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### **John Atkinson HOBSON (1858–1940)**

*John E. King*

John Atkinson Hobson was born in Derby on 6 July 1858, into a prosperous middle-class family. After reading classics at Oxford he became a school-teacher and extension lecturer in English and, for a time, in Economics, in which he was entirely self-taught. Hobson's heretical views made it impossible for him to obtain a regular university teaching position, and he spent most of his life as a freelance writer, publishing over 50 books in addition to innumerable articles in the radical press.

A leading theorist of 'New Liberalism', which attempted to synthesize liberal and democratic socialist ideas, Hobson resigned from the Liberal party in 1916 in protest at its war policy. He subsequently joined the Independent Labour party and, through it, the Labour party itself, exercising a profound influence on its economic thinking throughout the interwar period. Hobson continued to publish prolifically until his eightieth year. He died on 1 April 1940.

Hobson's intellectual interests were unusually wide-ranging, encompassing sociology, ethics, the rationalist critique of religion, and political theory, in addition to economics. His sources were equally diverse, including Spencer, Ruskin, Veblen, John Stuart Mill and Henry George. As an economist he is best-known, first, for his underconsumptionist theory of crisis which to some degree anticipated – and was in some ways superior to – the demand-deficiency theory of John Maynard Keynes and, second, his economic interpretation of imperialism, which attracted the interest of Lenin. No less important, but often overlooked, were Hobson's analysis of income distribution (in which he generalized the concept of rent to derive an idiosyncratic, non-Marxist theory of exploitation and economic surplus) and his critique of orthodox welfare economics. Hobson's continuing interest in economic policy found expression in a tireless campaign for the redistribution of income, selective public ownership of industry and international economic cooperation.

The central themes of Hobson's underconsumptionism were set out in 1889 in his first book, written with the businessman and mountaineer A.F. Mummery. In *The Physiology of Industry*, Mummery and Hobson identify over-saving as the underlying cause of trade depression. Their analysis is non-Keynesian, in the sense that savings are always invested, adding to society's stock of capital. Excessive levels of saving push up the ratio of

capital to consumption above that consistent with macroeconomic equilibrium and a crisis of over-production ensues, with heavy unemployment and falling wages. Although a private virtue, Mummery and Hobson argue, thrift had become a social vice. Fiscal policy should discourage saving, and the labour market should be regulated to protect the interests of the workers.

After Mummery's death in 1895 during an unsuccessful attempt on Nanga Parbat, Hobson developed and refined their analysis but never repudiated its fundamentals. For instance, *The Physiology of Industry* did not contain a convincing explanation of the forces giving rise to a tendency for excessive saving. This gap was filled in 1902 in Hobson's *Imperialism*, when he attributed over-saving to the maldistribution of income:

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. (*Imperialism*, p. 83)

For the rest of his life Hobson would advocate egalitarianism and increased expenditure on social welfare, not merely on humanitarian grounds but also as an essential weapon against over-saving.

Orthodox economists were strongly opposed to Hobson's crisis theory, though it took the Great Depression to provoke explicit and detailed criticisms of his ideas. Their objections were two-fold. First, investment led to reduced costs and lower prices, which would stimulate consumption. Second, any tendency to over-saving would be rapidly reversed by a decline in the rate of interest. Both claims had been rejected, somewhat unsatisfactorily, in *The Physiology of Industry*. In his *Economics of Unemployment* (1922) and, more especially, in *Rationalisation and Unemployment* (1930), Hobson launched a more considered counter-attack. On the one hand, the price level was unlikely to fall, he maintained, since monopoly power involved rigid prices and widening profit margins. On the other hand, lower prices would lead to lower money incomes and reduced demand. Nor was saving at all sensitive to changes in the rate of interest; it was rather a function of the level and distribution of income.

In these later writings Hobson anticipated both the model of monopoly capitalism associated with the work of Paul Baran and Paul Sweezy, and some important aspects of the economics of Keynes, who praised Hobson in the *General Theory* and with whom he corresponded in 1931 and again in 1936. Towards the end of his life Hobson made significant concessions to

Keynes's theory of under-investment (see for example 1938, pp. 192–3), without abandoning his own contention that crises could also result from over-investment. In this he has been vindicated by the Harrod–Domar growth theory, which stresses the capacity-increasing effect of investment and the potential problems of effective demand which this creates.

Hobson's theory of imperialism represented less a direct challenge to contemporary orthodoxy than the application of economic ideas to issues which were generally regarded as essentially non-economic in nature. Drawing on his experiences in South Africa, where he was sent as correspondent of the *Manchester Guardian* during the Boer War, Hobson pointed to the intimate connection between economic interests and political decisions. Overproduction had led to the dumping of surplus output in export markets, and over-saving had induced desperate attempts to find overseas outlets for surplus capital. Powerful financial lobbies had seized control of Britain's foreign policy to assist them in this, and were promoting militaristic and chauvinistic attitudes among the population at large. Over-saving, then, was 'the economic tap-root of imperialism', which could be combated only through social reforms to redistribute income and expand the home market.

This analysis, if not the associated policy conclusions, was taken up by Marxian theorists of imperialism, most notably by Rudolf Hilferding in his discussion of 'finance capital' and – very much less systematically – by Lenin. Hobson himself was not entirely consistent on the question, sometimes largely ignoring it and on occasion evidencing a much more sanguine view of the prospects for international capitalist cooperation along the lines of Karl Kautsky's notion of 'ultra-imperialism'. At other points, especially in the 1930s, Hobson brings to mind Rosa Luxemburg in arguing that imperialist expansion was inherently contradictory. Once absorbed by the metropolitan powers, peripheral areas no longer offered 'external' outlets for surplus capital, making the crisis of over-saving a truly global one (1932, p. 26).

The third central feature of Hobson's economics, closely related to his views on underconsumption and on imperialism, was his distribution theory. First proposed in *The Physiology of Industry*, the analysis was fully developed in his *Economics of Distribution* in 1900. Hobson followed his friend Sidney Webb in generalizing the concept of economic rent from land to labour, capital and entrepreneurship. All payments to owners of productive inputs in excess of their minimum supply prices constituted 'forced gains' or 'surplus' income. Imperfections in competition were pervasive, Hobson argued, and the resulting surpluses were correspondingly large. Factor prices depended on the respective bargaining strengths of their suppliers. Labour in particular was at a permanent disadvantage relative to the owners of capital; this was reflected in the very large share of the total product which accrued as profits.

In principle none of this was inconsistent with the marginal productivity theory of relative income shares which John Bates Clark was advocating at the end of the last century. Then, as now, neoclassical writers tended to assert that competition was powerful enough largely to eliminate monopoly and monopsony power, which Hobson denied. This is an empirical question, on which Hobson's position is arguably the more plausible; no really important theoretical issue is at stake. Indeed, in two articles in the *Quarterly Journal of Economics* in 1891, Hobson had formulated his own analysis in marginal productivity terms. But in *The Economics of Distribution* he repudiated the whole Clarkian approach on the grounds that the marginal products of individual units can never be identified.

This was sufficient – it may not have been necessary – for his theory to be ignored by orthodox economists, or treated with disdain. It was, however, of great importance for the Hobsonian system. Surplus incomes were the source of the vast inequalities which he despised; they were the basic cause of oversaving, trade depression and imperialism. For Hobson ‘the problem of absorbing the “surplus” for social uses’ (*Poverty in Plenty*, 1931, p. 35) was the most fundamental of all macroeconomic issues.

Hobson was also extremely hostile towards neoclassical welfare economics. Here he drew heavily on the passionate if rather diffuse humanism of John Ruskin and on the more biting criticism of Thorstein Veblen, in addition to his own ideas on ethics and social philosophy. In *The Industrial System*, Hobson argued for a ‘human interpretation of industry’ in which the quality of working life was given equal weight with the satisfactions afforded to the consumers. Twenty years later, in his *Wealth and Life*, he returned to this theme, attacking orthodox thinkers like Mill, Marshall and Pigou for failing to transform economic into human values. True wealth involved more than material goods, Hobson maintained. Under capitalism, individuals were alienated both at work and in consumption. Human personality, social relationships and individual creativity were all conditioned by productive activity and in consuming. None of these dimensions, according to Hobson, was adequately dealt with by orthodox economic analysis. A ‘new utilitarianism’ must be derived, which would take into account physical, intellectual and moral satisfactions and replace the neoclassical view of economic welfare with a more rounded conception of ‘organic’ well-being.

The breadth of Hobson's theoretical perspective was reflected in his writings on economic policy. Always a social reformer, he was by 1920 a socialist. But his was a socialism of an idiosyncratic kind, neither Fabian nor Marxist. In *The Physiology of Industry*, Mummery and Hobson had urged the redistribution of income through progressive taxation, both to promote social justice and to counteract the tendency to over-saving. They endorsed trade unionism for similar reasons, and throughout his life Hobson opposed wage reductions

as a cure for trade depression. *Imperialism* added an extra dimension to his argument. Social reform was now seen as an essential means of avoiding war: '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' (*Imperialism*, p. 90).

At this stage 'socialism' still meant little more to Hobson than redistribution and social welfare expenditures; in short, a welfare state. He later came to see state ownership of industry as the only way in which the abuses associated with monopoly power could be contained. But Hobson advocated a mixed economy rather than comprehensive nationalization. Public ownership should be confined to industries where mass-production techniques were indispensable, and large-scale operation could not be avoided. In other branches of industry, state control would stifle craftsmanship and individual initiative, and 'as much as possible of production and consumption [should] participate of the nature of the fine arts' (*Wealth and Life*, p. 327).

All this was set against the background of an internationalism which owed more to Cobdenite liberalism than to Marxian revolutionary proletarian solidarity. Hobson was a tireless advocate of international economic cooperation, both to protect the interests of workers in the high-wage countries and to promote the development of the more backward regions. Always suspicious of the relevance of orthodox trade theory to a world of unemployment and crisis, Hobson was nevertheless no protectionist. He mourned the passing of free trade in 1931, but called, as so often in the past, for the international coordination of economic policy to stimulate consumption demand, adding a case for the establishment of a world bank. An internationally planned recovery, Hobson argued, offered the only realistic prospect of a return to free trade.

Orthodox economists were generally dismissive of Hobson's economic heresies. As far as his underconsumptionism was concerned, the tone was set by Edgeworth's hostile review of *The Physiology of Industry*, which in the longer term effectively excluded Hobson from British academia. Not until the 1930s had the climate changed sufficiently for him to receive some of the credit which he was due, and even then it was very much a case of reflected glory from Keynes. Hobson's theory of imperialism was neglected or opposed by neoclassical writers: sympathetically by Pigou, less so by Robbins; only the Marxists took it at all seriously. His views on income distribution and economic welfare made even less of a mark on professional economists, at least in Britain. (In the US, where the institutionalist tradition was much stronger, he found a somewhat friendlier reaction.) Hobson's greatest influence was at the political level. In 1928 he was described as 'economist "by special appointment" to the British Labour Party' and, to the extent that the programme of the 1945–50 Attlee government had any coherent intellectual basis, Hobson supplied it.

Of his theoretical contributions, only Hobson's theory of income distribution has sunk without trace. Something close to his theory of over-saving continues to thrive on the margins of Marxian and post-Keynesian political economy, along with his analysis of imperialism. And Hobson's quest for a humanist economics of welfare, however unsuccessful it might have been, finds an echo among many modern socialists and in the green movement inspired by E.F. Schumacher.

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