seized on this dichotomy and argued that capitalism was moving from its original competitive phase into a monopoly stage even more deleterious to human well-being.<sup>2</sup> By the early 1920s orthodox economists too were investigating the conditions under which competition could be sustained. The principal requirement appeared to be the survival of a large number of firms within any industry, for which it was necessary that there be a definite limit to the size of the individual firm. This was set, it was believed, by the tendency for unit costs to rise beyond a certain level of output, making it unprofitable for output to be increased further. In a famous article in the *Economic Journal* in 1924 J. H. Clapham complained that economic theory had nothing to say about the case where average costs continued to fall. The omission was put right two years later by the Italian Marxist Piero Sraffa, who concluded that internal economies of scale were sufficiently important for monopoly, rather than competition, to be regarded as the typical form of market situation.<sup>3</sup>

Theoretical developments in the United States took a slightly different form. From 1926 E. H. Chamberlin had been following a distinctive line of thought which culminated in his *Theory of Monopolistic Competition*, published in 1933. Chamberlin argued that most markets contained elements of both competition and monopoly. Typically there were a number of firms, often a large number, but their products were differentiated from each other and they incurred advertising and other forms of selling expenditures in order to protect themselves from competition. Individual firms' demand curves were thus downward-sloping, like those of monopolists, but they were unable in the long run to enjoy abnormal profits. In effect Chamberlin's model was the worst of both worlds: prices were higher in monopolistic competition and output lower; falling demand curves prevented the exploitation of economies of scale and entailed the existence of excess capacity; and cost curves were higher than in perfect competition due to selling costs. The firm was unable to profit from monopolistic competition, and social welfare was reduced.<sup>4</sup>

The political implications of Chamberlin's argument soon became obvious to him, and he spent the rest of his life trying to extricate himself from them.<sup>5</sup> There were also theoretical and methodological repercussions. Already in 1928 Marshall's successor to the chair at Cambridge, A. C. Pigou, had published a brief mathematical formulation of the equilibrium conditions for the firm (which Andrews once described bitterly as a betrayal of the Marshallian tradition).<sup>6</sup> Five years later Joan Robinson's *Economics of Imperfect Competition* supplied the details. Robinson's book, more accomplished technically than Chamberlin's but lacking its depth and insight, propagated the concept of marginal revenue as an essential part of the economist's vocabulary. The firm was shown to be in equilibrium, maximising its profits, when marginal cost and marginal revenue were equal. Only in perfect competition was this compatible with equality between price and marginal cost, with production at minimum average cost and with the absence of excess capacity. In imperfect competition price exceeds marginal cost, average cost is above the minimum, and part of the firm's productive capacity is unused. Since imperfect competition is widespread and perfect competition correspondingly rare, it follows that capitalism is wasteful and inefficient.<sup>7</sup>

One theoretical puzzle remained unsolved. Chamberlin's discussion of monopolistic competition had distinguished between 'large-group'

and 'small-group' cases, according to the number of firms in the industry, but he was clearly ill at ease in dealing with the latter. Robinson ignored the question of oligopoly altogether because, as she later confessed, she had no idea how it might be handled.<sup>8</sup> In fact the oligopoly problem had always been regarded as something of a curiosity and the solutions offered to it were sometimes bizarre. Oligopoly price could range from the perfectly competitive level established by cut-throat competition at one extreme, to the monopoly price which might be set by a cartel of oligopolists at the other. Various intermediate outcomes were proposed, some writers suggesting the possibility of continuous oscillation between the lower (competitive) and upper (monopolistic) prices. Chamberlin himself favoured the collusive, monopoly, solution.<sup>9</sup> Eventually, in 1939, Paul Sweezy provided a rationalisation for price rigidity through the celebrated kinked demand curve but made no pretence at explaining the price at which the kink occurred.<sup>10</sup>

## II

Such was the state of the theory of the firm when Philip Walter Sawford Andrews<sup>11</sup> began his academic career. Andrews was born in Southampton on 12 March 1914 into an upwardly mobile working-class family. His mother was the daughter of an agricultural labourer and had been a domestic servant before her marriage. His paternal grandfather was a ship's steward and stevedore, and his father rose from being an able seaman and railway shunter to retire as Chief Inspector, Traffic Department, at Southampton Docks. In 1934 Andrews graduated from the then University College, Southampton, with a second-class external London degree in economics. For the next three years he remained in Southampton as a research student, a temporary Assistant Lecturer at the College, and as honorary tutor-organiser for the Workers' Educational Association. He moved to Oxford in 1937 to work on company accounts for the Oxford Economists' Research Group (OERG), of which he was secretary from 1938 until 1952. Andrews remained in Oxford for the next thirty years. He was a conscientious objector during the War, which he spent in charge of undergraduate students at New College. He was Official Fellow of Nuffield College from 1946 until he moved to head the Economics Department at Lancaster University in 1967, where he spent the last four years of his life. He died on 5 March 1971.

The OERG was the formative influence on Andrews's economic thinking. Set up in 1935 to discover how businessmen would react to government countercyclical policy, the Group conducted many long and detailed interviews with prominent industrialists.<sup>12</sup> It published a series of studies in the late 1930s. By far the most influential was the famous article by Hall and Hitch on price theory and business behaviour, which Andrews was later to summarise in the following terms:

In brief, the Hall and Hitch article reported that business men generally settled their prices by procedures which were based on their average costs, determining in various ways a pricing margin to be added to their current average prime costs. Prices in practice tended to be stable because there were strong penalties for changing them. These penalties arose because of the prevalence of oligopolistic conditions – if any producer should cut prices, his competitors would retaliate and so the demand for his product would be inelastic in response to his lower price; equally, if he should raise his price, he would fear that others would not follow, his competitors preferring to enjoy the stronger demand which his higher price would give them, so that he would then suffer an elastic reduction in demand.

Moreover, businessmen professed ignorance of the equilibrium condition (marginal cost equal to marginal revenue) of orthodox theory, nor did they appear to act upon it.<sup>13</sup>

Hall and Hitch shared with Sweezy the paternity of the kinked demand curve but they did not (as Andrews noted) provide a *theory* of oligopoly price. This left them open to dismissal as naively empirical and anti-theoretical, or even – as Fritz Machlup argued in his celebrated critique in the *American Economic Review* – as supplying evidence in support of conventional analysis without realising it.<sup>14</sup> Andrews devoted the final quarter-century of his life to constructing and popularising a theory of the firm which would both be consistent with the evidence and offer a clear alternative to what he came to call static marginalist equilibrium theory.

His argument first appeared in 1949 in an article in *Oxford Economic Papers*<sup>15</sup> followed, later in that year, by the 300-page *Manufacturing Business*. In the article Andrews begins by distinguishing his approach from that of 'such economists as Kalecki. They think in terms of monopoly where I think in terms of competition, and I do not see the gross profit margin as a simple



index of monopoly power.' Somewhat surprisingly, the bulk of the paper is devoted to the theory of costs. Andrews denies the orthodox contention that both short- and long-run cost curves are U-shaped. Short-run average direct costs are constant over a wide range of output, while overhead costs naturally fall continuously. Thus unit costs are decreasing at all relevant levels of output.<sup>16</sup> The firm typically keeps some reserve capacity to allow it 'elbow-room' in the face of uncertain demand and possible breakdowns. This is true in all types of competition, and excess capacity cannot therefore be taken as evidence of monopoly. Levels of output over which average direct costs are rising are not relevant.<sup>17</sup>

For the long run, Andrews distinguishes technical from managerial costs. The former tend to fall, per unit of output, though probably at a decreasing rate. The orthodox assertion that long-run average cost must eventually rise thus depends on increasing managerial costs due to the assumed indivisibility of the individual entrepreneur, whose efficiency ultimately declines as output increases. Andrews rejected all this, arguing that the firm adapts to successively higher scales of output by adopting different techniques (his term is 'levels') of management which are able to cope with the problems that arise. He concludes that there is no reason to expect the long-run average cost curve to turn upwards at very high levels of output; it is more likely to be roughly horizontal.<sup>18</sup>

At last Andrews comes to the determination of prices. Drawing heavily on the OERG's findings – summarised by Hall and Hitch – he argues that businessmen set prices by adding, to their average direct costs, a gross profit margin representing 'the average contribution that the business man will require each unit of product to make towards covering the overhead costs of the business and making a profit.' The price thus determined will be changed only if average direct costs themselves change; it will not in general fluctuate in response to changes in sales. Andrews terms this the *normal-cost principle*, since extraordinary temporary increases in costs (for instance overtime payments) are not included. He objects to Hall's and Hitch's reference to a *full-cost principle* because it implies that full costs will always be covered, and this is not the case at very low levels of output.<sup>19</sup>

The rationale of the normal-cost principle is as follows. The businessman thinks in terms of long-run rather than short-run profits, and he operates in 'a *much* more competitive world than the modern economist is prepared to concede'. The long-run elasticity

of demand for his product is actually close to infinity, so that a departure from the 'right price' will not be advantageous in the long run, no matter what its short-run profitability may be. Andrews dismisses the notion that long-run demand curves are downward-sloping, pointing out that most transactions are between one business and another so that consumer irrationality is irrelevant to them. He emphasises potential rather than actual competition as the key constraint upon pricing policy, for it is the number of competitors who may be attracted into a market, and not the number already there, which the businessman must consider in setting his price. Potential entrants are less likely to be small, weak, newly established concerns than large existing firms, with technical and marketing know-how and productive capacity which can easily be adapted to permit entry into another market. The threat of such *cross-entry* (as Andrews was later to call it) is usually enough to keep prices down, so that 'the tide of competition may leave little pools of abnormal profit behind it, but in the end they tend to disappear.' Even cartels do much less damage than is often supposed, for they prevent wasteful price-cutting in depressions while being unable (due to the constant threat of new entry) to enforce supernormal profits in the long run.<sup>20</sup>

This early article is by far the clearest statement of his ideas that Andrews himself ever published. It suffered, however, from appearing in a journal (*Oxford Economic Papers*) the inside front cover of which cautioned that it was 'intended primarily as a channel for the publication of articles by Oxford authors'. It seems not to have been widely read, at least by comparison with *Manufacturing Business*, and brought no published critical comments from either within Oxford or outside (though Roy Harrod wrote to Andrews complaining that insufficient recognition had been given to his own writings of the early 1930s on the slopes of cost curves and the significance of planned reserve capacity).<sup>21</sup> There were also internal defects. Proportionally the paper contained far too much on costs<sup>22</sup> and too little on pricing, and Andrews failed almost totally to show how his analysis differed from that of the accepted theory of the firm. Most of the important participants in the debates of the previous twenty years are cited in footnotes but none – with the sole and anomalous exception of Kalecki (whose opinions were closer to those of Andrews than almost anyone else at the time) – is criticised in any depth. Vital parts of the argument are buried in footnotes, while the text deals at some length with much less important

matters. 'It is realised', Andrews wrote, apparently as an afterthought, 'that our general argument implies the abandonment of Chamberlin's "large-group" analysis and the assertion of a kind of "oligopoly" as normal. This will be defended in detail elsewhere.'<sup>23</sup> This was the only hint that the article might actually be *about* oligopoly. And 'elsewhere' was Andrews's second major book, *On Competition in Economic Theory*, published fifteen years later.

### III

These faults were magnified in *Manufacturing Business*. By any standards it is a strange book. After Andrews's death his friend Thomas Wilson recalled how he had 'pleaded with him to try to explain as fully as possible, with an appropriate use of the conventional jargon, how his ideas differed from those that were then generally accepted.' But Andrews 'was a very sensitive man and I suppose he was in some ways immature', and the book did much less than full justice to what he had to say.<sup>24</sup> It has no index, an omission for which it is difficult to forgive either the author or the publisher. Andrews makes no mention of J. M. Clark, whose influential article on 'workable competition' foreshadowed some of his own ideas.<sup>25</sup> There are brief references to Hall and Hitch, Kaldor, Joan Robinson, the OERG, Steindl, Keynes and Oscar Hobson, but only Kalecki and A. P. Lerner are discussed at any length, and then only for Andrews to repeat his objections to regarding the gap between price and marginal cost as representing the 'degree of monopoly', and to Kalecki's exaggeration of the non-competitive elements in the modern economy. Otherwise there is absolutely no attempt to review or systematically criticise established theory, and if the word 'oligopoly' appears anywhere in *Manufacturing Business* I have not been able to find it. In fact, Andrews seems to have been aiming not for a professional readership but for an audience of economically literate businessmen. 'It has been thought desirable', he wrote in the introduction, 'not to obscure the text with any detailed discussion of finer points of economic theory.' Nevertheless 'full of dark sayings', *Manufacturing Business* was understandably mistaken by some reviewers for an elementary text instead of the revolutionary treatise it might have been.<sup>26</sup>

The opening chapter begins with a simple institutional account of the various legal forms of business ownership and concludes with a defence of capitalism against economists who exaggerate its

monopolistic nature. There follows a long description of basic accounting practice, from which Andrews obtains the important concept of gross profits; this is an excellent example of his inductive method, whereby important theoretical notions are derived from his experience of actual business behaviour.<sup>27</sup> The third chapter elaborates on the treatment of short-run costs given in the *Oxford Economic Papers* article, generally at a level which would cause no difficulties to first-year undergraduates but interspersed – again, this is typical of Andrews’s writing – with original and important theoretical arguments.<sup>28</sup> His analysis of long-run costs in the following chapter adds little to that in the article, but the implications are drawn out more explicitly. Since the businessman will expect an increase in production to reduce long-run unit costs and hence (given the price) to increase profits, he will respond to growth in demand by holding his price and expanding output. Increased demand requires neither restriction of output nor higher prices.<sup>29</sup>

The core of the argument is presented in the fifth chapter, where Andrews sets out his theory of price at much greater length than in his article, and with even less use of technical language. Translated into the terminology of orthodox theory his assertion is, first, that long-run product demand curves are infinitely elastic; second, that the typical firm is aware of its oligopolistic interdependence with other concerns in its market; and third, that it recognises the possibility of cross-entry by entrepreneurs using similar materials or processes.<sup>30</sup> The ‘costing-margin’ added to the firm’s normal costs is

arrived at by competition or, in the case of a business man producing what he believes to be a unique product, by his idea of the margin at which he would, in the long run, have to face competition. It may formally be reached by quite elaborate calculations on the basis of existing costs, or it may be given by rule of thumb, but the consequences will be the same, in so far as, in either case, the level of the business man’s average direct costs will determine his quoted price, which will lie a definite distance above those costs for an individual article produced by a particular individual business.

Potential competition is pervasive, so that ‘the price of an article produced for one especial market cannot in the long run yield a more attractive margin over the direct costs than would be available in other markets.’ Hence ‘the business world should be seen as competitive in the sense that in any market there will be a definite

limit to the price which can be charged, and that any business man who exceeds this will lose his market, unless he is protected in some special way, as by legal restrictions.' The price thus set yields 'a normal level of net profit, looking at industry as a whole, and may reflect any general permanent changes in the prices of indirect factors of production, but will remain constant, given the organization of the individual business, whatever the level of its output.'<sup>31</sup>

These are the central claims of the book, upon which its critics focussed their attack. (The remaining 120 pages deal with selling costs, factor markets and a descriptive account of the trade cycle, and are of much less theoretical interest.) The *American Economic Review's* reviewer appears not to have realised that *Manufacturing Business* was an analysis of price determination and missed the point altogether, while in *Economica* Arnold Plant dismissed it with the sardonic suggestion that it should be supplied only in conjunction with G. J. Stigler's impeccably neoclassical *Theory of Price*. Plant did not see fit to propose a similar constraint on the sale of Stigler's text. Somewhat surprisingly, Andrews was not offended, and even wrote to Plant to thank him.<sup>32</sup>

Austin Robinson's ten-page review in the *Economic Journal* was a much more serious effort, unusually harsh in tone and severely critical of the book. Robinson had exercised his editorial prerogative in assigning himself to the task. It is difficult to agree with Roy Harrod that the review is 'written without asperity'.<sup>33</sup> Robinson regretted that Andrews had chosen not to publish any of his empirical research, which rendered *Manufacturing Business* 'almost wholly innocent' of 'the facts'. The normal-cost principle was 'a wholly irrational ritualistic system of pricing', and the book itself 'powerfully destructive not only of the newer accretions of imperfect competition theory but also of the whole body of economic reasoning'. Robinson argued that only profit-maximisers would survive the competitive process and that Andrews's firms were actually engaged in long-run profit maximisation, which he had simply misinterpreted. The Andrewsian costing-margin is market-determined; it is 'simply "what the market will bear"'.<sup>34</sup>

This final point was, of course, exactly what Andrews himself had said,<sup>35</sup> and there is a curious inconsistency (which passed unnoticed at the time) in Robinson's assessment. Either *Manufacturing Business* was 'fundamentally destructive of all the concepts of economics'<sup>36</sup> or it was a rather clumsy restatement of orthodox ideas; it could not be both. Andrews would have denied that it was either, but he was

conspicuously absent from the controversy which occupied the pages of the *Economic Journal* over the next three years. He published a long paper applying the normal-cost principle to retail trade, followed by a reply to two of its critics, and a defence of Marshallian industrial economics which restated the main themes of *Manufacturing Business* without responding to Robinson's onslaught. He had been 'informed that editorial policy was to discourage controversy, but that if I insisted I might have a page or two. This would not be sufficient, since any reply . . . must be point by point . . . I have decided to wait until I can deal systematically with the whole "Cambridge" position . . .'<sup>37</sup>

The task of replying to Robinson was thus left to Elizabeth Brunner, Andrews's 'principal assistant in all the empirical studies'<sup>38</sup> and lifelong collaborator, and to one of his pupils, M. J. Farrell. Farrell argued that Robinson had misconstrued *Manufacturing Business*. Andrews was endorsing long-run profit maximisation, 'in some sense'. What Robinson failed to appreciate was that the attainment of maximum profits in the long run was not consistent with the short-run equation of marginal cost and marginal revenue on which the established theories of imperfect competition relied. The position of the firm's cost and revenue curves in each period affects their position in all subsequent periods. To preserve its market in the long run the firm will maintain reserve capacity in the short term, and refrain from reacting to a temporary increase in demand by raising its price. The imperfect competition theories, Farrell concluded, were contradictory. They assumed rational conduct on the part of the firm. They could not relate both to the long run and to the short run, for the reasons already stated. They were not long-run theories, for in the long run the elasticity of demand approached infinity (and imperfect competition assumes downward-sloping demand curves). Hence they must be interpreted as claiming that firms maximise profits (by equating marginal cost and marginal revenue) in the short run; and such behaviour would be irrational.<sup>39</sup>

In his rejoinder Robinson claimed that he and Farrell were really in agreement. Both stressed the rationality of the businessman, while Andrews's theory assumed the opposite to be the case and amounted to an attempt to 'force all economic thinking back into one universal strait-jacket of an assumed perfect competition'. *Manufacturing Business* involved 'an orgy of intellectual machine-smashing'. It was an attempt to return to 'the hand-loom period of

thought'. Farrell's sharp distinction between the short and long run was redundant, for the best short-run policy 'is in harmony with the wisest long-term policy.'<sup>40</sup> Robinson's only justification for this assertion came in the form of a subtle redefinition of the firm's short-run demand curve 'as including, suitably discounted, all the various repercussions of the future upon the present'.<sup>41</sup> This, as Farrell saw immediately, was a classic instance of 'implicit theorising', question-begging in which all the difficult problems are assumed away and the principle of profit maximisation becomes tautological. Without perfect certainty as to long-run demand and cost conditions, rational businessmen will not follow neoclassical maximising rules. What they actually do under uncertainty cannot be established by pure deduction, uninformed by empirical investigation. Andrews's research probably could be translated into the terminology of marginal analysis, Farrell concluded, but whether this would be a fruitful operation was debatable.<sup>42</sup>

Already in 1950 Peter Wiles had urged that what he termed the 'full-cost principle' (which he claimed to be advocated by Andrews) was fully consistent with profit maximisation.<sup>43</sup> This was denied by E. H. Chamberlin, who regarded the principle as compatible with his analysis of monopolistic competition but not with the imperfect competition theory of Joan Robinson, which was more narrowly marginalistic. For Chamberlin, Andrews's empirical research belonged within the framework of monopolistic competition. For her part Joan Robinson could see little difference, except in 'tone and emphasis', between her analysis and Andrews's, the latter stressing the competitive elements in modern capitalism where she had been more concerned with its monopolistic face.<sup>44</sup> The irony of the two founders of the modern theory of the firm welcoming him as one of them cannot have been lost on Andrews.

At this point the *Economic Journal* controversy petered out, without much light having been shed on the extent to which Andrews's normal-cost principle represented a new theory as against a restatement (or destruction) of existing orthodoxy. Elizabeth Brunner's article appeared at a time when moves were afoot to take away Andrews's Nuffield Fellowship, and was largely responsible for averting the threat.<sup>45</sup> In it she patiently explained that the normal-cost theory has in common with orthodox models the assumption of profit maximisation (allowing for a range of uncertainty) as the goal of the firm. It differs from the analyses of the imperfect and monopolistic competition theories in denying a

downward-sloping demand curve for the individual firm (since long-run demand conditions are set by potential competition); and in attributing reserve capacity to the need for flexibility in a changing world rather than to the proliferation of inefficient producers which causes the excess capacity of conventional models. But Andrews's theory is not simply a variant of perfect competition, Brunner concludes, because it requires neither a large number of firms nor a homogeneous product to generate its long-run predictions of uniform prices and normal profits.

Generations of Andrews's students found Brunner's article an invaluable guide to his ideas, which began to find an echo in the writings of some of his Oxford colleagues (notably Roy Harrod) and also in Cambridge. Perhaps, as Harry Townsend has suggested to me, Brunner succeeded only too well. In her exposition Andrews's theory could all too easily be interpreted as a long-run version of orthodox profit maximisation, neither radically innovative nor especially important.<sup>46</sup> At all events, there was to be no 'Andrewsian Revolution' in microeconomic analysis.

In a sense Andrews was his own worst enemy. One can understand why he himself (acting on Harrod's advice) took no part in the *Economic Journal* controversy. But there were other channels for a reply; the columns of *Oxford Economic Papers*, in particular, were always open to him, and a short theoretical book would have found a ready publisher. But a projected volume on Marshall failed to appear, while the planned empirical study of the boot and shoe industry was vetoed by the companies concerned when Margaret Cole appeared on a political platform in Northampton and cited Andrews's unpublished work as providing justification for nationalising the industry!<sup>47</sup> Andrews himself complained bitterly that his analysis was consistently misinterpreted, especially in Cambridge where 'personalities . . . have felt themselves quite free to make remarks reflecting upon me and my work, with the supreme assurance that they completely understood my book, even if their explanations and comments are inconsistent, even in a single article.' He was most irritated by the continual confusion of his normal-cost theory of price with the 'full-cost' principle. Yet he refused to criticise Hall and Hitch openly, 'partly because it would have held up the march of my argument, but even more because I do not believe in kicking those on whose shoulders we stand, and I owe a tremendous lot to the old Research Group in Economics.' Nor did it help the wider exposition of his ideas that Brunner's article – easily



the best exposition of Andrews's arguments before she repeated the exercise in 1975 – appeared (by invitation) in an Italian rather than a leading British journal. Certainly there was prejudice against Andrews, in Oxford no less than in Cambridge. Yet if his theory was misunderstood, he had largely himself to blame.<sup>48</sup>

#### IV

In conversation Andrews once referred, with evident sympathy, to the career of Richard Lester. The victim (along with Hall and Hitch) of Machlup's savage attack on the critics of marginalism, Lester had abandoned theoretical work in favour of industrial relations and applied labour economics. For many years it seemed that Andrews had chosen a similar course. Although *Manufacturing Business* sold well enough to be reprinted in 1955, in 1959, and again in 1963, he set his face against rewriting it or even adding a substantial new introduction.<sup>49</sup> Instead he turned away from theoretical writing to work more with businessmen, whose company he found even more congenial after his rejection by academia. The fees, too, were valuable, as he had two sons to keep at public school. He published (with Brunner) a business history of the United Steel Company and a biography of Lord Nuffield, the latter verging on hagiography.<sup>50</sup> Andrews also developed a considerable expertise in anti-monopoly legislation and acted as a consultant in cases before the Restrictive Practices Court, constructing a rather tortuous defence of resale price maintenance in the bookselling trade and arguing in favour of various restrictive industrial agreements.<sup>51</sup>

His theoretical writings during the later 1950s were few in number and tended to be published in obscure places. Andrews failed to complete a projected book on imperfect competition, which was apparently well advanced by 1952.<sup>52</sup> Not until 1964 did there appear his second (and last) important analytical work. *On Competition in Economic Theory* provided what Andrews should have put into the early chapters of *Manufacturing Business*: a detailed critical history of the orthodox theory of the firm since Marshall. Structurally it still leaves much to be desired, the apparent division between the first part ('A Review of Modern Theory') and the second ('A Critique') being largely illusory; and the writing is still less than elegant. But the two principal elements in Andrews's critique do at last come across clearly. Oligopoly is the most common market type, he

argues, and the conventional 'static marginalist equilibrium method' is incapable of dealing with it.<sup>53</sup>

Marshall had carefully avoided formulating a marginalist equilibrium theory of the individual firm, preferring to think, like Andrews himself, in terms of industry equilibrium. After Marshall's death the theoretical war between firm and industry was won by the former, a victory which culminated in the appearance of the downward-sloping demand curve for the individual firm, for which little in the way of justification had been provided: 'Joan Robinson's demand functions have no analytical roots', Andrews concluded. 'Her demand curves fall simply because she tells them to do so.'<sup>54</sup> Chamberlin's analysis was superior to the extent that he explained falling demand curves through his theory of product differentiation and selling costs, but even this had no validity in the 'small-group' (oligopoly) case. In oligopolistic markets the individual firm has no way of knowing its demand curve, because its sales depend upon the pricing policy of its rivals. Marginalist calculations are therefore impossible, unless collusion is assumed. But collusive solutions work only if entry is blocked.<sup>55</sup> Attempts such as Harrod's to salvage the traditional theory founder on the rock of potential cross-entry, which brings long-run considerations into the short run and destroys conventional short-run demand curves. Cost and demand functions are thus not independent of each other and static marginalist equilibrium theory, which assumes that they are, cannot be sustained. Potential competition 'removes the ring fence which is necessary for the playing of classical and neoclassical games.'<sup>56</sup>

*On Competition* attracted more friendly reviews than had *Manufacturing Business*, revealing the extent to which dissatisfaction with 'neoclassical games' had grown over the previous fifteen years. Several reviewers complained that Andrews should have said more about his own theory and related it to the apparently quite similar views of Joe S. Bain. 'Andrews's book is stimulating but endlessly frustrating', J. B. Heath concluded, with some justice:

Time and again he takes us to the brink of new ideas and analyses which offer the prospect of further advances in this difficult subject, and then with masterly self-control restrains himself from taking the plunge . . . Let us hope that the present work is the prelude to a new and positive contribution to the theory of competition.<sup>57</sup>

The treatise which Heath and other reviewers wanted Andrews to

write – and which must have been urged upon him by his friends – was never forthcoming. It would be interesting to know why: I suspect that something more was involved than pressure of work on restrictive practices cases.<sup>58</sup> Nor did he fill the second obvious gap in *On Competition* by placing his ideas in the context of other anti-marginalist streams of thought. The book contains one brief but telling summary of Andrews's own theory: 'The highest price sustainable by an individual producer will be the lowest at which someone else will be willing to offer his commodity.'<sup>59</sup> This bears a close resemblance to the concept of *limit pricing* associated with Bain and Paolo Sylos-Labini. Andrews can be forgiven for not citing Sylos's book *Oligopoly and Technical Change*, the first English edition of which appeared only in 1962. But Bain's work dated from 1956, and (though in essence neoclassical) deserved more than the brief critical reference which Andrews affords it, while the important 1958 article by Modigliani summarising the Italian text of Sylos's book and reviewing Bain is ignored in *On Competition*.<sup>60</sup> Sylos himself later paid generous tribute to Andrews, linking his name with that of Joseph Schumpeter as formative influences and describing *Manufacturing Business* as 'the first major organic contribution to what I have called the new theory of the firm'.<sup>61</sup> Although Andrews recommended *Oligopoly and Technical Progress* to his students, no critical comparison of his and Sylos's theories ever appeared in print.<sup>62</sup>

There are three other schools of thought (two clearly dissident, one rather less so) with whom Andrews might have been associated: the organisational theorists; Austrian economics; and post-Keynesianism. It was characteristic of him that he was extremely hostile to the first, made a few passing references to his affinities with the second, and overlooked the third entirely.

It might be thought that Andrews had much in common with the organisational theorists. They shared a rejection of marginalism and an inductive method which insisted upon the analytical relevance of detailed empirical studies carried out within the firm, while H. A. Simon's important concept of 'bounded rationality' bears an obvious resemblance to Andrews's critique of the firm's demand curve in oligopoly. His former pupil Michael Farrell certainly found no major inconsistency.<sup>63</sup> A detailed comparison of his ideas with those of the behaviouralists would have made a fascinating chapter of Andrews's unwritten treatise. Instead his references to them were infrequent, short and contemptuous. Behaviourism ignores the pressures of

external competition and the threat of takeover, he argued, together with the 'internal competition' between managers for promotion.<sup>64</sup> It is anti-theoretical, and constitutes a counsel of despair.<sup>65</sup> Along with managerial theories of the firm, it is a way of avoiding economic analysis.<sup>66</sup> Much the same had been said of *Manufacturing Business*, and it is unfortunate that Andrews did not develop his criticisms of behaviourism in much greater depth.

Austrian economists have often been antagonists of marginalist equilibrium analysis, for reasons which if not identical to those of Andrews are not directly incompatible with them. They share (in particular) a deep interest in the *process* of competition and a certain disdain for precise equilibrium *solutions*. Both Andrews and Brunner make fleeting complimentary references to F. A. von Hayek,<sup>67</sup> but there is not the slightest attempt to locate their analysis in relation to Austrian theory. Even George Shackle, for several decades the leading British neo-Austrian economist and a personal friend of Andrews, is ignored in all the latter's major writings.<sup>68</sup> Methodologically, of course, there is a tension between the Austrians' *a priorism* and Andrews's emphasis on empirical research, but this merely whets one's appetite for the comparative appraisal which he never wrote.

In a remarkably generous review of *Studies in Pricing*, A. S. Eichner suggested that Andrews's work, more even than that of Kalecki, anticipated what has come to be recognised as the microeconomic foundations of post-Keynesian theory. Both emphasise disequilibrium and the absence of individual demand curves outside perfect competition, and both use a mark-up model of price. Andrews falls short only in failing to connect his analysis with a formal macroeconomic theory. The omission is all the more puzzling since Keynes himself (in a well-known article published in the *Economic Journal* in 1939) had accepted the inflexibility of price in the face of demand shifts, and emphasised the fundamental importance of long-run average cost in pricing decisions. Though he never developed these insights into a formal analysis, Keynes can almost be described as the first normal-cost theorist.<sup>69</sup>

Andrews cannot reasonably be expected to have adopted the *label* 'post-Keynesian', which came into common usage only after his death.<sup>70</sup> It is something of a mystery, however, that his macroeconomic writing was confined to one (bland and rather superficial) chapter of *Manufacturing Business*. This chapter is resolutely Keynesian, and the implications of the normal-cost theory

of price all point in that direction: reserve capacity as standard business practice, price rigidity in the face of demand fluctuations, wage increases routinely passed on in higher prices through the costing process. All these are familiar features of post-Keynesian models, which sit much more happily with an Andrewsian price theory than with the static marginalist equilibrium analysis to which Keynes himself remained tied.

Why, then, did Andrews fail to make the connection? In political terms post-Keynesianism has leaned quite noticeably to the left, which would not have appealed to Andrews's deep-rooted conservatism. Conflicts of personality may also have played a part. According to some of his contemporaries, Andrews got on well with Michal Kalecki, who was in Oxford between 1940 and 1945; others recall a much less harmonious relationship. Towards the end of his life Andrews drew closer to the other mainstay of post-Keynesianism, Joan Robinson. Initially, however, he was very wary of Robinson, suspecting her (unjustly) of using his ideas without due acknowledgement and encouraging others in Cambridge to do the same. There were, finally, significant theoretical differences between Andrews's ideas and post-Keynesian thought. He would never have accepted, for example, the post-Keynesian notion of excess capacity as being created deliberately, as a barrier to entry. One can only regret that he never exposed these analytical disagreements in print.<sup>71</sup>

## V

In 1959 Andrews presented a paper at a conference of businessmen from the oil industry. In the ensuing discussion a senior executive from British Petroleum reported the reaction of his son, an economist: 'It's heresy, but damned good heresy!' Andrews's reaction was one of pained surprise:

The general effect of my argument would not be heresy to economists of the older generation. My views of firms and industries seem fairly consistent with the views of Marshall, MacGregor or Clay concerning the broad working of economic society under free enterprise. The views I am combating started as 'heresies' *vis-à-vis* Marshall's doctrines in particular.

Andrews believed himself to be leading what D. H. Robertson had described as a 'counter-revolution' against the 'revolutionary' theory

of imperfect competition,<sup>72</sup> and always felt aggrieved when accused of 'treason from within'. The normal-cost principle did not imply surrendering the economist's birthright, Andrews maintained. He invoked the Heisenberg principle: indeterminacy at the micro level had not led to the abandonment of physical theory at the macro level, any more than industry equilibrium (together with the principle of substitution) need be destroyed by the repudiation of equilibrium analysis for the individual firm.<sup>73</sup>

As these analogies suggest, the methodological dimension to the debates in price theory has always been close to the surface. Several writers have interpreted the controversy in terms of the conceptual frameworks of Kuhn, Lakatos and Feyerabend. It is not difficult to show that Andrews's paradigm, or research programme, posed a revolutionary – he might have preferred Robertson's term 'counter-revolutionary' – threat to the 'normal economic science' of static marginalist equilibrium theory. Andrews's analysis attacked the notion of equilibrium itself, the precise and unambiguous predictions that could be derived from it, and the usefulness of the mathematical techniques which it employed. Defending their intellectual sunk capital (for once there is no suggestion of political motives), conventional economists dug in their heels. They dismissed the rival paradigm as incoherent, untheoretical, or (as is implied by part of Austin Robinson's *Economic Journal* review article), ultimately inconsequential.<sup>74</sup> Hence Andrews's challenge to economic orthodoxy failed. Outside a small coterie of disciples,<sup>75</sup> his ideas made no significant impact on the development of economic thought.<sup>76</sup>

This account of his reception, however, is less than fully convincing. Why is Sylos respectable, where Andrews is not? Why was Herbert Simon awarded the Nobel Prize for economics, where Andrews was rejected or ignored? Why do modern textbooks on oligopoly tolerate game theory, or behaviourism, but spurn the normal-cost principle? In addition to professional conservatism, two further factors played a part in Andrews's rejection. One was political, the other personal. In the late 1940s socialist ideas were extremely influential among British economists. There was a widespread belief that the market had failed and that the prevalence of oligopoly and administered prices, which had been responsible for both the pre-war unemployment and (to a lesser extent) the post-war inflation, must give way to comprehensive economic planning by the state. Andrews was swimming against this powerful tide, and came to be seen in some quarters as a renegade socialist

who had become a mouthpiece of big business. Later, with socialism in retreat, there was strong professional support for the suppression of price-fixing agreements (especially resale price maintenance). Once again Andrews was in the minority, this time alienating his natural allies on the right.<sup>77</sup>

To these political handicaps must be added others of a more personal nature. Not only did 'Andrews, the only economist to develop both a full-scale critique and an alternative paradigm, [publish] the two halves of his argument fifteen years apart, and in the wrong sequence for maximum effect.'<sup>78</sup> He also wrote so obscurely that few can have shared his puzzlement that 'my divergence from equilibriumistic [*sic*] theory should have taken so long to be discussed.'<sup>79</sup> He spent too much of his time on business history and restrictive practices cases, and not enough in refining and propagating his theoretical analysis. And – perhaps his cardinal sin – he attacked potential allies, or simply went his own way as if they did not exist. To take one further example: George Richardson was an original and incisive anti-marginalist, whose work was contemporary with that of Andrews and very largely compatible with it. Richardson even lectured on normal-cost theory to his students at Oxford. But the two men never collaborated and indeed rarely met, apparently due to Andrews's suspicion of theoreticians, which was particularly acute in the case of unorthodox analysis. He was a kind, very loyal, yet prickly and insecure man who seems to have found it impossible to work with others unless (like Elizabeth Brunner) they were clearly of subordinate status, and appreciated other people's ideas only if they posed no threat to his own.<sup>80</sup>

None of this was conducive to the success of an intellectual revolution – not even a counter-revolution. Yet I am inclined to doubt whether such a revolution was what Andrews really wanted. He reminds me very much of Cayley, that quirky individualist who knew that he was right and cared only a little who else knew. Discussing the business enterprise as a field for academic study, Andrews once wrote warmly of the scope it offered for interdisciplinary research, 'provided that room is left for the anarchist who obstinately wants to work within the limitations of his own presuppositions and experience. Such a man will at any rate read wherever he may expect to find something useful.'<sup>81</sup> Andrews may well have seen himself, in the last resort, as one such obstinate academic anarchist.

## NOTES

1. P. W. S. Andrews, *Manufacturing Business* (London: Macmillan, 1963; first published 1949), pp. xvi–xvii, 28–9.
2. This is implicit in the work of J. A. Hobson and explicit in Hilferding and Lenin, who were major influences on the writings of Paul Baran.
3. J. H. Clapham, ‘Of Empty Economic Boxes’ and ‘The Economic Boxes: a Rejoinder’, *Economic Journal* 32, 1922, pp. 305–14 and 560–3; P. Sraffa, ‘The Laws of Returns Under Competitive Conditions’, *ibid.*, 36, 1926, pp. 535–50.
4. E. H. Chamberlin, *The Theory of Monopolistic Competition* (Cambridge, Mass.: Harvard University Press, 1962; first published 1933), pp. 113–16, 175–6 and ch. VIII.
5. E. H. Chamberlin, *Towards a More General Theory of Value* (New York: Oxford University Press, 1957).
6. A. C. Pigou, ‘An Analysis of Supply’, *Economic Journal* 38, 1928, pp. 238–57; P. W. S. Andrews, conversation with author, c.1969.
7. J. Robinson, *The Economics of Imperfect Competition* (London: Macmillan, 1933), and ‘A Comment’, *Economic Journal* 62, 1952, p. 325.
8. *Ibid.*: ‘I confined the analysis to cases where oligopoly can be neglected because I did not feel clever enough to deal with it.’
9. Chamberlin, *Monopolistic Competition*, ch. III, contains a good survey of pre-1933 oligopoly theory, such as it was.
10. P. M. Sweezy, ‘Demand Under Conditions of Oligopoly’, *Journal of Political Economy* 47, 1939, pp. 568–73.
11. Biographical details are taken from Andrews’s ‘Curriculum Vitae’ and ‘Addenda to Confidential Curriculum Vitae for the Times (1963)’, the latter dated 8 December 1966. Both were apparently intended for his obituary and – characteristically – headed ‘Strictly Confidential’ (Andrews Papers, Lancaster University, from which all manuscript sources cited in this chapter are taken).
12. F. S. Lee, ‘The Oxford Challenge to Marshallian Supply and Demand: the History of the Oxford Economists’ Research Group’, *Oxford Economic Papers* n.s. 33, 1981, pp. 339–51; R. F. Harrod, *Economic Essays* (London: Macmillan, 1952), pp. ix–xi.
13. P. W. S. Andrews, *On Competition in Economic Theory* (London: Macmillan, 1964), pp. 33–4; R. L. Hall and C. J. Hitch, ‘Price Theory and Business Behaviour’, *Oxford Economic Papers* 2, 1939, pp. 12–45.
14. F. Machlup, ‘Marginal Analysis and Empirical Research’, *American Economic Review* 36, 1946, pp. 519–54.
15. P. W. S. Andrews, ‘A Reconsideration of the Theory of the Individual Business’, *Oxford Economic Papers* n.s. 1, 1949, pp. 54–89.
16. *Ibid.*, pp. 56–66.
17. *Ibid.*, pp. 60–4.
18. *Ibid.*, p. 75.
19. *Ibid.*, pp. 81 (see especially p. 81, n. 5), 87.
20. *Ibid.*, pp. 82–3 (original stress), 84–8.
21. Harrod to Andrews, 24 July 1948. Andrews replied, insisting on his



- originality: 'I am for the first time stating the economic theory which is relevant to the businessman's normal behaviour' (Andrews to Harrod, 26 July 1948).
22. Twenty-five out of thirty-six pages, including an appendix which appears between the two main sections rather than at the end of the article.
  23. 'A Reconsideration', p. 83, n. 2.
  24. T. Wilson, 'Philip Andrews: Editor and Colleague', *Journal of Industrial Economics* 20, 1971, p. 4. For an excellent summary of the book see M. Farrell, 'Philip Andrews and Manufacturing Business', *ibid.*, pp. 10–12.
  25. J. M. Clark, 'Towards a Theory of Workable Competition', *American Economic Review* 30, 1940, pp. 241–56.
  26. *Manufacturing Business*, p. xvi; J. Robinson, 'Imperfect Competition Revisited', *Economic Journal* 63, 1953, p. 590, n. 2; W. R. MacLaurin, review of *Manufacturing Business*, *American Economic Review* 40, 1950, pp. 968–70; E. A. G. Robinson, 'The Pricing of Manufactured Products', *Economic Journal* 60, 1950, p. 780.
  27. *Manufacturing Business*, pp. 43–4.
  28. See especially the discussion of planned reserve capacity and its implications for the debate on excess capacity, *ibid.*, pp. 88–93.
  29. *Ibid.*, pp. 136–7.
  30. *Ibid.*, pp. 155–7 (Andrews uses none of these terms).
  31. *Ibid.*, pp. 158–9, 168, 172, 174, 184.
  32. MacLaurin, *op. cit.*; A. Plant, review of *Manufacturing Business*, *Economica* n.s. 18, 1951, pp. 96–100; Andrews to Plant, 27 February 1951.
  33. Harrod to Andrews, 26 October 1948.
  34. A. Robinson, *op. cit.*, pp. 771, 774–6, 780.
  35. See note 31 above.
  36. A. Robinson, *op. cit.*, p. 774.
  37. Andrews to R. F. Kahn, 2 April 1952; Andrews to A. Silberston, 23 March 1953; Andrews, 'Some Aspects of Competition in Retail Trade', *Oxford Economic Papers* n.s. 2, 1950, pp. 137–75; 'A Reply', *ibid.*, n.s. 3, 1951, pp. 249–58; 'Industrial Analysis in Economics With Especial Reference to Marshallian Doctrine', pp. 139–72 of T. Wilson and P. W. S. Andrews (eds), *Oxford Studies in the Price Mechanism* (Oxford: Clarendon Press, 1951).
  38. *Manufacturing Business*, p. xvii.
  39. M. J. Farrell, 'The Case Against the Imperfect Competition Theories', *Economic Journal* 61, 1951, pp. 423–6. See also H. R. Edwards, 'Mr. Wiles and the Normal Cost Theory of Price', *ibid.*, 62, 1952, pp. 666–74.
  40. E. A. G. Robinson, 'The Price of Manufactured Products and the Case Against Imperfect Competition: a Rejoinder', *Economic Journal* 61, 1951, pp. 429–33.
  41. *Ibid.*, pp. 430–1.
  42. M. J. Farrell, 'Deductive Systems and Empirical Generalisations in the Theory of the Firm', *Oxford Economic Papers* n.s. 4, 1952, pp. 45–9. On 'implicit theorising' see W. W. Leontief, 'Implicit Theorizing: a Methodological Criticism of the Neo-Cambridge School', *Quarterly*

- Journal of Economics* 51, 1937, pp. 337–51. Joan Robinson later admitted that her treatment of oligopolists' demand curves had been a 'shameless fudge' (J. Robinson, *The Economics of Imperfect Competition*, London: Macmillan, second edn, 1969; first published 1933, p. vii).
43. P. Wiles, 'Empirical Research and the Marginal Analysis', *Economic Journal* 60, 1950, pp. 515–30; H. R. Edwards, 'Mr. Wiles and the Normal Cost Theory of Price', *Economic Journal* 62, 1952, pp. 666–74.
  44. E. H. Chamberlin, "'Full Cost" and Monopolistic Competition', *Economic Journal* 62, 1952, pp. 318–25; J. Robinson, 'Imperfect Competition Revisited', *op. cit.*
  45. E. Brunner, 'Competition and the Theory of the Firm', *Economia Internazionale* 5, 1952, pp. 509–23 and 727–45; J. Irving-Lessmann and F. S. Lee, 'The Fate of an Errant Hypothesis: Andrews's Theory of Competitive Oligopoly', mimeo., Dielheim and Chicago, 1985, pp. 37–8.
  46. Wiles, *op. cit.*; R. F. Harrod, 'The Theory of Imperfect Competition Revisited', in his *Economic Essays* (London: Macmillan, 1952), p. 144; T. Wilson, 'The Inadequacy of the Theory of the Firm as a Branch of Welfare Economics', *Oxford Economic Papers* n.s. 4, 1952, pp. 18–44, reprinted in Wilson, *Inflation, Employment and the Market* (Oxford: Oxford University Press, 1984); D. H. Robertson, *Economic Commentaries* (London: Staples Press, 1956), pp. 35–41; H. Townsend, personal communication, 11 May 1986.
  47. Andrews to Silberston, 23 March 1953; Andrews to J. White, 10 February 1949; Andrews to R. F. Kahn, 24 May 1952; Andrews to H. Clay, 18 January 1951; F. S. Lee, J. Irving-Lessmann, P. Earl and J. E. Davies, 'P. W. S. Andrews's Theory of Competitive Oligopoly: a New Interpretation', mimeo., 1986, p. 6.
  48. Andrews to A. Silberston, 23 March 1953; Andrews to R. Heflebower, 30 June 1952; cf. E. Brunner, 'Competitive Prices, Normal Costs and Industrial Stability', pp. 18–34 of P. W. S. Andrews and E. Brunner, *Studies in Pricing* (London: Macmillan, 1975).
  49. The third (1963) reprint did contain a one-page note reaffirming his views. (Elizabeth Brunner was working on a new edition at the time of her death in 1983.)
  50. P. W. S. Andrews and E. Brunner, *Capital Development in Steel* (Oxford: Blackwell, 1951); Andrews and Brunner, *The Life of Lord Nuffield* (Oxford: Blackwell, 1959), which is described in the preface as 'an act of piety' (p.v.).
  51. P. W. S. Andrews and F. Friday, *Fair Trade: Resale Price Maintenance Re-examined* (London: Macmillan, 1960); Andrews, 'The Water Tube Boilermakers' Association Agreement and Trial', pp. 52–119 of Andrews and Brunner, *Studies in Pricing*, *op. cit.*
  52. See, for example, P. W. S. Andrews, *Competition in the Modern Economy* (London: Institute of Petroleum, 1958); personal communication from Fred S. Lee, 14 August 1986.
  53. *On Competition*, pp. 1–7.
  54. *Ibid.*, p. 22.

55. *Ibid.*, pp. 25–30; the criticism of Fellner on pp. 44–8 is in similar vein.
56. *Ibid.*, pp. 57–60, 84.
57. J. B. Heath, review of *On Competition*, *Kyklos* 18, 1965, p. 710. See also the reviews by E. J. Grether, *American Economic Review* 56, 1966, pp. 1263–4; A. Silberston, *Economic Journal* 77, 1967, pp. 863–7; T. A. B. Corley, *Economica* n.s. 32, 1965, pp. 470–2; and D. Robinson, *Journal of Management Studies* 2, 1965, pp. 236–40.
58. Corley, *op. cit.*, p. 472.
59. *On Competition*, p. 80.
60. J. S. Bain, *Barriers to New Competition* (Cambridge, Mass.: Harvard University Press, 1956); P. Sylos-Labini, *Oligopoly and Technical Progress* (Cambridge, Mass.: Harvard University Press, second edn, 1969; first published in English in 1962); F. Modigliani, ‘New Developments on the Oligopoly Front’, *Journal of Political Economy* 66, 1958, pp. 215–32; cf. *On Competition*, pp. 59–60. For an opposing view, stressing the importance of planned excess capacity as a deterrent to entry, see K. Cowling, *Monopoly Capitalism* (London: Macmillan, 1982), ch. 2.
61. Sylos-Labini, *op. cit.*, p. viii.
62. Sylos’s name is again absent from the index of *Studies in Pricing*.
63. M. J. Farrell, ‘Discussion’ of M. Shubik, ‘Game Theory as an Approach to the Theory of the Firm’, *American Economic Review* 50, 1960, Papers and Proceedings, pp. 560–4; cf. B. J. Loasby, ‘Hypothesis and Paradigm in the Theory of the Firm’, *Economic Journal* 81, 1971, pp. 863–85.
64. P. W. S. Andrews and E. Brunner, ‘Business Profits and the Quiet Life’, *Journal of Industrial Economics* 11, 1962, pp. 72–8.
65. *On Competition*, p. 39.
66. *Studies in Pricing*, p. 1.
67. Andrews, ‘Industrial Analysis in Economics’, *op. cit.*, p. 172; Brunner, ‘Competition and the Theory of the Firm’ *op. cit.*, p. 34.
68. The theoretical similarities between Andrews and Shackle are noted by J. Irving, ‘P. W. S. Andrews and the Unsuccessful Revolution’, unpublished Ph.D thesis, University of Wollongong, 1978, pp. 70, 77.
69. A. S. Eichner, review of *Studies in Pricing*, *Journal of Economic Literature* 16, 1978, pp. 1436–8; J. M. Keynes, ‘Relative Movements of Real Wages and Output’, *Economic Journal* 49, 1939, pp. 34–51.
70. For a history and brief survey of post-Keynesian economics see A. S. Eichner, *A Guide to Post-Keynesian Economics* (New York: M. E. Sharpe, 1979); and A. S. Eichner and J. Kregel, ‘An Essay on Post-Keynesian Theory: a New Paradigm in Economics’, *Journal of Economic Literature* 13, 1975, pp. 1293–1314.
71. F. S. Lee, ‘“Kalecki’s Pricing Theory”: Two Comments’, *Journal of Post-Keynesian Economics* 8, 1985, pp. 145–8; Lee, Irving-Lessmann, Earl and Davies, *op. cit.*, p. 2; personal communication from Tom Wilson, 8 June 1986. On excess capacity as a barrier to entry see Cowling, *op. cit.*, ch. 2.
72. *Competition in the Modern Economy*, *op. cit.* pp. 42, 46; Robertson, *op. cit.*, pp. 39, 41.

73. *On Competition*, pp. 90–2.
74. Irving, *op. cit.*; Loasby, *op. cit.*; S. J. Latsis, 'Situational Determinism in Economics', *British Journal for the Philosophy of Science* 23, 1972, pp. 207–45 (unaccountably Latsis makes no mention of Andrews, though his arguments apply with equal force to *Manufacturing Business*); P. E. Earl, 'A Behavioural Theory of Economists' Behaviour', pp. 90–125 of A. Eichner (ed.), *Why Economics Is Not Yet a Science* (London: Macmillan, 1983).
75. A. Koutsoyiannis, *Modern Microeconomics* (London: Macmillan, 1975; second edn 1979).
76. Even in the specialist area of industrial economics, the leading international text makes only a handful of passing references to his work: F. M. Scherer, *Industrial Market Structure and Economic Performance* (Boston: Houghton Mifflin, second edn, 1980), pp. 229, 234–5, 244–5, 593.
77. Irving-Lessmann and Lee, 'The Fate . . .', *op. cit.*, p. 17; personal communications from Harry Townsend, 11 May 1986 and Tom Wilson, 8 June 1986.
78. Loasby, *op. cit.*, p. 879.
79. *On Competition*, p. 92n. Arguably the only place where this opposition had been clearly expressed before 1964 was at the end of 'Industrial Analysis in Economics', *op. cit.*, p. 172.
80. G. B. Richardson, *Information and Investment* (Oxford: Oxford University Press, 1960); Lee, Irving-Lessmann, Earl and Davies, 'P. W. S. Andrews's Theory . . .', *op. cit.*, p. 24; Earl, *op. cit.*, p. 119; personal communications from Gregory Andrews, 17 May 1986; Juli Irving-Lessmann, 8 July 1986; and Fred Lee, 15 July 1986.
81. P. W. S. Andrews, 'The Business Enterprise as a Subject for Research: a Comment', *Kyklos* 10, 1957, p. 71.

# 10 E. F. Schumacher (1911–1977)

To be the subject of a first leading article in the London *Times* is to receive a rare honour. E. F. Schumacher, whose memorial service in Westminster Cathedral was thus recognised in December 1977,<sup>1</sup> was a most unusual economist. Initially an enthusiastic Keynesian of great technical ability, he turned against his profession and as the celebrated author of *Small is Beautiful* became known as one of its harshest critics. Schumacher argued that conventional economics had failed utterly to comprehend the potential energy famine which was facing the world and had completely misunderstood the real purpose of work, and thus of life itself. These are not small claims, and their implications – if indeed they are true – are profound, both for economic theory and for the society to which it purports to refer. Although by the time of his death many of Schumacher's ideas had 'almost dissolved into conventional wisdom',<sup>2</sup> very few professional economists have been prepared to take him seriously.<sup>3</sup> His neglect, as this chapter attempts to show, is difficult to justify.

## I

Ernst Friedrich 'Fritz' Schumacher<sup>4</sup> was born in Bonn on 16 August 1911 into a bourgeois family which had been prominent for three centuries in the life of the Hanseatic city of Bremen. His paternal grandfather, Hermann Albert Schumacher senior, was a lawyer and historian who served as German consul in Columbia, New York and Peru in the 1870s and 1880s. An uncle, Fritz Schumacher, was Director of City Planning in Hamburg from 1924 to 1939. Ernst's father, Hermann Albert junior, was a distinguished academic who occupied Chairs of Economics at Kiel, Cologne, Bonn and Berlin, and whose extensive publications included an article in the *Economic Journal*. Hermann Schumacher was tutor to the Imperial Crown Prince and his brothers; later pupils included the young Thomas Balogh.<sup>5</sup>

E. F. Schumacher studied economics and politics at the University of Bonn, where he was inspired by the teaching of Joseph Schumpeter. He visited Cambridge in 1929–30, sitting in on seminars

by Keynes and meeting Pigou and Robertson. Schumacher attended New College, Oxford, as a Rhodes Scholar in 1930–2 but was disappointed by the lack of intellectual stimulus and was glad to move to Columbia University, where his father had been the first German exchange professor. In 1933 he was offered a teaching post at Columbia, but decided to return to Germany to discover for himself the truth about the Nazi regime. In the fraught emotional climate of the Hitler era Schumacher found it impossible to concentrate upon academic work and failed to complete his B.Litt for Columbia within the specified time (the first degree he was awarded was an honorary doctorate from the University of Clausthal in 1963). Instead he worked for a financial consortium which arranged barter transactions for German manufacturers.

Increasingly disgusted with the Nazis, Schumacher moved to England in 1937 as the personal financial adviser to George Schicht, General Director of Unilever. He was interned as an enemy alien in May 1940 and spent some months as an internee at Preem Heath in Shropshire, where he met Frank Borchardt from the Oxford University Institute of Statistics, and also learned Marxism from his fellow-prisoner Kurt Naumann. After his release Schumacher worked as a farm labourer in Northamptonshire. During these years he wrote a powerful memorandum on the reform of the international monetary mechanism, urging the establishment of a 'pool clearing' system rather than currency convertibility to reconcile balance of payments equilibrium with economic expansion and avoid the competitive deflations of the 1930s. It is not a little ironic that this, his first academic publication, was devoted to the promotion of economic growth.<sup>6</sup>

Schumacher's ideas on clearing arrangements were very similar to those of Keynes, whose willingness to abandon them under intense U.S. pressure in the course of the Bretton Woods negotiations produced a lively correspondence between the two men in the columns of *The Times*.<sup>7</sup> By now Schumacher had taken up Borchardt's offer of employment at the Oxford Institute, where he worked with such talented émigrés as Thomas Balogh, Michal Kalecki, Kurt Mandelbaum and Josef Steindl. Between 1943 and 1945 he published a series of articles on post-war macroeconomic policy, applying Keynesian theory to problems of international trade and capital movements.<sup>8</sup> At the same time he was writing leading articles for the London *Times*, *Economist* and *Observer*, and correcting George Orwell on factual matters at editorial conferences

of the socialist weekly *Tribune*.<sup>9</sup> He was active in the refugee German socialist movement in London and wrote a cogent pamphlet urging the case for the planning of land-use and housing construction after the war.<sup>10</sup> Schumacher was instrumental in the conversion of William Beveridge to Keynesian economics and was chiefly responsible for writing *Full Employment in a Free Society*, for which at the time he received very little credit.<sup>11</sup>

After the war Schumacher became a British citizen. Instead of pursuing an academic career he returned to Germany, first to report for the U.S. government on the effects of strategic bombing and then as Economic Adviser to the Allied Control Commission, where he worked on the restoration of the German coal industry. In 1950 he was appointed (on the recommendation of Hugh Gaitskell) as Economic Adviser to the National Coal Board where he remained in a variety of roles, sometimes fully extended, sometimes sadly under-employed, until his retirement in 1970.<sup>12</sup> Well before this date he was writing prolifically on energy, on economic development and on the liberation of work. A collection of his essays was published in 1973 as the best-selling *Small is Beautiful*.<sup>13</sup> Schumacher was awarded the C.B.E. in the following year, and continued to write and lecture until his death on 4 September 1977. Three further books appeared posthumously: the philosophical treatise *A Guide For The Perplexed* later in 1977; *Good Work* (based on lectures delivered in North America) in 1979; and *Schumacher on Energy* in 1982.<sup>14</sup>

## II

In his first fifteen years at the National Coal Board Schumacher wrote almost exclusively on energy policy, broadly defined. 'There are only two basic items in the world economy', he argued in 1950, 'food and fuel. All the rest are secondary.'<sup>15</sup> Four years later, in a paper delivered at the World Population Conference, he predicted the emergence of a global energy shortage by 1980, which could be overcome only by careful exploitation of the world's coal reserves (pp. 31-8). Accordingly he opposed British policy in the early 1950s, which involved keeping the real price of coal below its pre-war level (p. 5). Far from subsidising coal, he urged in 1958, the industry should operate as a profit-maximising concern: 'our approach to all matters of day-to-day business management should be just the same as that of enlightened private enterprise: Is this a paying proposition? In all the circumstances, is this the best paying proposition?'

Attempting to reduce stocks by selling coal below cost was 'quite uneconomic from any point of view' (p. 134).

The financial situation of the British coal industry deteriorated rapidly in 1959, ushering in a decade of sharp contraction in output and the closure of many pits.<sup>16</sup> There was now, Schumacher believed, a sound case for subsidising the industry, on grounds both of conservation and of the hardship that was being inflicted upon mining communities (pp. 91, 143). In a pseudonymous article in the monthly *Socialist Commentary* he declared his support for nationalisation because publicly owned industries were not tied to profit and could choose different objectives.

The main case against capitalism 'is not primarily an economic one, namely, that it degrades life by its very simplicity, by basing all economic activity solely on the motive of private greed' (p. 138). But he still endorsed the application of economic analysis to energy issues, on condition that care was taken to distinguish renewable from non-renewable goods (pp. 11–13, 16) and to allow for long-term as well as short-term considerations. "'Best seams first" is not a principle of economics', he told a trade-union conference in 1960, and the terms 'economic' and 'uneconomic' cannot be applied to energy production 'without very great caution'. To close loss-making collieries meant either the permanent abandonment of their reserves or simply a change in the time sequence in which coal resources were to be exploited.<sup>17</sup> It followed that technical, rather than economic, questions were of most significance for coal investment. If second-best reserves are tackled first,

no real harm is done; there is merely a slight shift of advantage from the present to the future, such as is involved in every decision to save and invest, rather than to consume. It is surprising that economists, who invariably applaud the latter, with the same invariability deplore the former. (p. 12)

Schumacher's defence of the coal industry owed much to his conviction that the other forms of energy were not, in the long term, effective substitutes. As early as 1954 his 'exploratory calculations'<sup>18</sup> indicated a greatly decreased elasticity of oil supplies by the early 1980s (p. 58; cf. pp. 31–41). Renewable energy sources offered no solution. Solar power could not be taken seriously, given 'the economic difficulty in collecting it at a cost which would even remotely fit into the present economic pattern', and nuclear energy was simply inadequate (p. 38). He was soon radically to change his



views on both questions. Indeed, in 1967 he achieved a considerable notoriety with a lecture to the National Society for Clean Air in which he denounced the environmental and medical dangers of nuclear energy and was promptly (and very publicly) disclaimed by the Ministry of Power. His attitude to his profession had also changed to something approaching outright hostility, for he now cited the rise of the nuclear industry as a blatant example of 'the prevailing dictatorship of economics'.<sup>19</sup>

To a considerable extent Schumacher's growing disenchantment with the discipline was a direct result of his work at the National Coal Board. For him energy was the surpassing problem, transcending possible raw material shortages and dominating the prospects for world food production.<sup>20</sup> Yet the rundown of the British coal industry in the 1960s took place with the support of economists who mocked Schumacher's early predictions of oil shortages and published forecasts which 'are not worth the paper they are written on. They are a case of spurious verisimilitude which borders on mendacity.'<sup>21</sup> His writings in this period suggest that Schumacher's break with 'the religion of economics'<sup>22</sup> was not easily achieved. In the middle of the decade he could still describe as 'uneconomic' the neglect of social repercussions of pit closures, and condemn the nuclear programme in identical terms (pp. 91, 97); the clear implication is that economic logic had been flouted and should be obeyed. The 1967 lecture marked an important shift in his thinking in this respect. By 1973 Schumacher seemed close to repudiating economics altogether.<sup>23</sup> Only renewable energy sources are both safe and indefinitely sustainable, he argued: they are diffuse, and difficult to concentrate; they are therefore appropriate only to a highly decentralised mode of living; hence a radically altered lifestyle is required (pp. 52-3).

### III

In 1955 Schumacher was seconded by the Coal Board to advise the government of Burma, and in 1961 he visited India in a similar capacity. His experience in Asia introduced him to the problems of economic development in poor countries and transformed his outlook both on economics and on the human condition. There were certain obvious connections between development issues and the energy questions which had previously monopolised his attention. Simple exploratory calculations demonstrated that it would never be possible for a world population of several billions to enjoy the level

of *per capita* energy consumption required to sustain a North American way of life. Even the ability of underdeveloped countries to feed themselves might be jeopardised by energy shortages: 'In terms of physics and chemistry, modern man eats a variety of foodstuffs; but in terms of economics, he eats oil.' The Green Revolution, totally dependent upon cheap energy, was immediately endangered by the 1973 oil crisis, he argued, and the world's poor would be the ones to suffer most.<sup>24</sup>

The notion of economic dualism was fundamental to Schumacher's thinking on development. There was nothing novel in the concept itself,<sup>25</sup> but his application of it was, in the middle 1960s, quite distinctive. He described the relationship between modern and traditional sectors as one of 'mutual poisoning'. The modern factory supplies consumer goods, agricultural implements and building materials which were once produced with more primitive techniques in small towns and villages. The hinterland takes its revenge through mass migration into the cities, creating a huge urban working class with a massive unemployment problem and making the cities completely unmanageable.<sup>26</sup> Thus 'modernisation' was proving to be a disaster, generating 'a collapse of the rural economy, a rising tide of unemployment in town and country, and the growth of a city proletariat without nourishment for either body or soul'. There was no hope, either, in a simple reaffirmation of traditionalism. What was needed was a 'Middle Way'.<sup>27</sup>

In terms of production techniques this meant Intermediate Technology (IT), a phrase which Schumacher coined and for which, more than anything else, he became famous. He viewed it as an inescapable consequence of an egalitarian approach to development. In poor countries the central problem is unemployment, whether open or hidden. It follows that the provision of jobs should be the main criterion for the success of a development programme. To stem the tide of migration into the cities, job creation efforts should be concentrated upon the villages and small towns. Workplaces should be small, using simple techniques which minimise the inputs of capital, skills and imported goods required. Production should be mainly for local markets, using local materials and satisfying local quality standards. Equipment could then be maintained, and training provided, cheaply and on the spot. Local entrepreneurs would be encouraged rather than (as with high technology) driven to despair.

Intermediate Technology means *appropriate* technology: Schumacher was firmly opposed to labour-intensity or smallness for

their own sakes. If indigenous techniques constitute '£1-technology' and the production methods of the rich countries require '£100-technology', IT is '£10-technology'.<sup>28</sup> It is both productive and cheap, as it must be, given the magnitude of the development problem. Schumacher's exploratory calculations made for India in 1971 indicate what is involved. Fifty million new jobs were needed over ten years. With a net saving ratio of no more than 5 per cent and an annual national product of £15 billions, the sum available for investment over the entire decade would be £7.5 billions (= £15 billions  $\times$  0.05  $\times$  10). This would suffice to finance an average £150 of capital per job, completely ruling out the widespread adoption of Western technology (which may, however, be unavoidable in certain specific activities). IT was thus the only general answer.<sup>29</sup>

The principal objections to IT cannot, Schumacher believed, be sustained. Labour productivity is not intolerably low and advanced equipment in poor countries is invariably under-utilised, so that productivity comparisons which assume full-capacity utilisation are irrelevant.<sup>30</sup> Nor do capital-intensive techniques economise on scarce entrepreneurial talent, which is, rather, fostered by the spread of appropriate (and therefore manageable) technology. It is sometimes argued, thirdly, that goods produced by IT are generally unsuitable for export markets and would require protection from import competition. Schumacher believed that this was probably not true. In any case, the 'extraordinary preoccupation with exports' must be rejected as a neocolonial imposition and development should be centred on the less demanding home market. Finally, there is no real conflict between economic growth and the maximisation of employment, even in the short run.<sup>31</sup>

In the final analysis, however, development is not primarily an economic question at all. Poverty is chiefly due to 'certain deficiencies in education, organisation and discipline' rather than to a lack of resources, capital or infrastructure. Development is essentially a cultural problem (though Schumacher himself does not use this term). It follows – in sharp contrast to the 'entrepreneurialist' attitude prevalent among both economic historians and development economists – that development must be a gradual process and must involve the entire population rather than merely a small elite. Aid policy should be assessed accordingly:

Aid is given to introduce certain new economic activities, but these activities will be made only if they can be sustained by the

existing educational level of fairly broad groups of people and they will be valuable only if they raise, spread, and promote an advance in education, organisation and discipline. There can be a process of stretching – never a process of jumping. If a new economic activity is introduced which is entirely out of reach of ‘the people’ – (and, when I say the people, whom do I mean? Certainly more than 1, 2 or 3 per cent of the population) – then it will have a negative demonstration effect. It will convince the broad masses of the people that they can do nothing, that they are out of it, that they are helpless . . . Equally with organisation and discipline. If the new activity depends on a *special* organisation and a *special* discipline which is not at all inherent in the society where the activity is introduced, then the activity will be neither viable nor integrated. It will remain as a foreign body that cannot be integrated. This is why, in questions of development, economics is secondary.<sup>32</sup>

#### IV

A dialectical process is apparent in the evolution of Schumacher’s thought. His initial concern with energy supplies for the affluent West led him to consider the implications for development in poor countries. What he learned there forced his attention back to the advanced societies, and in particular to the degradation of work. The orthodox economist regards work as a necessary evil, he wrote in his seminal article ‘Buddhist Economics’. It is a cost to the employer and a source of disutility to the worker. Both parties seek to minimise its duration, and would gladly dispense with it altogether.<sup>33</sup> ‘What the work does to the worker is not recognised as a decisive criterion of efficiency’, for economics views labour purely as an input and sees only a material output.<sup>34</sup>

For Schumacher, however, to treat work merely as a means to the accumulation of wealth is to negate the very essence of humanity. ‘Without work’, as Camus had put it, ‘all life goes rotten, but when work is soulless, life stifles and dies.’<sup>35</sup> Thus leisure is complementary to work, and in no sense an alternative to it. The idea of ‘education for leisure’ is an absurdity, for life without work is inconceivable and ‘laziness is sadness of the soul’. The young should instead be taught the difference between good and bad work, and encouraged to reject the latter.<sup>36</sup> Good work is defined by its effect on the person who performs it:

. . . there are three things healthy people most need to do: to act as spiritual beings, that is to say, in accordance with their moral impulses – *man as a divine being*; secondly, to act as neighbours, that is to say, to render service to their fellow man – *man social*; thirdly, to act as persons, as autonomous centres of power, that is to say, to be creatively engaged, using and developing the gifts that have been laid into them – *man himself*. These are man's three fundamental needs, and in their fulfilment lies his happiness. In their un-fulfilment [*sic*], their frustration, lies his unhappiness.<sup>37</sup>

Good work allows people to be creatively productive, to be of service to others, and to exercise responsibility for their own behaviour. Bad work does not.

All this is of great importance for the appraisal of productive techniques, for the organisation of work, and hence for the nature of society itself. There are two distinct types of mechanisation, Schumacher argued in 'Buddhist Economics'. One enhances human power and skill while the other enslaves the worker, undermining individual dignity and freedom.<sup>38</sup> Modern technology is of the latter variety. Despite the claims of its practitioners – and their naive acceptance by many socialists, not to mention the late Shah of Iran – it is not ideologically neutral. Modern technology was developed in a capitalist society to serve the interests of the bourgeoisie, and 'bears the mark of its origins . . . a technology for the few at the expense of the masses.'<sup>39</sup>

But technology comes to develop its own momentum and to reinforce the system that has produced it. This 'modern industrial system' stunts human personality by rendering work meaningless and uninteresting, attacking worthwhile skills and removing understanding. It is inconsistent with anything other than large organisations which breed autocratic management, deny their workers the right to autonomy and moral integrity, and stimulate yet more repressive technology.<sup>40</sup> The very scale and complexity of the modern productive apparatus represents a negation of freedom, since its huge capital requirements exclude from control the vast bulk of the population and are hence 'totally incompatible with any ideas of justice or equality'.<sup>41</sup> Such a 'reckless science and violent technology' requires an increasing dependence on uncontrollable external forces, and so breeds fear and aggression. The roots of violence are social, so that lasting peace is impossible without far-reaching social change.<sup>42</sup>

Here Schumacher's analysis of work dovetails with his discussion of energy and development. The modern industrial system is inherently impermanent, not simply due to its reliance on finite stocks of fossil fuels but also because its cultivation and expansion of needs generate greed, envy and a collapse of human intelligence.<sup>43</sup> Global energy considerations, mass unemployment in poor countries and the demand for useful, fulfilling jobs in rich countries all point in the same direction: 'back to the human scale'. Small units save capital, make better use of resources, are ecologically sounder, and stimulate decentralised production which is able to avoid congestion and the need for 'monster transport'. They also permit decentralised decision-making and foster simplicity and non-violence. 'The extraordinary thing about our period is the *great convergence*. The language of spiritual wisdom can now be understood also as the language of practical sanity, showing the road to survival in this world as well as to salvation in the next.'<sup>44</sup>

## V

Orthodox economists reacted to Schumacher with a deafening silence. None of his books was reviewed in either the *Economic Journal* or the *Journal of Economic Literature*, while an anonymous reviewer in the *Economist* bizarrely dismissed *Small is Beautiful* as doing 'little more than pick up one aspect of the theory of comparative costs'.<sup>45</sup> Perhaps this was all that could be expected by a writer who 'has been right through economics and come out the other side'.<sup>46</sup> Standard textbooks in development economics either seem unaware of his existence<sup>47</sup> or pass him by with a fleeting bibliographical reference.<sup>48</sup> Labour economists continue to treat work as nothing more than foregone leisure.<sup>49</sup> In 1976 Wilfred Beckerman published a well-received book devoted entirely to a defence of his profession's treatment of economic growth; Schumacher's name is absent from the index.<sup>50</sup>

Radical economists have shown no greater interest, despite the obvious affinities between (for example) Schumacher's critique of the Western impact on the Third World and the neo-Marxist analysis of underdevelopment. Neither Samir Amin nor André Gunder Frank makes any reference to him in the indexes or bibliographies of their major works.<sup>51</sup> Arghiri Emmanuel's sustained assault upon the notion of 'appropriate technology' also ignores Schumacher, with even less justification in a book explicitly defending capital-intensive

techniques and the promotion of output rather than employment growth in poor countries.<sup>52</sup> Even André Gorz, the most ecologically minded of Marxists, cites Ivan Illich and Barry Commoner to the exclusion of Schumacher.<sup>53</sup>

In 1972 Schumacher was invited to read a paper at the annual meeting of the British Association.<sup>54</sup> The session was a very lively one, if Joan Robinson's account is to be believed:

His paper gave rise to an animated discussion at the meeting. Laymen in the audience were immediately on the speaker's side but some of the professional economists were shocked and reacted with indignation. As the argument went on, more and more points were conceded to Schumacher, except by the hard core of professionals who were still shouting at each other when the meeting broke up.<sup>55</sup>

If it is true, in the words of Barbara Ward's obituary, that Schumacher's ideas have '[begun] to change, dramatically and fundamentally, the direction of human thought',<sup>56</sup> it is likely that economists will be the last to know.

Any serious appraisal of his thought must begin with an examination of his sources. This is made difficult by Schumacher's reluctance to cite authorities, especially orthodox economists. He must have been familiar with both the externalities/market failure tradition of Marshall and Pigou, and the more recent analysis of the costs of economic growth by Mishan and others. Yet he refers to neither. There are also marked similarities between some of Schumacher's ideas and the work of Kenneth Boulding, who emphasised the need for multidisciplinary analysis; the use of ecological models in economics; the greater relevance of the balance sheet (or asset account) than the profit-and-loss account; and the concept of a 'grants economy'.<sup>57</sup> Whether Schumacher had read Boulding remains a mystery.

Non-academic influences are easier to identify. There was, first and foremost, a powerful religious dimension to Schumacher's thought. Sometimes this was reflected in metaphor and imagery, as when he criticised the Club of Rome for using elaborate computer modelling to demonstrate the obvious: 'it is always dangerous and normally self-defeating to try and cast out devils by Beelzebub, the prince of the devils'.<sup>58</sup> He had an ecumenical respect for the world's great religions, explaining in a prefatory note to the 1973 version of 'Buddhist Economics' that his choice of Buddhism was 'purely

incidental', since the teaching of Christianity, Islam, Judaism or other Eastern religions could equally have been invoked to illustrate such anti-materialist values as prudence, justice, fortitude and temperance.<sup>59</sup> At the very end of his life he began a study of Islam to examine the implications of an Islamic economics;<sup>60</sup> no doubt he would have been fascinated (if eventually repelled) by the Iranian Revolution.

Schumacher himself was successively an atheist, a Buddhist, a Congregationalist and (after 1971) a practising Roman Catholic.<sup>61</sup> Even before his formal conversion he seems to have regarded his own work as an application of Catholic social philosophy. Thus he cited Aquinas on the respect that must be accorded to animal life, and on the dangers of idleness.<sup>62</sup> He was especially impressed by Pius XI's doctrine of work as a source of physical and spiritual strength rather than a chore. Pius's critique of the modern industrial system in the encyclical *Quadragesimo Anno* was identical with Schumacher's: 'From the factory dead matter goes out improved, whereas men there are corrupted and degraded.'<sup>63</sup> Schumacher claimed that his views on the decentralisation of authority in large organisations stemmed from the same source.<sup>64</sup>

The teachings of Mahatma Gandhi formed a second major source of Schumacher's ideas. 'Earth provides enough to satisfy every man's need but not every man's greed': this Gandhian tenet was fundamental to Schumacher's arguments, which shared the Indian ascetic's belief in the virtues of self-reliance and frugality.<sup>65</sup> The true aim of an economic system was to obtain the maximum welfare with the minimum consumption. Hence a genuinely human science and technology would be sufficiently cheap to be accessible to all; suitable for small-scale application; and compatible with humanity's need for creativity. These requirements would be met by IT, which would permit (in Gandhi's phrase) not mass-production but production by the masses.<sup>66</sup> Hence Schumacher's (otherwise rather surprising) support for Mao's China, where the Gandhian principle of *Swadeshi* (self-reliance) had been put into effect with the acceptance of the general rule that 'you mustn't buy it [from outside] unless it is really impossible for you to make it.'<sup>67</sup>

A third influence was that of Western socialism. Wood confirms Schumacher's respect for the non-violent Christian Socialism of R. H. Tawney.<sup>68</sup> He was equally affected by Marxism. The themes of technological determinism and worker alienation occur repeatedly in Schumacher's writings, both in direct citations – usually from the



*Communist Manifesto* – and indirectly in allusions to Marxian ideas and the use of distinctly Marxian language.<sup>69</sup> Marx was right to stress the achievements of the bourgeoisie, which had subordinated everything to its search for profit. ‘This ruthless simplification’ is capitalism’s great strength, but the worker pays too high a price in unemployment and in the loss of job satisfaction and social status.<sup>70</sup> As Schumacher told a Catholic audience in the early 1970s:

Although it is, of course, society that produces the production system, once a particular system has come into existence it begins to mould society: it, as it were, insists that the members of society respect the immanent logic of the system and adapt to it by accepting its implicit aims as their own. Man then becomes the captive of the system whether he approves of its aims or not, and *he cannot effectively adopt different aims or values unless he takes steps to alter the system of production.*

Replace ‘production system’ by ‘mode of production’, and this passage might have been written by Marx himself.<sup>71</sup>

Not that the mature Schumacher was in any real sense a Marxist. On the contrary, his political views were complex and not a little contradictory. There is an element of anarchism in his thought, above all in his emphasis on scale. ‘Bigness is the nemesis of anarchism’, Theodore Roszak argued, because it involves ‘impersonality, insensitivity, and a lust to concentrate abstract power’.<sup>72</sup> Schumacher himself suggested breaking down the British state into twenty or twenty-five smaller entities, each with a population of two or two-and-a-half million and enjoying almost complete autonomy. He stressed the value of voluntary work as opposed to state provision of social services, and even invoked the contemptuous anarchist election slogan: ‘Whoever you vote for, government will come back’.<sup>73</sup> Against this, however, must be set his endorsement of what he termed ‘the conscription of the educated’. Schumacher praised the system practised (so he believed) in Israel and in China, where the state required educated youth to perform national service in the interests of development. One is reminded here of his repeated insistence that lack of organisation and discipline is a root cause of poverty.<sup>74</sup>

Was Schumacher then a socialist (though perhaps more in the Utopian than the Marxian tradition)? Yes, in the sense that he was profoundly suspicious of the profit motive and argued that private ownership ‘becomes an absurdity’ in large-scale enterprises.<sup>75</sup> No, to

the extent that he opposed nationalisation of the land, asserted the need for a middle way between traditional forms of private and state property ('both extremes are valid'), and called for a mixture of capitalist and socialist concerns.<sup>76</sup> What he had in mind is illustrated by the Scott Bader Commonwealth, a chemical firm in the English Midlands of which he was for many years a director. Owned collectively by its 350 workers, pledged not to produce anything for military purposes and to donate half its profits to charity, with the ratio of highest to lowest earnings pegged at 1:7, this company was (and remains) a remarkable enterprise. It inspired Schumacher's proposals for 'new forms of partnership between management and men, even forms of common ownership'.<sup>77</sup>

The Scott Bader case also highlights some of the problems in Schumacher's politics. The Commonwealth came into existence through a spontaneous act of charity by a paternalistic employer with deep religious convictions. Not surprisingly, Ernest Bader's example has not been widely imitated, and Schumacher offers no guidance as to the agency by which such 'new methods of socialisation' might eventually prevail. Nor has the nature of work in Scott Bader been transformed: job hierarchies and the division of labour remain, and the enterprise is run by professional managers with few concessions to workers' self-management or industrial democracy. Indeed, Schumacher's description of the company's charismatic founder is extremely revealing:

I have a picture for myself that society is held together by a concrete mixture. There is a cement which is love and it alone – try it – doesn't hold two stones together. Then there is this inner substance which is sand. It alone doesn't hold anything together. It is the mixture of cement and the sand – then you have really strong stuff.

Ernest Bader is a successful man because he has both. Sometimes you notice one more than the other but one is always modified by the other and given its meaning and purpose. He was a tough businessman and prepared to sack – otherwise it would be only cement; it wouldn't hold anything together. He was not a crude businessman – just for the money or the success. In fact, he always worried about being too successful. 'Well am I really doing enough for the love or the brotherhood?' . . .

The entrepreneur is a person who is continuously creatively

reacting. When Ernest Bader notices a steam pipe leaking or, walking through the factory or garden, bleats about the lack of order, it is the mentality of the entrepreneur. You'll find exactly the same with Alf Robens or Arnold Weinstock. These people who've been in business and made it to the top – they have an eye for detail and the power to decide. They don't say, look at this, I must mention it at the next board meeting and then forget to mention it. No, they immediately react. They have very strong likes and dislikes.<sup>78</sup>

Enemy of the profit motive and admirer of the entrepreneur; advocate of smallness and loyal official of the largest employer in Western Europe; supporter of decentralised democracy and enthusiastic Roman Catholic: Schumacher was a man of powerful insights and deep-rooted contradictions.

## VI

It might be argued that his views on economic questions, narrowly defined, are no less incoherent; his ambivalent attitude to the term 'economic' has already been noted.<sup>79</sup> Possibly it is significant that Schumacher's (post-1945) writings on economics consisted entirely of pamphlets and short papers of which his books are simply compilations. After his retirement from the Coal Board in 1970 Schumacher had more time to write. He directed his attention to philosophy and theology, indicating where his interests now lay; *A Guide For The Perplexed* was the result. Was there more involved in the absence of a treatise on economics, perhaps, than a shift in his intellectual interests? Were his ideas, described by Wilfred Beckerman as 'coloured by a mysticism which seems to have clouded his thought',<sup>80</sup> inherently incapable of systematisation?

That there was a mystical side to Schumacher's nature is undeniable. His interest in Indian and Chinese philosophy dated from the early 1950s, in which decade he joined the Society for Psychical Research and developed interests in Gurdjieff, in Unidentified Flying Objects, and in astrology.<sup>81</sup> Yet there are two reasons for concluding that Beckerman's verdict is too harsh. First, as Amritananda Das and Romesh Diwan have shown conclusively, it is possible to develop Gandhian economics on a rigorous basis. Das provides an effective formal analysis of the trade-off between employment and growth which meets those Marxist objections to IT

which Schumacher himself left unanswered. He also supplies cogent arguments for smallness in terms of the advantages of 'micro-groups' for the production of egalitarianism, collaboration and non-violence.<sup>82</sup> Diwan analyses the Gandhian notions of *Swadeshi*, non-possession, equality and trusteeship in the context of a model of decentralisation and opposition to privilege, and discusses some of the implications for economic and social policy.<sup>83</sup> Much remains to be done – the concept of *Swadeshi* is particularly elusive – but in so far as Schumacher and Gandhi share common ground, there is no justification for dismissing their economics as mystical nonsense.

Second, Schumacher himself laid some of the foundations for an alternative economics in his brief but suggestive discussion of 'meta-economics' – that is, the issues which must be settled before economic analysis *per se* can commence. Orthodox economics largely ignores these questions, he argued, and thus – while valid within its own confines – is 'prone to usurp the rest' of social theory.<sup>84</sup> The result is a concentration on short-run at the expense of long-run considerations; a tendency to neglect free goods, like the natural environment; a failure to distinguish between primary and secondary goods, leading to a denial of humanity's dependence on the natural world; and a propensity to focus on market relationships, which represent 'only the surface of society'. Schumacher urges instead the necessity of differentiating four types of economic goods: primary products, renewable and non-renewable, and secondary goods, whether manufactured objects or services. The four categories are fundamentally incommensurable, and orthodox economic theory applies only to the third.<sup>85</sup> As for the first, Schumacher argues that agriculture is not an industry at all because it involves living materials and should yield health, natural beauty and rural culture as well as food. Non-renewable resources such as fossil fuels and fertile soil should be regarded as capital rather than income, and husbanded accordingly.<sup>86</sup> Both primary and secondary production must be carried out in ways consistent with a lifestyle 'designed for permanence'. And personal services, which demand continued contact between human beings, cannot be seen as merely another form of manufacturing.<sup>87</sup>

This raises a host of questions. How can orthodox economics be deemed applicable even to secondary industry, in view of Schumacher's strictures on the degradation of work? Must he necessarily deny the validity of *any* single measure of economic welfare, or are his objectives really specific to such unsuitable

indicators as gross and net national product? Are all attempts to reduce quality to quantity inevitably doomed in principle? Given that many forms of human and material inputs can be used in both primary and secondary production, and also to provide personal services, are there no defensible general rules to guide the allocation of admittedly scarce resources between them? In what circumstances is it justifiable to deplete reserves of non-renewable fuels and raw materials, and at what rate? Precisely what institutional and cultural changes are required to establish a just and viable society, and how exactly can they be brought about? The agenda of a Schumacherian political economy is evidently a very full one. Whether it offers a feasible alternative to orthodox (or Marxian) economics remains to be seen.

## NOTES

1. 'A Message Half Heard', *The Times*, 1 December 1977, p. 15.
2. *Ibid.*
3. Among the rare exceptions are Herman E. Daly, who reprinted Schumacher's 'Buddhist Economics' in his *Towards a Steady State Economy* (San Francisco: W. H. Freeman, 1973); M. A. Lutz and K. Lux, *The Challenge of Humanistic Economics* (Menlo Park, Cal.: Benjamin/Cummings, 1979), pp. 49–50, 282–4; William Kern, 'Returning to the Aristotelian Paradigm: Daly and Schumacher', *History of Political Economy* 15, 1983, pp. 501–12; G. Kitching, *Development and Underdevelopment in Historical Perspective: Populism, Nationalism and Industrialisation* (London: Methuen, 1982), pp. 92–8; and G. Vandewalle, 'Romanticism and Neo-Romanticism in Political Economy', *History of Political Economy* 18, 1986, pp. 33–47.
4. All biographical details not otherwise attributed are taken from the recent biography by his daughter: Barbara Wood, *Alias Papa: a Life of Fritz Schumacher* (London: Cape, 1984).
5. 'Hermann Albert Schumacher', *Allgemeine Deutsche Biographie*, vol. 33 (Berlin: Duncker & Humblot, 1971 reprint of 1891 edn), pp. 34–7; entries for Fritz Schumacher (1896–1947) and Hermann A. Schumacher junior (1868–1952) in *The Encyclopedia Americana*, International Edition (New York: Americana Corporation, 1971), p. 405a; Hermann Schumacher, 'The Situation in the Ruhr', *Economic Journal* 33, 1923, p. 155–62; Wood, *op. cit.*, pp. 7–9.
6. 'Multilateral Clearing', *Economica* n.s. 10, May 1943, pp. 150–65. (An earlier version, 'Free Access to Trade', was circulated by the Royal Institute of International Affairs in March 1942.) See also E. F.

- Schumacher, 'United States Foreign Trade Policy', *Agenda* 1, July 1942, pp. 234–48.
7. See the articles by 'A Special Correspondent' [Schumacher], *The Times*, 21, 22 and 23 August 1944 and Keynes's letter, *The Times*, 24 August 1944; cf. V. Brittain, 'Saving the World With Small Talk', *The Times*, 2 June 1973, p. 12. Schumacher was subsequently to accuse Keynes of plagiarism, but there is no suggestion of this charge in his papers of the time (Wood, *op. cit.*, p. 133).
  8. 'The New Currency Plans', *Oxford University Institute of Statistics Bulletin*, 4, Supplement, 7 August 1943, pp. 8–29; 'International Clearing and Long-Term Lending' (with M. Kalecki), *ibid.*, pp. 29–33; 'An International Monetary Fund' (with T. Balogh), *ibid.*, 6, 29 April 1944, pp. 81–93; 'Anglo–Egyptian Currency Relations', *ibid.*, 7, 3 February 1945, pp. 30–6; 'Tax Incentives For Export', *ibid.*, 7, 19 May 1945, pp. 124–8; 'Public Finance – Its Relation to Full Employment', in *The Economics of Full Employment: Six Studies in Applied Economics Prepared at the Oxford University Institute of Statistics*, prepared by the Oxford University Institute of Statistics (Oxford: Blackwell, 1944), pp. 85–135; *Export Policy and Full Employment* (London: Gollancz, 1943 and 1944, Fabian Society Research Series No. 77).
  9. P. Lewis, *George Orwell: the Road to 1984* (London: Heinemann and Quixote Press, 1981), p. 91.
  10. E. F. Schumacher, *What Will Planning Mean in Terms of Money?* (London: Architectural Press, 1944); E. F. Schumacher and W. Fliess, *Betrachtungen zur Deutschen Finanzreform* (London: St. Clements Press, 1945), a pamphlet written 'on behalf of the Union of German Socialist Organisations in Great Britain'.
  11. Wood, *op. cit.*, p. 162; J. Harris, *William Beveridge: a Biography* (Oxford: Clarendon Press, 1977), pp. 435–9. Other members of Beveridge's 'technical committee' included Nicholas Kaldor, Joan Robinson and Barbara Wootton.
  12. On Schumacher's often somewhat uneasy relationship with the National Coal Board see Wood, *op. cit.*, pp. 226–7, 290, 325, 345.
  13. E. F. Schumacher, *Small is Beautiful: Economics As If People Mattered* (London: Blond & Briggs, 1973; U.S. edition, with introduction by Theodore Roszak, New York: Harper & Row, 1973).
  14. E. F. Schumacher, *A Guide For The Perplexed* (London: Cape, 1977); *Good Work* (London: Cape, 1979). *Schumacher on Energy* (London: Cape, 1982) is a collection of articles and speeches written between 1950 and 1974.
  15. *Schumacher on Energy*, p. 5. Unless otherwise stated, all page references in this section are to this volume.
  16. N. K. Buxton, *The Economic Development of the British Coal Industry* (London: Batsford, 1978), ch. 10.
  17. E. F. Schumacher, 'Coal – the Next Fifty Years', in *Britain's Coal. A Study Conference Organised by the National Union of Mineworkers* (London: National Union of Mineworkers, 1960), p. 8.
  18. He was a lifelong opponent of elaborate mathematical and econometric methods and of the spuriously precise forecasts to which they gave rise:

- see *Schumacher on Energy*, pp. 58–73; and *Small is Beautiful*, part 4, ch. 1.
19. *Small is Beautiful*, pp. 124–35; see also *The Times*, 20 October 1967, pp. 4, 25; *ibid.*, 25 October 1967, p. 11 (letter from Schumacher).
  20. *Small is Beautiful*, pp. 112–13; cf. *Schumacher on Energy*, p. 53.
  21. E. F. Schumacher, review of European Iron and Steel Community, *Étude sur les perspectives énergétiques à long terme de la Communauté Européenne* (1962), in *Economic Journal* 74, 1964, pp. 192–4. Apart from a review twenty years earlier (*ibid.*, 55, April 1945, pp. 96–8), this was Schumacher's only appearance in the *Economic Journal*.
  22. *Small is Beautiful*, p. 126.
  23. I am grateful to Barbara Wood for stressing that Schumacher's apparent repudiation of economics, like his frequent description of the discipline as 'a form of brain damage', owed much to his mischievous sense of humour. That he did not consider the subject to be beyond rehabilitation is apparent from one of his last papers, in which he prescribed the conditions under which economics might become really useful. E. F. Schumacher, 'Does Economics Help? An Exploration of Meta-Economics', pp. 26–36 of J. Robinson (ed.), *After Keynes* (Oxford: Blackwell, 1973).
  24. *Schumacher on Energy*, pp. 59–61 (written in 1958) and pp. 25–9, 53 (written in 1974).
  25. A classic early formulation is W. A. Lewis, 'Economic Development With Unlimited Supplies of Labour', *Manchester School* 22, 1954, pp. 139–91.
  26. *Small is Beautiful*, pp. 152–8; cf. E. F. Schumacher, *Economic Development and Poverty* (London: Africa Bureau, 1966).
  27. *Small is Beautiful*, p. 56.
  28. *Ibid.*, p. 167. On IT in practice, see G. McRobie, *Small is Possible* (New York: Harper & Row, 1981).
  29. *Ibid.*, pp. 192–9.
  30. Schumacher's exposition is not improved by his erroneous use of the terms 'capital/output ratio' and 'worker/output ratio', where it is clear from the context that he means 'output/capital ratio' and 'output/worker ratio': *ibid.*, pp. 170–1.
  31. *Ibid.*, pp. 167–71, 204. The last point is asserted rather than argued. Schumacher fails to deal convincingly with the objection that Western technology – having a higher output per worker than IT and hence a greater surplus (of net output over wage costs) available for investment – offers the prospect of more jobs in the long term at the expense of fewer jobs in the short term (see M. H. Dobb, *An Essay on Economic Growth and Planning*, London: Routledge, 1960). There are other lacunae. Schumacher does not examine in any detail the prospects for IT in a world capitalist economy in which (autarky excepted) international competitiveness is a crucial condition for economic development of any kind. Nor does he explore the implications for traditional *culture* of the widespread adoption of IT in place of time-honoured techniques.
  32. *Economic Development and Poverty*, p. 8 (original stress).

33. 'Buddhist Economics', written in 1966 and reprinted in *Small is Beautiful*.
34. E. F. Schumacher, *The Age of Plenty: a Christian View* (Edinburgh: The Saint Andrews Press, 1974), p. 13.
35. *Good Work*, p. 4.
36. *Good Work*, pp. 118–19.
37. E. F. Schumacher, *People's Power* (London: National Council of Social Service, 1974), pp. 1–2 (original stress).
38. *Small is Beautiful*, pp. 50–1.
39. *Good Work*, pp. 40–1.
40. *Ibid.*, pp. 24–46.
41. *Ibid.*, p. 55.
42. *Small is Beautiful*, p. 29; *Good Work*, p. 36.
43. *Small is Beautiful*, pp. 17–28.
44. *Age of Plenty*, pp. 17–22; cf. *Small is Beautiful*, pp. 57–68.
45. *Economist*, 23 June 1973. Two papers by Schumacher did appear, posthumously, in mainstream academic journals: 'On Population and Energy Use', *Population Development Review* 5, 1979, pp. 535–41 (a conference paper dating from 1954); and 'Technology in Human Perspective', *Nebraska Journal of Economics and Business* 17, 1978, pp. 7–21.
46. Anonymous review of *Small is Beautiful* in *The Times Literary Supplement*, 28 September 1973.
47. G. M. Meier (ed.), *Leading Issues in Development Economics* (Oxford: Oxford University Press, third edn, 1976); A. P. Thirlwall, *Growth and Development With Special Reference to the Developing Economies* (London: Macmillan, second edn, 1981).
48. M. P. Todaro, *Economic Development in the Third World* (Harlow: Longman, second edn, 1981), p. 566.
49. See, for example, D. Sapsford, *Labour Market Economics* (London: Allen & Unwin, 1980); D. S. Hamermesh and A. Rees, *The Economics of Work and Pay* (New York: Harper & Row, third edn, 1984); and (*mea culpa*) J. E. King, *Labour Economics* (London: Macmillan, 1972). See, however, J. Turk, 'Work and Unemployment', in D. Shepherd, J. Turk and A. Silberston (eds), *Microeconomic Efficiency and Macroeconomic Performance* (Deddington: Philip Allan, 1983), pp. 40–76.
50. Wilfred Beckerman, *In Defence of Economic Growth* (London: Cape, 1976). In a brief article three years later Beckerman described E. J. Mishan's *The Costs of Economic Growth* (London: Staples Press, 1967) as 'in modern times the first serious shot in the battle'. Beckerman seems to have been unaware that Schumacher's ideas on development dated from the mid-1950s, or that he had helped to establish the Intermediate Technology Development Group in 1965. A brief glance at the Notes to *Small is Beautiful* would, however, have shown him that 'Buddhist Economics' first appeared in 1966, before Mishan's book. (See Wilfred Beckerman, 'Small is Stupid', *Times Higher Educational Supplement*, 23 November 1979.)
51. S. Amin, *Accumulation on a World Scale* (Hassocks: Harvester, 1974),



- and *Unequal Development* (Hassocks: Harvester, 1976), both having thirty-page bibliographies; and A. Gunder Frank, *Dependent Accumulation and Underdevelopment* (London: Macmillan, 1978).
52. A. Emmanuel, *Appropriate or Underdeveloped Technology?* (Chichester: Wiley, 1982).
  53. A. Gorz, *Ecology as Politics* (Boston: South End Press, 1980).
  54. 'Does Economics Help?', cited above, note 23.
  55. J. Robinson, 'Foreword', *After Keynes*, *op. cit.*, p. ix.
  56. *The Times*, 10 September 1977.
  57. G. C. Harcourt, 'A Man for All Systems: Talking with Kenneth Boulding', *Journal of Post-Keynesian Economics* 6, 1983, pp. 143–54; R. A. Solo, 'Solo on Boulding', pp. 461–71 of H. W. Spiegel and W. J. Samuels (eds), *Contemporary Economists in Perspective*, volume 1, part B (Greenwich, Conn.: JAI Press, 1984). I am grateful to Robert Dixon for pointing out the similarities between Schumacher and Boulding.
  58. *Small is Beautiful*, p. 112.
  59. *Ibid.*, pp. 47, 275–9.
  60. Wood, *op. cit.*, p. 370.
  61. *Ibid.*, pp. 144, 234–5, 294, 336–7, 349.
  62. *Age of Plenty*, pp. 16–17; *Good Work*, pp. 118–19.
  63. *Quadragesimo Anno*, p. 134, cited *Age of Plenty*, p. 13; see also *Small is Beautiful*, p. 32.
  64. *Schumacher on Energy*, p. 170, on the 'Principle of Subsidiarity'; cf. *Small is Beautiful*, pp. 225–36.
  65. *Small is Beautiful*, p. 29.
  66. *Ibid.*, pp. 30, 143.
  67. *Good Work*, pp. 101–2.
  68. Wood, *op. cit.*, pp. 292–4; see also 'Does Economics Help?', *op. cit.*, p. 35.
  69. For example, the transformation of quantitative into qualitative change (*People's Power*, p. 9 and *Small is Beautiful*, p. 260); the base-superstructure analogy (*Good Work*, p. 43); the notion that financial theory is the 'reflected image' of general economic analysis (E. F. Schumacher, 'Public Finance – Its Relation to Full Employment', in *The Economics of Full Employment*, *op. cit.*, p. 85).
  70. *Small is Beautiful*, pp. 140–1, 238; cf. *Good Work*, p. 36 and *People's Power*, p. 9.
  71. *Age of Plenty*, p. 14 (original stress); cf. *Good Work*, p. 43 and *Small is Beautiful*, p. 82, the latter giving a very much less favourable verdict on Marxist 'metaphysics'.
  72. Theodore Roszak, 'Introduction' to U.S. edition of *Small is Beautiful* (New York: Harper & Row, 1973), p. 4.
  73. *People's Power*, pp. 12–14.
  74. *Good Work*, pp. 101–2; *Economic Development and Poverty*, pp. 10–11; above p. 218.
  75. *Small is Beautiful*, pp. 244–53; cf. *Good Work*, pp. 24–34.
  76. E. F. Schumacher, *Thinking About Land* (London: Catholic Housing Aid Society, 1974), pp. 3–6. Rather like a moderate Henry George,

- Schumacher instead proposed a 100 per cent tax on all improvements in land values after 1973.
77. *Small is Beautiful*, pp. 18, 254–73. On Scott Bader, see Fred H. Blum, *Work and Community* (London: Routledge & Kegan Paul, 1968); and Folkert Wilken, *The Liberation of Work* (London: Routledge & Kegan Paul, 1969), which contains a foreword by Schumacher.
  78. Susanna Hoe, *The Man Who Gave His Company Away* (London: Heinemann, 1978), pp. 12–68. Robens was chairman of the National Coal Board from 1961 to 1971; Weinstock was, and in 1987 remained, head of the huge British-based multinational General Electric Company.
  79. See above, p. 216 and note 23.
  80. W. Beckerman, 'Small is Stupid', *op. cit.*, p. 15; cf. G. Vandewalle, 'Romanticism and Neo-Romanticism in Political Economy', *History of Political Economy* 18, 1986, pp. 33–47.
  81. Wood, *op. cit.*, pp. 240–5.
  82. A. Das, *Foundations of Gandhian Economics* (New York: St. Martin's Press, 1978).
  83. R. Diwan, 'The Economics of Love; or, an Attempt at Gandhian Economics', *Journal of Economic Issues* 16, 1982, pp. 413–33.
  84. *Small is Beautiful*, p. 42, citing Edward Copleston.
  85. *Ibid.*, pp. 39–40, 45–6.
  86. Schumacher was president of the Soil Association of Great Britain, which promotes organic farming. He was a keen gardener, and always attributed the shift in his ideas to his personal contact with the soil (Wood, *op. cit.*, pp. 236–7).
  87. *Small is Beautiful*, pp. 10–18, 93–107.

# 11 Conclusion

In the opening chapter it was suggested that economic heresy can be interpreted as deviant science. The literature on the sociology of science yielded a number of hypotheses concerning both resistance to unorthodox ideas and those occasions on which mainstream economists became more receptive to dissident arguments. Heretics might be opposed on grounds of scientific rigour, their arguments being seen as incoherent, unclear, or irrelevant to the tasks at hand. Considerations of professional pride might be involved, both in the cases of 'trespassers' from another scientific discipline and where untrained amateurs are involved. Intellectual conservatism may predispose the practitioners of Kuhnian 'normal science' to resist innovation, and to do so more vigorously the greater the depth and breadth of the challenge to existing orthodoxy. Finally, political motives might operate if new ideas were seen to threaten existing power structures and vested (especially class) interests.

Conversely, heretics may gain a hearing because of their competence, or due to a perceived improvement in the quality of their work, or as the result of a loss of professional self-confidence among economists, inducing a greater willingness to listen to outsiders. Increased acceptance may also occur if there is a Kuhnian theoretical crisis, when the whole basis of established scientific practice is placed in doubt and novelty no longer appears as an irritating distraction or as a threat. Heretics may also prosper during an economic or social crisis which induces radicalisation and a growing openness to new ideas.

## I

Apart from Cayley (who was ignored), all our heretics faced *charges of scientific incompetence*, either from their contemporaries or from later critics. It was rarely a question of demonstrable logical error, though this was alleged against Douglas's A + B Theorem and (early in his career) against Hobson's underconsumptionist attack on Say's Law. Accusations that the canons of scientific rectitude had been breached were generally more sophisticated. It was alleged, for example, that orthodox analysis had been misunderstood, leading to misdirected criticism and the unnecessary formulation of a rival

theory (Andrews; Schumacher). It was argued, too, that unwarranted conclusions had been drawn from a broadly correct – if limited – grasp of accepted ideas (George). A third basis of opposition to heresy was its derivation from an alternative, unacceptable intellectual tradition, which allowed it to be rejected *a priori* (Steuart; Baran). Finally, dissident writings were dismissed as incoherent, confused, unclear, and therefore unscientific (Bray; Douglas; to a certain extent also Hobson and Schumacher). There was some justice in these charges, but also enough of value in the work of the heretics (and sufficient defects in orthodox analysis throughout its history) to suggest that other considerations were relevant to their rejection.

*Wounded professional pride* played no part in the reception afforded to the first three of our heretics, and had little or no bearing on the treatment of the final three. Andrews, Schumacher and Baran all had impeccable scholarly pedigrees. Steuart, Cayley and Bray wrote well before the emergence of economics as a profession, in an era when the contributions of the enthusiastic amateur were taken no less seriously than those of the handful of specialist academics. In the final decades of the nineteenth century this was beginning to change, most rapidly in the United States. Henry George rather revelled in his status as an autodidact, but it probably is true that his position as an unqualified outsider prejudiced the professionals against him. In Britain the amateur tradition persisted much longer. Membership of the Royal Economic Society, founded in 1890, was deliberately not restricted to academics, and as late as 1903 they constituted a minority of its officers and councillors.<sup>1</sup> The vehemence of Edgeworth's reaction to *The Physiology of Industry* seems to have owed much more to the nature of the ideas advanced by Hobson and Mummery than to the fact that one was a temporary extramural lecturer and the other a businessman. Even Douglas, the engineer, was treated with respect by a profession many of whose luminaries – including Hawtrey and Keynes – had moved into economics from other disciplines.

Those heretics who fell foul of professionalism did so for rather different reasons. Hobson and Baran in particular were impatient of the increasingly rigid divisions separating economics from the other social sciences, and were not afraid to say so. The motto of Baran's and Sweezy's *Monopoly Capital* is the Hegelian aphorism 'The truth is the whole', a sentiment with which Hobson, a man of wide-ranging interests in a number of academic disciplines, would have

heartily concurred. The *Economic Journal's* failure to review his most important book, *Imperialism*, is symptomatic of the jealousy with which mainstream economists were coming to defend the boundaries of their subject. The historicist influence of German political economy meant that the situation in the United States was for a time rather more fluid, as Hobson's ability to attract a following there indicates. Professional defensiveness has since intensified. Recently George Stigler explained the absence of a Nobel Prize in political science with the remark that they already had one in literature, and another economist commented that 'political scientists think the plural of anecdote is data.' Their views on sociology are not reported.<sup>2</sup> In the face of attitudes like these, writers who – with Hobson, Baran and Schumacher – attack the methodological independence of economics and seek to undermine its very identity as a separate science can expect no mercy.

Those heretics who respected the customary intellectual demarcation lines, but challenged the analytical framework underpinning the integrity of the discipline, became victims of *professional conservatism*. Kuhn's account of the dogmatism of 'normal science' goes a long way to explaining the treatment of Andrews by neoclassical microeconomists. Reinforcing the other grounds for hostility towards them, scientific conservatism also operated against Hobson and Schumacher. Thus

The attempt of Hobson and Mummery to upset the laws of economic theory was regarded in the same light as would be an attempt to deny the validity of the laws of a physical science. To assert the possibility of general over-production was in fact almost analogous to an assertion that the earth was flat; the acceptance of either proposition would involve the adoption not only of a new system of laws but also of a new terminology.<sup>3</sup>

At the risk of anachronism – there being no economics profession when they wrote – one could argue the same for Cayley and Bray, whose monetary heterodoxies were dismissed out of hand without any attempt at detailed rebuttal. Steuart's rejection by the early disciples of Adam Smith can be interpreted in a similar way.

This explanation does not, however, apply to George, Douglas or Baran. Henry George operated within a Ricardian paradigm which, although somewhat old-fashioned by 1879, was not inconsistent with the marginalist general equilibrium analysis that was rapidly superseding it. Douglas's challenge was mounted only against the

conventional theory of money; its acceptance did not entail the destruction of the other pillars of the orthodox temple. And for most of his lifetime Baran's underconsumptionist ideas were semi-respectable, while his views on the political economy of growth impinged on a branch of the subject where professional consensus had yet to emerge: in Kuhnian terms development economics was at the pre-paradigmatic, pre-scientific stage.

Many economic dissidents saw *political motives and vested (particularly class) interests* as dominating their critical reception. In the case of Baran was certainly true. As Henry George argued, the existence of the 'hip-pocket nerve' made it inevitable that such factors came into play:

Macaulay has well said that if any large pecuniary interest were concerned in disputing the attraction of gravitation, that most obvious of all facts would not yet be accepted. What, then, can we look for in the teaching of a science which directly concerns the most powerful of 'vested rights' – which deals with rent and wages and interest, with taxes and tariffs, with privileges and franchises and subsidies, with currencies and land-tenures and public debts, with the ideas on which trade-unions are based and the pleas by which combinations of capitalists are defended? Economic truth, under existing conditions, has not merely to overcome the inertia of indolence or habit; it is in its very nature subject to suppressions and distortions from the influence of vigilant interests.<sup>4</sup>

George was a little too eager to impugn the motives of his adversaries, but even Hobson, who was no one's idea of a paranoid fanatic, could write scathingly about the political attraction of conservative theories of the trade cycle:

The chief reason why the monetary explanation of depression . . . prevails in well-to-do business circles is that it proceeds from a self-protective instinct. The new class-consciousness of the workers . . . [has] so alarmed the rich with threats of taxation and seizure of their seats of economic power as to drive them to find new defences. So they take refuge behind the complicated obscurities of monetary policies, and set up this golden calf for their economic worship. They are afraid that a fair approach towards equality of incomes must mean the 'confiscation' of those rents, surplus profits, monopoly, and other excessive gains, contrived, fortuitous,

or inherited, that constitute great wealth. And no doubt they are right.<sup>5</sup>

Academic economists, Hobson believed, were no more disinterested:

The price which universities pay for preferring money and social position to intellectual distinction in the choice of chancellors and for touting among millionaires for the equipment of new scientific schools is subservience to the political and business interests of their patrons: their philosophy, their history, their economics, even their biology must reflect in doctrine and method the consideration that is due to patronage, and the fact that this deference is unconscious enhances the damage done to the cause of intellectual freedom.<sup>6</sup>

On this view politics governs not merely the reception of economic ideas, but also their development and propagation.

This was not, of course, the whole story. For one thing, the intensity of class conflict varies over both time and space. This can be expected to affect both the degree of ideological resistance to radical ideas and the manner in which it operates. Moreover, Hobson's own account hints at the possibility that some heretics might gain support from the rich and powerful; the 'complicated obscurities' of Douglas's monetary theories provide an excellent example, and may well have been what Hobson had in mind. Nor can the rejection of the conservative heretics – Stuart, Cayley and Andrews – be attributed to the ruling-class fear of socialism. Indeed, these three cases suggest that the relationship between politics and the acceptance of unorthodox ideas can be a very complex matter. To the degree that hostility to Stuart and Cayley had a purely political basis, it was largely a question of one section of the ruling class in opposition to another: monopolists, paternalists and landlords against liberal manufacturers and traders. Schumacher, too, appealed to some elements of the prevailing ideology (the importance of work, individual initiative, small business) while attacking others (big business, nuclear power, growth as an end of economic activity). And a significant reason for Andrews's isolation was his apparent identification with the captains of industry at a time when most economists were deeply suspicious of unbridled capitalism. Political motives can work both ways.

## II

The history of economic heresies does not reveal a continuous and unyielding hostility to unorthodox ideas. How then are we to account for those periods of relative openness to dissident views? *High (or improved) scientific standards* certainly played a part. They operated negatively in the case of Steuart, whose declining reputation was due in no small part to the increasing sophistication of mainstream economic analysis in the age of Ricardo. Steuart's incapacity for formal model-building was cruelly exposed, and his powerful historical vision proved to be inadequate compensation. Similarly, Schumacher's deliberate refusal to engage in rigorous analysis cannot have improved his chances of gaining a professional following. In a positive sense, this factor benefited George and also – as his analytical abilities grew – Hobson. Both men used abstract arguments with competence and a certain flair, revealing a talent for theoretical work which was acknowledged even by their opponents. At the other extreme was Douglas, whose partial emergence from the economic underworld after 1929 owed little to any sharpening of his intellectual faculties.

Douglas's reputation grew largely as a result of the Great Depression and the failure of conventional analysis to offer either an understanding of the economic crisis or a coherent solution to it. Hobson's new-found respectability in academia was also attributable to the general *loss of professional self-confidence* in the wake of the depression. By the early 1930s most economists favoured expanded public works programmes which were inconsistent with the macroeconomic theories they espoused,<sup>7</sup> and were inclined to moderate their hostility to the heresy of underconsumptionism in consequence. This factor could also operate in reverse. Interwar microeconomists did not let the widespread excess capacity and administered prices damage their morale so gravely; if they had, Andrews's anti-marginalist revolution might well have succeeded. And Steuart's eclipse owed much to the growing self-assurance – 'complacency' might not be too strong a word – of British economists in the first half of the nineteenth century.

It is not always easy to distinguish the collapse of professional self-esteem from the third factor favourable to heresy, *a state of scientific crisis* in the Kuhnian sense. The 1930s saw such a crisis in macroeconomics. Both Douglas and Hobson gained from it; so too did Steuart's reputation, as intellectual historians began their search



for the forerunners of Keynes. But the 'Keynesian Revolution' stands alone in the history of economics as being the undeniable outcome of a theoretical crisis. The Smithian and Jevonian revolutions represented more a consolidation of existing theory than a repudiation of it.<sup>8</sup> And the *absence* of a scientific crisis in the 1960s and 1970s – often though it was proclaimed by the hopeful at the time – helped to confine Baran, Andrews and Schumacher to the margins of the profession. Much the same can be said of the impact of *economic, social and political crises*. In their various ways the receptions of George, Douglas, Hobson and – especially in Latin America – Baran demonstrate how heresy thrives in depression. Conversely, the failure of Steuart, Bray and (as he himself realised) Cayley was accelerated by the prevailing conditions of strong growth and prosperity.

One important conclusion to emerge from a study of economic heresy is thus that economists do not live in ivory towers and are unavoidably open to 'external' influences, in Spengler's use of the term (see chapter 1). They are social beings who work with (and often against) others in a social context, and study the workings of economic society. Thus their ideas evolve under the impact of Spengler's 'ideational' and 'conceptual' factors,<sup>9</sup> which are closely related to professional self-confidence and its loss, and of those 'ideological' and 'non-intellectual' factors which accompany a state of scientific crisis or of sociopolitical instability. This is not to claim that orthodox economists are nothing more than Marx's 'hired prize-fighters of the bourgeoisie', although there is (as George and Hobson suspected) an element of truth in the charge. It is, rather, to recognise that economics is a social science and economists are social agents. The agenda of economics, its problems and their solutions, are necessarily historically and socially conditioned. Only rarely is this conditioning as blatant and as crude as in the conservative campaign against Paul Baran; but it is always there.

It is necessary to insist upon this seemingly obvious point only because orthodox theorists so often assert their complete independence of and insulation from the pressures of the outside world. Like many historians of their ideas, most economists adhere to the notion that purely 'internal' influences have dominated the development of economic thought, which can therefore be characterised in terms of an autonomous and uninterrupted growth of scientific knowledge. The experience of the heretics not only belies these claims but also reinforces doubts already expressed

about the very concept of 'scientific progress' in economics. Errors exposed in the natural sciences tend not to be repeated. No one today asserts the existence of phlogiston,<sup>10</sup> and few believe that the earth is flat. Economic heresies tend to *recur*, whether they involve underconsumption, the exploitation of labour, denial of the invisible hand, rejection of monetary measures of human welfare, or suspicion of marginalist theories of price. Economic ideas seem to move in cycles rather than exhibiting progressive growth.<sup>11</sup>

This process of intellectual reincarnation has gone hand in hand with a factor insufficiently appreciated in the literature on deviant science: the importance of personality in the success or failure of heterodoxy. Those heretics who were loners, suspicious of their colleagues or indifferent to their critics tended (like Cayley and Andrews) to isolate themselves and marginalise their ideas. The separation may be physical rather than spiritual: the gregarious Bray, for example, might have been much more influential after 1840 had he settled in London or New York. Heretical ideas flourished most and survived longest when they became the property of distinct and stable groups, whether tiny sects or mass political movements. George and Douglas are the two most obvious examples of this process, while both Hobson and Baran succeeded, to a lesser extent, in embedding their arguments within contemporary socialism and thereby secured a base of support. Steuart and Schumacher, on the other hand, had no such ready-made constituency. Perhaps it is only to be expected that the fate of idiosyncratic ideas should depend, to a considerable extent, upon the idiosyncracies of their inventors.

## NOTES

1. A. W. Coats, 'The Origins and Early Development of the Royal Economic Society', *Economic Journal* 78, 1968, pp. 349–71.
2. R. Kuttner, 'The Poverty of Economics', *Atlantic Monthly*, February 1985, p. 79 (I am grateful to Fred Lee for this reference).
3. M.P. Schneider, *Underconsumption and Imperialism: A Study in the Work of J. A. Hobson* (unpublished M.Sc. dissertation, University of Cambridge, 1959), p. 21; cf. Hobson, *Confessions of an Economic Heretic* (London: Allen & Unwin, 1938), p. 30.
4. H. George, *The Science of Political Economy* (London: Kegan Paul, Trench, Truebner & Co., 1898), p. xxxiii.

5. J. A. Hobson, *Rationalisation and Unemployment: an Economic Dilemma* (London: Allen & Unwin, 1930), pp. 135–6.
6. Cited in L. Barnes, *Empire or Democracy? A Study of the Colonial Question* (London: Gollancz, 1939), pp. 105–6.
7. See for example T. W. Hutchison, *Economics and Economic Policy in Britain 1949–1966* (London: Allen & Unwin, 1968), pp. 277–301.
8. T. W. Hutchison, *On Revolutions and Progress in Economic Knowledge* (Cambridge: Cambridge University Press, 1978), pp. 286–320; M. Bronfenbrenner, ‘The “Structure of Revolutions” in Economic Thought’, *History of Political Economy* 3, 1971, pp. 136–51; C. D. Goodwin, ‘Toward a Theory of the History of Economics’, *History of Political Economy* 12, 1980, pp. 610–19.
9. J. J. Spengler, ‘Exogenous and Endogenous Influences in the Formation of Post-1870 Economic Thought’, pp. 159–87 of R. V. Eagly (ed.), *Events, Ideology and Economic Theory* (Detroit: Wayne State University Press, 1968).
10. Phlogiston, also known as ‘the matter of fire’ and ‘the principle of flammability’, was the hypothetical substance supposedly found in all combustible bodies and released during combustion. Belief in its existence did not survive the advent of scientific chemistry.
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