

J.A. Hobson and the economists

Abstract: *Although a prolific and accomplished writer in the field of economics, Hobson was marginalized by the economics profession. His marginalization can be related to the theory of cultural evolution. His ideas were not proven wrong, but they failed to survive and propagate because of environmental influences within academe. Some of these influences include the desire to preserve intellectual investments, the status-driven preference for theory that mimics the hard sciences, the effect of business interests on faculty selection, and the allure of teaching convenience. The same influences arguably continue to condition the development of economics.*

Key words: *cultural evolution, humanist economics, J.A. Hobson.*

I myself can well remember, from my undergraduate days, the vindictiveness with which I heard Hobson's subversive notions assailed—with the natural consequence that I began reading his books with a strong predisposition in their favor. (Cole, 1940, p. 354)

J.A. Hobson, as an economist, demonstrated an extraordinary range of expertise and original thought over a number of fields. His erudition was matched by a creative energy displayed in a bibliography of his work that includes over 50 books and covers 26 pages (see Pheby, 1994, pp. 252–277). He was famously cited by both Lenin and Keynes as their forerunner, and his book, *Evolution of Modern Capitalism* (1938, p. 758), which J.R. Commons noted had become more authoritative than Marx, was used as a text in many colleges and universities during his lifetime. Yet, in his native England, Hobson was never able to obtain an academic post and managed to publish just one article in an English

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academic journal.¹ His autobiography, *Confessions of an Economic Heretic*, makes no secret of his disappointment that he was never able to pursue his economic studies “in the quiet atmosphere of academic life where I could have developed in a more orderly way my humanist theory, and tested it by lectures and discussions among serious-minded students” (Hobson, 1938, p. 83).

John Maynard Keynes who wrote a scathing review of one of Hobson’s books and who was responsible for the rejection of a least one submission to the *Economic Journal*, expressed surprise late in Hobson’s life that he was prevented from teaching even extension courses in political economy. “What a disgraceful old crew these orthodox gents were,” Keynes wrote to Hobson, adding on a consoling note that Hobson would be “remembered as a pathbreaker in economic theory,” whereas his critics would be forgotten (quoted in Schneider, 1996, p. 4).

Hobson identified himself as a humanist economist and distinguished his approach from what he was one of the first to label—neoclassical economics. Economics has always stood uneasily between the sciences and the humanities, and over the past century the dominant trend has been to regard it more as a mathematical science akin to physics. The publication of Alfred Marshall’s *Principles of Economics* in 1890 can be seen as the beginning of this trend. Today, the neoclassical hegemony at major universities is undisputed. As E.R. Weintraub writes in *The Fortune Encyclopedia of Economics*, economists from nonorthodox schools “are regarded by mainstream neoclassical economists as defenders of lost causes or as kooks, misguided critics, and antiscientific oddballs. The status of non-neoclassical economists in the departments of economics in English-speaking universities is similar to that of flat-earthers in geography departments: it is better to voice such opinions after one has tenure, if at all” (1993, p. 137).

J.A. Hobson’s career coincided with the solidification of the neoclassical approach, with its closing of ranks against dissidents. The reason for his rejection as a University of London extension lecturer, Hobson discovered, was “the intervention of an economic Professor who had read my book [*The Physiology of Industry*] and considered it as equivalent in rationality to an attempt to prove the flatness of the earth” (Hobson, 1938, p. 30).²

¹ He was offered two academic positions in the United States, however, and published in the American publications, *Journal of Political Economy* and *Quarterly Review of Economics*.

² Keynes persuaded Hobson to give him the name of the professor who intervened. Hobson related that it was Herbert Foxwell (Schneider, 1996, p. 6).

There are two ways of viewing the historical development of economics. One approach is conditioned by the faith that economics is guided by an invisible hand (Solow, 1999, p. 28) that weeds out bad theory, leaving what is good and true to be passed along to the next generation. Under this view, which is dominant today in the best universities, there is no reason to study the history of the discipline apart from intellectual curiosity. Predictably, very few Ph.D. programs in economics require knowledge of anything but the most recent theoretical developments. Another view is that the survival of certain ideas and the rejection of others may be due to a myriad of factors, and that as a result, sometimes ideas that have not been proven incorrect will fall by the wayside. This view relates to ideas on cultural evolution presented by a number of writers including Richard Dawkins (1976) and F.A. Hayek (1988). Under the evolutionary interpretation of intellectual history, rejected ideas, if they have some validity, can crop up again in the minds of independent thinkers. But if the environment continues to be unfavorable, the ideas will never propagate in the mainstream and will survive only in an academic underworld.

Under the dominant view, Hobson's economic theories ought to be forgotten since they have failed to survive within the academy. In this paper, I explore the alternative hypothesis that Hobson made valuable contributions and that their rejection by mainstream economists can be explained in terms of cultural evolution. Whereas many of his ideas are persuasive and suggestive of further research, the climate of academic economics has proven hostile to their survival and propagation. A reviewer (Wolfe, 1939) of *Confessions of an Economic Heretic* wrote that Hobson's best-known heresies—his doctrine of underconsumption and his view of economics as a humane discipline—had already been accepted into the mainstream. His assessment, as we shall see, was premature.

Hobson's plea for a humanist economics

As well as setting economics on the path to becoming a mathematical discipline, Marshall's *Principles of Economics* is also famous for being the first major treatise to label what had formerly been known as Political Economy as Economics. The marginalist revolution was giving the discipline a mathematical makeover, and theorists thought it time for a more scientific-sounding name to match. William Stanley Jevons asserted with great conviction that economics was a quantitative discipline expressible only in mathematics, and that "it would be well to

discard, as quickly as possible, the old troublesome double-worded name of our Science” (quoted in Skousen, 2001, p. 194).

Hobson wrote with equal conviction that economics was a *qualitative* science and that the resolution of qualitative into quantitative was not an abstraction but a distortion. Similarly, just as the profession was moving toward greater focus and more narrow specialization, Hobson was arguing that economics needed to be more interdisciplinary.

Hobson was influenced by John Ruskin, the British art critic and social commentator who inspired the Arts and Crafts movement. Ruskin was critical of the crass materialism of the industrial age, coining the term “illth” to refer to ugly, ostentatious consumption. From Ruskin, Hobson derived the idea that the study of consumption, and work, cannot proceed without considering values. His claim that economics was a qualitative science relates to the necessity of considering values at every stage in the analysis. But Hobson’s approach to the study of consumption is at odds with the standard approach in economics of taking tastes and preferences as given and of making a clear-cut distinction between normative and positive statements.

The late Tibor Scitovsky, who established a reputation as a respected neoclassical welfare economist, independently rediscovered Hobson’s insights about the importance of a qualitative study of consumption in the 1970s, resulting in the publication of his book *The Joyless Economy*. His experience in trying to get financial and moral support for his research in this area is instructive.

The beginning was auspicious enough. I had a good idea, and the Rockefeller Foundation’s gracious invitation to spend a month at their Italian villa enabled me to develop it to book size. The setbacks came later. . . . I tried to get financial support . . . but the enquiries were rebuffed and my formal applications rejected by just about everybody, from the National Science Foundation on down. (Scitovsky, 1976, pp. xiv–xv)

He recalls the initial gentle discouragement from his friends and colleagues and then the unanimous hostility from economists when he presented his ideas in lectures. The discomfort that Scitovsky’s work engendered is probably analogous to that caused by Hobson’s. Their work challenges fundamental assumptions about how economics should proceed. The fear of mixing economics up with things like aesthetics and ethics is the fear of having it degenerate into a softer, lower status field of study.

Warren J. Samuels (2002) writes of the effect of “status emulation” on the development of economics. Early in an economist’s training,

choices as to where to study, what to study, and how to study it are conditioned by considerations of status. Today, highly abstruse theoretical work carries more status than policy analysis, empirical work, or scholarship in the history of economic thought. High status contributions display a mathematical virtuosity requiring a level of intelligence with which few are endowed. Like a peacock's plumage, the theorems and proofs of a high-status paper signal desirable qualities. Although the mathematical display may not be useful in itself, its signaling function can serve in the selection of candidates for positions at prestigious institutions. The status of the work derives from the status of the rewards that it generates.

In Hobson's opinion, however, the dominant force in setting the direction for mainstream economics was political. He noted how economists were narrowing their focus, avoiding the term *political economy* "at a time when political forces and actions influence economic thought and policy more than ever before" (Hobson, 1938, p. 127). After being rejected as a university extension lecturer, Hobson took up journalism. An article he wrote on the Boer War inspired L.T. Hobhouse, of the *Manchester Guardian*, to recruit him as a correspondent reporting from South Africa. Hobson was later to say that his time in South Africa provided him with a changed perspective on the relationship between economics and politics. It was there that he saw a particularly brutal form of capitalism in which the driving forces were powerful business interests. According to Hobson, these interests were able to exert influence over policy-makers, the press, and academic economic thought.

No one can follow the history of political and economic theory during the last century without recognizing that the selection and rejection of ideas, hypothesis, and formulae, the moulding of them into schools or tendencies of thought, and the propagation of them in the intellectual world, have been plainly directed by the pressure of class interests. In political economy, as we might well suspect, from its close bearing upon business and politics, we find the most incontestable example. (Hobson, 1965, pp. 218–219)

He noted that the problem was not cynicism on the part of teachers "who commonly think and teach according to the highest that is in them" (*ibid.*, 1965). Rather, he thought the influence came more in the selection of those who were appointed to teaching positions and in the determination of what subjects would be taught. His position is one that economists do not voice often, although Joan Robinson (e.g., 1962, p. 1) is a notable exception.

Hobson on neoclassical distribution theory

Hobson counted as his most destructive heresy his view that markets are essentially unfair modes of distribution (Hobson, 1938, p. 168). He thought the neoclassical theory of distribution only served to justify the status quo and could not be defended on rational grounds. Encounters with neoclassical economists led him to believe that the motive of preserving intellectual investments was a large part of the explanation for their resistance to his arguments.

He had two major objections: first, that it was impossible in theory or practice to disentangle the marginal contribution of separate factors of production (Hobson, 1900, p. 147) and, second, that in almost any trade, bargaining power will determine division of the surplus (*ibid.*, p. 360). In the neoclassical model of perfect competition, there is no surplus in equilibrium on the margin, allowing the theorist to evade sociological issues of how the surplus gets divided.

Like Marx, Hobson recognized class conflict but, unlike Marx, did not predict ahead which class would expropriate any surplus:

the various owners of land, capital, and labour take each according to his strength. Thus emerges the true surplus value, derived not from some vague, unintelligible idea of tyranny, but from the various hindrances to perfect equality of bargaining-power in the owners of the various factors of production and the consequent establishment of different forms and pressures of economic force. (*ibid.*, 360)

Marshall took Hobson's challenge to his theory of distribution seriously enough to reword passages in his *Principles* so as to protect himself against what he thought to be a misinterpretation on Hobson's part. Marshall wrote to Richard Ely:

There is an immense deal that is most fascinating about him; and he is certainly very able. But he is in a hurry; and so he disappoints me whenever the only good work is slow work.

But perhaps like some other oldish men, I have an "epidemic" of supposing that younger men polish off difficulties too hastily. (1961, p. 430)

The suggestion on Marshall's part was that Hobson did not agree with the neoclassical theory because he did not understand it. Marshall's defensive posture is one commonly taken by the mainstream economics establishment when under attack, especially by outsiders. J.A. Schumpeter of Harvard was more blunt about it:

[Hobson] could never understand why professionals did not take to his message and, like so many of his type, was by no means averse to the comfortable explanation that his Marshallian opponents were actuated by an inquisitorial propensity to crush dissent, if not by class interest: the possibility that, owing to his inadequate training, many of his propositions, especially his criticisms, might be provably wrong and due to nothing but failure to understand never entered his head, however often it was pointed out to him. (1954, pp. 832–833 [footnote])

Hobson's major criticisms, however, relate to fundamental issues of methodology, which, by their nature, cannot be provably wrong. For instance, one of his earliest criticisms had to do with the problem of dealing in objective costs and utilities, a problem that has since been generally acknowledged by economists. Writing in 1893:

Objective costs and utilities must be reduced to terms of subjectivity and the relation between the law of the distribution of the objective surplus and the subjective surplus clearly formulated before we can have a science of political economy bearing any assignable reference to human happiness. . . . The purely objective treatment of political economists has been, in fact, responsible for nearly all the clumsy errors which its exponents have made when invited to display their art in advice or prophesy. Until the science is thus subjectivised it can be brought into no true relations either with ethics or politics and is not properly a branch of sociology at all, but what Ruskin called it, a branch of "mental gymnastics." (quoted in Schneider, 1996, p. 25)

Although the problem that Hobson discusses has been acknowledged, the solution was not along the lines he advocated of remaking economics as a humane discipline. Instead, economists learned to perform more sophisticated gymnastics that were not as vulnerable to the same criticism. Instead of referring to marginal utilities, economists now refer to marginal rates of substitution. The notion of Pareto improvements replaces the shakier Marshallian welfare comparisons. The theory remains essentially the same, but the specific criticisms are blunted through selective adaptations. Whether theorists believe the adaptations to be genuine improvements, or merely evasive tactics used to silence critics, cannot be easily ascertained. Hobson's experience convinced him, at least, that "the committal to, and the defence of, dubious assumptions arouse a sense of intellectual property which the owners cannot bear to see depreciated, and for the maintenance of which they will fight with every weapon at their disposal" (1938, pp. 12–13). If he is correct, the sunny view of an invisible hand guiding theoretical developments loses plausibility.

Hobson's macroeconomics

Early in his career, Hobson was surprised by the negative reaction induced by *The Physiology of Industry*, a book coauthored with A.F. Mummery that made the case that economic recessions could be caused by underconsumption. The implication of his theory is that wealth should be redistributed to the poorer classes to create sufficient purchasing power. Another implication is that if the recommended redistribution takes place, the justification for imperialist policy—that new markets and investment opportunities are necessary—would not hold force. It is clear that such a policy recommendation would not sit well with the wealthiest segments of the citizenry who would prefer a theory that leads to a policy recommendation of *laissez-faire*, at least domestically.

In his *General Theory of Employment, Interest, and Money*, Keynes discusses how the underconsumptionist doctrine keeps being rediscovered in economics. He traces it through Petty in the seventeenth century, Mandeville in the eighteenth century, and Malthus in the early nineteenth century. He mentions that John Stuart Mill's refutation of Malthus was based on the Wages-Fund Doctrine and notes,

Mill's successors rejected his Wages-Fund Theory but overlooked the fact that Mill's refutation of Malthus depended on it. Their method was to dismiss the problem from the *corpus* of Economics not by solving it but by not mentioning it. . . . Theories of under-consumption hibernated until the appearance in 1889 of *The Physiology of Industry*, by J.A. Hobson and A.F. Mummery. (Keynes, 1964, p. 364)

In contrast to Keynes, Hobson thought the problem of unemployment was related to the excessive buildup of capital equipment, leaving firms with the ability to produce more than they could profitably sell. Imperialist expansion, he thought, was the result of business interests seeking profitable outlets, as oversaving leads to declining profits at home. Keynes's theory was rather one of underinvestment. The implication from Keynes is that investment spending should be stimulated, if not taken over by the government. For Hobson, such measures would only make the problem worse. He thought the solution to underconsumption was the implementation of policies that would put spending power into the hands of the poor, such as family allowances and minimum wage legislation.

Underconsumption theories are at odds with the neoclassical notion of a self-adjusting general equilibrium system. Within a neoclassical model, prices adjust to clear all markets. Unemployment is a short-run phenomenon due to sticky wages or prices, or to temporary misperceptions caused

by a change in the price level. Hobson, however, did not accept the approach of general equilibrium theorizing. Rather, he expressed sympathy with Veblen's idea of an evolutionary economics employing a methodology of cumulative causation. Veblen believed the equilibrium constructs of neoclassical economists were pre-evolutionary concepts that were not consistent with a dynamic treatment. Similarly, Post Keynesian economists insist on the importance of placing economic theory in historical time and getting away from the timelessness of the equilibrium models. The debate on underconsumption carried out between Ricardo and Malthus can be interpreted as involving this same clash of methodologies (Maclachlan, 1999).

Besides issues of status and acceptability to the dominant class, another consideration affecting the chance that given ideas will survive within the academy is the ease with which they can be transmitted to the next generation. It is far easier to prepare lectures and examination questions on mathematical equilibrium models than it is to teach and assess more discursive methods. Paul Krugman alludes to this issue in an essay on development theorist, Albert Hirschman:

Economic theory is basically a collection of models. Broad insights that are not expressed in model form may temporarily attract attention and even win converts, but they do not endure unless codified in a reproducible—and teachable—form. You may not like this tendency; certainly economists tend to be too quick to dismiss what has not been formalized (although I believe that the focus on models is basically right). Like it or not, however, the influence of ideas that have not been embalmed in models soon decays. And this was the fate of high development theory. Myrdal's effective presentation of the idea of circular and cumulative causation, or Hirschman's evocation of linkages, were stimulating and immensely influential in the 1950s and early 1960s. By the 1970s (when I was myself a student of economics), they had come to seem not so much wrong as meaningless. What were these guys talking about? Where were the models? And so high development theory was not so much rejected as simply bypassed. (Krugman, 1994, p. 47)

Hobson's theory was superior to Keynes's in the sense that it was dynamic and considered the longer-run effect of capacity expansion. But Keynes's theory was susceptible to treatment within an equilibrium framework. J.R. Hicks created the IS-LM model that had the virtues extolled by Krugman above: Keynes's insights were "codified in a reproducible—and teachable—form." The result was that Hicks's interpretation of Keynes's *General Theory* won the day, whereas Hobson's work faded into obscurity.

Although the IS-LM model propagated in mainstream economics, a number of economists including Chick (1983) and Davidson (1972) tried to argue that it seriously distorts Keynes's central message. Even Hicks admitted that he had "become dissatisfied with it" (1980–81, p. 139). Mainstream economists, however, reacted with the same indifference that greeted Hobson's work. Solow, for example, wrote of the Post Keynesian critics of the neoclassical synthesis:

Since the group includes some of the members of Keynes' own circle in the Good Old Days, I am not about to tell them what Keynes Really Thought. I am uncultured enough, however, to think that it is a matter mostly of antiquarian interest. (1979, p. 342)

Conclusion

When he was in his sixties, Hobson wrote a book, *Free-Thought in the Social Sciences* (1926), in which he develops the gloomy thesis that people believe only what they want to believe. True to his view that values cannot be extricated from any study of society, he was acutely aware of the difficulty of achieving a dispassionate objectivity.

Looking over Hobson's career, we find some evidence that confirms his pessimistic view of the development of social thought. We see how the guardians of the orthodoxy (such as the board members of the London University Extension program, G.D.H. Cole's teachers, and Schumpeter) worked to shut him out with ridicule and charges of incompetence. He was attacking their intellectual property in which they had invested heavily, and, quite naturally, they took action to preserve it.

But we can find other influences, beyond the motive to conserve intellectual investments, that created a hostile environment for the type of economics that Hobson was pushing. Hobson, echoing Veblen, noted the effect on universities of the power elite in biasing the selection of faculty in favor of "safe" candidates. Through the allocation of research grants and other privileges, they can continue to influence the research behavior of even tenured professors. The increasing irrelevance and sterility of mainstream economics is consistent with Hobson's hypothesis that business interests will work successfully to thwart any probing, realistic analysis of the economic order.

Two other factors that influence the development of economic thought are status seeking and teaching convenience. We suggest that the bias toward a mathematical modeling in economics that mimics the methods of the physical sciences relates to issues of status. At the same time, the mathematical models are easier to present in lecture and allow for more

convenient testing of students' mastery. The overwhelming success of Marshallian microeconomics in dominating the undergraduate economics curriculum can be plausibly linked to this factor.

Overall, the climate in academic economics is not conducive to the development or propagation of Hobson's ideas, or of his general approach. Fortunately, however, cultural evolution has an important dissimilarity from biological evolution: ideas, unlike species, cannot become easily extinct. As long as books are preserved, the work of the economic heretics can survive and continue to be read, much like the works of antiquity during the Dark Ages.

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