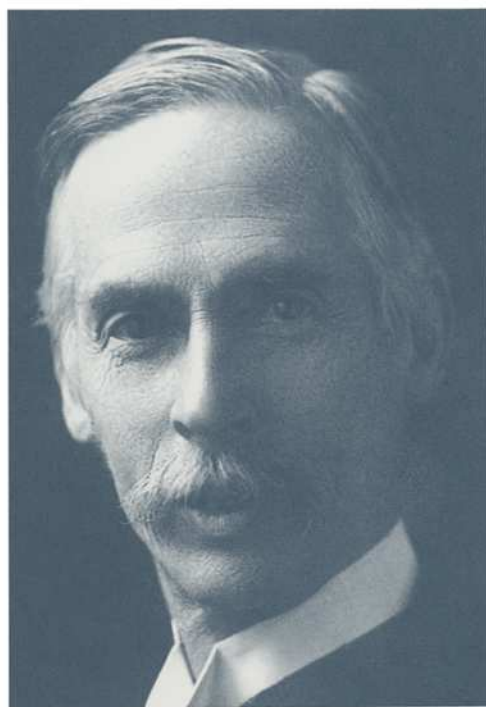


*J. A. Hobson
after
Fifty Years*



*Freethinker of the
Social Sciences*

Edited by John Pheby

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Introduction

John Pheby

In May 1990 I organised a conference in Great Malvern to celebrate the contribution of J.A. Hobson fifty years after his death. I had long been fascinated by his work, since acquiring most of his books during a book-buying spree. Two things immediately struck me about these works. Firstly their incredible range and secondly the contemporary resonance of many of the issues under consideration. I was further puzzled as to why his works had not been viewed as still central to many current debates within the social sciences. There are many reasons for this. One suspects that his multidisciplinary nature has turned many people off who are disinclined to make the effort to understand some of the intriguing linkages that exist in his works.

Furthermore his lack of an academic platform to promote his ideas throughout his life was also unhelpful. There was never going to be a new generation of scholars developing and elaborating his arguments. I have mixed feelings about his lack of an academic career. On the one hand the discipline of such a life might have focused his thoughts. However, Hobson is who he is by virtue of the fact that he did his own thing unconstrained by the artificial barriers so often imposed by academia. Other reasons for neglect and misunderstanding are dealt with in this volume, which is a collection of the papers presented at the Malvern conference. This meeting proved to be a highly stimulating gathering, both intellectually and socially; I am immensely grateful to the delegates for making it such an enjoyable occasion.

I hope that this volume will address some of the important issues surrounding our improved understanding of Hobson's work. Although no single book could cover the entire range of his interests we come close to achieving this. There are contributions from political theorists, sociologists and economists.

The first two chapters, by John Allett and Michael Freeden, deal with important aspects of Hobson's moral and political philosophy. Allett aims to provide a more general and integrative analysis of Hobson's moral philosophy. It is argued that the central concern of his moral philosophy is the attempt to endorse a form of moral relativism appropriate to modern liberalism without letting this dissolve into a fully subjectivist ethics. Two important influences upon morality in late Victorian society were Darwin's

Origin of Species and J.S. Mill's *On Liberty*. Darwin's theory of natural selection led to attempts to establish an objective standard of moral values identical with the workings of nature and which humankind ignored at its certain peril. Conversely, Mill was interpreted as arguing that morality was a cultural achievement and therefore not reducible to biological drives and urges. Allett argues that by the time Hobson came to engage in this debate we can trace strains of emotivism, utilitarianism, neo-Kantianism and evolutionary determinism in his work. However it is argued that a reasonably coherent moral philosophy is developed which is capable of underpinning his wide-ranging interests.

Freeden argues that Hobson was one of the most influential political theorists in Britain at the turn of the century. This is a view not widely recognised in many circles. However it is thoroughly and convincingly developed by Freeden. Indeed it is maintained that Hobson had an important impact on political thought in several areas. Most notably, his sophisticated philosophy left a rich legacy which still aids us in our analysis of liberal welfare thought.

The next two chapters deal with interesting aspects of Hobson's relationship to socialism. Jules Townshend writes on the confusing issue of whether Hobson can be regarded as a thinker in the liberal or socialist tradition. In order to throw some light on this he considers the different interpretations given by Allett and Freeden. Townshend feels that Hobson departed significantly from many of the tenets of liberalism. The very essence of Hobson's organicism clearly led him to play down the role of individual rights. Such rights were only meaningful within the context of an interdependent 'organic' whole. Indeed his organicism ultimately led him to argue that the 'whole' (society) took precedence over its parts (individuals). Consequently certain 'illiberal' tendencies such as his proposal for state regulation of sexual relations are not aberrations when viewed from the perspective of his ontological individualism. Society was a separate entity from the individuals that comprised it. Consequently his liberalism is characterised by some imperfect departures from that paradigm. Townshend then turns his attention to Allett's assertion that Hobson's 'theory of organic surplus' is central to understanding his economic and political philosophy. It is from this theory that the view develops that Hobson viewed capitalism as an intrinsically unfair distributor of wealth. Furthermore the emphasis on the production process being a cooperative activity seems to underline this interpretation. Townshend takes issue with this on two counts.

Firstly, he believes that Allett takes the crucial quotation concerning the organic surplus out of context. This 'theory' was never fully elaborated and is best viewed as Hobson emphasising the notion of the surplus as a means

of arguing that property possesses a social rather than an individual product. Secondly, the surplus referred to derives from the machine process rather than any act of cooperation implied. This also implies that his views on reforming capitalism would have been far more radical. Indeed they would have been more accurately echoed by the revolutionary Marx rather than the reformism adopted.

Why could Hobson's programme be interpreted in such diverse manners? Townshend argues that Hobson had genuinely embarked on a course that endeavoured to synthesise liberalism and socialism. A full consideration of the path that such a synthesis takes leads Townshend to conclude that Hobson is best viewed as an important figure in the development of the British social democratic tradition.

The next two chapters deal with various aspects of *The Physiology of Industry*. Alon Kadish provides us with much fascinating detail concerning the background to the writing of this book. He considers the *Report of the Royal Commission appointed to inquire into the Depression of Trade and Industry*, 1886. After detailing several theories of overproduction and underconsumption in the last quarter of the nineteenth century Kadish argues that the light dismissal of Mummery and Hobson's efforts by Edgeworth misses an important point. That is, their work is best viewed as representing an important step in the elaboration of a systematic and popular alternative to equilibrium economics.

Roger Backhouse also takes a more charitable view towards *The Physiology of Industry*, arguing that it never received the attention it deserved. This is attributable partly to the book's joint authorship. Those primarily interested in Hobson have probably been unsure as to how much is down to Mummery and how much to Hobson, and therefore felt it safer to steer clear altogether. Furthermore, in more general terms, the main interest in Hobson has focused on his political philosophy rather than his economics. Following a detailed and incisive analysis Backhouse regards the book as 'a remarkable piece of macroeconomic analysis'. Mummery and Hobson's statement of the accelerator principle was polished and their treatment of income distribution represented a major advance on those contained in classical theories.

Chapters 7 and 8 deal with later aspects of Hobson's macroeconomics. The first, by Michael Schneider, is a rare contribution that sets out to present Hobson's theories in a systematic model. This approach raises several important conclusions concerning Hobson's model. For example Foxwell and Edgeworth castigated Hobson for suggesting that thrift is not virtuous. Schneider demonstrates that they are both wrong. Rather, Hobson's theory raises an important question that is bypassed in conventional

Keynesian theory, namely whether failure to achieve sustained capacity utilisation is more often due to a fall in the rate of growth in investment demand or a fall in the rate of growth of consumption demand.

John King's chapter considers the widely held view that the essential features of Hobson's macroeconomics – his underconsumptionism, his analysis of the trade cycle, his hostility to primarily monetary theories of depression and his advocacy of income redistribution as a remedy for unemployment – were well established towards the end of the nineteenth century. However the view that his macroeconomics did not develop significantly thereafter is challenged. King argues that during the last decade of his life Hobson's thinking did evolve as he endeavoured to counter various charges of his critics and accommodate changing circumstances. Three aspects are carefully and thoroughly dealt with which illustrate the evolution of his thinking during the period. Firstly, the relationship between monopoly power and underconsumption due to his analysis of the process of industrial rationalisation. Secondly, his reaction to the Austrian objection that any tendency to over-saving would automatically be eliminated through a fall in the rate of interest. Finally, Hobson was forced to confront Keynes's criticism that under-investment, rather than over-saving, represented the fundamental macroeconomic problem.

Chapters 9 and 10 neatly consider important and interesting aspects of Hobson's concerns with international issues. Lars Magnusson considers how imperialism, by the end of the nineteenth century, was widely accepted as a policy by most political groups in Britain. Although the Boer War had forced some people to question this it was only Hobson who systematically analysed it. It is important to recognise that he did not provide merely an economic interpretation of imperialism. After considering Hobson's theory in depth Magnusson challenges some of Hobson's contemporary critics who believe that his theory is largely redundant. Magnusson suggests that Hobson's contribution can still be regarded as an important work that analysed social, political and economic forces in a way of which any American Institutionalist would have been proud.

David Long discusses Hobson's wide range of interests concerning international relations, which range from proposals for international government, a critique of the League of Nations, and a defence of free trade to suggestions for a new international economic organisation. This chapter focuses on these issues rather than on the more usual consideration of imperialism. Following a thorough consideration of these aspects of Hobson's thought, Long concludes that Hobson was an important figure in the development of liberal internationalism from Cobden's liberal internationalism of free trade to David Mitrany's functionalist approach to international

organisation. Whilst Hobson was unsuccessful in establishing a coherent 'new liberal' internationalism his thought influenced later writers.

The final three chapters deal with interesting aspects of Hobson's relationship with the American Institutionalists. Malcolm Rutherford sets out to consider the influence of American Institutionalism on the work of Hobson. The accepted view is that Hobson's friendship with Veblen influenced him greatly. This is certainly correct. However Rutherford is interested in investigating the influence that Hobson exerted on the Institutionalists. Although *Imperialism* excited some interest among the Institutionalists, this chapter focuses on the role that Hobson's theory of cycles and depression played in the evolution of Institutionalist thought. It is argued, following a detailed analysis of various Institutionalist theories of the business cycle, that Hobson's maldistribution underconsumptionism influenced many writers in the 1930s. Furthermore Hobson's emphasis on the combination of underconsumption ideas and technological improvement in creating a special need to sustain and increase purchasing power remained a powerful influence upon a later generation of Institutionalists.

Steve Edgell and Rick Tilman's chapter deals further with the interesting intellectual relationship that existed between Hobson and Veblen. Here the emphasis is less with their respective political-economic analyses than with their critical social theories. In particular, Hobson's use of the 'social implications of Veblen's economic interpretation of history' is highlighted. Although Hobson was a great admirer of Veblen this was a critical admiration in which he emphasised certain things over others. Edgell and Tilman argue that Hobson incorporated into his own analysis of industrial capitalism the Veblenian thesis that leisure-class values are dominant in terms of both the prestige attached to them and their incidence throughout the class structure. Although agreeing with Veblen on the wastefulness emanating from the cultural significance of conspicuous consumption he felt that the largest source of waste in capitalist societies was to be found in non-material rather than material leisure-class consumption. Also Hobson was not as totally dismissive of leisure-class consumption as Veblen was.

The final chapter, by Walter Neale and Anne Mayhew, argues that important divergences can be discerned between Hobson and the Institutionalists. Most particularly they argue that Hobson was wedded to too much neoclassical theory to be labelled a fully-fledged Institutionalist.

I believe that this excellent collection of essays will do much to stimulate further interest in Hobson's work. It is also worth emphasising that the bibliography at the end of this volume is the most complete compilation yet produced of the primary and secondary literature surrounding Hobson.

1 The Moral Philosophy of J.A. Hobson

John Allett

I INTRODUCTION

J. A. Hobson was born one year prior to the publication in 1859 of Charles Darwin's *The Origin of Species* and J.S. Mill's *On Liberty*. Thus laid out before him as a young man were the contours of a debate on the grounding of morality that was increasingly to preoccupy late Victorian society, now made anxious by the faltering of traditional religious conviction. Darwin's theory of natural selection was of course an idea-force of paradigmatic power, fuelling, among many other things, several notable attempts to establish an objective standard of moral values identical with the workings of nature and which humankind ignored at its certain peril. Mill's essay, on the other hand, was read by many as an especially compelling statement of the familiar position that morality was a cultural achievement, the product of noble spirits, and hence not reducible to biological drives and urges.

When Hobson himself came to engage in this debate he did so in typically eclectic fashion – strains of emotivism, intuitionism, utilitarianism, neo-Kantianism and evolutionary determinism can be readily detected in his writings – yet ultimately, so it will be contended, he was able to construct the elements of a reasonably coherent moral philosophy capable of underpinning his wide-ranging studies.

II HOBSON AND NATURALISTIC ETHICS

Of those who pursued the idea of a naturalistic ethics, the works of the Social Darwinists and of Herbert Spencer in particular, were seminal. Unlike Darwin, who was chary of extending his evolutionary doctrines to establish moral principles, Spencer was keen to deny ethics its autonomy. Instead ethics was to be subsumed under biology, its injunctions heralding the necessity and worthiness of struggle and adaptation. Ethics comprised the facilitating of nature in its drive to rid the earth of the maladapted, while

providing for the fit the maximum 'quantity of life in breadth and depth'. (*Data of Ethics*, 1879). This was Spencer's derivation of nature's goodness.

Spencer's insistence on a naturalistic ethics soon came under attack from biologists, most notably T.H. Huxley, for its careless blurring of the distinction between the natural and the social realm, and from philosophers, like Henry Sidgwick and G.E. Moore, for its illogic.¹ In this latter regard Spencer was accused of committing two basic kinds of error: the genetic fallacy, whenever he attempted to justify moral principles by referring to their natural origin; and the naturalistic fallacy, whenever he attempted to derive normative propositions or values from a statement of fact.

Hobson was in general agreement with these various critiques. A significant part of his classic work, *Imperialism* (1902), for example, is devoted to warning against Social Darwinist arguments that 'glide from natural history to ethics'.² Even if it were granted that such accounts of 'the evolution of civilisation during the past' are correct, this would not prove, says Hobson, invoking the genetic fallacy in all but name, that it is 'essential that the same methods of selection must dominate the future'.³

Hobson's position on the naturalistic fallacy is more circumspect, as will be noted presently, but it seems clear that here also he concurred with the criticism at least to the extent of arguing that facts drawn strictly from the natural realm carry no necessary moral import. This followed because 'the doctrine of [natural evolution] was derived from scientific records in fields of enquiry where the ordered consciousness of man played no part'.⁴ Natural facts were literally brute facts and their human valuation had to be attached from the outside, as it were.

This reference to 'the ordered consciousness of man' also provides the clue to Hobson's distinction of the natural and the social realms and his rejection of contrary Social Darwinist positions. According to Hobson (and here he is closely following the lead of his compeer, L.T. Hobhouse), the evolution of the human mind not only better fitted it for the conscious carrying out of nature's demands, as Spencer contended, but also equipped it with powers of coordination by which it could challenge the more elemental natural impulses with the demand that these now serve 'a more clearly conceived organic purpose in the individual [and] the race'.⁵

. . . under the primitive conditions of an animal struggle and selection
 . . . the strugglers could not appreciably affect the conditions of their struggle, and an 'absolute' standard of fitness was thus prescribed by Nature. But when man came to be able in an increasing measure to control and alter his environment, he got a corresponding power to make

the conditions of his struggle, and *to lay down his own standards of fitness*.⁶

Hobson envisaged this laying down of human standards of fitness as neither a domination of nature nor a rebellion against nature but as a 'co-partnership', to use his word. Thus the 'higher consciousness of man' was not 'a sufficient ground for ruling out the claims of all the lower forms of nature'. Indeed an ecological ethic must begin with the very reverse assumption, namely that 'just as "egoism" in its numerous subtle forms is the besetting sin of the individual man, so "anthropocentrism" is the besetting sin of humanity'.⁷

Along similar lines, human orthogenic evolution was rejected by Hobson as a basis for breaching the natural and the cultural dimensions of life. '[T]he stuff out of which . . . [ethical] ideals, even the loftiest and most spiritual have been generated,' he contended, 'is not of ultimately diverse nature from the animal desires . . . with which these ideals seem to conflict.'⁸ In this vein, even Spencer was commended for undermining 'all the brood superstitious formulae which exempted man from nature' and for setting 'man firmly in the common course of Nature'.⁹ Contrariwise, Huxley was taken to task (perhaps too severely) for denying 'all continuity of development' and for implying that 'ethical motives' enter 'suddenly into the history of man so as to reverse the earlier modes of human action'.¹⁰ The consistent point here is that Hobson, much more so than either Spencer or Huxley, was impressed with the profundity of the (albeit familiar) paradox that man, newly raised to self-reflective consciousness, is and is not a part of nature, and he refused to dissolve that tension either by means of a separation (Huxley) or a reduction (Spencer).¹¹

III HOBSON AND SOCIAL ETHICS

Hobson's acceptance of the validity of the naturalistic fallacy or the fact/value distinction was nevertheless conditional. He was willing to regard the natural realm strictly as a world of empirical facts capable of being explained, more or less disinterestedly, on the basis of experience and observation. From this standpoint, human valuations were to be viewed as intrusive. But with regard to the social realm he was of the opinion that the different status ascribed to facts and values had far less warrant. Here the facts studied were at root human products and hence the embodiment of human ideals and values. Consequently, the world of facts could not be

placed on one side and the world of values on the other. 'Human conduct', Hobson suggested, 'differs from every other known sort of organic conduct in that the operative units entertain and are immediately influenced in their activities by advanced images of "the desirable", termed ideals.' The 'urge towards these ideals is an "ought"', which, when objectified, renders social facts genetically different from natural facts.¹² The social sciences had to take this difference into account. Failure to do so by treating social phenomena on par with natural phenomena – and 'modern science,' Hobson observed, 'has been disposed progressively to eliminate . . . purpose from its realm'¹³ – was, in effect, to deny the presence of human agency and thereby commit the equally endarkening fallacy of reification. More damage was done trying to separate social facts and values so as to conceive social systems 'as mechanical processes, abstracted and divorced from the wills of men,' than in openly acknowledging their inextricability and accepting as a consequence that the social sciences cannot be modelled along exactly the same lines as the natural sciences, nor have exactly the same logic applied to them. Hobson concluded that the 'sort of necessity, attached to the conception of natural laws, has been improperly imported into the [social sciences]'¹⁴ often, it should be added, as a cover for vested interests. The so-called impersonal forces that cramp the opportunities of the under-classes frequently turned out to be the very personal vested interests of the upper classes parading as natural laws.

Hobson was aware, of course, that certain social facts appeared to be free of values, not only in the obvious sense of being uncontested, but also in the more profound sense of being taken as fixtures in human conduct, part of the givenness of social reality. Such facts did, indeed, help provide the regularities upon which a limited (positivistic) social science could be based, as will be noted later,¹⁵ but for all that such facts were not truly free of values. Rather, those values had become so embedded that the facts now appeared to 'speak for themselves'. The fact/value distinction, in so far as it convinces that social facts can be presented unencumbered, hinders rather than helps disclose embedded values. In this way certain social facts – established facts – are privileged by giving them an authority, a value-free matter of factness, they do not really possess. Occluded are the value judgements that initially shaped, selected and subsequently sustain those facts. The 'real difficulty' faced by the social scientist, according to Hobson, was 'first to recognise and then shake off, the hampering bonds of accepted terminology and ways of thinking'.¹⁶ Failure to critically inspect the valuational context of the facts as stated, may enable the social scientist to present his findings as the pure facts of the case, but in truth he is self-deluded, since the facts have gained their purity only by virtue of his

practising, deliberately or otherwise, 'a policy of moral emasculation'.¹⁷ Hobson's own preference was to describe existing social facts as 'operative oughts' so as to keep constantly at the forefront their valuational context.¹⁸

IV THE TENETS OF A HUMAN VALUATION

Hobson's argument that values inhere in social facts was not intended to press the claim, despite its limited committal of the naturalistic fallacy, that an appeal to such facts could thereby resolve moral issues. He was not substituting a social determinism for a naturalistic ethics. Ethical positions could not be externally determined as the good that comes with having history on one's side. What remains, then, is to determine the principles upon which Hobson sought to have these disputes adjudicated.

Hobson described his own ethical position as broadly utilitarian in outlook. Indeed, in terms of its consequentialism, he was of the opinion that utilitarianism was an almost unavoidable aspect of any practicable moral theory (at least for the English!):

The premature abandonment of the utilitarian setting by many thinkers, through pique arising from the narrow and degrading interpretation given to the term, has not been justified. English people are habituated to conceive and express the "desired" and "the desirable" in terms of utility; and even philosophers, like the late Professor [T.H.] Green, who are stoutest in repudiating Utilitarianism, invariably return to that terminology to express their final judgment on a concrete moral issue.¹⁹

Despite this important concession to utilitarian ethics there remained certain key aspects of the doctrine, especially in its classical Benthamite format, to which Hobson regularly objected. Convinced that individual actions could have consequences that were often paradoxical when viewed in the aggregate, he was especially critical of Benthamite utilitarianism for failing to appreciate the fallacy of composition. Its summing-up of consequences could be disastrously simplistic. Here, most notably, was to be found one of the root causes of classical economics' inability to comprehend the paradox of thrift and the attendant underconsumption crises that racked capitalist economies.

Other of Hobson's criticisms of utilitarianism are best comprehended when linked to his general evolutionary viewpoint. First, he contended that the classical doctrine had been exposed as excessively simplistic in its account of human motivations by the insights of 'modern psychology'.

(Here he had in mind especially the theories of William McDougall, though in other regards he was quite critical of McDougall's work.) It could no longer be contended that human behaviour was primarily determined by a pleasure-pain calculus, since a large domain of our conduct had now been shown to be rooted in 'instinctive urges and activities', where pleasure functioned not as a direct motive but instead as an 'added incentive'. In particular this meant that humans could tap sources of conative energy such that 'pains are incurred for the sake of some good which cannot, and does not, figure consciously as a greater pleasure'.²⁰ On this basis, genuinely disinterested, even self-sacrificing behaviour was a possibility and the utilitarians' attempt to circumvent or deny such altruistic or social-regarding behaviour 'by identifying "the pleasant" with "the preferable"' was dismissed by Hobson as duplicitous.²¹

Likewise Hobson found in modern psychology's stress on the 'instinctive urges and activities' reinforcement for the claim that our natural mode is an activist one, a viewpoint at odds with the impression conveyed by utilitarianism that it was only the promise of pleasure or the fear of pain that prodded us into action. Consequently, utilitarianism tended to be 'consumer-oriented' in its approach, stressing the possession of utilities as a key element of happiness and downplaying or even viewing negatively the productive, activist side of life. According to Hobson this one-sidedness, which he examined in some detail in the theories of neo-classical welfare economics, had to be rectified 'by developing the part well-doing plays in well-being'.²²

Substituting the more 'elastic' term Welfare for Pleasure, Hobson proposed that a revised utilitarianism could still posit as its goal "the greatest happiness of the greatest number", providing happiness was now understood to encompass the harmonising of a wide variety of human instincts and dispositions, including the desire for self-expression in social service; and was organically related to both the consumptive and productive sides of life. Hobson further suggested that this revised utilitarianism would be able to accommodate a practical, cost-benefit approach to examining social welfare policies.²³

This last claim, however, is immediately made problematic by Hobson's third major criticism of utilitarianism, namely, that according to its canons 'desirability was entirely to be measured by quantity and never by quality'.²⁴ The point, of course, is essentially J.S. Mill's. And it is noteworthy that when discussing Mill's critique of Benthamism, Hobson states flatly that it 'destroyed the hedonistic calculus'.²⁵ More accurately speaking, however, Hobson viewed the Millian critique as only severely limiting quantitative methods. It did not require abandoning the very prospect of a

science of human values: '[T]hough no social standard exists for the direct measurement and valuation of subjective utilities and costs, it by no means follows that science is helpless in the matter.'²⁶ In attempting to determine what was science and what was art in the valuation of human welfare, Hobson had recourse once more to his understanding of social evolutionary processes.

Although Hobson abhorred the language of dialectics, his own account of evolutionary processes, as presented primarily in his study, *The Evolution of Modern Capitalism* (1894), can be readily encapsulated in terms of the clash of two major social tendencies which result, and here the phrase is Hobson's, in 'a higher synthesis'.²⁷ These two forces are those of routinisation and innovation, respectively:

[Human] progress requires that one after another the lower animal functions shall be reduced to routine, in order that a larger amount of individual effort may be devoted to the exercise of higher functions and the cultivation by strife of higher qualities . . . If the result of [such routinisation] were merely to bring about a common level of material comfort, attended by spiritual and intellectual torpor and contentment, the movement might be called natural and necessary, but could hardly be termed progress.

But such a view is based upon a denial of the axiom that the satisfaction of one want breeds another want. Experience does not teach the decay but the metamorphosis of individuality.²⁸

Out of the dialectic of routinisation and innovation, then, arises the higher synthesis of social individuation: 'We socialize in order that we may individuate.'²⁹ Significantly, the routine and the innovative are suited to differing kinds of treatment. Before proceeding, however, it is important to stress that although it is useful for analytical purposes to separate the processes of social individuation, this could prove misleading if it is taken to mean that socialisation is merely a stepping-stone to individuation. Hobson's considered opinion is that socialisation not only facilitates but also changes the character of individuation. The socially individuated personality is one who recognises his indebtedness to society for the opportunity to express his individual talents, who finds extra meaning in his own activities because his society also expresses an interest in them, and does not pursue his own ends to the point where these might jeopardise the social patrimony that has nurtured him.

That which has become routinised, common and widespread, is properly subject to statistical handling. Here 'indices of welfare' can be found so that

'a social standard may be erected out of them, sufficiently reliable for practical purposes'. Mostly Hobson had in mind standards of hygiene, health, housing, and so forth, that bear closely upon humanity's common physiology and basic needs.³⁰ These standards were subject to processes of historical evolution and social revaluation, but the fact remained, claimed Hobson, that 'every great social question [has] one of its roots in physiology'.³¹ Rather than pursue Hobson's elaboration of this line of thought, however, it is more important, for present purposes, to notice that this viewpoint also led him to embellish his utilitarianism by reintroducing the idea of natural rights which had been notoriously dismissed by Bentham as 'nonsense on stilts'.

In substantive terms Hobson's notion of natural rights is fairly restrictive. Basically, he supports the claim of each individual to be recompensed for the energies he or she usefully expends (not the economic values he or she creates) at the workplace. Upon such proprietary rights hinge also the right to security of the person and the right to self-expression.³²

It is commonly argued that a theory of natural rights represents a limitation on utilitarian ethics, since it supposes that in determining right courses of action, consequences are not all that matters. Even if it could be shown, for example, that in certain circumstances the overriding of these proprietary rights in the case of some would be to the advantage of the many, such action still would be morally reprehensible, since it denies individuals their natural rights. Whether this is what Hobson intended when he chose the language of natural rights to argue the case for basic human welfare is not simple to determine. This could be a reasonable interpretation of his meaning when he writes that a proprietary right requires an 'exclusive right of use'.³³ On the other hand, he does not explicitly reject as unethical the utilitarian's case for breaching these (supposed) rights. Instead, he prefers to argue that, in terms of consequences, the utilitarian's hypothetical case is unrealistic, since to infringe upon these basic proprietary rights under any circumstances would be counterproductive, ultimately resulting in the withering of productive energies.³⁴ These are rights, in Hobson's estimation, which any 'rational society, *guided by social utility*, will assign to its members'.³⁵ Although it is easy to question the priority and indefeasibility ascribed to economic considerations in Hobson's argument, the more relevant point in the present context is that this is still essentially a consequentialist defence of natural rights and therefore fits, albeit strainedly, within the utilitarian framework. Yet it is also important to notice that these proprietary rights are, in addition, earned entitlements, not pre-social or God-given rights, and as such incorporate the idea of just deserts. To transgress these basic rights, even for the general good, presumably would

still be an injustice and hence unethical. It can be argued, therefore, that in the final analysis Hobson does put a limit upon the consequentialist logic of utilitarianism, but does so in the name of justice rather than of rights, though it is in the language of the latter that he frames his argument.

As previously mentioned, according to Hobson's schema, the routinisation of certain social tasks, now to be efficiently run along automated, bureaucratic lines³⁶ would simultaneously set free human energies for the more challenging, individualised endeavours that increasingly characterise the upper reaches of the evolutionary process. This shift in focus, however, further brings into view new moral problems. The issue is essentially that of subjectivism in ethics. The expanded opportunities for diverse experiments-in-living suggest the possibility that codes of conduct (moral judgements) are merely emotive, the expression or rationalisation of personal feelings and sentiments, relative to the individual (or, in a broader context, relative to each culture) and devoid, therefore, of objective content.

Hobson's response to this possibility is twofold. He begins by endorsing what has become known in contemporary literature as the liberal neutrality principle, which holds that no final judgement is to be made as to what ultimately constitutes the good life.³⁷ In Hobson's own words:

What [is sometimes] naively style[d] "the highest ideal we can conceive", cannot emerge in any solid substance from a social science. The common constant factors in our inherited equipment and our "social heritage" will not suffice to place a single "higher ideal" in charge of social aspirations. Our conception will largely reflect the preferences, or scale of values, rooted in our instinctive make-up, as modified by our personal experience and traditions, and the more or less strong and definite "interests" thus formed.³⁸

Nor, in a broader context, could Hobson discover anything in the social evolutionary process or in the facts of history that would ultimately lead to the establishment of a 'single highest ideal'. Quite to the contrary. There was 'no warrant' for supposing that 'all "progressive" nations [were] moving to a single type of society', but 'every reason' for conceiving civilisation as 'multiform'.³⁹ Hobson's position thus appears to be subjectivist – morality is based on personal feelings and experiences – and relativist ('we cannot say that one [culture] is better than another, only that it is different').⁴⁰

In terms of its origin, the doctrine of ethical subjectivism (upon which the doctrine of cultural relativism depends) is most frequently associated with the philosophy of David Hume. It was Hume who most effectively stated

the case that reason was the slave of the passions and that the passions, in turn, were at the centre of human approbations and disapprobations. In Hobson's case, however, it was precisely this instrumentalised concept of reason that gave him cause to doubt the validity of any full-fledged doctrine of ethical subjectivism. The difficulty is obvious. If reason is the servant of the passions, who is its master when several particular passions simultaneously call upon its services? And if reason is to arbitrate, even if only to decide which passion is the stronger, can it continue to be considered a servant? Hobson thought not. Accepting that 'man's earliest reasoning' was applied to better satisfying 'instinctive desires', he goes on to contend that

. . . in thus attaching reason to the vital animal needs I do not mean to admit that it remains the servant of the passions. . . . For in a true sense reason is the rightful ruler, not servant, of the passions, or the separate interests. . . . Self-control is one of the first conditions we should claim for reasonable behaviour, and by self-control we certainly signify the correlation and control of those very passions which are said to use reason for their servant. Even if this signifies that reason serves certain higher passions, more social or altruistic in their objects, further-sighted in the conduct they inspire, this choice on the part of reason implies a regulating principle.⁴¹

Hobson therefore defined the reasonable man as one who not 'merely . . . reasons rightly in following out his several aims and interests', but one who further 'seeks to co-ordinate and harmonise these aims and interests in some ideal of personality and society'.⁴²

This gave to reason a more organic, architectonic purpose than is typical of a subjectivist ethics. Furthermore, in seeking this harmony of self and society, it would be necessary that reason achieve sufficient objectivity to give equal consideration to conflicting more standpoints: 'For a man only becomes rational so far as he takes a disinterested view of himself, his fellow-man and the world he lives in.'⁴³ Subjectivism, on the other hand, in viewing reason as little more than rationalisation, encouraged a manipulative stance towards others and hence was an endangerment to moral social relationships.

Once achieved, (and it is only necessary to recall the arguments of Hobson's *Free Thought in the Social Sciences* (1926) to indicate that he was fully alert to the difficulties involved in such an endeavour) such disinterestedness would help ensure that moral disputes were settled according to which moral claim had the best, mutually intelligible reasons supporting it. Like J.S. Mill, though perhaps with greater reservations, Hobson allowed

that for the present the intellectual classes were the more likely to be universalist and empathetic in their thinking, and hence have the best claim to moral leadership. 'The reasonable claim', he suggested, 'for high culture, as arbiter of values, rests upon the wider survey of life as a whole which they possess, the larger range of actual experience. Whereas the uncultured man has no knowledge of the higher values, the votaries of these higher values remain in some contact with the lower levels of life.'⁴⁴ In terms of overall future trends, however, Hobson was also haltingly optimistic as to the possibility of a more widespread growth of universalism that would reduce the distance between higher and lower values.

One source of such optimism, surprisingly, came from his reading of certain contemporary theories of social evolution (as proposed by Karl Pearson and Benjamin Kidd, among others) that suggested that the struggle for human survival took place through a series of progressive abatements, the warring between families, clans and tribes being successively curbed so that in each case the struggle engaged larger, more efficient and internally cooperative groupings. Most of those who held to this theory contended that such abatements would cease at the level of competition between nation-states. Hobson disagreed. He saw no implacable reason why the substitution of 'government for anarchy among nations' would not also find its appeal in the rational economies thereby gained.⁴⁵ Moreover, Hobson was convinced that a genuine internationalism was not opposed to nationalism but on the contrary presupposed the 'existence of powerful self-respecting nationalities' possessed of the confidence necessary to initiate 'union on the basis of common . . . needs and interests'.⁴⁶

Along these lines, Hobson further surmised that the realm of reason likewise was becoming increasingly more inclusive, ultimately extending the moral community beyond the 'ethical self-sufficiency of a nation' to humanity as a whole.⁴⁷ 'Modern progress', he suggested, 'by constantly enlarging and intensifying our contact, industrial, political and moral, with more remote portions of mankind, is rapidly and radically altering the proportion of attention to the wider areas.'⁴⁸ Nor was it required, in confronting this new reality, for the ordinary citizen to empty himself of his particular social and national attachments – to 'thin' his self, to use a contemporary phrase – in order to achieve a disinterested, universalist standpoint. On the contrary, it was precisely the person who was secure in his or her own sense of place and identity who would be best capable of transcending a perverted racialism or nationalism that 'bristles with resentment and is all astrain with the passion of self-defence'.⁴⁹ 'For it is only the self-respecting man', Hobson asserted, 'who respects his fellows and is solicitous and exact in seeing that others get their due.'⁵⁰ The close connec-

tion Hobson drew between domestic reforms pressing for a more just distributive system and the possibilities of the emergence of an 'international mind' is evidence here.

Social evolutionary trends, then, gave some support to the expansion of a reasoned, universalisable ethics: 'It ought not to be the case', reflected Hobson, 'that there is one standard of morality for individuals in their relations with one another, a different and a slighter standard for corporations, and a third and still slighter standard for nations.'⁵¹

It is also relevant to notice here that Hobson's objection to the ethical egoism of classical liberalism was not that it was anti-social, in the sense of not concerning itself with the general good, but rather that it sought to serve that good only coincidentally and thereby inhibited the enlarging of the moral community.

If, as the defenders of the competitive trade system assert, the system is in essence and in result co-operative, and designed to serve industrial society as a whole, can that end be satisfactorily attained by a procedure which concentrates the will of each human unit not upon that end, not even upon a clearly recognised means to that end, but upon a purely selfish consideration which entirely eliminates the social service? . . . Surely there must here be involved a huge waste of moral focus . . . [?]⁵²

As is well known, Hobson had serious doubts about the efficacy of the competitive system, but it seems plain that even if these doubts had not existed, he would have still condemned its defenders for their moral insularity. The 'real gravamen of the charge,' he wrote, 'rests on a distinctively moral assumption.'⁵³

A second source of optimism for Hobson, although not one from which he consistently drew the same insight, derived from his inspection of the recent history of class conflicts. It was not that the contest between workers and employers was obviously declining overall, nor was Hobson any less convinced that issues of poverty and inequality would have to be settled if the moral elevation of the people was to prove anything other than illusory; rather his optimism lay in the fact, as he perceived it, that the terrain of the class struggle was gradually shifting. There had come about an 'elevation of the nature and instruments of domination' utilised by the 'master-class' which in itself signified progress.⁵⁴ The workers were still getting screwed, but each turn of the screw had a spiral effect which helped raise the class struggle to a higher plane:

to enforce control by law is an advance upon the use of naked swords, to govern by working political machines an advance upon open menace. This is indeed the natural course of progress; the vicious circle as it first appeared is no closed circle, but an ascending spiral. . . . The most conclusive evidence of the growing power of popular ideas and sentiments is the fact that the vested interests base their defence more and more upon appeals to the supreme court of reason and of morals.⁵⁵

If the nature of class conflict was altering, issues of legitimacy taking precedence over contests of brute force (as Max Weber was arguing, much more famously, at this same time), then it followed that moral argument also took on an added significance, and that force, the 'arch-enemy' of reason, could be utilised less frequently and less convincingly to settle disputes by 'the assertion of a superior will to power'.⁵⁶ Generalising, Hobson warned that the real danger of settling disputes by force was not that this made just settlements unlikely, though this was surely the case, but that '[e]ven if the terms of settlement were in substance equitable . . . the knowledge that they were a register of force and not reasonable assent would leave a dangerous legacy of discontent'.⁵⁷ Those against whom force was exercised would 'feel a new sense of grievance', leaving them 'less open to reflection and persuasion' in the future.⁵⁸

Hobson's antipathy to the use of force should not be overstated, however. He accepted, as did the new liberals generally, that the exercise of force 'as an actual element in government' was a 'necessary evil', required for the maintenance of order.⁵⁹ Yet there are occasions when Hobson seems tempted to go beyond this reluctant but realistic concession to force as a necessary evil to argue that its exercise, under certain circumstances, can be placed upon a moral footing. While avoiding what he considered to be highly dubious idealist arguments seeking to distinguish the real will of an individual (or class) from the merely apparent expression of that will, and accepting as moral the use of force in the service of the former (thus 'forcing men to be free'),⁶⁰ Hobson, nevertheless, was able to formulate a relationship between force and reason which to a degree sanitised coercive action. He suggested that it was morally justified to use force against individuals so as to restrain them from precipitate actions which in a 'cooler' moment they would recognise as being short-sighted and irrational. Hobson explained his position in terms of the differing economies of time involved in the struggle between the non-rational and the rational components of the personality:

Why does what we call our 'higher nature' so often succumb to the temptations of our 'lower nature', why do our . . . short-range impulses . . . so frequently triumph over our rational self? It is not because, when fairly pitted against one another in a 'moral struggle', the lower motives prove themselves stronger . . . It is because they employ a rush tactics that carries us away before the moral forces of our personality are fully mobilized. The 'irrational' instincts get their work in quicker: the processes of reflection and self-realization involve delay . . . Delay means an appeal from the passion[ate] to the reasonable self . . . Now, when this appeal is won, this reasonable self will itself enforce the claim for an impartial arbitration and settlement.⁶¹

Force, then, when exercised in the service of the rational self was not really a restriction of freedom but rather a positive instrument for the liberation of the individual's 'higher nature'. Hobson's silence on the question as to what would happen should the rational self fail to mobilise under these circumstances suggests, however, that his 'delay tactics' had only circumvented, not resolved, the moral issue of 'forcing men to be free'.

This particular moral issue aside, however, it is clear that the subjectivist aspect of Hobson's initial argument remains qualified by his general understanding of the social evolutionary process. In the upper reaches of this process there is a greater opportunity for individuation and social experiment, but no less a part of evolutionary development is reason's increased capacity to bring to ethics an organic perspective and an objectivity not countenanced in more strictly subjectivist accounts.

V CONCLUSION

Although the words 'ethics', 'morals' and 'values' feature in the very titles of several of Hobson's books, nowhere does he present a systematic account of his own ethical standpoint. Even so, as hopefully has been indicated, the outline of such an exposition can be discovered as the backdrop or underlying presumption of his numerous works. Moreover, even though eclectically fashioned, Hobson's account does conform to what might reasonably be considered the minimum requirements of a satisfactory moral theory.⁶² It urges that in our social conduct we act as responsible agents, that we are not prideful about our own individual interests, that we are respectful and consistent in our dealings with others and that we strive to be impartial in our consideration of their interests.

In the first regard, Hobson upheld the idea of responsible human agency by resisting the dominant determinism of his day – Social Darwinism. Ethics was not an epiphenomenon of natural history. Yet at the same time, Hobson was also keenly interested in grounding ethics in biology, so that, from the opposite standpoint, ethical judgements would no longer float in realms divorced from, or even combating, significant human dispositions and traits. The rebirth of an interest in sociobiology indicates, perhaps, that this concern is by no means redundant.

Hobson further sustained the idea of human agency by questioning the validity of the fact/value distinction as it pertained to social studies. Even where social facts had become so embedded as to take on the ‘givenness’ or ‘limitation’ of a natural fact, Hobson continued to insist that, from an ethical standpoint, the question to ask was not, ‘How do we construct a social science around these regularities?’, but ‘How have such facts gained an autonomy sufficient to transfix human purposefulness?’

That Hobson also required of his moral agents that they show respect, consistency and impartiality in this social conduct was to ask nothing new of them: these are fairly common postulates of moral theory. What Hobson attempted (though he was not alone in this) was to make such claims plausible by indicating their connection with evolutionary processes. In particular, the emergence of the faculty of reason as the coordinator of the passions, the organiser of the self, and ultimately as the facilitator of the social integration of the self, seemed to Hobson to hold out the possibility of at last realising what ‘all the great philosophers, prophets and poets have sought, in their several ways, to “see life steadily, and to see it whole”’,⁶³ and, most importantly, to define the moral community accordingly.

Notes

1. See T.H. Huxley, *Evolution and Ethics* (Oxford, 1893); Henry Sidgwick, *Miscellaneous Essay and Addresses* (London, 1904); G.E. Moore, *Principia Ethica* (Cambridge, 1903).
2. J.A. Hobson, *Imperialism: A Study* (London: Allen & Unwin, rev. edn: 1938), p. 156.
3. *Ibid.*, p. 162. It should be added that there are some passages in Hobson’s own writings which can be mistaken as proposing a genetic justification of moral standards. See, for example, *Work and Wealth: A Human Valuation* (London: Macmillan, 1914), p. 356. When reading such passages it is helpful to keep in mind the following comment of Anthony Quinton (‘Ethics and the Theory of Evolution’, in Arthur L. Caplan, ed., *The Sociobiology Debate* (New York: Harper & Row, 1978), pp. 130–1: ‘An ethical theory that requires . . . reinforcement [by reference to ‘higher values’ of an extra-biological kind] however much evolutionary material it makes use of, is not really an evolutionary ethics

at all. [Rather it is a system that defines] the rightness of actions in terms of their contribution to ends of assumed value [and] emphasizes that if this contribution is to be correctly worked out attention must be paid to the facts revealed by evolutionary biology.' Along these lines it can be suggested that the very subtitle of the aforementioned book of Hobson's indicates that he did not intend to endorse a naturalistic ethics (or valuation).

4. J.A. Hobson, *The Crisis of Liberalism* (London: P.S. King, 1909), p. 263.
5. Hobson, *Work and Wealth*, p. 357.
6. J.A. Hobson, *Free-Thought in the Social Sciences* (London: Allen & Unwin, 1926), p. 212.
7. J.A. Hobson, *A Modern Outlook* (London: Herbert & Daniel, 1910), p. 23.
8. J.A. Hobson, *Problems of a New World* (London: Allen & Unwin, 1921), p. 132.
9. J.A. Hobson, 'Herbert Spencer', *South Place Magazine* (1906), reprinted in Michael Freedon, ed., *J.A. Hobson: A Reader* (London: Unwin Hyman, 1988), p. 62.
10. J.A. Hobson, *John Ruskin, Social Reformer* (London: Nisbet, 1898), p. 105.
11. To some extent the dispute between Spencer and Huxley was unnecessarily exaggerated. Huxley accused Spencer of focusing exclusively on the competitiveness of nature and of modelling his sociology accordingly. Yet Spencer was also keen to find elements of a natural altruism in nature upon which he could build his evolutionary goal of a 'co-operative anarchy'. Spencer accused Huxley of severing the natural and the social realms, yet Huxley sought to derive his social ethics in part from man's innate imitative behaviour.
12. J.A. Hobson, *Wealth and Life* (London: Macmillan, 1929), p. 125.
13. *Ibid.*, p. 134.
14. Hobson, *Free-Thought*, p. 26.
15. See below, p. 5.
16. Hobson, *Free-Thought*, pp. 278–9.
17. Hobson, *Social Problem* (London, 1901), p. 67.
18. Hobson's position is closely parallel to that of pragmatists like William James, with whose work he was familiar. In this light the following account of the pragmatist critique of the fact/value distinction is instructive: 'In the pragmatist analysis, what we call "facts" all involve an element of value. For purposes are embedded in all our meanings, and every purpose determines a value. . . . The proper contrast is not between fact and value, but between old values and new, shared values and those in conflict, unreflective values and those we have thought through – most fundamentally, between values which we uncritically project onto facts, and those which intelligent reflection on the materials of experience discloses in the facts themselves.' Abraham Kaplan, *The New World of Philosophy* (New York: Random House, 1961) pp. 35–6. It might be noted that although in basic agreement with the pragmatist position, Hobson did think that it tended toward overstatement. See his *A Modern Outlook*, pp. 42–50.
19. Hobson, *Social Problem*, pp. 4–5.
20. Hobson, *Free-Thought*, 167.
21. *Ibid.*, pp. 167–8. See also, *Work and Wealth*, pp. 307–8.
22. Hobson, *Free-Thought*, p. 169.

23. Ibid.
24. Hobson, *Social Problem*, p. 5.
25. Hobson, *Wealth and Life*, p. 109.
26. Hobson, *Free-Thought*, p. 141.
27. J.A. Hobson, *The Evolution of Modern Capitalism* (London: Walter Scott, rev. edn, 1926), p. 434.
28. Ibid., p. 421.
29. Hobson, *Imperialism*, p. 189.
30. Hobson, *Free-Thought*, p. 141. See also, *Work and Wealth*, pp. 340ff.
31. Hobson, *Ruskin*, p. 155. Hobson attributes this insight to Ruskin.
32. Cf. John Allett, *New Liberalism: The Political Economy of J.A. Hobson* (University of Toronto Press, 1981), pp. 195–207. For an attempt to extend Hobson's analysis of property rights, see John Allett, 'New Liberalism and the New Property Doctrine: Welfare Rights as Property Rights', *Polity*, vol. XX, no. 1, Fall 1987, pp. 57–79.
33. Hobson, *Social Problem*, p. 97.
34. See *ibid.*, p. 234.
35. Ibid., p. 96. Emphasis added.
36. See Hobson, *Crisis of Liberalism*, Part II, ch. III.
37. For a review of the literature, see Lyle A. Downing and Robert B. Thigpen, 'A Defense of Neutrality in Liberal Political Theory', *Polity*, vol. XXI, no. 3, 1989, pp. 502–16.
38. Hobson, *Free-Thought*, p. 236.
39. Hobson, *Social Problem*, p. 275.
40. Ibid., p. 276.
41. J.A. Hobson, *Rationalism and Humanism* (London: Watts, 1933), p. 17.
42. Ibid., pp. 17–18.
43. Hobson, *Work and Wealth*, p. 356.
44. Hobson, *Wealth and Life*, p. 61. For Hobson's reservations about the paternalistic implications of this position see pp. 61–3. Ultimately, however, he endorses Mill's position: 'These reflections . . . cannot lead us to reject the claim of educated persons to be better arbiters of value' (p. 63).
45. Hobson, *Imperialism*, p. 164.
46. Ibid., p. 10.
47. Ibid., p. 166.
48. J.A. Hobson, 'Character and Society', in P. Parker, ed., *Character and Life* (London: Williams & Norgate, 1912), p. 77.
49. Hobson, *Imperialism*, p. 11. On this, see also, Michael Sandel, *Liberalism and the Limits of Justice* (Cambridge University Press, 1982), p. 180.
50. Hobson, 'Character and Society', p. 66.
51. J.A. Hobson, *The Morals of Economic Internationalism* (Boston: Houghton Mifflin, 1920), p. 1.
52. J.A. Hobson, *The Industrial System*, rev. edn (London: Longman, 1910), p. 317.
53. Ibid.
54. Hobson, *Crisis of Liberalism*, p. 182.
55. Ibid., pp. 182–3.
56. Hobson, *Rationalism and Humanism*, p. 31.

57. J.A. Hobson, *Democracy After the War* (London: Allen & Unwin, 1917), p. 17.
58. J.A. Hobson, 'Force Necessary to Government', *Hibbert Journal*, vol. 33, 1934–5, p. 334.
59. *Ibid.*, p. 336.
60. See J.A. Hobson, *Democracy and a Changing Civilisation* (London: Bodley Head, 1934), pp. 63–4.
61. J.A. Hobson, *Problems of a New World* (London: Allen & Unwin, 1921), pp. 134–5.
62. On this, see James Rachels, *The Elements of Moral Philosophy* (New York: Random House, 1986) ch. 12.
63. Hobson, *Social Problem*, pp. 1–2.

2 J.A. Hobson as a Political Theorist

Michael Freeden

J.A. Hobson was one of the half-dozen most influential political thinkers in turn-of-the-century Britain, a fact that even the partial revival of his fortunes has infrequently brought to light. The main reason for this oversight has two complementary facets: Hobson's contribution lay chiefly in his formulation of a liberal version of British welfare thought, an ideological genre that until recently was accorded insufficient recognition; and conversely recourse to conventional modes of political theorising, utilising existing traditions, or referring to the constructs of leading individuals, was not paramount in his work. It is symptomatic that in the various reading-lists that Hobson appended to his more political writings, he cites mainly the works of his progressive contemporaries, for he was a leading member of a group that refashioned both the substance and the methods of argument employed in applying political analysis to contemporary affairs. Hobhouse, Laski, Delisle Burns, Wallas and Brailsford are more likely than Locke, Mill or Green to appear as authorities to which Hobson deferred, and they would often return the compliment.

But this was no mere mutual admiration society; it reflected a dual shift in the understanding of the formation of political thought and of the practical level of relevance on which it was believed to be functioning. The 'greats', the men of genius whose personal input forged the nature of generations of political thinking, were no longer in evidence, and their past exemplars were perceived to talk in a abstract and generalised language that served little immediate purpose. The spread of education and the rise of new means of disseminating and popularising views, especially the press and the mass-circulation book, allowed the development of a *via media* in political thought between the rarified reaches of professional philosophy and the utterances of the common people. It highlighted the fact that political systems were best appreciated as responding to the ideas, had the term not been so alien to British tongues, of what might be termed an intelligentsia.

It is significant that Hobson, whose self-description as an economic heretic related not the least to his principled scepticism and personal bitterness with respect to academic economics, permitted those views to colour

his opinion of philosophy as well. In a piece on William James's pragmatism, the philosopher was praised for opposing 'the jargon of false prophets in Oxford or elsewhere who will not accept what they consider a degraded view of the philosophic function'. Hobson was attracted to James, despite serious reservations about the subjectivity of his pragmatism, because James believed it was 'possible to unstiffen the academic notions about ultimate truth and reality'.¹ Yet again, the world of formal scholarship loomed as a stuffy and threatening obstacle in the path of the creative and experimental thinking Hobson considered himself to be undertaking. And not for the first time, Hobson sought the middle way between the doctrinaire and absolute one-ness of some philosophical positions – a specific reference to the Idealism he had encountered and rejected at Oxford – and a 'loose, man-made multiverse'.² Not the least valuable aspect of his method was his assertion that an 'ought' was a second order 'is' – an ideal deserving on its own as a subject of scientific inquiry, an assertion that opened up ideological and moral utterances to scholarly examination.³

Nevertheless, it is of some value to appraise directly Hobson's performance as a political theorist in the conventional sense. This can involve examining his assessments of, or more usually allusions to, some of the political thinkers who belong to the great apostolic tradition; assessments serving as a rule as reference points to Hobson's own political ideas. It would also involve evaluating Hobson's employment of key political concepts, among which I have chosen to single out rights, liberty and equality.

Hobson approached the central political thinkers of the Western tradition quite understandably not as a political philosopher but as a historian of ideas. As a firm espouser of evolutionary progress he evaluated them either as contributing towards, or retarding, the socially-oriented rational humanism he believed was reaching its maturation. Sometimes they merely served as vulgarised tags to be hung on well-known positions. Thus the political principles of Hobbes and Machiavelli were described as 'imposing the narrow self-interest of each State as its supreme law',⁴ in contradistinction to the current emergence of an international morality. Other theorists received closer attention. In a revealing centenary piece on Tom Paine, illustrating yet again Hobson's continuous quest for the middle ground, Paine was criticised for his excessive rationalism: 'his overconfidence in the efficacy of abstract reasoning upon the rights of men, and his disregard of the sentiments and traditions which *mainly* govern human conduct'.⁵ Lest this remark be misunderstood as a possible conservative undercurrent in Hobson's critique, it should be placed within Hobson's holistic appreciation of human ability and his increasing awareness of the role that biological forces and psychological and emotional attributes played in normal human

behaviour.⁶ Indeed, Hobbes was elsewhere denounced by Hobson as a 'moral anarchist' for asserting that reason must always be the servant of the passions, when human beings were capable of exercising directive control over their vital and necessary drives.⁷ On the other hand, Paine was praised precisely for forsaking the 'cold utilitarian conception of individual rights' and for the warmth and passion he injected into his 'rich human gospel of a commonwealth'.⁸ Moreover, Paine had performed the important historical function of introducing a revolutionary note of anti-authoritarianism into British political debate.⁹

The major political thinker most frequently mentioned by Hobson was J.S. Mill. I will concentrate here on Hobson's comments on Mill's political principles as distinct from Mill's economic teachings. Here too we have a centenary piece as evidence, written by Hobson in 1906. His appreciation is hardly original, but that is not the point. Hobson's interpretation of Mill, however vicarious, is but a means to understanding the issues that concerned Hobson. Two of them are conspicuous: the degree to which individual thought reflects the 'spirit of the age' (Mill's own phrase, of course), and the emphasis on the communitarian aspect of human life. In line with his evolutionism, Hobson saw both Mill's early Benthamism and economic individualism, and his later conversion to a form of moderate socialism, as products of the different moods of social inquiry which Mill's life spanned. The 'rigid theoretical individualist' with a Spencerian view of the minimalist state gave way to the 'political individualist', still mistrusting officialdom, and finally to the denouncer of Benthamite philosophic radicalism and *laissez-faire*. Mill's conversion to socialism was not misinterpreted by Hobson. He rightly realised that Mill went no further than adopting a type of cooperation and issuing a plea for social (and economic) reconstruction. Hobson had already quoted in the past from Mill's *Essays on Socialism*, bemoaning the lack of any idea of distributive justice in present society.¹⁰ Mill's famous distinction between self-regarding and other-regarding actions, just as famously dismissed by many of Mill's contemporaries, was for Hobson an instance of Mill's restricted conception of man's social nature and the consequently narrow role he accorded the state.¹¹ In Hobson's later work he reviewed the issue more carefully and independently, offering an alternative criterion for intervention in individual actions:

The only absolute rule of social interference is the consideration whether such interferences conduce upon the whole, and in the long run, to enfeeble or to strengthen the will and capacity of the subjects of such interferences to realise themselves in ways serviceable to society.¹²

This passage must not be read as asserting the supremacy of society over the individual, for Hobson specifically tied it to ‘the value set upon the unique in personality’, and to the right to make mistakes not too costly to others.¹³ Indeed, Hobson was inspired by Mill’s pluralism and love of liberty, in particular the value Mill bestowed on experimentation. These fitted into Hobson’s own biological and psychological theories, in which eccentric outbursts of social disorder – caprices, impulses, superfluous vital energy – could endow society with the creativity and originality necessary to its development.¹⁴ The respective stress on either order or adventure bore differing social costs, and would influence the degree of state and social intervention. The role of expertise, which Hobson is sometimes accused of carrying too far, was in fact assessed by him in typical Millite tones: ‘It is the problem of a reliable, disinterested, and progressive expertism on the one side, and an intelligent assimilative public on the other’, – ‘the active intelligence of the consumer’ of standards of behaviour.¹⁵ A science of consumption was the corollary of democratic control over knowledge and power.

Hobson’s replacement, when discussing the role of disinterested free-thought, of Mill’s moral perspective by a psychological one, was also instructive. Mill’s rational belief in the persistency of truth when confronted with falsehood was dismissed by Hobson in favour of the hypothesis that ‘seeing facts and thinking straight are more attractive to the mind than seeing falsehoods and thinking crooked’. Good arguments satisfied both the sense of creative power and – a point made far too infrequently – appealed to the aesthetic feelings.¹⁶

When assessing Mill’s contribution to contemporary thinking, Hobson predictably latched on both to the holism of Mill’s mature system and to its failure to bridge the gaps caused by the increasing specialisation of the disciplines. Though Mill ‘destroyed the hedonistic calculus’ at the basis of Benthamite utilitarianism, ‘unfortunately it survived almost intact in the economic science where it was sustained by an illusory interpretation of distinctively economic conduct’.¹⁷ Mill was nevertheless cited by Hobson for his ‘humane liberalism’, for his early adumbration of a theory of social progress, and for his break with the economics of self-interest. This kind of careful pruning in search of support was essential to the intellectual status of Hobson’s theories, denied as they were a formal podium of academic respectability.

The other major theorist to which Hobson often referred was Marx. As a rule Hobson did not differ from his countrymen in overstressing Marx as the diffuser of a one-sided and crude value theory of labour, advanced as dispassionate ‘scientific’ analysis,¹⁸ as well as the progenitor of a revolu-

tionary materialist theory of history, proffering ‘a doctrine of the absorption of all industry by the State’¹⁹ – the latter a common misunderstanding of Marxist argument. In 1902 Hobson gave a talk on Marx to the Rainbow Circle, the debating society in which he was a central figure. This offered a far more benevolent, if equally limited, view which identified Marx as the main creator of democratic socialism, ‘a popular policy of progress with intellectual foundations, a systematic shape, and practical ends’. All these were positively connoted words in Hobson’s vocabulary, especially the notion of an orderly, democratically-evolving and just society. The rational, evolutionary message that lay behind the revolutionary theory elicited Hobson’s sympathy. Hobson’s reservations about Marxian economics and about Marx’s presumed predilection for violence did not detract from his appreciation of Marx’s gospel of proletarian self-help and Marx’s virulent arraignment of a pernicious private capitalism.²⁰

The best statement of Hobson’s political ideas can be found in *The Social Problem*, the most sophisticated and original of his books on social and political issues.²¹ In this work Hobson adumbrated his communitarian theories and presented a version of utilitarianism that has been central to British welfare thought, though remaining almost unrecognised by contemporary philosophical critics of utilitarianism. As Hobson put it in an important statement referring to the work of T.H. Green:

The premature abandonment of the utilitarian setting by many thinkers, through pique arising from the narrow and degrading interpretation given to the term, has not been justified . . . even philosophers, like the late Professor Green, who are stoutest in repudiating Utilitarianism, invariably return to that terminology to express their final judgment on a concrete moral issue . . . The particular vices of some special form of utilitarianism, the insistence that desirability was entirely to be measured by quantity and never by quality, the stress upon physical enjoyment, and the short range of measurement, which were somewhat incorrectly attributed to Bentham’s system, are not inherent in utilitarianism, and need not deter us from using its convenient language.²²

In sum, Hobson was not prepared, as are so many scholars, to condemn utilitarianism simply because its extreme version was linked to a measurable calculus of pleasures and pains, or because it appeared to overrule other ethical and humanitarian claims on individual action. The search for the best social arrangements *compatible with* individual flourishing was the first responsibility of a rational community, and it was undeniably a utilitarian perspective bereft of its earlier shortcomings. Instead of the unconstrained

version, opposed by philosophers for threatening the equal respect that should be accorded to each person and for cherishing collective above individual welfare,²³ Hobson favoured a constrained version that wishes to maximise or optimise only a liberal-humanitarian conception of human nature.

The outcome was a Hobsonian synthesis crafted out of the reinterpretation of utility as welfare, an organic conception of society, and a developmental view of human nature. Hobson's originality and importance as a political theorist rest on this particular concoction.²⁴ But that synthesis was also assisted by an examination and re-evaluation of some political concepts in a manner that underpinned Hobson's radical ideas. His most innovative treatment was reserved for the notion of rights, and here we also have the opportunity of linking his opinions on classical political thinkers with his conceptual analysis.

The predominant mode of rights theory in late-Victorian Britain was still firmly attached to natural rights doctrine. That doctrine was characterised, among others, by the following features. It entertained a non-developmental notion of rights – a fixed list impervious to space or time. It postulated a pre-social conception of the origins of rights, and regarded societies and states as institutions whose purpose was to guarantee them. It held to an absolutist weighting of rights as trumps that override other interests or considerations.²⁵ Finally, it offered a highly individualist interpretation of the functions of rights, as protectors of personal capacities against infringements by other people and, in particular, by governments. It is scarcely surprising to find Hobson criticising Locke, Rousseau and Paine for propagating such views. It is just as interesting to note that current rights theories reproduce some of these perspectives, and that Hobson is no less radical in comparison with late twentieth-century rights discourse than he was almost a century ago with respect to past thinkers and to his contemporaries.

The initial critique of Locke gave way to an appreciative but somewhat tendentious interpretation of his contribution to a theory of limited rights. Hobson saw Locke's strengths not only in his labour theory of value which paved the way for a rudimentary economic science. Locke was now singled out not so much for his famous theory of private property as for his limitation of the use of property by the requirements of personal need or enjoyment, and by the property rights of others. In particular Hobson was quick to stress a point close to the hearts of his contemporary radicals: 'There can be no "natural right", in Locke's sense, to superior natural opportunities. Monopoly and rent are ruled out *ab initio*.'²⁶ The fault lay hence not in Locke but in the failure of modern societies to evolve along the path that Locke had begun to pave. It lay also in later thinkers, Rousseau in

particular, who used a method that ran contrary to scientific anthropological evidence when postulating the state of nature, rather than resting content with the poetic and imaginative vision implicit in his sense of social right.²⁷

Be this as it may, the doctrine of natural rights was still one to contend with. Its ideological biases are evident even in its refined modern versions. The main thrust of such versions has been a dual one: first, they base the claim for human rights on what is unique in human nature – the God-given abilities to live rationally and morally, later secularised as an intrinsic measure of human dignity that each person bore, grounded on his or her capacity for choice and autonomy. Second, they emphasise the concept of a atomistic person, a self-contained bundle of capacities who has to be protected from harm by fellow human beings. Hobson queried these assumptions, and did so in a way unsurpassed by later theorists. Why this specific achievement remains virtually unknown is yet another mystery about the percolation of his non-economic ideas and the particular patterns of influence that historians of ideas succeed or fail in tracing.²⁸

Instead of accepting the concern of rights theory with the securing of human moral features, Hobson used his ideas on vital human capacity to fashion a novel meaning of ‘natural’ not, as was usually the case, in the sense of ‘innate’, but as relating to the empirically demonstrable powers and capabilities without which human bodies and minds would not function. Thus the natural right to property derived both from the requirement to satisfy physical and psychological needs, the ignoring of which would dehumanise their subjects, and from the requirement to elicit from individuals conduct essential to the adequate performance of societies. It covered both welfare needs and incentives to produce and behave in socially as well as individually beneficial ways.

Hobson’s contribution to rights theory is of special interest because he expanded and crystallised the innovative views that D.G. Ritchie had concurrently been airing openly. If the essence of rights had been to demarcate the divide between public and private spheres and to ensure that the state held back from its authoritarian tendency to control the lives of its citizens, Hobson inverted the function of rights by employing them as a device to integrate collective and individual action, to consolidate the mutually dependent relationship between individual development and social progress, and to utilise the state as an enabling agency without which human rights, however obtained, were meaningless. To use later phrases, Hobson emphasised welfare rights at the expense of forbearance rights.

Hobson was insistent that a right was a social concept that could not pertain to individuals per se: ‘If an individual is living a solitary, self-sufficient life out of society, the attribution of these natural rights is an

empty form; the word “right” has here no content or significance’. Crucially, individual rights had no natural or absolute validity, for ‘society, and not the individual, must clearly claim, in the social interest’ what such rights were. Turning the absoluteness of the notion of a right on its head, Hobson asserted that ‘social utility must be paramount and absolute in marking the limits of such “rights”’.²⁹ This is of course precisely what critics of utilitarianism dread and, taken in isolation, Hobson’s statement is a clumsy one. Though his argument that the rights to life, liberty and property are neither absolute nor wholly individual – because a right without a power that affects others is impossible (an extension of Mill’s logic) – is a reasonable one, Hobson’s early writings on rights are ambiguous from a liberal viewpoint, and they exhibit his early difficulties in remaining within liberal boundaries. While conceding that the right to life was not a useless phrase, he then added, in a fashion with which Sidney Webb or the young Beveridge would have sympathised, that ‘it is the supreme duty of society to secure the life of all serviceable members, together with an implication that the life of every member shall be deemed serviceable, unless known to be otherwise’. The rider left much to be desired: what was the basis of such knowledge, and who were the knowledgeable? Nevertheless, bobbing and weaving, Hobson again followed this by spelling out ‘a clear individual right to property in all “necessaries of life”’, a doctrine he thought tended ‘to undermine radically existing notions of . . . rights’. He even criticised Ritchie, albeit without justification, for moving towards the abandonment of all individual rights.³⁰

Instead of basing rights on entitlements, Hobson identified needs as their principal rationale, a perspective still central to welfare thought. However, he refused to do away entirely with traditional views of property – though linked not to hereditary birthright, but to reward for effort, a manifestation of human conduct essential to productivity. No less interesting was Hobson’s readiness to employ the concept of rights where his contemporaries had recourse only to the notion of duties. It was for example commonplace at the turn of the century to discuss duties towards children without making the logical connection to children’s rights.³¹ Hobson challenged this approach with respect to animals, maintaining that ‘what the nature of a duty is for which no one has a right to claim fulfilment, I cannot myself conceive’.³² Rights and obligations were for him indisputably correlative, an issue that still elicits much disagreement among rights theorists.

Hobson’s organic holism led him to a freshness of analysis that may be contrasted with a salient modern, and frequently stunted, approach to rights shared by many philosophers. Current approaches are grounded on a view of human nature as uniquely rational and moral, and seek consequently to

safeguard those attributes, and those attributes alone, by means of rights. This conception of human nature is not so much incorrect as reductionist, regarding the features conducive to the capacities for choice, autonomy and agency as making human beings what they distinctively are.³³ Hobson would have none of this. Because he held that human features were interconnected on their various levels – physical, psychological and emotional – he extended the meaning of ‘property’ rights to accommodate and protect a totalist, needs-oriented understanding of human nature. Initially this meant ‘the satisfaction of those physical, intellectual, and moral wants which serve to maintain and raise individual efficiency for social service’ – a position too subservient to the social perspective.³⁴ In later years, equipped with a clearer and broader recognition of the psychological make-up of people, Hobson refined his position to include giving ‘to each what each is capable of utilising for a full human life. Capacity of use or enjoyment, not ‘needs’ in its narrow significance of physical or even spiritual necessities of life, must be our humanist interpretation . . .’³⁵ However, Hobson had no solution for the ‘limitless needs’ problem. In providing neither ceiling nor standards of discrimination for the rights that could be claimed to promote human welfare, the concept of rights was potentially weakened precisely because it could only perform its basic function – the prioritising and protection of human and social attributes considered essential to wellbeing – with great difficulty.

Finally, on a dual social level of analysis, Hobson identified private property as an indispensable support for personality and for community,³⁶ and he pushed liberal argument to its outer limits by suggesting that the community was entitled to claim separate property rights of its own in order to further specifically social ends. In his seminal 1893 article, ‘Rights of Property’, Hobson distinguished a claim of society to property that ‘rests upon precisely the same basis of nature and rights as the claim of an individual’, namely, ownership over one’s productions.³⁷ To this argument he later added the distinct social needs and features society inhibited that required rights protection.³⁸

To sum up the topic of rights: Hobson countered the stasis of natural rights with evolutionary laws of development and hence with non-absolute rights that underwent modification. To the individual as unit of analysis, he added society – both as a distinct entity and as providing ends that fashioned human character and need, all of which required rights-protection. To the morally significant attributes of choice and autonomy he added *all* features without which human life would be impoverished if not endangered outright. And to the function of rights as impediments to the intrinsic human capacity for harming others, he opposed rights as claims to elicit beneficial

conduct from others, claims to reciprocate with duties arising out of the nature of the social relationship.

Hobson's views on liberty and equality predictably interconnect with his treatment of rights. Though he reiterated Green's over-used distinction between negative and positive liberty, Hobson took Green's ideas a few important steps further. To begin with, it is helpful to recall that Hobson's pre-war economic arguments were conducted against the backdrop of the free-trade debate. Any notion of liberty had to take account of the ideological dimensions implicit in that debate, and Hobson duly attempted to do so. He identified two freedoms at the heart of free trade: freedom of production and freedom of exchange. The former was an individualist, private, even egoistic freedom, because it was based on the accepted right of 'of every man to do the kind of work which he thinks will yield him the best return'. The latter was dressed up as a negative right: 'the right to sell . . . produce and to buy the produce of others without legal or other unnecessary hindrance'.³⁹ In fact, Hobson deftly extracted a communitarian rationale from this latter freedom. Instead of regarding exchange merely as a means of obtaining private economic ends, the act of exchange itself became a desirable end. Complete liberty of intercourse not only secured 'a more effective division of labour, a larger general production of wealth, and a bigger share for each participant',⁴⁰ but encouraged the promotion of a vast community of international interests. A genuine free trade would further an economic internationalism and 'render the advantages in natural resources and in labour which any country might possess available to the whole world'.⁴¹ Internally, too, the abolition of 'trade individualism' by means of various restrictive practices which set unions and capitalists against each other would give way to a 'pooling of interests of employers and employed'.⁴² Clearly, too, Hobsonian free trade was only free within the framework of rational social control and coordination. As he elsewhere argued, effective economic liberty involved challenging monopolies and therefore 'large permanent measures of public control'.⁴³

Here we arrive at the nub of Hobson's conception of liberty. 'Liberty conceived in vacuo,' he wrote, 'the right of not being interfered with by someone else, has no substance, no value'.⁴⁴ Hobson's analytical technique was both praiseworthy and faulty. His dismissal of liberty as having no intrinsic value, being instead a means to the achievement of other values, is most plausible. It has never been clear in libertarian argument what individuals are supposed to *do* with their highly prized liberty, regarded as an end. Liberty, like other mainstream political terms, is an essentially contested concept, one on which no theoretical agreement is possible. Hobson showed how particular senses of mainstream political concepts are in prac-

tice grouped together to form decontested clusters – logically arbitrary but without which no political action is possible – by illustrating how concepts, rather than standing alone, only gained substance through defining each other. On the other hand, Hobson himself was unable to rise above the dependence of his political concepts on his ideological preferences, especially on the versions of human nature they were employed to further. To that extent, his conceptual analysis was always *parti pris*; that is to say, he was an ideologist rather than a theorist.

When discussing liberty Hobson opted for intermeshing it with equality. Especially in his earlier writings, Hobson expounded liberty as a means to attaining the goods attendant upon social membership or, as we might want to call it, citizenship. Freedom denoted ‘equal opportunity . . . of such access to all material and moral means of personal development and work’ as would contribute both to individual and to social welfare. To that were added spiritual and intellectual opportunities through education.⁴⁵ In a well-known article Hobson elaborated on equality of opportunity as concerning access to natural resources, to industrial power, to state credit facilities, to public justice, knowledge and culture, and geographical mobility.⁴⁶

The connection between liberty and equality is however not logically entailed. Liberty can alternatively be interwoven with individual self-determination, choice, or rationality. Conversely, the requirement of equality may be seen as impeding free choice and action. If Hobson acknowledged these options, it was only to dismiss them both as ethically inferior and scientifically groundless. Proceeding instead from the distinction between absence of restraint and presence of opportunity, he signalled his own position by calling for a ‘more evolutionary idea of liberty’.⁴⁷ His insistence that concepts did not have permanent meanings was a tripartite statement. It placed them firmly within a historical context; it allowed for the social construction of their meaning; and it repudiated the innate sense of words. Instead, Hobson sought to set liberty within an idea-environment, currently emerging in Britain, from which a new import to the concept could be derived. This he achieved by associating liberty with a specific variant of equality – equality of opportunity.

Equality of opportunity is of course just as vacuous a term as liberty, and its meaning will depend on whether it is injected with a minimal or maximal interpretation. It may be restricted to the absence of legal or formal barriers to individual action – a position adopted by libertarians. Obviously, if one holds to a view of human nature as self-developing or fully capable of rational choice, and of life-chances as dependent on one’s own ability, this is a fair version of equality. When Hobson unsurprisingly chose his much fuller interpretation, he nonetheless desisted from adopting wholly the

Rousseauist-Hegelian understanding of liberty as the acting out of a universal notion of rationality: a self unencumbered by transient, egoistic, private and unreflective wants and desires.

The key to Hobson's concept of liberty lies in the idea of development. Because human nature was, among others, the expression and reflection of a process, any interference with that process – that is, with the growth and maturation of human abilities – was itself a cardinal suppression of such abilities. But was the process not a necessitarian one to which liberty did not apply? In two senses this was not the case: first, even an inevitable process could supply individuals with the beneficial attributes without which meaningful choices could not be made; second – as Hobson's colleague Hobhouse had emphasised – where human beings were concerned evolution itself brought forth a rational mind that assumed control over its future course. This was what Hobson meant when rephrasing the fuller and more positive liberty to which liberalism had to devote itself in the following question: 'What are the equal opportunities which every Englishman requires to-day in order to secure real liberty of self-development?'⁴⁸

In analysing liberty, there is no need to make a choice between its 'negative' and 'positive' aspects. Any humanistic notion of liberty will include both options. The acknowledgement of individuals as gregarious and dependent on others for their realisation does not rule out circumscribed but clearly available areas of *self*-development. If the crux of the matter is a capacity to control one's own life,⁴⁹ there can be no objection to intervention in an individual's life when such intervention is specifically tailored to increase his or her capacity to make the rational choice endemic in such control. Hence the loss of liberty as non-constraint could enhance liberty as the biological, psychological and intellectual working out of one's own potential, though some liberty as non-constraint had inevitably to be in-defeasible. Hobson was never very good at spelling this out, but he undoubtedly aimed at such a resolution of the issue.

If it had occasionally appeared that Hobson was regarding personal development as the minor theme, and communal welfare as the major, the First World War induced him to restructure that internal balance. In a discussion on the loss of liberty suffered in Britain, he reformulated Mill's concern for free speech from a social viewpoint: 'It is often said that thought is always free, because our thoughts are our own, and no one can deprive us of them; but this is not strictly true. A man's thinking is severely restricted if the ideas of his fellow-men are made inaccessible to him.' But just as importantly, Hobson returned to stress the personal aspects of liberty: 'private judgement and personal responsibility lie at the root of representative government . . . we hold the state exists mainly to develop the

personality of the individual, and that this development involves a real freedom of choice on the part of the citizen.⁵⁰ In general, Hobson saw personal liberty as the culmination of a welfare society, attainable once common needs had been catered for.⁵¹ In his later work, he repeatedly dropped his earlier insistence on the social utility of individual choices and allowed for freedom of action as long as the free play of individuals was unharmed, even if no discernible social advantage was immediately evident.

In the 1930s Hobson still bewailed the fact that liberty counted for more than equality in Britain. The equality Hobson opted for was, however, of a specific kind. I have already had occasion to remark on Hobson's later unease with equality of opportunity.⁵² What I now wish to stress is the shift between his earlier and subsequent views. Hobson came to prefer the term social equality to that of equality of opportunity, and he took care to unravel it from other types of equality that pushed in the direction of uniformity. He also hinted at a possible detachment of equality from the earlier and too strong link with liberty and attempted to place it in an idea-environment that included fraternity, comradeship, cooperation and community.⁵³ Equality of opportunity now became for Hobson merely one of the desirable components of the concept, and it had to be accompanied by the breakdown of class barriers and the re-attribution of social status – an issue of 'class-psychology' more than of economic distribution or access to goods.⁵⁴ Yet again as a theoretician Hobson signalled his awareness of the range of meanings attached to equality, and of its dependence on being linked up with different adjacent concepts, but in his employment of political terms he preferred his role as ideological player to that of analytical observer.

Hobson had an impact on political thought in three areas: first, he broadened the spheres from which rational political thinking could be culled and helped to break down the monopoly on the spread and development of political ideas exercised by a few leading and isolated individuals. This he accomplished through perusing unconventional sources, and consequently legitimising the utilisation of new forms and means of political expression: of groups, of individuals placed at strategic points in the distribution of ideas, and of professions whose political thought was only incidental to their activity. Second, he exposed the multi-dimensionality of the political concepts he explored, revealing their intricate internal structure and their plasticity within a extensive spectrum of conceptual environments. But in the final analysis it is in a third area, as an ideologically sophisticated but committed thinker, that Hobson must be deemed to have made his chief mark. He contributed not only to the understanding and redefinition of key political concepts but to the role they play in political discourse. He be-

queathed more than we care to admit to the way we handle important areas of liberal welfare thought; whether or not we approve of his ideas, his influence there is incontestable. But his appeal for a disinterestedness based on the scientifically determinable nature of human beings, however worthy, masked his own predilections and the limitations of any ideological enterprise. It is inevitably on the viability and persuasiveness of those predilections that he must ultimately be judged.

Notes

1. J.A. Hobson, *A Modern Outlook* (London, 1910), pp. 42, 46.
2. *Ibid.*, p. 50.
3. J.A. Hobson, *Free-Thought in the Social Sciences* (London, 1926), p. 223.
4. J.A. Hobson, *The Crisis of Liberalism* (London, 1909), p. 249. See also Hobson, *Free-Thought in the Social Sciences*, p. 199.
5. Hobson, *A Modern Outlook*, p. 93. My italics.
6. See M. Freeden, *Liberalism Divided: A Study in British Political Thought 1914–1939* (Oxford, 1986), ch. 7.
7. J.A. Hobson, *Wealth and Life* (London, 1929), p. 17.
8. Hobson, *A Modern Outlook*, p. 94.
9. J.A. Hobson, *Democracy and a Changing Civilisation* (London, 1934), p. 7.
10. J.A. Hobson, *The Social Problem* (London, 1901), p. 16.
11. J.A. Hobson, 'John Stuart Mill', *Speaker*, 26 May 1906.
12. Hobson, *Wealth and Life*, pp. 332–3.
13. *Ibid.*, p. 333. See also J. Allett, *New Liberalism: The Political Economy of J.A. Hobson* (Toronto, 1981), p. 187.
14. J.A. Hobson, 'Character and Society', in P.L. Parker (ed.), *Character and Life* (London, 1912), pp. 94–6.
15. Hobson, *Wealth and Life*, pp. 334–5.
16. Hobson, *Free-Thought in the Social Sciences*, pp. 279–80.
17. Hobson, *Wealth and Life*, p. 109.
18. Hobson, *Free-Thought in the Social Sciences*, ch. v.
19. Hobson, *The Crisis of Liberalism*, p. 137.
20. M. Freeden (ed.), *Minutes of the Rainbow Circle, 1894–1924* (London, 1989), p. 99.
21. *The Social Problem* was itself a collection of Hobson's essays first published during 1898, and a culmination of the views he developed throughout the 1890s, his most fertile decade.
22. Hobson, *The Social Problem*, pp. 4–5.
23. See e.g. R. Frey, ed., *Utility and Rights* (Oxford, 1985).
24. I have elaborated on this view in *The New Liberalism* (Oxford, 1978), in *Liberalism Divided* and in 'Hobson's Evolving Conceptions of Human Nature' in M. Freeden, ed., *Reappraising J.A. Hobson: Humanism and Welfare* (London, 1990).
25. R. Dworkin's suggestive phrase in *Taking Rights Seriously* (Cambridge, Mass.: Harvard University Press, 1977), p. xi.
26. Hobson, *Wealth and Life*, pp. 99, 142–3.

27. J.A. Hobson, 'Rights of Property', *Free Review*, November 1893, 130–1.
28. For a general analysis of this problem, see M. Freedon, 'The Stranger at the Feast: Ideology and Public Policy in Twentieth Century Britain', *Twentieth Century British History*, vol. 1, 1 (1990).
29. Hobson, *The Social Problem*, pp. 88–9.
30. *Ibid.*, pp. 90, 94.
31. See M. Freedon, 'Rights, Needs and Community: The Emergence of British Welfare Thought', in A. Ware and R. E. Goodin, eds, *Needs and Welfare* (London: Sage, 1990), pp. 54–72.
32. Hobson, *The Crisis of Liberalism*, p. 250.
33. I have dealt with this issue more broadly in M. Freedon, 'Human Rights and Welfare: A Communitarian View', *Ethics*, vol. 100 (1990), 489–502.
34. Hobson, *The Social Problem*, p. 162.
35. Hobson, *Wealth and Life*, p. 230.
36. *Ibid.*, p. 164.
37. Hobson, 'Rights of Property', 145.
38. Hobson, *The Social Problem*, pp. 149–50.
39. J.A. Hobson, 'Protection as a Working-Class Policy,' in H.W. Massingham, ed., *Labour and Protection* (London, 1903), p. 39.
40. *Ibid.*, p. 47.
41. Hobson, *Democracy and a Changing Civilisation*, p. 22.
42. J.A. Hobson, 'War or Peace in Industry?', *The Reformer*, 15 February 1898.
43. Hobson, *The Crisis of Liberalism*, p. 4.
44. Hobson, 'Rights of Property', 132.
45. Hobson, *The Crisis of Liberalism*, pp. 93–4.
46. J.A. Hobson, 'The Extension of Liberalism', *English Review*, vol. 3 (1909), 673–86.
47. Hobson, *The Crisis of Liberalism*, p. 93.
48. *Ibid.*, p. 97.
49. See J. Raz, *The Morality of Freedom* (Oxford, 1986), p. 409.
50. J.A. Hobson, 'The Liberties of Englishmen' [Lecture delivered on 16 January 1916], *South Place Monthly List* (1915–16), 3–5.
51. See, for example, J.A. Hobson, *The Modern State* (London, 1932), p. 21.
52. Freedon, *Liberalism Divided*, p. 246.
53. Hobson, *Democracy*, pp. 14, 83–4.
54. J.A. Hobson, *Towards Social Equality, Hobhouse Memorial Lecture* (London, 1931), p. 17.

3 Hobson and the Socialist Tradition*

Jules Townshend

The overall objective of this chapter is to get a better ‘fix’ on the ‘spirit of Hobson’ – the meaning and character of his thought. This may help us to understand more clearly Hobson’s historical and contemporary significance – indeed why he is worth commemorating! First, I deal with two interpretations, one in effect emphasising his socialist (non-Marxist) credentials, the other firmly locating Hobson within the liberal tradition. Second, I will attempt to show that both these perspectives misunderstand either the nature or the trajectory of the Hobsonian project. Third, I shall indicate a number of its inherent weaknesses. Finally, I will argue that Hobson, as an important contributor to the socialist tradition, has a contemporary resonance for socialists faced with the challenge of neo-liberal ideology, both Eastern and Western.

LABELLING HOBSON

The two major works which deal comprehensively with Hobson’s social, economic and political philosophy seem to pull in opposite directions.¹ Michael Freedon strongly underlines Hobson’s efforts to rework liberalism from within the liberal tradition itself. John Allett on the other hand is keener to stress Hobson’s illiberal tendencies and the movement of his thought in a socialist direction.² I have problems in accepting either approach, although I have more sympathy with Allett’s perspective.

Freedon’s Hobson

Freedon’s analysis of Hobson is used to substantiate a more general claim that ‘intellectually and ideologically liberalism was fully responsible for, and capable of, transforming its political doctrines’.³ Hobson, along with other new liberals ‘constructed a powerful, coherent and relevant edifice,

* I would like to thank John King for his helpful comments on this chapter.

without compromising on what was inherently liberal in their outlook'.⁴ Putting aside for the moment the question of the coherence of Hobson's new liberalism, can it be persuasively argued that he did not stray from the liberal fold in any significant sense? First, we have to avoid seeking to solve the question through relying on the epithets which Hobson used to describe his own, or other people's ideas or policies. Terminological slippage is notorious in his work, although its conceptual structure remained essentially unchanged from the 1900s onwards. He was quite content to assert that his socio-economic prescriptions constituted 'progressive socialism'⁵ or 'practical socialism'⁶ or that he was advocating a 'middle policy of socialism'.⁷ Indeed, he could claim that he did not want to defend liberalism against socialism, but rather 'practical' socialism as against 'theoretical' socialism, which he identified as the full state control and ownership of the means of production, distribution and exchange.⁸ In the space of one book, *The Crisis of Liberalism*, he implied that his conception of the state was 'not Socialism'⁹ and yet remarked at the same time that it was 'practical Socialism'.¹⁰ Elsewhere, he could describe the principle of equality of opportunity as socialist,¹¹ or as liberal.¹² He even saw Sydney Webb's 'four-fold path' of socialism as 'constructive liberalism'.¹³ Indeed, this sort of confusion may well have contributed to others describing him variously as a 'moderate evolutionary Socialist',¹⁴ or a 'Liberal of the old Radical School'.¹⁵

The question of whether Hobson can with confidence be labelled as a 'liberal' is therefore more adequately resolved at the theoretical level. He departed from traditional liberal values and concepts in a number of crucial respects, making it difficult to portray Hobson as consistently developing the liberal tradition from *within*. For instance, his organic theory of society, whose salient feature was human interdependence, led him to assert that individual rights only became intelligible and legitimate when seen in the context of a society, regarded as an 'organic', interdependent whole. And he maintained that the 'rights' of 'Society' were just as important as those of the individual. Indeed, he often went further than suggesting that the claims of society and the individual were equally important. His organicism turned the traditional liberal order of priority on its head: the 'whole', i.e. society, in the final analysis took precedence over its 'parts', i.e. the individual. This was really the sub-text of the debate between him and Hobhouse about ontological individualism, and whether society was in fact a separate entity, which could not be fully understood in terms of the behaviour and activity of its individual members. Even when Hobson is at his most 'liberal' it is important to examine the language he employed. For example, the curtailment of individual rights during the First World War supposedly led to a "rediscovery" of the importance of individual liberty'.¹⁶ Nevertheless, his

opposition to conscription was not articulated within traditional liberal, individualist discourse, but in terms of communal benefit: 'there is a net economy of political strength and progress in encouraging the free play of personal views and sentiments even when they impede the smooth activity of some particular State function.'¹⁷ Moreover, his chief concern about the loss of individual civil liberty and democratic rights during the First World War was that it strengthened the forces of reaction, and therefore impeded social reform.¹⁸

Indeed, when Hobson discussed the virtues of democracy, it was not merely in the 'protective' terms of James Mill, nor in the language of 'political efficacy' of his son John Stuart Mill. Rather, he could intend it to achieve something quite illiberal: the operationalisation of a 'general will'.¹⁹ In a truly democratic state, he argued, law-breakers would be 'forced to be free' in the interests of the community.²⁰ He advocated compulsory arbitration in industrial disputes that badly affected the interests of the community at large.²¹ He also suggested that such a sanction should operate at the level of international politics. And on behalf of the community he proposed the state regulation of sexual relations, described by Freeden as an 'astonishing statement for a liberal'.²² It is less mind-boggling if viewed as a manifestation of Hobson's organicism, which consistently subordinated the part to the whole, and is revealed in another context, in his attitude towards the 'lower races', where he recommended in the last resort compulsion against indigenous populations unwilling to undertake wage-labour.²³

His illiberal tendencies were not an aberration on Hobson's part. They stemmed from his general opposition to ontological individualism, in favour of a holistic perspective: 'Society' was an entity separate from the individuals who comprised it, and equally capable of 'self-realisation'. For this reason he maintained, even towards the end of his life, that communal welfare possessed a value, independent of its members. So he viewed the family, for instance, as the community 'writ small', as having a value *per se* as a sound well-living prosperous, serviceable stock. I cling to this. . . . value and will not have it dissipated into the several personal values of the particular members of this family, past, present and to come'.²⁴ Even liberals who were personally and politically close to Hobson, such as Hobhouse, would not follow him down this ontological path. Thus, if it is still insisted that Hobson remained essentially a liberal, all that can be said is that he effectively destroyed a significant area of liberalism to save it.

True, there were crucial liberal elements in Hobson's thought, such as his advocacy of competition (although he was ambivalent on this due to his Ruskinian affiliations), incentives, and the need to draw clear boundaries between the state and 'civil' society. What is asserted here, and will be

argued presently, is that his thought cannot be reduced to a single liberal core.

Allett's Hobson

Hobson's illiberalism is underscored in Allett's interpretation. His 'theory of organic surplus value' is seen as the nub of Hobson's political and economic philosophy.²⁵ This theory makes Hobson effectively illiberal in so far as liberalism is inextricably bound up with some form of capitalism, because it suggests that, for Hobson, 'capitalism, *even at its most ideal*, was an unjust system of distribution'.²⁶ Allett derives his interpretation from a passage in *The Social Problem*.²⁷ In it, Hobson argues that the surplus could not be attributable to any single worker, but was the product of the cooperation between workers. As he states: 'Organised co-operation is a productive power.'²⁸ If workers were set to work 'firstly separately and then together, the difference in value between their added and their joint product might rank as the quantity of social value.'²⁹ Thus, because cooperation itself created this surplus, it could belong to no individual but only to society. Such an argument, at least by implication, moves Hobson in a socialist direction by legitimating the state's rights over a substantial portion of society's output. Certainly, if this view of Hobson's notion of the surplus is correct, in seeing it as intrinsic to capitalism, then Allett is also right to criticise commentators for attributing a liberal-capitalist value to Hobson, for mistakenly assuming that he regarded capitalism as morally and economically healthy if freed from monopoly control.³⁰

I have difficulty with this account of Hobson's theory of organic surplus as *the* most important theory of surplus in his work. The first reason is that Allett seems to misinterpret the context of the passage upon which he relies so heavily. Hobson was merely demonstrating the social nature of the productive process, thereby establishing that society had 'a natural claim upon property, on the ground that it is the maker of values of property'.³¹ In other words, this notion of surplus was merely part of an argument seeking to justify a general claim by the state upon individual property. Because property was a social, and not an individual, product, individual rights over it could not be absolute. The fact that he did not endow this form of surplus with explanatory or normative-distributive significance, or make it into a full-blown theory within his overall system is confirmed by the paucity of reference to it in previous or later works.

Secondly, the surplus to which commentators criticised by Allett are referring is what Hobson called an 'industrial surplus', and had its basis in machine production.³² Its productive powers enabled it to generate output

over and above that required for the means of subsistence, which Hobson saw as the equivalent to the amount required to 'maintain the current output of productive energy in a factor of production'. Thus, the surplus was the residue after subsistence payments had been made to the factors of production required as an incentive to maintain an existing level of output.³³ Thus, machine production was the decisive factor in creating physical resources in excess of those required for physical subsistence, rather than the act of cooperation itself. True, cooperation could be seen as a necessary condition for the creation of the surplus in developing machine production, but it was the latter which was the crucial physical agency. The significance of monopolies was that they exploited their market position in order to acquire more of the surplus than they needed for crisis-free economic expansion. Thirdly, because he employed the concept of 'industrial' surplus, he did, *contra* Allett, on a number of occasions suggest that laissez-faire, pre-monopoly capitalism was, by and large, just. For in this situation a 'needs' economy operated, in which all factors of production received their appropriate payment for maintenance.³⁴

Fourthly, it is hard to accept that the 'organic surplus' theory necessarily proves capitalism to be inherently unjust. Who received this surplus would depend upon the contingent facts of relative bargaining strengths (which for Hobson could easily be changed through state intervention). Finally, if Allett's interpretation were accepted, it would have had a peculiar logic for Hobson. If the 'organic' surplus demonstrated that capitalism was intrinsically unjust, then should he have called for its destruction rather than its reform? For Hobson the central inequity of capitalism lay in the imperfect operation of the market, not in the production process itself. Thus, in so far as liberalism commends some form of capitalism it seems that there existed a substantial liberal element in Hobson's incentives. In sum, the significance of the 'organic' theory of surplus value, emphasised by Allett, lay in its buttressing of Hobson's case against treating individual property rights as absolute.

IN SEARCH OF HOBSON'S *TELOS*

Why such conflicting interpretations are possible – as well as the wild terminological slippage – is a consequence of Hobson's intellectual and political project. It was a genuinely syncretic one, entailing a synthesis of liberal and socialist values and concepts. For the sake of discussion I take liberal values and concepts to mean an overriding imperative in recognising the diversity of human wants (and, by the late nineteenth century, needs)

and a corollary acknowledgement of the supreme importance of individual freedom in satisfying these desires (or needs). Flowing from this, liberalism has had an abiding preoccupation with upholding individual political, civil and property rights, *vis-à-vis* other individuals or the state. I also take liberalism to mean that an irreducibly self-interested and asocial element in human nature has to be built into any theory of social, political and economic relationships, and that it is normally ontologically individualist. In terms of distributive justice, rewards should be based upon merit. Equality of opportunity was thus an important liberal principle. A free and fairly competitive market is seen by liberals as a crucial mechanism in realising this principle. Finally, if a liberal had to make a 'bottom line' choice between freedom and equality s/he would choose freedom. As for a socialist's normative and ontological position, substantive political, social and economic equality are the ultimate values, and are based in the assumption of the general similarity of human needs. Socialists would say as much for individual interests, if they happen to conflict with these goals. Socialists generally believe, because they do not share the liberals' tendency to look upon the state with suspicion, that it should be employed to bring about socio-economic equality. Socialists also usually believe in the sociability of human nature and the capacity of people to make certain sacrifices for the community. In terms of social explanation, socialists are usually methodologically and ontologically holist. Where both traditions (especially Millian and post-Millian liberalism, and Marxism in its Western post-1960s incarnation) clearly intersect is over the value both attach to human self-realisation. Differences arise over the choice of means to achieve this objective, and perhaps on the precise meaning of self-realisation.

What Hobson attempted to do was to fuse what he saw as the best of both traditions. And if labels have to be employed, then perhaps 'progressivist' would be the most apt.³⁵ He rejected the extremes of individualist liberalism and of collectivist socialism. The former philosophy, especially as espoused by the Charity Organisation Society, in justifying the minimal state, suggested that poverty was caused by individual moral weakness. Economic-structural factors were not entertained.³⁶ Full-blooded state socialism on the other hand ignored the differences of individual productive and consumptive capacities.³⁷

The nature and trajectory of Hobson's thought is best understood, as argued elsewhere, by seeing it as evolving out of the intellectual and political crisis of late nineteenth-century British liberalism, which Hobson saw as part of the general crisis of European liberalism.³⁸ He believed that liberalism was ceasing to be a hegemonic force in British politics, and that the Liberal Party's internal crisis and loss of electoral support in the 1890s

was a reflection of its intellectual bankruptcy. His theoretical preoccupations therefore grew out of these practical concerns. From the 1890s onwards Hobson tried to foster a progressive alliance of 'hand' and 'brain', of the working and middle classes. And for him such an alliance could only be built on a synthesis of liberal and socialist principles, demonstrating that many liberals, socialists and trade unionists really wanted the same things.

His synthetic approach not only developed out of practical considerations. Hobson's intellectually formative period of the 1890s was one of great intellectual flux, of great changes in the human and biological sciences. Through his membership of the Rainbow Circle and the South Place Ethical Society he became intimately aware of these new intellectual developments. His writings are replete with attempts to reconcile various antinomies: the hedonism of the utilitarians with the moralism of T. H. Green, materialism with idealism, determinism with voluntarism, utopianism with pragmatism, reason with instinct, facts with values, quantity with quality, and science with art. This approach was not only fostered by one of his mentors, Herbert Spencer, it was also part of the neo-Hegelian atmosphere of the London Ethical Society, of which he was a member in the early 1890s.³⁹

Precisely how Hobson combined liberalism and socialism can only be summarised here. His conception of human nature took into account both the egocentricity of human behaviour and the irreducible social nature of human beings (and indeed of self-sacrifice), especially as the result of modern industrialism, which increased human propensities of cooperation.⁴⁰ Education could foster this latter element. He also respected the diversity of human needs and wants, yet recognised their homogeneity. One common need in individuals was the desire for 'individuation', or for self-realisation, which is a central element in liberal (especially late nineteenth century) and socialist ideology. We should note that unlike liberals influenced by Mill or Green, Hobson introduced a Ruskinian, expressivist ethic, which demanded individual aesthetic satisfaction be derived from the labour process.

His attitude to distributive justice also reflected a syncretic approach. He wholeheartedly embraced the socialist formula, 'from each according to his ability, to each according to his needs'. Yet he gave a liberal twist to it: 'needs' he defined in terms of an individual's 'social utility', i.e. capacity and willingness to contribute to the common good.⁴¹ For Hobson the appropriate reward was one which was sufficient to maintain an individual's productive capacities, and induce him or her to work to the best of their ability. He normally conflated these two elements when discussing the necessity for incentives. To ensure that people did not get more than the

incentive to work at a particular job, that is to eliminate rents of ability, and to get the best out of them, there had to be equality of opportunity in labour markets, a favourite liberal prescription, through an overall improvement in state education, and allowing trade unions the strength to organise against the monopsony power of the employers.

On the other hand, Hobson acknowledged that human beings had many similar needs, that there was a 'common humanity'.⁴² People therefore required a 'living wage' whatever their contribution to the common good. People's common humanity also meant that all were equally entitled to realise their manifold potentials. Indeed, we often see Hobson employing the notion of equality of opportunity in this substantive, in contrast to the liberal procedural, sense. On occasion he could in essence combine both notions of equality of opportunity, without realising, as we shall see, how problematic such a combination could be. In discussing the nature of 'practicable Socialism', he stated, 'It aims primarily not to abolish the competitive system, to socialise all instruments of production, distribution and exchange, and to convert all workers into public employees – but rather to supply all workers at cost price with all the economic conditions requisite to the education and employment of their personal powers for their personal advantage and enjoyment.'⁴³ Thus, he wanted all workers to be supplied at 'cost price', through equality of opportunity which would eliminate rents of ability. Yet, he also desired that they achieve their potentials and enjoy themselves to the best of their ability.

Another aspect of his liberal-socialist synthesis in connection with distribution was revealed in his discussion of distributive claims (as opposed to principles). His ontological holism led him to argue that the state, as representative of society, was just as entitled to a portion of the surplus as the individual, not on the grounds of the use to which this surplus would be put for the benefit of the individual, but rather because it would benefit society as a whole.⁴⁴

Finally, the liberal-socialist fusion manifested itself in his principles for state intervention. In wishing to broaden the economic functions of the state and yet still maintain clear boundaries between it and 'civil society', two, but connected, important facts had to be recognised. The first was that human needs and desires were both heterogeneous and homogenous. The second was that the growth of machine production in the nineteenth and early twentieth centuries had led to the growth of monopolies and attendant 'unproductive' surpluses. He argued that the state ought to take control of these industries in order to control the surpluses, but also because machine production, the subject of monopoly control, catered for those basic physical needs which humans had in common. Although Hobson suggested other

forms of monopoly as candidates for socialisation, the state control of machine-monopolies was at the centre of his plans for social reconstruction. The state, as the 'brain' of society, would be able to run these large-scale industries efficiently, for the benefit of society as a whole. For example, the prices of basic commodities could be reduced, as could the hours of those working in these industries. This would create the condition for greater individuation, either through increasing individual leisure-time, or by reducing the proportion of the population working in monopolised industries catering for homogenous needs and desires. More individuals could then engage in creative production that could meet people's differentiated needs.

The socialisation of monopolies he regarded as central to human evolution from 'quantitative' acts of production and consumption to 'qualitative' ones.

As the elements of steady common consumption grow in number, the common organisation of activity to supply them will grow and where the supply has at first been left to private enterprise, the abuse of power and the growing inconveniences of competition will drive them into public industry. But since the very *raison d'être* of this increased social cohesiveness is to economise and enrich the individual energy to assume higher forms out of which more individual satisfaction may accrue, and more human effort will take shape in industries which will be left to individual initiative and control, the arts in which the freedom of personal spontaneity will find scope in the expression of physical or moral beauty and fitness and the attainment of intellectual truth . . . Thus will the balance of the social and the individual work in the satisfaction of human wants be preserved, while the number of those wants increase and assume different values with the progress of the social and the individual life.⁴⁵

Generally, he saw the private sector as the area of innovation, and one in which individual motivation could be enhanced through 'prize-money in the shape of profit'.⁴⁶ Hobson, therefore, proposed a dual economy, a public sector which met 'routine' or standardised needs and desires, and a private sector which ministered to individuated ones. His suggestion was not completely original. It owed much to two friends, an important forerunner of American progressivism, H.D. Lloyd, and the Fabian essayist, William Clarke.⁴⁷

Hobson certainly wanted to overcome liberal fears that socialised industry would lead to loss of initiative and enterprise, and thereafter loss of

output, and that it would be controlled by an unresponsive bureaucracy. Generally, he believed that the public sector would reduce waste, because the 'unproductive' surplus would be eliminated, and that it would benefit from economies of scale.⁴⁸ Later he argued that innovation could be stimulated by establishing a half-way house between the public and private sectors.⁴⁹ Bureaucracy could be made more accountable to rank-and-file employees and the public, by (1) improving the education of the 'poorer classes' and opening up public service to them; (2) opening up public departments to criticism; (3) reducing differentials in pay and conditions within the bureaucracy; and (4) allowing public employees the right of appeal to an independent public authority against arbitrary management.⁵⁰ Nevertheless, he did not share the liberal fear of the state per se. A suitably democratised state was both 'natural' (as opposed to artificial) and rational. It was a natural expression of the growth of human reason, which sought to economise in the energies devoted to human survival.⁵¹ The expert class, which he believed necessary in the running of modern society, constituted the 'brain' of society.⁵²

In concluding this section on the nature of Hobson's thought: his life's intellectual project was genuinely a syncretic one: he sincerely strove to synthesise liberal and socialist values through his 'organic' perspective, and fearlessly went wherever his ratiocination took him. His impact on the younger generation of socialist intellectuals – Brailsford, Cole, Tawney and Laski – can be better understood by acknowledging the integrity of this attempted fusion. They saw their socialism as the heir of liberalism, and yet qualitatively different from it. Therefore, it is more accurate to see Hobson not as a good example of the self-transformative capacities of liberalism but instead as an important figure in the evolution of the British social democratic tradition, which can be characterised by its compounding of socialist and liberal concepts, values and ideals.

A FEW DIFFICULTIES

The nature of Hobson's political project may help to explain his inconsistent use of the terms 'socialism' and 'liberalism'. In order to appeal to different constituencies which he hoped would become involved in his progressive alliance, he may have used different labels to describe the same policies in order to commend them, or make them acceptable, to a particular audience. Thus, for example, to describe equality of opportunity as 'socialist', may have had the intention of winning socialists to the more liberal element of his progressive platform, or of comforting liberals who felt

politically and intellectually threatened by socialists with the thought that they were socialists anyway! Or conversely by calling the Webbs' policies 'liberal', he may have been trying to win liberal support for them.

Hobson's synthesis contained a number of genuine conceptual problems, which may have more general implications in relation to present day efforts to combine liberalism and socialism. At the root of his difficulties lay an attempt to unite the aesthetic, humanistic values of Ruskin, which were embraced by large numbers of socialists in the late nineteenth century, with a liberal political economy, premised upon the Benthamite hedonistic calculus.⁵³ He strove to knit together two notions of human nature, one stressing the development of human aesthetic, moral and intellectual potentials, the other viewing *homo sapiens* as 'infinite' consumers and appropriators.⁵⁴ Hobson was not able to transcend this difficulty, which has dogged the liberal tradition since Milland Green. Both philosophers had a developmental model of human nature while simultaneously holding to the prevailing utilitarian canons of liberal political economy, with its stress on the justice and efficiency of the market.⁵⁵

Hobson's problems can be illustrated by examining the means he advocated to realise his social ideals. The first was a developmental ideal, derived mainly from Ruskin. Progress consisted of the qualitative and quantitative diminution of individual disutilities, and the maximising of utilities, in the areas of production and consumption. Secondly, Hobson had an ideal of social justice. It embraced the principle of the equality of opportunity, which involved, as already noted, a central ambiguity. It could refer either to equality in competing for scarce resources, or to an equal entitlement to self-development.

Social justice, for Hobson, also meant that work and reward should be consistent with the socialist maxim, 'from each according to his (or her) ability, to each according to their needs', with the latter normally defined in terms of 'social utility', that is, an individual's capacity to contribute to the 'common good'. He believed that if the principles of social justice prevailed, then a third ideal would be achieved – social harmony. Although he held that education and opportunity to participate in civic life were important in fostering this harmony, a material basis was also vital. This required the eradication of 'improperty', the unearned surplus, through taxation and equality of opportunity. Indeed, all Hobson's social goals could be achieved only if the market economy was sufficiently reformed to eliminate as far as possible all 'unproductive' or 'unearned' surpluses. This reform was through a four-pronged strategy: altering the stakes in the market 'game' (by taxation and socialisation of monopolies); altering a few of the rules to make the game fairer (wage boards and arbitration); strengthening the position of

weaker contestants (equality of opportunity); eliminating some of the players in the game (socialisation of monopolies).

Attaining Self-Development

Hobson argued for the retention of the market system, which would supply workers at 'cost price', while simultaneously wanting to realise human potentials.⁵⁶ That these two goals are not necessarily compatible is underlined by the meanings Hobson himself attached to the notion of 'cost'. One he identified with incentives, i.e. 'that part of the product, or its equivalent in other goods, necessary as payments to maintain the current output of productive energy as a factor of production.'⁵⁷ Cost here was the price of productivity. The other cost was Ruskin-inspired. For example, when noting the harmful effects of the division of labour and machinery, he observed that the 'economic "cost of production" of commodities is reduced to a minimum', whilst the 'real human cost is continually enhanced'.⁵⁸ Thus, a tension arose between cost defined as the quantitative goal of productivity for 'social utility', and cost viewed in a qualitative, humanistic light, directly related to the effects of production (and consumption) upon a worker's existence.

Hobson assumed that a reformed market, through the regulation of working conditions, and in the long term, the increased use of machinery, would reduce human costs. But the problem remains: given his attachment to productivity and incentives, there could be no guarantee that human costs would be minimised in general. Individuals might undertake certain jobs because of the pecuniary incentive to do so, despite the subjective costs, for instance either to health or to self-realisation. Although Hobson clearly advocated some regulation of subjective costs, the loss of self-realisation did not figure among them in the short term. Indeed, in considering the relationship between rewards and incentives on the one hand and human costs on the other, it is quite conceivable that a high wage could induce individuals to do less work owing to the high subjective costs. Or a reduced wage could stimulate greater productivity, and greater human cost, because individuals might have to work harder to achieve the same earnings. Thus, his general assumption that greater rewards would lead to greater individual productivity was gratuitous.⁵⁹

Further, because Hobson normally identified 'social utility' with productivity, he paid little attention to the possibility that in aggregate terms lower productivity could be associated with greater subjective satisfaction. Neither did he grapple in the short term with the question of boring jobs, although in the long term he believed that their impact could be attenuated

through the use of machinery which would reduce the length of the working day. In the meantime he merely accepted the need to pay a sufficient amount to workers to induce them to perform these tasks.⁶⁰ As to whether workers undertaking these tasks should be compensated by increased leisure, which he regarded as the 'opportunity of opportunities',⁶¹ Hobson was decidedly ambiguous. On the other hand he could approve of this, to offset the 'human' costs of the division of labour,⁶² yet on the other he saw that this would 'signify great waste of communal opportunities. For there is no natural adjustment between the longer leisure for scavengers or coalminers and the shorter leisure for gardeners and teachers with regard to their respective capacity to use their leisure'.⁶³ Even if we accept Hobson's estimate of the different capacities of these groups to use their leisure fruitfully, he clearly ignores the possibility that coalminers and scavengers, if given sufficient resources in terms of income and education, would be able to use their leisure for self-developmental purposes in a way not directly related to their jobs. Indeed, in this argument, he does not consider their right to be able to do so.

Attaining Social Justice

Equality of opportunity was central to Hobson's notion of social justice. Yet his dual commitment to liberal political economy and the Ruskinian self-developmental vision led him to use the term equality of opportunity in a double sense, already indicated, that is, as equality to compete (procedural) and equality to self-realise (substantive). Clearly, there is no necessary 'fit' between these two meanings. For instance, a loser in a competition for a job that offered possibilities for self-realisation could be said to have been dealt with fairly on procedural grounds if the competition was fair, but not on substantive grounds, assuming that the job could have greatly contributed to the loser's self-realisation.

His attempt to synthesise liberal and Ruskinian political economy created further problems in equitably allocating work and rewards. As we have seen, his 'needs' formula was in essence a productivity formula. 'Social utility' required that individuals were paid according to their powers: the amount and type of power expended.⁶⁴ In effect, this meant that middle-class professionals would get more than the working classes, because the jobs they performed meant that they had to be given 'provision for the continuous stimulation and satisfaction of new powers and interests'.⁶⁵ Hence, 'a higher-grade worker should have a higher rate of pay than a low-grade worker, because his 'needs' are greater, and since these needs can only be properly supplied by private expenditure, he ought to have a larger

property'.⁶⁶ Professional people would therefore not only receive greater rewards than manual workers, they would also have more interesting jobs.

In addition, it could be argued that it is precisely because workers in 'routine' industries get little chance of self-realisation through their jobs that they need greater wealth and leisure to realise themselves outside their jobs. Finally, Hobson's market solution to the problems of social justice was effectively ruled out by himself, since he argued that 'markets are intrinsically unfair modes of distribution',⁶⁷ because 'nowhere are the bargaining powers of supply and demand on an equal footing, and everywhere individual buyers and sellers, whether of goods and services, are so unequal in their "need" to sell and buy that the advantages accruing from sales at any given price give widely different advantages to those who participate.'⁶⁸ This critique of the market he regarded as his most 'destructive heresy'.⁶⁹

Attaining Social Harmony

Hobson aimed to promote social harmony at the ideological and political level, through an appropriately humanistic education, as well as through the democratisation of the political process. At the material level he recognised that this entailed an equitable distribution of the surplus. For the root cause of industrial conflict lay in the existence of this surplus.⁷⁰ Where there was no surplus he assumed there was no conflict: 'So far as subsistence wages and minimum payments for capital and ability are concerned, industrial harmony exists.'⁷¹ Occasionally, he acknowledged that the lack of self-realisation could lead to industrial conflict: 'Long hours, minute subdivision of labour, mechanical routines are . . . 'inhuman' [i.e. human beings were not biologically intended for such work]. So far as they are required to enter into the activity of workers, problems of discipline continue to press. 'Spirited workers' will no longer 'put up with' the encroachments upon their humanity which habit and economic necessity formerly induced them to accept.'⁷² To have extended this analysis, however, would have upset his causal system, with the unproductive surplus at its centre, for a conflict of 'needs' could arise, between the worker as 'self-developer', and worker as consumer, or between workers as 'self-developers' and the interests of capitalists in profit making.

HOBSON'S RELEVANCE

Perhaps the best tribute to Hobson is to remember that for him the importance of theory lay in implications for political, social and economic prac-

tice. Arguably, despite his theoretical difficulties, Hobson's overall perspective has retained a practical relevance for contemporary socialists, because of its contribution to the socialist tradition. His writings may be of some importance in the reworking of late twentieth-century socialism, which has been undergoing a 'crisis', both East and West. This 'crisis' is manifested in socialism's seeming lack of coherence, identity, direction and political support. Moreover, the minimal statism of the neo-liberal right seems to have become 'common sense', to have assumed the moral high-ground of freedom. Socialism, on the other hand, often appears as an highly imperfect second-best, restricting individual liberty in the name of equality. As a consequence, many socialists have grudgingly come to accept the terms, if not the conclusions, of the minimalist argument.

Hobson's arguments against the minimum state and in favour of an extended (and reformed) state, his efforts to steer between the Scylla of monolithic state socialism, theoretically premised on socio-economic equality, and the Charybdis of an inegalitarian market system, premised upon individual freedom, and, indeed, the way in which he *thought* about societal problems, are all still pertinent considerations. His work suggests areas where socialists might look in order to defend, and persuade others of, their principles and prescriptions. To appreciate fully Hobson's contemporary significance, we should bear in mind that he devoted much of his life to addressing a key question, facing modern civilisation: how do we cope with modern industrialism? In a sense, Hobson's work is a timely reminder of how little fundamental social, economic and political relations, and indeed, arguments, have progressed in the past century, despite the advance of the machine. In the final analysis, he shared Marx's objective, to transform the machine from being an oppressor into an agent of human liberation. For Hobson, this required a basic modification of the economic and political relations in which the machine operated. In his solution, the enlargement of the productive and distributive activities of the state was central.

Hobson's case in support of this remedy merits serious consideration, especially in the light of the minimal statist case, resurrected in the writings of neo-liberal Americans, such as Murray and Meade.⁷³ They argue that an 'undeserving poor' exists. Echoing the old COS perspective, they maintain that poverty is the result of 'character', of individual motives and dispositions. Thus, the state cannot be responsible in resource terms for alleviating this form of poverty. Hobson mounted a powerful assault on the highly individualistic assumptions upon which this position stands. The right to private property, and especially the machine-generated surplus element within it, could not be absolute, because wealth was the product of social, or 'organic', cooperation. Poverty stemmed not from the moral failings of

the individual, but rather from the economic structure. And the minimalist justification of state expenditure on the basis of advancing and protecting individual interests, which rested on the ontological individualist presupposition that society merely consisted of individuals, overlooked the fact that society was more than the sum total of its citizens and had 'its' own needs.

Hobson also propounded relevant arguments against the minimalist rejection of the socialisation of industry. His discussion of the socialisation of the machine hinged on his primary distinction between quantitative and qualitative human wants and needs. This distinction enabled him to justify socialisation on grounds which strongly echoed Marx's discussion of communism in the *Grundrisse*. State ownership of the machine would facilitate the efficient satisfaction of quantitative needs, thereby increasing leisure time – the 'opportunity of opportunities'. Thus, the working population would be able to individuate more readily, i.e. satisfy its qualitative productive and consumptive needs. Hobson was, in effect, calling for the abridging of the 'procedural' freedom of private ownership (for the few) in order to increase the substantive freedoms of the many. Put another way, he could be interpreted as challenging neo-liberal individualism by invoking the principle of individuality.

His argument concerning the need to regulate machine production is relevant for another reason. For him it was essential in order to provide the material basis for citizenship. Without increased leisure time political participation would be impeded. This would seem to be germane to recent discussions on the question of citizenship taking place inside and outside the Labour Party, which have been a response to the process of class de-alignment. Appeals to class interest are seen as ineffectual. Instead there has to be an invocation of some morally based notion of the common good.⁷⁴

Equally significant, his differentiation between quantitative and qualitative needs, which enabled him to set distinct limitations on state encroachments into economic life, is relevant. He maintained that the state should only concern itself with the socialisation of monopolistic machine industries catering for 'routine' quantitative needs (as well as with natural monopolies). It should not interfere in those productive activities which meet qualitative needs. What Hobson has to say here merits serious consideration in the light of discussions on the relation between 'plan' and 'market' taking place in the East and West. This question can all too easily become too narrowly focused upon questions of productive efficiency. Indeed, Perry Anderson has been prompted to comment that 'Hobson's discussion both of the reasons for, and the limits to, socialisation of the means of production, has a strikingly modern ring'.⁷⁵ In fact there are surprising parallels between Hobson's conception of a dual economy and Andre Gorz's post-industrial

utopia, which rests upon a distinction between 'autonomous' and 'heteronomous' forms of productive activity.⁷⁶

Hobson's approach to the issue of socialisation is important for another reason. His liberal distrust of bureaucracy meant that, while he appreciated both its necessity and desirability, he wanted to ensure that an enlarged state was still responsive to the wishes of citizens and workers within state-owned industries. Consequently, he saw the need to bring the state and society closer together through the development of different forms of participative machinery. Whatever the merits of his particular proposals some sort of broad-based industrial democracy in this sphere would enable socialist proposals for the socialisation of industry to command greater popular support.

Finally, we should take note of the *way* in which he thought about society and its problems. His holistic perspective is a useful reminder to socialists and social reformers in seeing the interconnectedness of social problems. His totalising vision meant, for example, that poverty and unemployment could not be fully understood without appreciating the pattern of income distribution and the ownership of wealth and how this affected economic fluctuations. And the question of wealth and income distribution, in Hobson's eyes, could not be divorced from an extension of greater democracy; in an undemocratic state the wealthy could more easily defend their privileges. And democratic reform was insufficient without an improvement in civic awareness and responsibility. This in turn could not be achieved without improvements to the education system and the shortening of the working day. Furthermore, domestic policy considerations could not be separated from those of foreign policy. Yet equally his thought presents us with a case study, illuminating some of the deep problems entailed in the liberalising of socialism, or the 'socialising' of liberalism. Nevertheless, Hobson's life-long quest could not be more apposite at this historic juncture.

Notes

1. M. Freedon, *The New Liberalism* (Oxford, 1978), and J. Allett, *New Liberalism: The Political Economy of J.A. Hobson* (Toronto, 1981).
2. Allett, *op. cit.*, ch. 8 *passim*.
3. Freedon, *op. cit.*, p. 21.
4. *Ibid.*, p. 24.
5. J.A. Hobson, *The Social Problem* (London, 1902), p. 154(3).
6. J.A. Hobson, *The Crisis of Liberalism* (London, 1909), p. 172(4).
7. J.A. Hobson, *Confessions of an Economic Heretic* (London, 1938), p. 181.
8. For example, *The Crisis of Liberalism*, p. 172.
9. *Ibid.*, p. xii.

10. *Ibid.*, p. 172.
11. 'Is the Future with Socialism?' *Ethical World*, vol. 2, 18 March 1899, p. 168. Cf. 'Kidd's Social Evolution', *American Journal of Sociology*, vol. 1, 1895, p. 307.
12. J.A. Hobson, *Property and Improperty* (London, 1937), pp. 179–80.
13. 'The Fourfold Path of Socialism', *Nation*, vol. 2, 30 November 1907, p. 303.
14. G.D.H. Cole, 'J.A. Hobson', *Economic Journal*, vol. 50, 1940, p. 357.
15. A.G. Gardiner, obituary, *News Chronicle*, 2 April 1940.
16. M. Freeden, *J.A. Hobson: A Reader* (London, 1988), p. 190. Cf. Clarke, *Liberals and Social Democrats*, Cambridge, 1978, p. 182.
17. 'The Claims of the State upon the Individual', *Nation*, vol. 19, 10 June 1916, pp. 307–8; Freeden, *J.A. Hobson, A Reader*, p. 197, quoted Clarke, *Liberals and Social Democrats*, p. 82.
18. For example, 'Liberty as a True War Economy', *Nation*, vol. 19, 29 July 1916, pp. 524–5.
19. See, for example, *The Crisis of Liberalism*, pp. 15–16.
20. Compare Allett, *op. cit.*, pp. 214–15, 258.
21. *The Conditions of Industrial Peace* (London, 1927), pp. 120–1.
22. Allett, *op. cit.*, p. 180.
23. See *Imperialism, A Study*, 3rd edn (London, 1938), p. 229.
24. *Wealth and Life*, p. 35.
25. Allett, *op. cit.*, p. 255.
26. Allett, *op. cit.*, p. 76.
27. *Op. cit.*, p. 75.
28. *The Social Problem* p. 147. Hobson could easily have derived this idea from Marx's *Capital*, vol. 1, which we know he had read (see *The Evolution of Modern Capitalism* (London, 1894), pp. 45–6). Marx refers to the 'social productive power of the combined working day' which was 'due to co-operation itself'. *Capital*, vol. 1, (Harmondsworth, 1976), p. 329.
29. *Ibid.*
30. Allett, *op. cit.*, p. 77.
31. *The Social Problem*, p. 148.
32. *The Industrial System*, 2nd edn (London, 1910), p. 136.
33. *Ibid.*, p. xii. Allett (pp. 76–7) quotes a passage from *The Industrial System*, p. 136, to demonstrate the social character of the surplus, when Hobson is clearly referring to an 'industrial surplus', rather than an 'organic surplus'.
34. For example, *ibid.*, pp. 79, 331; *Conditions of Industrial Peace*, pp. 21, 119.
35. See P. Clarke, 'The Progressive Movement in England', *Transactions of the Royal Historical Society*, vol. 24, 1974, pp. 159–81.
36. *The Crisis of Liberalism*, pp. 192–217.
37. For example, *Free-Thought in the Social Sciences* (London, 1926), pp. 135–6; *Property and Improperty*, p. 29; *Wealth and Life*, pp. 232–3.
38. J. Townshend, *J.A. Hobson* (Manchester, 1990), ch. 1 *passim*.
39. J. Townshend, *op. cit.*, ch. 2 *passim*.
40. *Work and Wealth*, (London, 1914), p. 26; *The Crisis of Liberalism*, p. 189.
41. For example, *The Industrial System*, p. 319.
42. *Work and Wealth*, p. 168.
43. *The Crisis of Liberalism*, pp. 172–3.
44. *The Social Problem*, pp. 150–2, *Work and Wealth*, p. 305.

45. *The Evolution of Modern Capitalism*, pp. 382–3.
46. *Confessions of an Economic Heretic*, p. 125.
47. J. Townshend, 'Hobson and the Crisis of Liberalism'. Unpublished PhD thesis, University of Southampton, 1973, p. 197.
48. *Evolution of Modern Capitalism*, pp. 363–4.
49. For example, *Wealth and Life*, p. 385.
50. *Ibid.*, pp. 269–70, 287–8.
51. *Work and Wealth*, p. 357.
52. *The Crisis of Liberalism*, p. 83.
53. P. Weiler, *The New Liberalism*, New York, Garland 1982, p. 169, and p. 175 suggests that this was his central difficulty, but does not pursue this line of analysis.
54. Compare C.B. MacPherson, *Democratic Theory: Essays in Retrieval* (Oxford, 1973), ch. 1, *passim*.
55. MacPherson, *Democratic Theory*, pp. 175–6.
56. *The Crisis of Liberalism*, pp. 172–3.
57. *The Industrial System*, p. xii.
58. *The Social Problem*, p. 228.
59. For example, see *Work and Wealth*, p. 168; *Wealth and Life*, p. 435, although of course at the macro-level this might not be the case if an underconsumptionist model is used.
60. *Wealth and Life*, p. 435. Cf. *The Social Problem*, p. 107.
61. *Work and Wealth*, p. 236.
62. *The Social Problem*, p. 11; *Property and Impropriety*, p. 98.
63. *Wealth and Life*, p. 233.
64. For example, *The Social Problem*, p. 162; *Work and Wealth*, p. 164.
65. *Work and Wealth*, p. 165.
66. *Ibid.*, p. 165.
67. *Confessions of an Economic Heretic*, p. 168.
68. *Ibid.*, p. 168. Cf. 'Ethics of Industrialism,' in S. Coit, ed., *Ethical Democracy* (London, 1900), pp. 92, 94; *Wealth and Life*, p. 206.
69. *Ibid.*, p. 168.
70. *Conditions of Industrial Peace*, p. 73. Cf. *Incentives in the New Industrial Order* (London, 1922), p. 37, *Wealth and Life*, pp. 70, 190.
71. *Conditions of Industrial Peace*, p. 119. Cf. *The Industrial System*, first edn., 1909, pp. 78–9.
72. *Incentives in the New Industrial Order*, p. 32.
73. L.M. Mead, *Beyond Entitlement* (New York: Free Press, 1985); C. Murray, *Losing Ground* (New York: Basic Books, 1986).
74. For example, D. Marquand, *The Unprincipled Society* (London: Cape, 1988); and R. Hattersley, *Choose Freedom* (Harmondsworth: Penguin, 1987).
75. 'The Affinities of Norberto Bobbio', *New Left Review*, 170, July/August 1988, p. 5, footnote 9.
76. *Farewell to the Working Class* (London: Pluto Press, 1982), ch. 8 *passim*.

4 The Non-Canonical Context of *The Physiology of Industry**

Alon Kadish

According to the standard view of the history of modern economic theory the slow rise of theories of overproduction and underconsumption from the economic underworld to respectability began with A. F. Mummery and J.A. Hobson's *The Physiology of Industry* (London, 1889). Not that these theories were particularly new, T.W. Hutchison has traced them as far back as the seventeenth century.¹ But the stigma attached to them by the nineteenth century orthodox economists, and especially J.S. Mill, resulted in their being regarded by most economic theoreticians as merely eccentric and unworthy of serious consideration. 'Thus,' wrote Schumpeter, 'a considerable tract of open country was left unguarded in which, to the backward glance of the economist of today, there seems to stand, in something that to many looks very like a halo of glory, the figure of J.A. Hobson.'² Hobson, as Schumpeter added, was not alone, but it is generally agreed that his consistency and his insistence eventually won the theories of overproduction and underconsumption serious consideration.³

The history of economic thought as written by economists is largely concerned with the reinterpretation and rearrangement of a generally agreed upon corpus of canonical works. *The Physiology of Industry* is on the margins of that corpus, hence, in examining the advent of the theories expressed therein one is not expected to seek beyond it. Economics is perceived as a self-contained discipline, and it is tacitly assumed that if Hobson criticised orthodox theory, his criticism must have originated in the study of that theory. It is therefore significant that Hobson admitted, his previous doubts notwithstanding, that he was converted to underconsumptionist economics by Mummery, a businessman, thereby indicating that his inspiration may have originated outside the study of the standard works, their interpretation and elaboration, or their rejection and criticism.⁴ In fact the overproduction underconsumption view of the economy was quite

* I am grateful to M. Freeden for his help in preparing this chapter.

common during the 1880s and early 1890s so that seen from a different perspective Mummery and Hobson may be regarded as part of a popular tradition in economic thought, as systematisers and improvers rather than heretics and historically 'sudden' critics.

The prevalence of theories of over-production and under-consumption may be conveniently gauged from the *Report of the Royal Commission appointed to inquire into the Depression of Trade and Industry* (1886). The Commission was dominated by a high proportion of Conservative politicians and businessmen. It was chaired by Sir Stafford Northcote, the first Earl of Iddesleigh (1818–87), who had been leader of the opposition during Gladstone's second administration, and counted among its 23 members ten Tory politicians, (compared to one Liberal, one independent, and one Irish Nationalist), and two Tory peers (including Iddesleigh), as well as two economists – Bonamy Price and R.H. Inglis Palgrave. The Commission's terms of reference included the consideration of a list of possible causes of the depression including over-production. The majority Report, signed by 18 members, 11 with reservations, did not entirely reject the standard economic explanations of depression as false. But it did state that for various reasons equilibrium had become the exception rather than the norm.

A temporary excess of supply over demand will naturally occur from time to time in the case of all commodities. The production power will for the moment frequently outrun the consuming power; but these variations . . . usually correct themselves within a very short period. They carry their own remedy with them, and do no harm to the world at large, though an individual producer may occasionally suffer. (p. 66)

However under current conditions overproduction proved more common than equilibrium and, by implication, equilibrium economics was, at least temporarily, irrelevant to the analysis of existing problems.

. . . the natural tendency to equilibrium which results from the mutual reaction of supply and demand appears to have been obstructed for a longer period than usual. The continually increasing production [in iron and coal] . . . is maintained and stimulated by some other cause than the spontaneous demand for commodities. Such a state of things should, according to all previous experience, lead to a restriction of production until the legitimate demand had again made itself felt. And one of the most remarkable features of the present depression is that production should be maintained on its present scale for such a length of time in the

face of unremunerative prices and a market apparently over supplied.
(p. 49)

The Report identified overproduction as the cause of the depression. A glutted market had caused a drop in prices, lower profits, a decline in investments in production, and unemployment, while, at the same time, 'neither the volume of trade nor the amount of capital invested therein had materially fallen off, though the latter has in many cases depreciated in value' as a result of the drop in prices. Production of commodities and the accumulation of capital had outpaced the increase of production, i.e. the linear growth of home consumption.

Overproduction was understood to have been the result of foreign competition stiffened by tariffs, and aided by cheaper transport and better technical education, whereas local products, according to the Chambers of Commerce, suffered from the fluctuations in the price of gold, from a high cost of labour, and from high rates of taxation. The Chambers of Commerce, whose statements constituted a considerable part of the Committee's evidence, called for the expansion of trade, usually through Imperialism, for the protection of the home market, and for a reduction of the cost of production including wages.⁵ The Committee did not necessarily accept these recommendations, but it did tend to adopt reduced competitiveness and loss of markets as major general causes. An important particular cause was the increase in productive capability in response to the abnormal demand created by the Franco-Prussian War of 1870-71. 'A demand which was only temporary, and which might have been satisfied in the course of a very short period, was treated as if it were of a permanent character; and manufacturers in this country and elsewhere enlarged their power of production accordingly, as if demand could be expected to continue.' (p. 65)⁶

The Report also singled out some underconsumptionist factors, especially unemployment, caused by a growing use of labour-saving technology and an increasingly efficient organisation of production. Unemployment had become 'to some extent at all times inevitable' (#53) due to a virtually constant disequilibrium in the labour market with the result that the 'demand for labour must of necessity be always fluctuating and uncertain'. The full underconsumptionist implications, absent from the majority's Report, were brought out in a letter to *The Times* by John Aird (1833-1911) a businessman, a Conservative politician (he was elected MP for North Paddington in 1887 following the death of L.L. Cohen, another member of the Committee), and one of the signatories to the majority Report (without reservations). Aird combined the Malthusian orthodoxy on the effect of

population growth on the labour market and the argument often employed by socialists that it was inevitable that in the course of competition in a capitalist economy employers should 'emulate each other in bearing hard on the necessities and helplessness of the labourer'. His remedy was purely under-consumptionist.

What is wanting to increase production and augment capital? Why markets – extensive and insatiable markets . . . are exactly what a better remuneration in the wages of the working classes will supply. . . . Each increase in wages is an increase of markets; each increase of markets a further increase of production; each increase of production a further demand for labour.

Pay the labourer so that he can and must work hard, work well, and work constantly, and we need not fear. . . . The labourer's wages, no less than his work, will augment the national wealth and the world's markets.⁷

Other underconsumptionist factors stated in the Report were the reduced consumption by the 'agricultural classes' as a result of the depression in agriculture caused by US imports (#62), and the drop in local demand for iron and coal for railways and shipbuilding.

The main remedies offered by the majority Report centred on improving British competitiveness and means of improving local and foreign demand. Two of the signatories added written reservations which emphasised the importance of the underconsumptionist aspects of the depression and its remedies. R.H. Inglis Palgrave (1827–1919), a non academic economist, argued for a more equitable distribution of wealth and 'the maintenance of a due remuneration of labour'. And Charles M. Palmer (1822–1907), ship-builder (James J. Allport, another member of the Committee, had been employed at one time as a managing director of Palmer's company), coal owner, ironmaster, and Liberal MP for Jarrow, thought that the 'increased means of cheap distribution' would lower prices thereby stimulating demand and counterbalancing overproduction.

A more obvious departure from orthodox economics is contained in the minority Report, submitted by a moderate Tory peer – Windham Thomas Wyndham Quin, 4th Earl of Dunraven (1841–1926), Under-Secretary for the Colonies in Salisbury's administration, William F. Ecroyd (1827–1915), a worsted manufacturer and Conservative MP for Preston 1881–85, Philip Albert Muntz (1839–1908), Conservative MP for Tamworth Division, Warwickshire, since 1885, and Neville Lubbock (1839–1914), banker and chairman of the West India Committee. The minority Report regarded fair trade as the most appropriate policy for dealing with the depression, which

otherwise would remain a permanent feature of the economy, the result, largely, of the 'long continued fall of prices, by some attributed to an appreciation of the standard of value, but which has evidently been, in many cases, the result either of natural overproduction or of a capacity in production in excess of the demand'. One of the main reasons for the disequilibrium between supply and demand was the tariff policies adopted by Britain's trade rivals, such as the US. Consequently Britain was unable to check the increase in unemployment, the result of 'the application of mechanical and scientific aids to the production and transport of commodities', by sustaining a rate of economic growth that would create new jobs to replace those lost. Full employment was considered a national objective, but little was made in the minority Report of its effect on home consumption.

The explanation of the depression as a result of overproduction cut across party and class lines. The Conservative-influenced Report was endorsed by the Twentieth Annual Trades Union Congress (September 1887) which was pleased to record that its 'conclusions go a long way to prove the truth of the assertion that has been frequently made that one of the great causes of the present depression is the enormously increased power of production'.⁸ The underconsumptionist aspect of the explanation was underlined by W. Abraham of the South Wales Miners, MP for Rhondda, who told the Congress that 'the moment that large army, now enforced into idleness, once got work to do, there would be more consumers as well as producers.'⁹

None of this was very new. Overproduction had been a common enough explanation of the drop in prices and profits provided by merchants and industrialists. The causal chains varied somewhat but there was a general agreement on the main features – reckless extension of productive capacity, diminishing profits, business failures, unemployment, and decreasing demand for standard goods. 'Commercial distress', wrote *The Economist* on 5 May 1877.

means in exact language that the production of a large class of important commodities, requiring vast capital and thousands or hundred of thousands of labourers, is so decidedly in excess of the cash demand as to reduce the prices of these commodities below the limit which leaves the usual, or even any rate of profit, to the manufacturer. A process of elimination then sets in. The less wealthy, skilful, enterprising, inventive, and energetic producers are compelled to retire from the field of competition by bankruptcy, disgust, or exhaustion. In other words, the individuals are ruined, the wealth of the country is lessened by the aggregate of the capital they have lost, and is still further lessened by the cost of

maintaining in some way or other the body of labourers thrown out of employment.

But why does the production become in excess of the cash demand? For two reasons, and for two only: First, the cash demand falls off because the means of the consumers from some cause become lessened; second, because, in consequence of some special circumstances, a larger amount of floating capital is applied to production than the actual facts justify.¹⁰

In 1878 Robert Scott Moffat (1834–95)¹¹ a self-professed auto-didact, published *The Economy of Consumption: An Omitted Chapter in Political Economy*, an attempt to provide a systematic alternative to orthodox doctrines, which argued that an economy based on freedom of competition was bound to experience recurring states of disequilibrium. In 1880 Moffat published a shorter version of his theory, which he repeated in a number of articles over the next few years.¹² His work must have had some impact since he was singled out, with Hobson, by Edgeworth in his article on ‘Over-production’ in *Palgrave’s Dictionary* as the representatives of the ‘crowd of inferior writers’ who adopted the theory of overproduction. Moffat, who in retrospect discovered an affinity with the views of Malthus and Thomas Chalmers, dismissed out of hand the economics of Adam Smith, Ricardo, and J.S. Mill as ‘a sorry science’, lacking any bearing on current problems.¹³ Instead he offered a body of generalisations based on ‘a study of the facts and relations of the organisation of industry’.¹⁴

Some of Moffat’s basic assumptions were derived from orthodox theory. To begin with he upheld the sanctity of private property. ‘I accept unreservedly’, he wrote, ‘the individual tenure of property as the best basis for social order and industrial prosperity.’¹⁵ But he questioned the automatic identification of individual with general interests – ‘the rule prescribed by the interest of the individual is not the rule prescribed by the interest of the community’.¹⁶ Moffat accepted Malthus’s law of population and the possibility of diminishing returns. ‘The indefinite capacity of population to expand whenever there is any expansion of means, and the greatly superior rapidity of the possible increase of population over any possible increase of the means of subsistence are among the best established positions in economy.’¹⁷ Hence his acceptance of the iron law of wages – ‘The wages of labour have a natural tendency downwards.’¹⁸ Finally there is in the book an implied use of the wage fund theory.¹⁹ But his main tenet was a complete rejection of the principle of undisturbed competition.

Moffat believed that completely free competition based on the supremacy of individualism, was responsible for cyclical overproduction.

[W]hen . . . the number of competitors is indefinite, and many of them are of a class with whom the desire of gain is greater than the fear of loss, production is pushed on to its utmost limit, and some time is needed both to ascertain the fact of an over-production, and to bring into operation the check which the knowledge of that fact will cause to be applied, the point at which production ceases to be remunerative enough to even support the outlay of the producer, is often passed before the movement can be arrested.²⁰

Moffat's conclusion was that 'the greatest benefit derivable from competition does not coincide with its maximum intensity; . . . the moderation of competition and its adjustment to an ascertained limit of maximum efficiency, not its liberation from all restraint, is the just aim of economy.'²¹

The theory of overproduction was reconcilable with that of the iron law of wages by means of consequent underconsumption. 'The labour expended on the production of goods which go to overstock the market is poorly remunerated, and however low the price at which they may be supplied, the purchasers have nothing to compensate for the loss of the producers.'²² Moffat went so far as to suggest that demand was the means by which overproduction could be avoided.

When production of any kind is carried to an extent in excess of the demand, it is arrested by the decline or extinction of profit. But it is obvious that the real limit to production here is not profit, but demand, on which profit is dependent; and if the effective demand goes on expanding, profit will be maintained or revived, and production will go on expanding also. . . . [P]rofit is always conditioned by demand, and never demand by profit.²³

He also condemned hoarding and parsimony. 'A general increase of parsimony throughout a community would evidently diminish the demand for commodities, lessen the need of production, and reduce the amount of capital which could be held in organic relation to industry.'²⁴ Foreign investment was also rejected as an ineffectual remedy to overproduction. At best it might stimulate foreign industry as well as foreign wars. 'Whatever benefit such investments may yield to the individuals who make them, their advantage to the community from whose industry the capital has been drawn is of the most remote and contingent kind.'²⁵

Moffat's solution to states of disequilibrium was a downward rather than an upward adjustment, limiting production rather than increasing consumption: 'if there is no force independent of competition which controls produc-

ers, to regulate consumption, the aggressive force of production must go on continually enlarging it, till the whole energies of society are absorbed, in an abasing struggle for wealth, or in a degrading one for subsistence [due to the increase in population].²⁶ Control of consumption and production could be accomplished, according to Moffat, by the adoption of a time policy whereby 'labourers will be hired for such time . . . as they are willing to give, at such remuneration as is determined by the competition of employers.'²⁷ In other words the workers were asked to practice an economic equivalent of moral restraint. 'The principle to be established is that labourers who live within their own means are masters of their own time.'²⁸ 'The man who works moderately is really better paid on the average in proportion to this work than the man who works excessively.'²⁹

Moffat's individualism emerges in his discussion of the implementation of the time policy. He objected to state intervention in the economy except 'on behalf of interests higher than industrial, of science, education, and religion'³⁰ and dismissed the attempt to restrict the hours of labour by legislation as 'mechanical, and independent of the exigencies and vicissitudes of industrial life'.³¹ Instead, time policy should be adopted voluntarily, even if piecemeal, by workers who understood their true interests. Time policy would result in greater leisure.

[A] higher standard of taste and social refinement will gradually extend itself among the working classes, and will raise the scale of domestic comfort demanded by them as a condition of marriage. This, better than any other collateral tastes, will serve to delay the period of marriage by putting a higher value on the enjoyments of the domestic state itself, which will necessitate a longer and more costly preparation for it.³²

Economic restraint would produce an effect similar to moral restraint thereby ensuring the material as well as the moral progress of the working classes.

Moffat's mixture of classical, popular and idiosyncratic theories was quite typical of self-taught economists. It would appear that classical theories had undergone popularisation to the extent that some components of economics orthodoxy had become so commonplace as to be often taken for granted, or else dismissed without any references to economic authorities beyond J.S. Mills, and to a lesser extent Ricardo and Adam Smith. One effect of the eclectic nature of popular economics was the wide variety of solutions based on similar premises. For instance Thomas Brassey (1836–1918), son of the railway contractor and Liberal MP for Hastings, wrote in 1879: 'The diminished purchasing power of the working classes which must inevitably follow upon a general reduction of wages, has materially

contributed to the depression in trade. . . . It is on our own people that British manufacturers must chiefly rely, and a small reduction in the earnings of the nation must seriously curtail the aggregate amount available for purchases in the home market.³³ But Brassey's solution was imperialism: 'it is to the colonies, and to the half-civilized countries, that we must look for new openings for the expansion of our trade.'³⁴ Accordingly 'British capitalists seeking investment for their resources will best promote their own interests, and, what is far more important, the interests of the country, by judiciously fostering colonial enterprise . . . [thereby] helping to create a market for her manufactures.'³⁵ A conclusion diametrically opposed to the minority Report's.

An important effect of the combined influence of foreign tariffs and free imports is to discourage and lessen the investment of capital in the development of our own agriculture and manufacturers, and to stimulate and increase its investment in foreign land and securities, and foreign industrial enterprises; the inevitable consequence being that a large and increasing amount of food, clothing, and other commodities is imported in payment of income due to owners of foreign investments here resident, and therefore without a correspondent export of the productions of our own industries. This directly operates to limit the employment of labour in this country.

Another of Brassey's recommendations was emigration, which would reduce the labour market and help to sustain the current level of wages, if not raise it. Brassey's conclusion then was that, in order to deal with overproduction, consumption must be increased primarily by opening new markets. Greater demand for British products, and, to a lesser extent, emigration of surplus labour, would revive the economy.

Economic theoreticians tended to dismiss such explanations of the depression as absurd, but there were economists (that is, students of economic phenomena), some of whom had a background in business and contacts in the business world, less committed to the belief in natural equilibrium, who did not simply reject the explanation offered by businessmen whose views were shaped by economic affairs rather than economic theory. For instance the Revd F. Bodfield Hooper (1810–88), Rector of Upton Warren, Worcestershire, in a review, published as a pamphlet, of four articles on the economic situation by Bonamy Price, H.D. Macleod (both hardly representative of mainstream economics),³⁶ and the Liberal politicians T. Brassey and R. Lowe, tried to square the circle by stating that:

In the abstract there can be no such thing as overproduction. We cannot have too many good things of this life produced. So, also, there cannot be overconsumption [as Bonamy Price had argued], so that there is not waste. The greater the consumption the greater the demand, and thus the greater becomes the stimulus to production. Evil arises solely from the want of due proportion between the two through the production being greater than the consumption (causing a fall in prices), or through the consumption being greater than the production (causing an undue rise in prices).³⁷

Hooper too attributed underconsumption to the operation of overproduction. ‘We *overproduced* greatly up to 1874; and since then we have merely been paying the necessary penalty therefor. Every thing bespeaks not “overconsumption”, but *want* of consumption, superinduced by overproduction.’³⁸

Another example of the eclecticism of popular economics can be found in the pamphlets of William Hoyle (1831–86) the temperance reformer.³⁹ In discussing the depression and temperance Hoyle too rejected the possibility of current overproduction. ‘There is only one condition of things possible,’ Hoyle wrote in 1878, ‘where in it could be truly said that overproduction existed, and that is, when people everywhere become possessed of the comforts of life in such profusion as to be fully supplied with all that they want. . . . There is no one so insane as to assert that people are everywhere supplied with all the comforts of life.’⁴⁰ There was nothing inherently wrong with the market economy. Normally ‘the wages or income of one week, or of one period of time, if properly expended, would create a demand for the succeeding one.’⁴¹ Excessive drinking diminished normal demand thereby disturbing the equilibrium. ‘[M]oney which ought to go into the till of the shopkeeper goes into the pocket of the publican, and when the direct and indirect cost of our drinking overtops . . . the entire volume of our foreign trade, the cause of the present depression is fully explained.’⁴² All other causes such as government expenditure, unstable foreign markets, the failure of foreign loans, speculation, and militant trade unions were minor compared to intemperance. Therefore ‘if our money were expended as it ought to be, our manufactures would be sustained by a home demand.’⁴³ Like Moffat, Hoyle adopted a form of underconsumptionism provided that consumption was confined to acceptable articles.

Attempts to reconcile a theoretical impossibility with what appeared as an obvious reality were given a more systematic form by the economist and businessman Williams Smart (1853–1915) in an article published in 1888 in

the *Contemporary Review* which, under the editorship of P.W. Bunting had gained the reputation of 'broad, evangelical, semi-socialistic Liberalism.'⁴⁴ Smart argued that the theory of equilibrium did not necessarily preclude the possibility of a temporary disequilibrium, which, for social reasons, might become endemic. Smart defined particular overproduction as a state whereby:

. . . more goods are made than the consumer will take at a price to pay the cost of production. Unlimited production would be over-production even if the world were in rags. In calculating the amount of production that will be taken off his hands, the maker has to take account of two things: the strength of the consumer's desire for the goods, relative to his desire for other goods, and his ability to pay the cost of production. Over-production takes place whenever there is any miscalculation here.⁴⁵

The problem, according to Smart, lay not in production or distribution as such, but in organisation or the ability to read the market accurately. Hence despite his declared faith in the theoretical impossibility of general overproduction, Smart believed that the increasing complexity of the market tended to increase the likelihood of particular overproduction which, furthermore, was not self-correcting.

The fact seems to be that the world's progress is continually outrunning its organising power. Production of anything is so great that a few manufacturers speedily supply all the demand for their goods, and then, instead of waiting for the articles to win their way, and make a market, they double their production in order to cheapen it by a fraction and undersell their rivals; they glut the market, and then throw the worker on the street till things right themselves. All the time the world is wanting and waiting for other things; when one demand is supplied, if the same energy were turned to supply another, there would be no over-production. . . .

[But] it is a fact that we have adopted a system of industry that makes exceptional demands on organization – a system so complicated that we must have many mistakes and failures.⁴⁶

As for the causal relation between overproduction and underconsumption Smart took the common view as stated by Brassey a step further by showing that they tended to intensify each other. Once the vicious circle had come into being both overproduction and underconsumption became aspects of the same economic problem.

If any considerable body of men are once thrown out of employment they cease to buy the goods they did before. Every man from whom they formerly bought is affected, is less able himself to buy; . . .

So long as he [the worker] can freely sell [his labour] there is little danger of more being produced than he will consume – the proof of which is that, in good times, when there is plenty of employment, there is no cry of overproduction. But if he cannot sell his labour he cannot buy the goods made, however much he may want and even require them, and there is overproduction. We should have a clearer, though not necessarily a more correct, view of it, if we called the phenomenon in question underconsumption; they are two names of the same thing. . . .

You can only have steady production if you have steady consumption; you can only have steady consumption if men are kept in steady production.⁴⁷

There were socialists who thought that the cycle could be broken by simply raising wages. Workers then ‘would buy more, the merchants would sell more, the manufacturers would receive more orders and hire more workmen. Business is dull now, very dull! It would soon be brisk.’⁴⁸ Smart had not gone that far. He held with Mandeville that maldistribution of wealth need not adversely affect the whole economy so long as the absolute level of consumption was high. ‘In the cases,’ he wrote, of ‘both selfish consumption and of investment, the bad distribution of wealth does not account for . . . the low level of wages and working class comfort.’⁴⁹ On the other hand he seemed to imply that higher wages, causing not only a simple linear increase in consumption but also an increase in ‘the demands of luxury from increasing numbers,’ would contribute to overcoming overproduction.⁵⁰

The cause and the remedy according to Smart were organisation. Another common explanation cited in the Royal Commission’s Report was the growing use of labour-saving technology. This view was adopted by S. Shaftoe in his presidential address to the twenty-first Trade Union Congress in 1888.⁵¹ It was also offered as the main cause of the current disequilibrium by the American economist David Ames Wells (1828–98), previously the Special Commissioner of the Revenue and at the time chairman of the New York State tax commission, in a series of articles published in the second, half of 1887 in *The Contemporary Review*.⁵² Wells emphasised the effects of the increased use of steam power in transport.

The introduction of steam hoisting-machines and grain elevators upon the wharves and docks, and the employment of steam-power upon the

vessels for steering, raising the sails and anchors, pumping and discharging the cargo; or, in other words, the ability, through the increased use of steam and improved machinery, to carry larger cargoes in a shorter time, with no increase – or, rather, with an actual decrease – of the number of men employed in sailing or managing the vessels.⁵³

Like the Royal Commission, Wells underlined the overproduction in iron and textiles, defining general overproduction as a state whereby total production increased (without a corresponding increase in consumption) at a ratio greater than the increase in world population. Thus in the instance of textiles, ‘without a decrease in machinery product, the world’s population must speedily increase their annual *per capita* consumption if this state of things is not to continue.’⁵⁴ Such an increase in consumption could not be realised under the current rate of unemployment. Nor could it be argued that high wages necessarily weakened competitiveness. Advanced technology had reduced the advantage of low wages to a minimum. ‘[A]ll experience shows that the invariable concomitant of high wages, conjoined with the skilful management of machinery, is a low cost of production.’⁵⁵

Wells admitted that theoretically ‘there can be no overproduction of desirable products so long as human wants for such products remain unsatisfied.’⁵⁶ And, like Smart, having identified an actual state of overproduction, he blamed rash and ignorant investment.

. . . a man who has learnt by experience that he can dispose of a certain amount of product or service at a profit, naturally reasons that a larger amount will give him, if not a proportionally greater, at least a larger aggregate profit; and as the conditions determining demand are not only imperfectly known, but to a certain extent incapable of exact determination, he discards the idea of any risk, . . . and pushes industrial effort to its maximum.⁵⁷

The solution lay in combination, the better organisation of production in larger corporations master-minded by ‘a man who is competent to use and direct other men, who is fertile in expedient and quick to note and profit by any improvements in methods of production and variations in prices. Such a man is a general of industry, and corresponds in position and functions to the general of an army.’⁵⁸ Smart also thought that ‘the future must be in the organiser’, but he placed his hope on greater economic cooperation between classes (e.g. through profit-sharing or productive cooperatives). ‘Are there not signs,’ he wrote optimistically, ‘that the younger men of the middle classes, brought up in luxury, are growing careless of that whose want they

have never felt, and may soon seek nobler lives in organising and regimenting men to work for themselves, not for their masters, and to find a life for human souls in their work, rather than after it?'⁵⁹

Wells and Smart suggested social remedies in preference to interventionist and legislative solutions including bimetallism, the monetary solution preferred by some theorists, and the subject of George Auldjo Jamieson's (1843–1920) reservations to the majority Report of the Royal Commission. Yet even Jamieson, the apparent monetarist, who cited as his authority the 'inexorable' laws of economics and the wage fund theory, gave, in an address in 1885, as additional reasons for the depression 'the marvellous development of production which has poured a wealth of commodities on a world incapable of absorbing them', the excessive development of the machinery of distribution, and the irresponsible behaviour of companies of limited liability. His main recommendation was not bimetallism but imperial preference.⁶⁰

Another Liberal politician to offer a similar explanation of the depression was Sir Lyon Playfair (1818–98), at the time MP for South Leeds, who, also in *The Contemporary Review*, reiterated most of Wells's analysis including the suggestion of a social solution. However Playfair focused in his remedy on the working classes. The use of modern technology meant that the better educated workers stood a better chance of securing jobs, and the nation with the most advanced technology and best educated work-force held an edge over its competitors. 'The competition of the world has become a competition of intellect. In the future of the world the greatest industrial nation will be the best educated nation.' 'The great industrial machine of this country is good enough in itself, but it needs proper oiling to make the parts run smoothly . . . the technical education of working men is the lubricant which we so much require.'⁶¹

In his article, published in 1888, Playfair claimed to have been the first to call attention, at an earlier occasion, to the causal connection between technological progress and economic depression. Meanwhile, he admitted, others had reached similar conclusions including Emil de Laveye, Carroll D. Wright, the first Commissioner of the U.S. Bureau of Labor, D.A. Wells and his Massachusetts friend Edward Atkinson, Ernest Engel, Director of the Prussian Bureau of Statistics, and others. Some time in the late 1880s or early 1890s Hobson came across Playfair's article which he quoted in *The Evolution of Modern Capitalism* (1894) with Playfair's list of authorities, as well as the Reports of the Commission on the Depression of Trade and Industry and D.A. Wells's articles in the *Contemporary Review*.⁶²

In 1884 the Pears company offered a prize of 100 guineas for the best essay on the depression of trade. The competition took place under the

auspices of the London Working Men's Association (George Potter, president) and the adjudicators were George S. Baden-Powell (1847–98) soon to be elected (1885) Conservative MP for Manchester, Kirkdale Division, Sir John H. Glover (1829–85) late governor of Newfoundland, and the statistician Professor Leone Levi (1821–88) of King's College, London.⁵⁸ Papers were submitted of which, according to Levi, only one offered fair trade as a solution. Levi, the main economic authority among the adjudicators, appears to have sought in the essays a thorough analysis of the depression, rather than policy-recommendations for its remedy or prevention.⁶³ Two essays, by Edwin Goadby, editor of the *York Herald*, and William Watt, FSS, winner of the Newmarch prize in 1883, were chosen and jointly published in a small volume which proved exceptionally popular.⁶⁴ Goadby surveyed the debate on the causes and cures of the depression, concluding: 'We are suffering from what physicians called a "nerve storm", and it will pass away, leaving us bright and active again'.⁶⁵

Watt proved somewhat more daring in his analysis. The economy, he found, went through unavoidable cycles.

They present a certain analogy to the tides; there are great general movements upward and downward, accompanied by constant but subordinate undulations. First there comes an expansive upward movement, then a pause, then it is found that the culminating point has been passed, and a persistent backward movement sets in, which is followed by a period of dullness and depression. This is the ebb, and ultimately the symptoms of a new flow begin to appear.⁶⁶

Attempts to regulate trade cycles 'may seem not much less absurd than to talk of regulating the seasons and sunshine'.⁶⁷ But it was conceivably possible to modify some of the resultant human suffering. Watt described the depressions as production outstripping effective demand.⁶⁸ 'The most solid remedy for depression', according to Watt, was 'an increase in the purchasing power, such as arises sometimes from an exceptionally good harvest, or from the opening of new markets'.⁶⁹ Colonial development and foreign investment would create new markets for Britain's expanding productive capacity, and by increased demand help overcome the problem of overproduction.

One of the other 56 essays was by A.R. Wallace (1823–1913), the naturalist, and since 1881, president of the Land Nationalisation Society. His reason for writing the essay is fairly representative of many untrained economists who, while largely ignorant of economic theory and even of most popular economics, found the standard free-market doctrines

unacceptable and set out to provide an alternative which only occasionally proved truly novel. 'I had been for some time,' wrote Wallace, 'disgusted with the utter nonsense of many of the articles on the subject in the press, while what seemed to me the essential and fundamental causes were never so much as referred to.'⁷⁰ Wallace's essay was not awarded the prize but Leone Levi thought the analysis, as distinguished from the remedies, warranted publication and asked for Wallace's permission to include it in the volume. Wallace declined and instead published his essay on its own.

Wallace's position was clearly underconsumptionist. Overproduction was 'a symptom, not a cause of the depression. The apparent overproduction is due to a diminution of purchasing power among the masses of the people at home and abroad.'⁷¹ The actual desire for commodities was far from satiated so that a decrease of production (as suggested by Moffat) would do nothing to solve the problem. '[T]he total demand for the staple manufactures of the world has diminished in proportion to population [growth], and, as we cannot suppose the needs or the desires of mankind have diminished, it must be that they have become poorer.'⁷² Wallace identified a number of causes, namely unproductive foreign loans for example wasted on wars or useless public works, 'or squandered on supporting the luxury or gratifying the whims and passions of despotic rulers'.⁷³ Increase of military expenditure, the destruction of life and property in war, the resultant withdrawal of manpower from productive work, and war taxation which diminishes the payers' purchasing power were also causes, as were rural depopulation and reduced local production of food 'by the utilisation of time and labour otherwise wasted'.⁷⁴ Increased pauperism in England and Ireland. The depression in agriculture, due to the land system, and aggravated by bad seasons. The increased accumulation of capital in fewer hands, thereby 'rendering competition more severe and the reaction from over-trading and over-manufacture more disastrous'.⁷⁵ Millionaires tended to spend much of their wealth on luxuries which gave comparatively little employment, while an increase in workers' income would mean

... that more money will be spent by each of them on clothes, household linen, furniture, and the ordinary necessities and comforts of life, which will all be used more freely or renewed more frequently, and which will in the aggregate give an immensely greater support to our home manufacturers and general trade . . . It cannot, therefore, be doubted that the more wealth is diffused the more steady and constant will be the demand for our staple manufactures, and the more surely will the happiness of the community be advanced.⁷⁶

Another source of mischief was financed speculations which had considerably worsened following the Limited Liability Act, causing the widespread ruin of small investors – ‘large numbers of clergymen, country tradesmen, and professional men, single ladies and widows’.⁷⁷ Their financial straits meant ‘diminished consumption of many of our staple manufactures, and hence a corresponding depression of trade’. Finally adulteration and dishonesty especially in the production of hardware and textiles undermined England’s competitiveness abroad.

Contrary to what might have been expected from the president of the Land Nationalisation Society, Wallace’s remedies were quite moderate. He called for an end to loans to foreign despots, working-class pressure to reduce military expenditure, conversion of government funds into terminal annuities, legislation to discourage trading on credit, a graduated income tax, an inheritance tax, stamp duty to limit speculations, and the repeal of the Limited Liability Acts. The prevention of adulteration by requiring by law a clear statement of the composition of goods, and by firms forming unions with special trade marks. The revival of agriculture could be realised by adopting secure long-term tenancies, tenant ownership of improvements, and by making land available on a permanent tenure to agricultural labourers, thereby encouraging the revival of peasant farming. Finally, Wallace concluded, except for bad weather,

In every case in which we have traced out the efficient causes of the present depression, we have found it to originate in customs, laws, or modes of action which are ethically unsound, if not positively immoral. . . . Whenever we depart from the great principles of truth and honesty, of equal freedom and justice to all men whether in our relations with other states, or in our dealings with our fellow-man, the evil that we do surely comes back to us, and the suffering and poverty and crime of which we are the direct and indirect causes, help to impoverish ourselves.⁷⁸

Underconsumption, then, was a common enough ingredient in non-canonical explanations of the depression. Different writers gave it different weight. For some it was a consequence of overproduction, which, in turn, might serve to deepen the depression. Others regarded it as an independent factor coupled with or even causing overproduction. It may be argued that Wallace’s socialism, his concern for the welfare of the working classes, led him to underline the importance of underconsumption. A similar case can be made for a pamphlet published in 1886 by H. Glaysher, a 72-year-old ex-employee of the Royal Arsenal, Woolwich. Glaysher suggested a number of

extreme remedies including a ban or a heavy tax on the use of steam engines, the abolition of overtime and piecework, and the formation of an international trade union, all of which were expected to check overproduction. However in a passage that has little to do with most of his argument Glaysher described underconsumption as a class related phenomenon.

The working classes are to the community what the governor is to the steam engine; and their labour is, so to speak, the chief fuel of the country. The circulation of their wages is the steam generated by the fuel, being the natural source of the power which drives and regulates the intricate social machinery of the community at large. If labour, which is the fuel, by any means run short, or is unable to find employment, there are no more wages, and the result is the same as in the case of a steam engine with an insufficient supply of fuel. The whole community begins to flag, and dire depression is the result.⁷⁹

Thus Mummery and Hobson's explanation of the depression in terms of overproduction and underconsumption should be regarded not as eccentric but as another step in the elaboration of a systematic and quite popular alternative to equilibrium economics. Previous attempts to explain the recent depression in terms of an inherent or temporary tendency towards disequilibrium are part of the tradition from whence Mummery and Hobson probably derived many of their arguments on issues such as colonial development, the economic significance of moral behaviour, foreign wars and the British economy, etc. The main objection to their work appears to have focused not on their use of underconsumptionist theory which, in itself, was hardly novel, but on its application to savings and the moral and ideological implications of their condemnation of thrift, one of the cornerstones of the Victorian religion of self-help. It was an issue on which Hobson himself was prepared to admit that he may have gone too far.⁸⁰

Economists such as F.Y. Edgeworth and W.A.S. Hewins may have found *The Physiology of Industry* completely unacceptable, but there were others such as John M. Robertson who welcomed it as an important contribution to the analysis of current problems. In his *The Fallacy of Saving*, published in 1892, Robertson explained that since *The Physiology of Industry* 'so ably and effectively sets forth the same doctrine', it was 'only the difference in my method of approach' that justified the publication of his own book.⁸¹ Furthermore it is possible that Hobson, a member of the Political Economy Circle of the National Liberal Club (as were a number of other future members of the Rainbow Circle), had heard, in 1891, the paper on which

Robertson based his book.⁸² The Circle was not intended to represent any particular school of thought although its founder J.H. Levy, himself an orthodox economist, noted that it was characterised by 'a comparative lack of interest in abstract economics'.⁸³ J.E.C. Munro in addressing the Circle in 1891 explained that his choice of subject – the economic effects of an eight-hour day on coal miners, was 'guided by the thought that the main object of your Circle is to discuss proposals for legislative changes, from an economic point of view'.⁸⁴ Accordingly few theoreticians were asked to address the Circle, and its *Transactions* contain a number of underconsumptionist statements compared with little sympathy for bimetallism.⁸⁵

During its early years the Circle was addressed by J.A. Hobson (October 1892), Robertson, and H.M. Hyndman (February 1894), and while Hobson spoke on monopolies in certain forms of capital investments, Robertson and Hyndman discussed aspects of overproduction and underconsumption. Mummery and Hobson had produced a criticism of orthodox theory based on the analysis of current conditions. Robertson attempted a historical critique of the development of economic theory in relation to savings. Like Mummery and Hobson, Robertson distanced himself both from theory and from theorists in addressing 'open minded people who are not already hypnotised by conventional doctrines'.⁸⁶ These doctrines were in his view no more than an attempt to rationalise and justify selfish class-behaviour by stating them in universal terms. 'Thus it comes,' he argued, 'that a doctrine almost nakedly absurd in plain statement becomes the creed of a whole class, who are able, of course, to fortify their creed by obscuring the issues, which are numerous and, in designing or misguided hands, complex.'⁸⁷ His goal was not just to make a theoretical point but to change the readers' perception of reality and consequently their behaviour. 'The fallacy alleged and impugned is a fallacy not merely of speculation but of conduct – a fallacy which must, I think, be rectified in speculation before men will in any numbers make up their minds to rectify it in conduct, and which must be rectified in conduct before our social system can to any satisfying extent be soundly reconstructed.'⁸⁸

According to Robertson the 'fallacy of parsimony' in English economic thought had originated with Adam Smith, whereas its critics were largely confined to those who 'associate their argument with the doctrine that it was a good thing to multiply rich idlers'.⁸⁹ Its hold on English economist survived unweakened down to the Marshalls' *Economics of Industry* where overproduction was dismissed as an illusion, a state of psychological disequilibrium which took the form of loss of nerve, rectifiable by a revival of confidence.⁹⁰ Robertson, on the other hand, maintained that overproduc-

tion was not only possible, it was chronic: 'at any one moment of commercial history, there is either overproduction, crisis, or strategic check of production'.⁹¹

Robertson's remedies were raising the quality of consumption and reducing the rate of population growth. A simple linear increase in consumption would solve nothing.

It is not quantity but *kind* of consumption, the setting up a continuous demand which shall withdraw labour from the fatally easy fruitions of the mechanical manufacture of common necessities, that will prevent chronic depression of trade. And such ever-rising standard of demand, it is obvious, is impossible without such a restraint of the rate of increase of population as shall give scope for the play of the higher and subtler needs without fatal encroachment on the part of the simpler and lower.⁹²

In declaring overproduction and underconsumption possible, if not endemic, while dismissing the notion of natural equilibrium, Mummery, Hobson, Robertson et al. argued the existence of structural flaws in society which required at least some intervention in order to realise a state of artificial but desirable progressive equilibrium. One fundamental reason for the impossibility of a natural equilibrium was the absence of natural harmony between individual and collective interests,⁹³ – a truly heretical view, already voiced by Moffat, irreconcilable with the tenets of classical economics. In the words of Hyndman's criticism of Jevons, 'the very idea of the antagonisms between social production and individual exchange, between commodities and money, between production for use and production for profit, never entered his mind'.⁹⁴ New Liberals such as Hobson and Robertson might differ on the remedies (e.g. the eight-hour day which Hobson was for and Robertson against) but they did not think it necessary to dismantle the whole capitalist system. Hyndman the Socialist, on the other hand, while following a similar line of reasoning, thought that the system was beyond mending. 'No improvements of the capitalist system of production can change or seriously modify the bitter struggle which must go on so long as that system endures in any shape.'⁹⁵

As a materialist Hyndman discussed the depression from a historical angle by surveying the history of crises rather than the theory of crises or the history of theory, publishing his findings in 1892 as *Commercial Crises of the Nineteenth Century*. His conclusion, presented separately to the Political Economy Circle, was that contrary to the theoretical assertion that a general overproduction was impossible, 'as a matter of fact, the history of the commercial crises of this century, if it throws into relief one point more

clearly than another, proves that overproduction or glut in all branches of industry at once – a complete industrial crisis owing to social causes in every department of industry – is not only possible but inevitable'.⁹⁶ The social causes alluded to were the much idealised profit maximising behaviour of the 'typical' capitalists.

Each manufacturer is . . . solely anxious to make hay while the sun shines. When, therefore, markets are good, he produces as much of the special commodities he manufactures as he possibly can, he employs more "hands", or works those he has overtime in order to gain greater and greater profits while prices are high. All do the same thing at the same time, no one having the slightest regard in the heat of competition for the interests of his neighbor manufacturer or for the glut of the market which may ensue. . . . [N]o capitalist, so long as competition is the rule of his trade, can help proceeding this way.⁹⁷

Hyndman's study of crises, described by Hobson as 'his most solid contribution to economic history and interpretation',⁹⁸ went beyond most underconsumptionists in identifying a social – that is a structural – cause in addition to recommending a social remedy. The desired end remained a state of equilibrium but it could not be realised without extensive intervention amounting to major structural change.

. . . we have to harmonise the two sides of wealth-creation . . . In order to bring this about, the organised power of the State, of the Municipal Councils, of the District Assembly, each acting in concert and co-operation with the other, must step in to reduce to order the existing anarchy, which produces such baneful effects, and to establish an equilibrium between production, consumption, and general distribution for the benefit of all.⁹⁹

Thus by c.1892 the overproduction/ underconsumptionist view of economics had taken the form of a fairly systematic corpus of detailed and analytical studies which constituted a self-proclaimed alternative to mainstream economics and its prescriptive suggestions to current problems. The non-theoretical literature of the 1890s on social and economic issues such as old age pensions, unemployment, or the eight-hour day abounds with overproduction/ underconsumptionist terms. Their prevalence was such that they were often used without a reference to any particular authority, Hobson or otherwise.¹⁰⁰ These theories were not included in any of the curricula for university degree courses but they found their way into the Extension,

e.g. through Hobson's courses, and they featured in non-academic lectures such as that of the Political Economic Circle. Most importantly they survived as a commonsensical approach to the explanation of current problems, a practical alternative and antithesis to high theory and to orthodox liberalism. 'I have no general theory to expound,' wrote J.A. Murray Macdonald, Liberal MP for Tower Hamlets, in an 1893 article on overproduction and unemployment. 'Nor do I believe in the wisdom or efficacy of such theories. The question is eminently a practical question, and has to be determined by reference to the actually existing circumstances of our industrial life.'¹⁰¹

Notes

1. T.W. Hutchison, *A Review of Economic Doctrines 1870–1929* (Oxford, 1953), p. 346. See also R. G. Link, *English Theories of Economic Fluctuations 1815–1848* (New York, 1959).
2. J.A. Schumpeter, *History of Economic Analysis* (London, 1954), p. 1130.
3. Hutchison, *Economic Doctrines*, pp. 355–6.
4. J.A. Hobson, *The Confessions of an Economic Heretic*, edited by M. Freedon (Hassocks, 1976), pp. 29–30. Hobson's tribute to Mummery is especially interesting in view of his tendency otherwise to ignore influences on his work.
5. See W.G. Hynes, *The Economics of Empire, Britain, Africa and the New Imperialism 1870–95* (London, 1979).
6. Also p. 60. Compare with Robert Owen's analysis of the effect of the French wars in his *Report to the Committee for the Relief of the Manufacturing Poor* (1817).
7. *The Times*, 4 February 1886.
8. *Report of the Twentieth Annual Trades Union Congress* (1887), p. 14. See also p. 16.
9. *Ibid.*, p. 36.
10. 'Why the commercial depression is so protracted', *The Economist*, 5 May 1877, p. 505.
11. *The Times* 4 March 1895, p. 10.
12. R.S. Moffat, *On the Regulation of Production, or, Regulated versus Unregulated Production. A Letter to Lord Justice Bramwell* (London, 1880), 'On national unity', *National Review* vol. 1, no. 4, June 1883; 'Competition and industrial organisation', *National Review* no. 30, August 1885; and 'Our food supply', *National Review* no. 76, June 1889.
13. R.S. Moffat, *The Economy of Consumption*, pp. 5, 11, 199n., 214, 223, 256, etc.
14. *Ibid.*, p. 66, see also p. 224.
15. *Ibid.*, p. 30, see also p. 402.
16. *Ibid.*, pp. 11–12, see also pp. 101, 105, and 212.
17. *Ibid.*, p. 610, see also p. 394.
18. Moffat, *On the Regulation*, p. 111.
19. Moffat, *The Economy of Consumption* pp. 515–6.

20. *Ibid.*, p. 110. On the slowness of the producers' reaction to overproduction. See also M. Prashkauer, *On Depression of Trade* (London, 1886), p. 4.
21. Moffat, *The Economy of Consumption* p. 128.
22. *Ibid.*, p. 115.
23. *Ibid.*, p. 281.
24. *Ibid.*, p. 195; see also p. 198.
25. *Ibid.*, p. 306.
26. *Ibid.*, p. 407.
27. *Ibid.*, p. 588. Moffat cited in support of his remedy two letters by J. Morley to *The Times*, 30 August and 7 September 1878, in favour of a short-time policy in the Lancashire cotton industry.
28. Moffat, *The Economy of Consumption* p. 510.
29. *Ibid.*, p. 588.
30. *Ibid.*, p. 30.
31. *Ibid.*, p. 493.
32. *Ibid.*, pp. 648–9.
33. T. Brassey, 'The depression of trade', in *The Nineteenth Century*, vol. 5, May 1879, p. 798.
34. *Ibid.*, p. 804.
35. *Ibid.*, p. 806.
36. On Bonamy Price see A. Kadish, *Historians, Economists and Economists and Economic History* (London, 1989), ch. 2. On H.D. Macleod see J. Maloney, *Marshall, Orthodoxy and the Professionalization of Economics* (Cambridge, 1985), ch. 6.
37. F. Badfield Hooper, *Reciprocity, Overproduction v. Overconsumption, Commercial Depression, Political Economy, Etc., A review of four articles in "The Nineteenth Century", and "The Contemporary"* (London, 1879), p. 14.
38. *Ibid.*, p. 16.
39. See the *Dictionary of National Biography*, and *Manchester Guardian*, 1 March 1886.
40. W. Hoyle, *Over-production and the Present Stagnation in Trade* (London and Manchester, 1878), p. 4.
41. *Ibid.*, p. 9.
42. *Ibid.*, p. 15.
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44. W.E. Houghton (ed.), *The Wellesley Index to Victorian Periodicals 1824–1900 vol. 1* (Toronto, 1966), p. 212.
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47. *Ibid.*, pp. 699–700.
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50. *Ibid.*, p. 696. It should be noted that Smart read the proofs of J.A. Hobson's *The Evolution of Modern Capitalism. A study of machine production* (London, 1894).

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73. *Ibid.*, p. 25.
74. *Ibid.*, p. 44.
75. *Ibid.*, p. 64.
76. *Ibid.*, pp. 67–8.
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78. *Ibid.*, p. 117.
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80. A. Kadish, 'Rewriting the *Confessions*: Hobson and the Extension movement' in M. Freeden, ed., *Reappraising J.A. Hobson, Humanism and Welfare* (London, 1990), pp. 146–7.
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95. H.M. Hyndman, *Commercial Crises of the Nineteenth Century* (London, 1892), p. 173.
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99. Hyndman, *Commercial Crises*, p. 164.
100. See, for example, J. Rae, 'The eight-hours day and the unemployed' in *The Contemporary Review*, June 1893, p. 808, or A. Withy, 'Day light on the land question. Lack of employment; its cause and its cure.' See also G.A. Gaskell, *The Futility of Pecuniary Thrift as a Means to General Wellbeing* (London, 1890).
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5 Mummery and Hobson's *The Physiology of Industry*

Roger E. Backhouse

I INTRODUCTION

The main message of *The Physiology of Industry* is, as Hobson and Mummery made very clear from their opening pages, the possibility of underconsumption. Despite the fact that underconsumptionist ideas were widespread at the time,¹ this was enough for the book's ideas to be branded 'heretical'. In his later work, Hobson repeated and developed these ideas.² Despite its importance as the first place in which Hobson expounded his ideas, however, *The Physiology of Industry* has not received the attention it deserves. There would seem to be a number of explanations for this neglect. First, the book's joint authorship means that scholars whose main interest is in Hobson do not know how far its ideas are attributable to Hobson and how far to Mummery.³ Second, much of the interest in Hobson has focused on his political philosophy rather than on his 'technical' economics. Third, because Hobson developed and extended the most important ideas in *The Physiology of Industry*, commentators have usually been more interested in his later, more 'mature' expressions of his ideas.

If we are to understand *The Physiology of Industry* properly we need to place it in context. Alon Kadish has performed an important part of this task, showing how the book can be regarded as part of a popular tradition in economic thought, in which overproduction and underconsumption were widely used concepts.⁴ There remains, however, the task of analysing the book's ideas in relation to orthodox theory. This is a more complicated question than it might at first appear for two reasons. The first is that heresy involves not a complete rejection of orthodoxy, but rather a distortion of orthodoxy. It is thus important to see how much Hobson and Mummery's economic analysis had in common with orthodoxy. It is thus important to see how much Hobson and Mummery's economic analysis had in common with orthodoxy. The second reason is that, although the extent and suddenness of the so-called 'marginal revolution' have often been exaggerated, the 1870s and 1880s did see significant changes in the prevailing economic

orthodoxy. We need to examine, therefore, where *The Physiology of Industry* fits in against the background of these developments.

This chapter, therefore, outlines and evaluates the theoretical arguments used in *The Physiology of Industry* with a view to appraising them in relation both to Hobson's later work and to contemporary orthodox economics. Section 2 deals with the book's overall theoretical framework; underconsumption is considered in section 3; the theory of income distribution in section 4; and money and prices in section 5. Conclusions are drawn in the final section.

II THE THEORETICAL FRAMEWORK

The economic ideas contained in *The Physiology of Industry* are based on what has come to be thought of as an 'Austrian' view of production.⁵ The object of production, Mummery and Hobson argue, is the production of utilities and conveniences for consumers.⁶ Production involves working-up raw materials into commodities.

Table 5.1 Stages of production

<i>Stage</i>	<i>Articles</i>
Raw materials (1)	Hides on cattle
Raw materials (2)	Raw hides
Raw materials (3)	Prepared hides
Raw materials (4)	Leather
Goods	Shoes
Goods (1)	Shoes in exporter's hands
Goods (2)	Shoes in merchant's hands
Shop goods	Shoes in shop
Commodities	Shoes in use

The exact pattern will be different for each commodity: some processes involve many stages, while others go straight from the initial raw material to finished goods.

At each stage in this process the services of 'natural agents' (primarily land), 'plant' (capital) and labour are required. Mummery and Hobson go on to assume that given what they describe as 'a stable condition of the manufacturing arts', technical coefficients will be fixed:

In a well-organised industrial society it is evident that these three agents in production (natural agents, plant and labour) . . . will bear, both as a whole and singly, a definite proportion to the quantity of raw material in its various stages which it is their business to assist.⁷

If there is an excess of either the raw material or one of the agents of production, it will be wasted. This assumption of fixed coefficients was, as we shall show later on, crucial to Hobson and Mummery's theory of unemployment and their theory of distribution. It was also important in their theory of capital.

Hobson and Mummery defined capital as the value of the stock of capital goods. Like John Bates Clark⁸ they wrote of the stock of capital continuing unchanged even though individual forms of capital perished. Where Clark⁹ used the analogy of a waterfall, Mummery and Hobson likened capital to a river:

the individual forms of capital may be likened to drops of water in a river; each in turn passes down the course and is lost in the ocean, but the river never grows less, and its continuity is never lost.¹⁰

The assumption of fixed coefficients, however, meant that there would be a fixed relationship between the stock of capital and the level of consumption: 'The amount of capital required at each stage [of production] bears an exact and fixed relation to the amount of consumption of commodities . . .'¹¹ Given the level of consumption, therefore, the economy needs a certain quantity of capital. Hobson and Mummery call this 'real capital': capital required in order to sustain production. If there is more capital than this,

this excess is not real capital, as it cannot perform the true function of capital; it is merely nominal capital. . . . The surplus may sometimes escape our notice from the fact that it does not necessarily stand quite idle. If in a certain factory there are twice as many machines as are required to do the work, either half of them may stand idle or any of them may be used for half-time or at half-pressure; in either case we should say that the real capital consisted in half the machines, the other half being surplus or nominal capital.¹²

They recognised that technical coefficients might vary, but such variation was simply the result of technical progress, 'the tendency of improvements in the arts of manufacture . . . to lessen the amount of real capital required at the different stages in production'.¹³ There was no suggestion that tech-

nical coefficients might vary as factors were substituted for each other.

This perspective enabled Mummery and Hobson to reach a number of important conclusions. They argued that the sum of factor incomes equalled the value of retail sales.

the profits which form the money incomes of all capitalists concerned in production, the wages of all the labourers concerned, and the rent of all the natural agents required, are, in a regular condition of commerce, paid out of the prices paid by consumers, that is, out of retail prices.¹⁴

They thus opposed the wages fund doctrine, according to which wages were paid out of the capitalists' stock of capital.¹⁵ Far from consumption being at the expense of capital, as is implied by the wages fund theory, it is demand for commodities that sustained the capital stock. When a consumer purchases a shop good the shopkeeper replenishes his stock; the wholesaler then has to replenish his stock. This process continues through all the stages of production outlined above. As Mummery and Hobson put it,

not only does the exercise of demand for commodities fail to diminish the real capital stationed at the various stages in production, but it keeps in continuous existence the same quantity of capital in the various shapes necessary.¹⁶

Because the process of production takes time the relationship between consumption and capital has an inter-temporal aspect. It is *future* consumption which 'limits the amount of capital which can economically exist in the present'.¹⁷ Similarly, 'there exists a fixed quantitative relation between the present rate of consumption and the aggregate of wealth which has had an economic existence in the immediate past'.¹⁸

Much of the time Mummery and Hobson argue in terms of quantity adjustments. If the level of sales rises or falls businessmen will replenish or run down their stocks. This notion that there is a link between stocks and sales leads Mummery and Hobson to a clear statement of what we now refer to as the accelerator. They do this using a numerical example in which the accelerator is 4. Given this, a rise in consumption of 1 unit requires an increase in the capital stock of 4 units, which means that during the year when consumption rises output must rise by 5 units. As long as consumption is constant, no net investment is required.

The plant required to produce any individual commodity by modern methods vastly exceeds in value the individual commodity itself, and we

certainly do not over-estimate this difference if we assume that an increase of ten per cent. in the annual consumption of any community would require an increase of fifty per cent. in the production of that community during the year of increase. . . . Thus, if a community increases its consumption from 10x wealth to 11x wealth a year, production must during the year in which this increase takes place exceed consumption by 4x wealth in order to accumulate the additional forms of capital required; that is to say, production must during this year amount to 15x wealth. So soon, however, as consumption, having reached 11x annually, no longer increases, a production of 11x wealth annually is alone required.¹⁹

Hobson and Mummery viewed these quantity adjustments as part of the price mechanism ('the medium of price and profit'). They assumed that prices would rise and fall according to whether demand rose relatively to supply or vice versa.²⁰ In places, however, they assume that quantities respond directly to changes in demand, without any intervening price changes. They point out that if a manufacturer is to 'consent to trade' he must receive 'a profit that will induce him to apply his capital and energies to the trade'.²¹ They go on to argue that 'as soon as he [the manufacturer] finds that he could obtain this profit on a larger output of goods he will seem to borrow or otherwise obtain the use of the funds requisite to enable him to enlarge his manufactory and to increase the quantities of raw materials undergoing manufacture'.²² This suggests that the initial reaction to a change in demand may be a change in production, with prices being set to earn simply normal profit.

III THE THEORY OF UNDERCONSUMPTION

The main features of Mummery and Hobson's underconsumptionist theory have been laid out in the previous section. Demand for factors of production is a derived demand, generated by demand for consumer goods, with wages and profits being paid out of spending on consumer goods, not out of the capital stock. Saving, they argue, reduces demand for labour by reducing consumption, the opposite of what the wages fund theory implied. They argue, therefore, that the wages fund should be replaced by the formula 'Production - Saving = Consumption'.²³ Unemployment is explained as resulting from high saving and low consumption. Furthermore, given their 'Austrian' view of production, the problem of unemployment can be seen as involving an inter-temporal disequilibrium.

When we look at their theory in more detail, however, it becomes much more complicated, for they have no less than three quite different explanations of how a situation of underconsumption might arise.

(i) Overinvestment and Underconsumption

The first of these is outlined in Mummery and Hobson's preface.

Now saving, while it increases the existing aggregate of capital, simultaneously reduces the quantity of utilities and conveniences consumed; 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.²⁴

The point to note here is that Mummery and Hobson define saving as equivalent to investment:

Saving means something more than this ['not consuming']. It signifies not only abstention from consumption, but application as a means of further production.²⁵

No saving is effected unless the aggregate of capital is increased.²⁶

Their theory is one in which overproduction arises because capital is accumulating so fast that demand for goods cannot keep up with potential supply. This is similar to the argument Malthus²⁷ used in his theory of gluts. It has more in common with the growth theory of Harrod²⁸ and Domar²⁹ than with Keynes's theory of unemployment. Though Mummery and Hobson can hardly be credited with formulating a theory of growth, there is one passage where they argue that, as long as there is a surplus of labour and other natural agents of production, growth will take place if consumption and saving increase together. Once full employment is reached, they continue, growth will depend not on rising consumption and saving but on population growth and 'advances in the mechanical arts'.³⁰

Such over-accumulation of capital is, Mummery and Hobson claim, consistent with profit maximisation. They use the analogy of a competitive examination in which the amount of work undertaken by all candidates together is much more than the work that needs to be done to train the required number of people.³¹ After discussing this in some detail they conclude,

So with the trade competition in an ordinary commercial society. Though

the amount of thrift which can be effectively exercised by the whole society is strictly limited, this limit imposes no such limit on the individual. The thrift of the individual consists in getting possession of the material forms of capital [investment]; whether or to what extent these forms are economically required, or will be actually and fully used to assist future production, is dependent on facts which are not immediately and clearly before the eyes of the individual when he is seeking to save.³²

The wording used here, 'thrift . . . consists in getting possession of the material forms of capital' implies very clearly that saving is automatically invested. Overproduction arises because too much investment takes place.

(ii) Hoarding and Underconsumption

In the passages considered above, Mummery and Hobson assume that saving is necessarily invested. There are, however, also places where they try to separate these, the result being a theory much closer to Keynes's theory of unemployment. They do this by distinguishing 'the desire to save'³³ from saving. Their argument is that though an isolated individual (Robinson Crusoe on his island) will never produce more than he wishes to consume, individuals in a 'fully organised industrial society may save simply in order to hoard up money tokens which can be used at some future date to finance consumption.'³⁴ This possibility arises because the relationship between consumption and capital is not the same for an individual as for the community as a whole. A community taken as a whole can never consume more than it is actually producing, whereas an individual can do so provided that 'some other individual or individuals will consent to consume as much less of their income or incomes as he wishes to consume more'.³⁵ When they need a noun to refer to the object of individuals' thrift they sometimes use the term saving,³⁶ but on one occasion they use 'saving' in quotation marks.³⁷ This is because this saving may well be in excess of the amount the community needs, with the result that it will never be translated into 'real capital'³⁸ and so may never become saving as the term was defined in the passage quoted above.

The theory of underconsumption which results from this perspective is summarised as follows.

The community considered as the recipient of money incomes produces consumable articles; the community considered as the spender of money incomes buys and consumes these articles. If, owing to its desire to save,

it refrains from spending the whole of its money income, the whole of the consumable articles produced cannot be sold. Over-supply is, in consequence, caused, and prices and incomes continually fall until the production of consumable articles is reduced to the total actually consumed.³⁹

Underconsumption arises from individuals hoarding their savings as money, thus reducing consumption relative to production, which means that production has to fall until equality is restored.

Later on in the book there is an interesting passage where Mummery and Hobson refer to the role of bankers in this process, suggesting that banks may, albeit temporarily, offset a shortage of saving by increasing their lending. They start by assuming that consumption falls, and savers cease to invest in industry, choosing instead to deposit their savings with banks (i.e. a fall in consumption accompanied by a rise in liquidity preference).

When the relaxed [reduced] consumption began to exhibit a glut of the different forms of capital, and saving individuals began to refuse to invest their savings directly in any scheme that could be suggested, but preferred to retain the savings in their own hands, the capitalist maker no longer received sufficient money to continue their demand for the use of the requisites of production as the old rate. Individuals no longer embarked their savings on their own account in the work of aiding production, but paid them in to banks.⁴⁰

The use of the past tense is because Mummery and Hobson are discussing the depression of 1873. This change in saving habits would have no effect if the banks extended their loans to industry.

At first no very obvious change ensued. Though capitalist makers no longer received the money in the ordinary course of trade, they could obtain what they wanted from bankers. Thus for some time, so long as they could offer to the banks what seemed fair security for repayment, they could obtain the money requisite to maintain the current rate of production.⁴¹

Eventually, however, due to the decline in sales, banks will become unwilling to lend and firms will be forced to liquidate their stocks of goods, the result being falling prices and depression.

But when, owing to the reduction in quantity demanded, they were unable to maintain their previous rate of sales, their stock of goods accumulated in the warehouses constantly grew, while at the same time their liabilities to the banks grew correspondingly. Sooner or later a crisis was inevitable. The moment bankers refused to continue increasing their loans to capitalist makers and speculators, and, on the contrary, pressed for repayment of their advances, the holders of this surplus stock of goods were forced to sell at any price they could get in order to escape or postpone bankruptcy. . . . The fall in wholesale prices thus begun continued until the profit of makers fell so low that a sufficient number refused to continue making, and, by ceasing to make restored the equation between production and consumption.⁴²

Mummery and Hobson thus have a theory in which the possibility of underconsumption arises because, in a monetary economy, individuals may choose to hoard part of their income. They quoted Alfred Marshall as saying that 'though men have the power to purchase, they may not choose to use it'.⁴³ Describing Marshall as being 'alone amongst economists' in holding this view, they fail to note that this was taken directly from John Stuart Mill,⁴⁴ an economist whom they wrongly criticise for not recognising that demand can be deficient.

The justification for arguing that this 'Keynesian' theory is distinct from the overinvestment theory is that the two theories are based on different sets of assumptions. Much of the time Hobson and Mummery make it very clear that they are assuming that savings are automatically invested, and that hoarding does not take place. This implies that they *cannot* be adopting a 'Keynesian' explanation of deficient demand. Given this, we have to regard the overinvestment theory as an *alternative* to the Keynesian theory. It can be argued, however, that the overinvestment theory leads to deficient aggregate demand only if, at some stage, savings cease to be invested, causing a decline in output.⁴⁵ The reason is that a high level of investment causes a rise in output, and if savings are automatically invested (as Hobson and Mummery assume) there will be a rise in investment sufficient to offset any deficiency in the level of consumption. It is only if at least part of the increased income resulting from higher investment is hoarded (i.e. neither consumed nor invested) that a deficiency of aggregate demand, and hence unemployment, will arise. The overinvestment theory should thus be regarded as providing one explanation of how Keynesian unemployment might arise, though there remains the problem of explaining why, in the early stages, we assume savings are automatically invested when, in the later stages, they are not.

(iii) Sticky Retail Prices and Underconsumption

The third theory of underconsumption in *The Physiology of Industry* involves the distinction between makers and traders and between wholesale and retail prices. When demand is high (as in 1871–3) the makers of goods can charge high prices: they are not limited by competition from other makers who can already sell everything they can make. Traders, on the other hand, are in competition with each other and can make only normal profits.

Traders will thus outbid one another in purchasing from makers, raising their offers to the point which leaves them the barest margin of profit for which they are willing to continue their work. Paying higher prices to makers, it might appear that they would be able to recoup themselves by raising the prices to consumers. But if they succeed in raising the prices to consumers they will still be unable to keep a larger profit for themselves, for the competition by which each will seek to effect as many sales as possible will oblige them to offer increased prices to makers, who would thus reap the whole advantage of the rise.⁴⁶

In periods of high demand, therefore, makers' profits are high relative to the profits of traders, and wholesale prices (the prices at which traders buy from makers) are high relative to retail prices (at which traders sell to consumers). When demand falls, on the other hand, the situation is reversed. Competition between makers forces profits down to 'such a rate of loss as will gradually operate in driving a sufficient number of makers from the work of making',⁴⁷ while, because retail prices fall only slowly – this being due to imperfect competition amongst retailers⁴⁸ – traders' profits will be high. After 1873, they point out, makers were being ruined at the same time that merchants and retailers were making large fortunes.

When, during a boom, profits in making are very high, capital moves into making goods and output rises. In the depression, on the other hand, when profits are high in trading, especially in retailing, capital moves into retailing, but this does not result in any increase in output, or in any significant increase in consumers' welfare. The reason is that, once there exists a certain number of retailers, any further increase is wasteful and all that happens is that a given volume of business is divided between more retailers, each making a smaller rate of profit. The labour attracted into retailing is thus less productive than it was in manufacturing, with the result that output is reduced.

Looking at it from the point of view of the worker, it may be said that, assuming the retailing class to be already adequate to distribute with fair regularity and speed the goods that are made, every worker who is driven out of the making business into the retailing business is driven from a more productive to a less productive use of his labour. What holds of labour holds to a less extent of capital and natural agents. The comparatively useless stores and shops &c., represent a comparative waste of capital and land. Thus it may be concluded that, when a high rate of consumption keeps tense the productive energies of the nation, there is packed in each commodity the minimum use of each of the requisites of production, and that when the rate of production tends to exceed the rate of consumption, there is the maximum of use of each of these requisites of production in each commodity.⁴⁹

Mummery and Hobson illustrate the problem with a numerical example.⁵⁰ Start by assuming that in a healthy state of commerce 9/10 output goes to makers and 1/10 to retailers. An article retailing for 10 shillings will have a wholesale price of 9s. Now suppose that wholesale prices fall by 33 per cent and that retail prices fall by only 10 per cent (as happened in England between 1873 and 1879). The wholesale price will fall to 6s. and the retail price to 9s. The result is that makers will receive 6/9 of the goods produced and retailers 3/9. If labour and capital move between the two sectors so as to equalise rates of return, 6/9 of the requisites of production will be employed in making and 3/9 in retailing. Thus whereas output per head in normal times is 9/10, in depression it falls to 6/9. Applying these figures to England they conclude that if aggregate annual income were £1000m, in a healthy state of commerce it would be £1350m.

In this theory, Mummery and Hobson are adopting a very 'classical' view of competition, focusing only on profits and entry and exit – on the long-run aspects of competition.⁵¹ Thus they do not address the questions that a modern theorist would ask concerning the short-run relationship between costs and revenues. Thus, although Hobson and Mummery do posit a link between imperfect competition and unemployment, their work cannot be seen as anticipating in any significant way recent work on imperfectly competitive foundations for Keynesian economists. A second respect in which this theory is very 'classical' is that it is based on the assumption that labour and capital used in retailing is unproductive: output per head is equal to the fraction of resources that is employed in production. This distinction between productive and unproductive labour is a classical distinction, used by Adam Smith and his followers, but which dropped out of mainstream economics with the advent of marginalism.

IV THE THEORY OF DISTRIBUTION

Hobson is noted for being one of the economists who first developed a marginal productivity theory of factor pricing, the work usually cited being his 'The law of the three rents' (1891; see also 1900). What is less well known is that *The Physiology of Industry*, published two years earlier, also contains a very clearly worked out supply and demand theory, which was as close to a marginal productivity theory as it was possible to get without abandoning the assumption of fixed coefficients. This is the 'law of the limiting requisite', discussed in chapter VI, which constitutes an important step on the path towards marginal productivity theory.

Mummery and Hobson start from the premise that factor prices (the prices of 'requisites of production') are subject to the law of supply and demand: if supply exceeds demand, price falls, and vice versa.⁵² There follows a general discussion of the problem in which they argue that a rise in demand for commodities will raise demand for all factors, raising their prices. Factor prices do not, however rise equally, the difference between them depending on 'the comparative ease or difficulty of increasing the supply of each requisite of production respectively'.⁵³

When the increased demand acts as a strain upon the resources of existing requisites of production, the comparative tenseness of this strain is the measure of the rise in price on the use of each requisite of production. In other words, if there is one of three requisites of production which cannot be increased in quantity as rapidly as the other two, any increase of consumption soon makes itself felt as a strain upon this requisite of production exclusively, and . . . the whole rise in price will be monopolised by that requisite of production which comes alone to bear this strain.⁵⁴

They then develop a more formal theory involving simply capital and labour, considering first the case where production is limited by capital and second the case where it is limited by labour. In the first case, where production is limited by the capital stock and there is surplus labour, wages will depend 'solely upon the competition of those labourers who are out of employ':

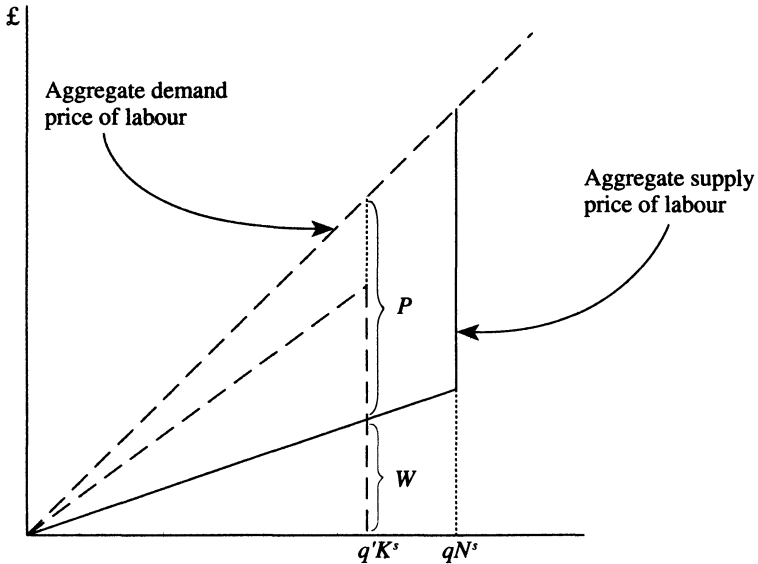
All those anxious to work cannot be employed because the capital essential to their work does not exist; these surplus labourers will therefore persistently continue to underbid those employed till wages have fallen to such a level that the unemployed surplus refuses to compete further. In

such periods, then, wages will be determined by the alternative means of subsistence which labourers have at their disposal.⁵⁵

The rest of the produce above this minimum goes to capital. In contrast, when the limit on production is provided by the labour force the return to capital will be very low.

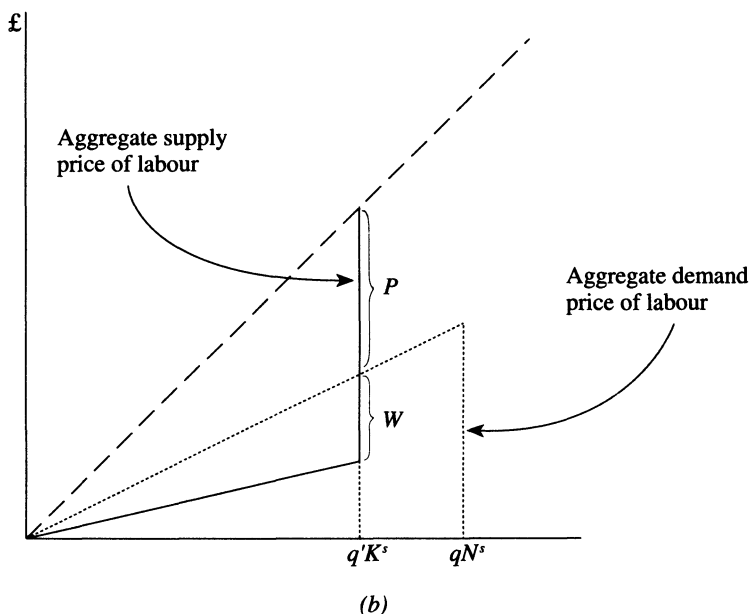
These owners of surplus capital will persistently compete for the assistance of labour (by raising wages) until so nearly the whole reward for production is paid to the labourers that capitalists no longer care whether their capital is used or not. In this case the labourers receive the whole of the wholesale price excepting the smallest fraction which a sufficient number of capitalists will accept in preference to receiving nothing.⁵⁶

So long as production is limited by either capital or labour, rather than by natural resources or by demand, this is a well-specified supply and demand theory of distribution and is described in Figure 5.1.



(a)

Figure 5.1



Consider first the aggregate supply price of labour: the total wage bill that must be paid if workers are to be induced to supply enough labour to produce a given level of output. If output is less than qN^s , where N^s is the labour force and $\langle u \rangle$ is output per head there will be surplus labour and the wage bill that must be paid will be $W = w^*N = w^*Q/q$ where w^* is the subsistence wage rate and Q total output. Once full employment is reached, where $Q = qN^s$ the curve becomes vertical, for however high wages rise employment cannot increase any further. The aggregate demand price of labour is derived by taking total output and deducting the amount that has to be paid to capital: the required return to capital is the distance between this curve and the 45 degree line. Where output is less than $q'K^s$ capital is not fully utilised and profits are given by $P = r^*K = r^*Q/q'$ where r^* is the minimum return capitalists will accept, K is the amount of capital actually used and q' is output per unit of capital. Once output reaches $q'K^s$ output cannot rise however high profits rise.

The situation where capital is the limiting factor is shown in the left-hand part of Figure 5.1. Labourers receive subsistence wages, the remainder going to capital. As the capital stock increases, the distribution of income remains unchanged until labour becomes the limiting factor (the right hand part of Figure 5.1) whereupon profits fall to the minimum capitalist will

accept, labour receiving the rest. Though Mummery and Hobson do not draw this conclusion, if it should happen that $qN^s = q'K^s$ the distribution of income is indeterminate.

A limitation of this theory is that the supply prices of capital and labour (w^* and r^*), which play a major role in the theory are not explained. On the other hand, not only was the theory very carefully worked out, but it treated capital and labour symmetrically. This was in marked contrast to classical theories of distribution. Their theory was thus an important step on the route towards marginal productivity theory.

V MONEY AND PRICES

The major monetary question in the late nineteenth century was bimetallism. It was argued that fluctuating prices were the result of changes in the quantity of the precious metals. In the 1850s prices had risen due to gold discoveries in California and Australia; in the 1870s and 1880s prices were falling, so it was argued, because the supply of gold was not keeping up with demand. A bimetallic standard, it was claimed, would link prices to silver as well as gold, ensuring greater stability. Mummery and Hobson contributed to this discussion by arguing that the quantity theory, whereby changes in the money supply cause changes in the price level, was erroneous. Causation ran, they claimed, in the other direction, from the price level to changes in the quantity of gold in circulation.⁵⁷

Mummery and Hobson started from the premise that prices were determined by supply and demand, irrespective of the quantity of gold.

So long as the sellers of commodities can sell all they have to offer at the current price, prices cannot fall, and this holds good equally, whether gold is scarce or plentiful. Sellers do not trouble to ask any question as to the state of the Bank reserve, or the cost at which gold is being produced. All they care to know is, whether they can sell everything they have to offer at the current price. If they believe they can, neither scarcity of gold, nor anything to do with gold, will induce them to take a lower price. If, on the other hand, they believe that they will not be able to sell all they have to offer at the current price, then prices will fall, no matter how plentiful gold may be, or to what depth its cost of production may have fallen.⁵⁸

On the basis of these arguments, to which we shall return later, Mummery and Hobson argued that the quantity of gold did not matter. The entry of

gold into the economy, on the other hand, did matter. The quantity of gold is increased through the government buying gold from miners, who receive in return money, or generalised purchasing power. This purchasing power may, depending on how it is used, affect demand and hence prices. They argued that if gold production were reduced by £2m a year (this was the figure promoted by those who blamed falling prices on a shortage of gold) the effect would be to reduce payments to gold miners by £2m. The effect of this depends on what happens to the resources formerly used to mine gold. If they continue in gold-mining, the same resources being used to produce the reduced quantity of gold, the net result will be that aggregate demand will fall by £2m (the fall in miners' incomes), with aggregate supply of goods being unchanged. If, on the other hand, the resources released from gold-mining are used to produce £2m of other goods, the former miners will earn the same money income as before, causing aggregate demand to stay the same, while aggregate supply will rise by £2m. In either case, therefore, the resulting discrepancy between supply and demand will be £2m. Given that total annual demand (national income) in the UK was estimated at £1270m, Mummery and Hobson calculated that a shortage of gold of £2m per annum could account for a fall in demand of only $2/1270$ or 0.16 per cent per annum. The decline in prices of at least 30 per cent between 1972 and 1885 could not, therefore, be attributed to a shortage of gold.

This approach, which can be traced back at least to eighteenth-century writers such as Cantillon⁵⁹ has much to commend it. Mummery and Hobson's arguments, however, contain some serious defects. The first is that they completely neglect the multiplier effects of changes in miners' spending. Though they had not quantified the multiplier, many earlier writers had come much further towards this than did Mummery and Hobson.⁶⁰ The second, and more fundamental problem with their theory is that they completely failed to see that it was possible to have a demand for a stock, whether of money or anything else.

We have seen that the only demand which the community can exert is a demand for consumable articles by consumers, all other so called demands being resolvable, when regarded from the community's point of view, into mere changes of ownership. Currency, therefore, cannot be demanded; the community possesses exactly the same number of sovereigns whether any given sovereign is in the pocket of A. or B., or C., or in the cellars of the Bank of England.⁶¹

Demand for money, they claimed, had to be conceived of as demand for the

use of money, a flow. This meant that they failed to see the point, absolutely vital to the quantity theory, that it was possible for there to be an imbalance between the stock of money and the quantity of money people wished to hold. Such an imbalance may lead people to spend more or less as they seek to achieve their optimal money balances, the result being a link between the stock of money and supply and demand for goods. The closest Mummery and Hobson came to recognising the existence of such a link was when they wrote,

It is only when the possession of more money induces people to try to buy more loaves or more hats, to apply more purchasing power to buy goods at current prices, that they will find these prices rise.⁶²

This sentence is, however, nothing more than an aside: the rest of the argument rests on the assumption that there is no such link.

VI ASSESSMENT

Bearing in mind the date when it was written, *The Physiology of Industry* represents a remarkable piece of macroeconomic analysis. Indeed, it could be argued that it bears comparison with anything that Hobson wrote later. Mummery and Hobson's statement of the acceleration principle, usually attributed to Carver,⁶³ could hardly be bettered; their overinvestment theory touched on a problem not properly tackled until Harrod's paper, half a century later; and their theory of income distribution represented in important respects a major advance on classical theories. Hobson, in his later work, certainly introduced new ideas, but his approach to macroeconomic issues never departed fundamentally from that adopted in *The Physiology of Industry*.⁶⁴

The Physiology of Industry can be seen as a contribution to a tradition of economic thinking that stood outside mainstream, academic economics.⁶⁵ Mummery and Hobson made their departures from orthodoxy very clear. Notwithstanding this, however, the book is in many ways a very orthodox work. In particular, it is arguable that its best pieces of theorising are those which stem from the classical perspective whereby real phenomena (flows of goods and services) were considered fundamental. Though they do not use the phrase, money is, for most of the book, regarded as a veil. For example, they write that when a doctor goes into a shop to buy something, 'he really pays for it by the professional services he has previously rendered some other individual'.⁶⁶ Mummery and Hobson's theory of distribution

was also in this tradition of real analysis, as was their statement of the acceleration principle. Finally, much of their theorising on underconsumption could be worked out in real terms: in neither the overinvestment theory nor the theory of changes in retail and wholesale prices did money play a significant role. Their overinvestment theory was certainly unorthodox, though it was related to Malthus's theory of general gluts. The theory of hoarding and underconsumption was much less so. Contrary to what they claimed, the idea that a deficiency of aggregate demand could occur was well understood, even by John Stuart Mill, whose explanation of the problem was very similar to theirs. Where they differed from Mill, Marshall and most orthodox economists, was not in seeing that this problem could arise, but in attaching such great importance to it.

Paradoxically, in view of their stress on underconsumption as the cause of unemployment, it was their blind spot concerning the importance of hoarding that constituted the major weakness in their theory. Despite having a theory in which people hoarded money in order to transfer purchasing power from the present to the future, they denied that money was anything more than a means of payment: 'this carting or conveyance of purchasing power from one individual to another is the only use of currency'.⁶⁷ Mummery and Hobson emphasised that it was 'for this purpose, and this alone' that the financial system existed. In addition, they failed to see that it was possible to conceive of a demand for a stock, with the result that the concept of liquidity preference, which could have provided the foundation for their theory of hoarding, completely escaped them. This failure to see how there could be a demand for a stock of money vitiated their attempts to criticise the quantity theory. It was also a characteristic of Hobson's later work.⁶⁸ In this respect Mummery and Hobson fell a long way short, not only of Keynes, but even of their classical forebears, notably Henry Thornton and John Stuart Mill.⁶⁹

The Physiology of Industry is clearly a theoretical book, but Mummery and Hobson repeatedly introduced pieces of empirical evidence to support their arguments. The biggest piece of empirical evidence was the depression which followed the crisis of 1873, which showed that under-utilisation of resources was not only possible but a widespread phenomenon. As was also the case with F.A. Walker, the persistence of the depression after 1873 was too big a fact to be ignored. Their overinvestment theory was a natural response to the nature of this depression in that what they described in their theory was exactly what many businessmen was experiencing.⁷⁰ Their hypotheses about price stickiness under monopoly was a response to the observed behaviour of profit margins over the business cycle. Their critique of the quantity theory was based on a theory which they immediately

quantified, showing that it could not explain the fall in prices which had in fact occurred.

In their stress on real factors and in important other details, such as their distinction between productive and unproductive activities, Mummery and Hobson were following the classical economists, from Adam Smith to John Stuart Mill. In other respects, however, they were applying the insights of the new, marginalist economics of the 1870s to macroeconomics. Thus we find Mummery and Hobson arguing that causation ran from consumers' demand to demand for factors of production. But their theory was hardly neoclassical: they focused on the macroeconomic implications of this relationship; and what we might call their 'welfare economics' was very different from that of the neoclassicals.⁷¹ Thus, the *Physiology of Industry* is a remarkable work, which to be fully appreciated need to be seen simultaneously from two perspectives: as an important contribution to non-mainstream discussions of the business cycle and as a work reflecting in many ways that economics was in the midst of the long drawn out transition from classical to neoclassical economics.⁷²

Notes

1. Underconsumptionist ideas run right through the evidence discussed by the Royal Commission on Industry and Trade (1886), discussed in Kadish (1993). A good example of an academic economist sympathetic towards underconsumptionism (though he cannot be classed as a simple underconsumptionist) is F.A. Walker (1889). Walker's views are discussed in Backhouse (1987).
2. See Backhouse (1990a).
3. A letter written to Richard Kahn (Keynes, 1935) shows that Keynes believed that Mummery's contribution was the major one. 'Hobson never fully understood him [Mummery] and went off on a side-track after his death. But the book Hobson helped him to write, *The Physiology of Industry* is a wonderful work. I am giving a full account of it but old Hobson has had so much injustice done to him that I shan't say what I think about Mummery's contribution to it being, probably, outstanding'.
4. Kadish (1993).
5. This view is not, of course, uniquely Austrian, though the Austrians placed particular emphasis on it. Elements of this perspective can also be found in classical writers and Marx, who is cited by Mummery and Hobson (*Physiology*, p. 76).
6. *Physiology*, pp. v, 5.
7. *Ibid.*, p. 24.
8. Clark 1893, 1898.
9. *Ibid.*, p. 308.
10. *Physiology*, p. 71.
11. *Ibid.*, p. 25.
12. *Ibid.*, pp. 35 – cf. p. 51.

13. *Ibid.*, p. 116.
14. *Ibid.*, p. 71.
15. *Ibid.*, pp. 71–6.
16. *Ibid.*, p. 70.
17. *Ibid.*, p. 35.
18. *Ibid.*, p. 28.
19. *Ibid.*, pp. 85–6.
20. *Ibid.*, p. 81.
21. *Ibid.*, p. 85.
22. *Ibid.*
23. *Ibid.*, p. vii.
24. *Ibid.*, p. v.
25. *Ibid.*, p. 47.
26. *Ibid.*, p. 103.
27. Malthus, 1820.
28. Harrod, 1939.
29. Domar, 1946.
30. *Physiology*, pp. 126–8.
31. *Ibid.*, pp. 114–5.
32. *Ibid.*, p. 116.
33. *Ibid.*, p. 104.
34. *Ibid.*, pp. 105 and 107.
35. *Ibid.*, p. 78.
36. For example *Physiology*, p. 142.
37. *Physiology*, pp. 105 and 135.
38. See, for example, *Physiology*, p. 111.
39. *Ibid.*, pp. 98–9.
40. *Ibid.*, p. 142.
41. *Ibid.*, p. 142.
42. *Ibid.*, pp. 142–3.
43. *The Economics of Industry*, quoted in *Physiology*, p. 102.
44. Mill, 1844, 1848.
45. We can obtain unemployment without abandoning the assumption that savings are automatically invested, but it would arise because the propensity to save was too low, not too high. According to the Harrod-Domar equation, the growth rate equals the propensity to save divided by the capital–output ratio. If the propensity to save is sufficiently low, the growth rate will fall below the rate of population growth, causing a rise in unemployment.
46. *Physiology*, p. 137.
47. *Ibid.*, p. 144.
48. *Ibid.*, pp. 146–58.
49. *Ibid.*
50. *Physiology*, p. 160.
51. See Backhouse, 1990b.
52. *Physiology*, p. 169.
53. *Ibid.*, p. 170.
54. *Ibid.*, p. 171.
55. *Ibid.*, pp. 173–4.
56. *Ibid.*, p. 174.

57. *Ibid.*, p. 194.
58. *Ibid.*, pp. 196–7.
59. Cantillon, 1755
60. Amongst the literature they had read, Walker, 1885, is a good example. See Backhouse, 1987.
61. *Physiology*, p. 189.
62. *Ibid.*, pp. 197–8.
63. Carver, 1903.
64. See Backhouse, 1990a.
65. See Kadish, 1993.
66. *Physiology*, p. 187.
67. *Ibid.*, p. 187.
68. For example, Hobson, 1913.
69. Thornton, 1802, and Mill 1848.
70. See the Royal Commission on Depression in Trade and Industry, 1886.
71. They cite approvingly the stress on consumption in the works of Jevons, Laveleye and Sidgwick, but they argue that these authors ‘blend ethical and psychological considerations with economics, discussing the quality of consumption to the entire neglect of quantitative considerations’; and that none of them ‘points his moral so skillfully as Ruskin’, who argued that goods that fall into the wrong hands become not wealth, but ‘illth’ (*Physiology*, pp. 6–7).
72. It is perhaps worth noting that, although the distinction cannot be pushed too far, Keynes’s *General Theory* also has to be seen as stemming from two different backgrounds. On the one hand there was Keynes’s involvement in debates over British macroeconomics policy comprising, for example, his work on the Liberal Party’s programme. On the other hand was his contribution to monetary economics.

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6 Modelling Hobson's Underconsumption Theory

Michael Schneider

I INTRODUCTION

John Atkinson Hobson must be included in the list of leading exponents of the underconsumption theory, which 'attribute[s] the failure of the total output of an economy to be sold at its cost of production (including normal profit) to too low a ratio of consumption to output' (Schneider, 1987, volume 4, p. 741). Like other exponents of the theory, such as Lauderdale, Malthus, Sismondi and Rodbertus, Hobson nowhere attempted to present his underconsumption theory in a formal manner, and this has undoubtedly contributed to his theoretical achievement being generally underestimated. Over the past thirty years several economists have attempted to represent Malthus's underconsumptionist ideas in the form of a model (see Dubey 1962; Eagly 1976; Eltis 1980, 1984; Costabile and Rowthorn 1985). The object of this paper is to perform the same service for Hobson. Section II of the paper gives a brief account of the underconsumption theory as set out by Hobson, Sections III and IV restate this theory in the form of models which are compared and contrasted with the Harrod and Domar growth models respectively, and Section V briefly assesses the relevance of Hobson's underconsumption theory to current macroeconomic problems.

II HOBSON'S UNDERCONSUMPTION THEORY

Jointly with A.F. Mummery, Hobson reacted to the depression in trade in the 1880s by writing *The Physiology of Industry* (1889), which put forward an underconsumption theory, and which may have been the first work by English writers actually to use the term 'under-consumption'.¹ Suggesting that it is reasonable to assume at any one time 'a stable condition of the manufacturing arts' (*Physiology of Industry*, repr. 1956, p. 24), and implicitly assuming fixed coefficients of production, with no possibility therefore of substitution between capital and other factors of production. Mummery and Hobson argued that there must be a fixed relation between the output of

consumer goods and the quantity of capital (circulating as well as fixed) required for its production. It followed that although an increase in consumption immediately reduces the level of circulating capital through its effect on stocks, an expectation on the part of capitalists that this increased level of consumption would be sustained would induce them both to replace this circulating capital and to produce the additional fixed capital rendered necessary by the increased level of consumption. A decrease in consumption, on the other hand, would reduce the quantity of capital which could be usefully employed.

Mummery and Hobson regarded any capital in excess of the quantity which could be usefully employed as 'nominal' rather than 'real', and saving in excess of that required for investment in real capital as 'nominal' saving. They concluded that while an increase in saving entailed a *decrease* in *present* consumption, this additional saving could only be converted into real capital by an *increase* in *future* consumption. Since such an increase might not take place, however, Mummery and Hobson considered themselves 'entitled to affirm the theoretic possibility of *general over-supply*' (1956, p. 54). They argued further that since 'the profits which form the money incomes of all capitalists concerned in production, the wages of all the labourers concerned, and the rent of all the natural agents required, are, in a regular condition of commerce, paid out of the prices paid by consumers' (1956, p. 71), a decrease in consumption would lead to a 'general reduction in the rates of incomes' (1956, p. 96), or in other words to a general depression in trade. From this line of argument Mummery and Hobson drew the policy conclusion that 'where Under-consumption exists, Savings should be taxed' (1956, p. 205).

The idea of fixed relations between intermediate and final goods, an idea which is described by Mummery and Hobson as 'the *a priori* principle embodied in the law of quantitative relation' (1956, p. 45), dominates chapter II of *The Physiology of Industry*, which contains the core of Mummery's and Hobson's theory. In this chapter Mummery and Hobson argue that 'the different portions of . . . capital which function at the various stages in the process of production stand in a definite quantitative relation to the amount of future consumption' (1956, p. 35); that since savings is the fund from which capital is drawn, 'if people wish to save more now they must consent to spend more in the future' (1956, p. 37); and that 'an indefinite increase of effective saving and of capital is impossible, unless a corresponding increase in immediately future consumption takes place' (1956, p. 45). They conclude that '[i]n this chapter it has been shown that an exact quantitative relation must exist between the amount of useful capital and the rate of consumption' (1956, pp. 54–55). In chapter IV

Mummery and Hobson refer again to ‘the existence of a distinct Quantitative Relation between the rate of Present Production and the rate of immediately Future Consumption’ (1956, pp. 116–17), and to ‘the proper relation between production and consumption’ (1956, p. 117). This emphasis on fixed quantitative relations, which recurs in Hobson’s later works, suggests it is not unreasonable to suppose that Hobson’s ideas may usefully be expressed by means of a formal model.

Hobson’s adoption of ‘the law of quantitative relation’ between ‘useful capital and the rate of consumption’ probably owed more to Mummery’s practical business experience than to intellectual predecessors such as Malthus and Sismondi. It is true that Malthus drew very similar inferences from what he called ‘the doctrine of proportions’ (See Pullen, 1982). He wrote in the second edition of his *Principles of Political Economy* for example:

Lord Lauderdale appears to have gone as much too far in deprecating accumulation, as some other writers in recommending it. This tendency to extremes is one of the great sources of error in political economy, where so much depends on proportions. (1964, p. 314, fn. [the last six words did not appear in the first edition])

Early on in the *Principles* Malthus was more explicit, stating that the proper rate of accumulation depended on both the power to produce and the will to consume, though he expressed some doubt as to whether this proper rate could be discovered:

The two extremes are obvious; and it follows that there must be some intermediate point, though the resources of political economy may not be able to ascertain it, where, taking into consideration both the power to produce and the will to consume the encouragement to the increase of wealth is the greatest. (Malthus 1964, p. 7)

Hobson, however, made no reference to any such philosophical theory as ‘the doctrine of proportions’, and was probably not indebted to Malthus for this aspect of his underconsumption theory.

The key chapter II of *The Physiology of Industry* is entitled in the text (though curiously not in the table of contents) ‘The balance of production and consumption’, a title which echoes that of one of Sismondi’s articles. ‘Sur la balance des consommations avec les productions’. However, there does not seem to be any evidence that either Mummery or Hobson was familiar with Sismondi’s work at that time, and Hobson was thus probably

not intellectually indebted to Sismondi either, though Allett (1981, p. 99) implies that Hobson at some stage became aware of Sismondi's work.²

In *The Physiology of Industry* Mummery and Hobson attributed underconsumption to the forces of competition. Spurred on by the hope of ousting competitors, individual capitalists bring into existence a total quantity of capital greater than that required to satisfy the total demand for consumption goods. In Hobson's subsequent restatements of the theory, which made him the most influential twentieth century underconsumptionist, underconsumption was instead attributed mainly to inequality in the distribution of income. For example, in *The Industrial System* (first edition 1909, second edition 1910) Hobson stated that '[t]hough we fear inductive evidence upon such a point is not available, it will hardly be disputed that the proportion of saving is generally in direct ratio to the size of incomes, the richest saving the largest percentage of their income, the poorest the smallest' (1969, p. 295); by the time Hobson wrote *The Economics of Unemployment* (1922) some 'inductive evidence' had become available, being presented by Hobson in the form of a table showing the average ratio of family spending to income increasing from approximately 0.6 for families on incomes of over £5000 to 1.0 for families on incomes of under £52. This difference in spending behaviour Hobson attributed to the lack of a desire to consume on the part of those who receive what he called 'unearned income' (income unrelated to effort), an argument which appeared in works from *The Problem of the Unemployed* (1896) onward. From this he drew the policy conclusion that underconsumption should be remedied by a redistribution of income from those who receive unearned income to those who are paid wages.

In *The Industrial System* Hobson came to the general conclusion that since the state of technology at any one time can be taken as given, '[t]here exists at the present moment a right proportion between saving and spending in the income of the industrial community, yielding the maximum rate of consumption over such a period of time as is open by reasonable foresight to capitalist investment' (1969, p. 55). The aim of the models set out in Sections III and IV of this paper is to show that Hobson could have gone on to work out what 'the right proportion between saving and spending' was. Before we proceed to those models, however, we need to note the difference between Hobson's interpretation of the concept of 'saving' and that of Keynes.

Mummery and Hobson explicitly stated that saving 'signifies not only abstention from consumption, but [also] application as a further means of production' (1956, p. 47). This view was repeated by Hobson in *The*

Industrial System in his statement that ‘saving means paying . . . capital and labour to produce additional productive goods’ (1969, p. 51), though with the contradictory qualification that in commercial depressions ‘abnormal hoarding may sometimes play a critical part’ (1969, p. 50 fn.). He added, however, that to suppose that abnormal hoarding might account for as much as one-half of an increase in saving would be ‘an excessive estimate’ (1969, p. 302). This view of saving makes it clear that Hobson’s underconsumption theory differs fundamentally from Keynes’s explanation of unemployment in terms of a deficiency of aggregate demand. The difference was pointed out by Keynes himself in the penultimate chapter of the *General Theory*. While commenting favourably on the criticism in *The Physiology of Industry* of the unlimited support of saving by the classical political economists, and stating that in that work Hobson put ‘one half of the matter . . . with absolute precision’ (Keynes, 1936, p. 368), Keynes contended nonetheless that the argument was deficient in:

supposing that it is a case of the excessive saving causing the *actual* accumulation of capital, which is, in fact, a secondary evil which only occurs through mistakes of foresight; whereas the primary evil is a propensity to save in conditions of full employment more than the equivalent of the capital which is required, thus preventing full employment except when there is a mistake of foresight. (1936, pp. 367–8)

Unlike Keynes, Hobson did not break away from the classical identification of saving with investment. This did not prevent him, however, from developing a theory of economic growth comparable with, though in one respect fundamentally different from, the Harrod and Domar growth models. In particular, a parallel can be drawn between Harrod’s concept of a warranted rate of growth and Hobson’s idea that there is an optimum rate of saving, the latter being represented in our model by the concept of a ‘warranted saving-consumption ratio’.

A resemblance between Hobson’s underconsumption theory and the Harrod and Domar growth models was first noted by Domar himself, and then by Joan Robinson (1949) in a review of Harrod’s *Towards a Dynamic Economics*. Domar saw Hobson, rather than Keynes, as a predecessor who recognised the significance of investment’s capacity-creating effect (labelled by Domar the ‘ σ ’ effect). This can be seen from the following passage:

Keynes analyzed what happens when savings (of the previous period) are not invested. The answer was – unemployment, but the statement of the

problem in this form might easily give the erroneous impression that if savings were invested, full employment would be assured. Hobson, on the other hand, went a step further and stated the problem in this form: suppose savings are invested. Will the new plants be able to dispose of all their products? Such a statement of the problem was not at all, as Keynes thought, a mistake. It was a statement of a different, and possibly also a deeper problem. Hobson was fully armed with the σ effect of investment, and he saw that it could be answered only by growth. (1947, p. 52)

No doubt similar considerations led Joan Robinson to comment that 'Mr Harrod's analysis provides the missing link between Keynes and Hobson' (1949, p. 79). These remarks show some appreciation of the contribution made by Hobson to macroeconomics analysis. However, they fail to indicate the full extent of his contribution. In what follows we shall attempt to remedy this deficiency, by setting out in turn the relationship between Hobson's analysis on the one hand, and the Harrod and Domar growth models on the other (compare Backhouse, 1990).

III A HARROD-TYPE MODEL OF HOBSON'S UNDERCONSUMPTION THEORY

The Harrod growth model, which we take first, is indeed one way of extending Keynes's short-run analysis to cover a period long enough for investment to have the capacity-creating effects with which Hobson was concerned. However, Hobson did far more than merely provide an element of Harrod's analysis of economic growth. His underconsumption theory in fact offers an alternative to Harrod's growth model. To see how this is so, we shall need first to set out the basic features of Harrod's growth model.

Those elements of Harrod's growth model which are relevant in this context can be summarised by means of the first two of his so-called 'fundamental equations', which deal respectively with actual and warranted rates of growth. The first equation is an *ex post* identity which can be formulated as stating that the rate of growth of income $(Y_2 - Y_1)/Y_1$ multiplied by the *actual* marginal capital-output ratio $(K_2 - K_1)/(Y_2 - Y_1)$ must equal the saving ration S_1/Y_1 , where Y_1 and S_1 represent respectively the flows of income/output and saving during period 1, and K_1 represents the *actual* stock of fixed and circulating capital available *at the beginning of* period 1. Given that *ex post* investment is identically equal to saving, this equation can be derived as follows:

$$\begin{aligned} [(Y^2 - Y^1)/Y^1][(K_2 - K_1)/(Y_2 - Y_1)] &\equiv (K_2 - K^1)/Y^1 \\ &\equiv I^1/Y^1 \\ &\equiv S^1/Y^1 \end{aligned}$$

where I^1 represents the *actual* flow of net investment during period 1, and where a 'period' is defined as the average length of time required for investment activity to result in an addition to capital stock (we shall adopt this definition for the remainder of the paper; this period's length might be two or three years). Alternatively, using Harrod's symbols:

$$G.C \equiv s \quad (1)$$

where G is the rate of growth of output between (say) period 1 and period 2; C is the *actual* addition to the stock of fixed and circulating capital between the beginning of period 1 and the beginning of period 2, divided by the increase in the flow of goods produced as between those two periods; and s is the ratio of saving to income in period 1.

Harrod's second equation is the identity which defines his concept of a 'warranted rate of growth'. It can be formulated as follows:

$$[(Y^2 - Y^1)]_w [(K_2^* - K_1)/(Y_2 - Y_1)] \equiv S_1/Y_1$$

where K_2^* is the level of capital stock desired by entrepreneurs at the beginning of period 2, and $[(Y_2 - Y_1)/Y_1]_w$ is the rate of growth of income which is 'warranted' in the sense that given S_1/Y_1 it makes entrepreneurs 'satisfied' with the level of capital stock existing at the beginning of period 2 (that is, satisfied in the sense that all the capital stock existing at the beginning of period 2 will be utilised during period 2). Or, putting it more simply:

$$G_w.C^* \equiv s \quad (2)$$

where G_w is the warranted rate of growth, and C^* is the *desired* marginal capital-output ratio.

From equations (1) and (2) Harrod drew the conclusion that for any given s , if the actual rate of growth of output equals the warranted rate ($G = G_w$) an economy will be characterised by steady advance, or dynamic equilibrium, a state of affairs subsequently labelled 'steady-state growth'. Hahn and Matthews define this concept by stating that in steady-state growth 'the rate of growth of all variables remains constant over time' (1964, p. 781).

By contrast, if the actual rate of growth is less than the warranted rate ($G < G_w$), the *actual* addition to capital stock must exceed what is *desired* ($C > C^*$); in other words there will be idle capacity. This in turn will drive down the rate of growth of output, causing it to be lower than G , which by assumption is itself lower than G_w .

In an economy in which the capital stock existing at the beginning of period 1 is fully utilised, the desired marginal capital–output ratio will be determined by the state of technology, and planned net investment in period 1 will be determined according to the acceleration principle, which can be formulated as stating that:

$$K_2^* - K_1^* = C_r(Y_2^e - Y_1)$$

Alternatively:

$$I_1^* = C_r(Y_2^e - Y_1) \quad (3)$$

where Y_2^e represents the period 2 expected level of output (for which entrepreneurs desire to have sufficient capital stock at the beginning of the period); the desired marginal capital–output ratio coincides with that required by the state of technology (C_r); and I_1^* is planned net investment in period 1. Harrod in fact made explicit reference to the fact that the acceleration principle is represented in his growth model by the symbol C_r , which he used in his second fundamental equation in place of our C^* . Indeed, he went further, seeing his model as involving ‘a marriage of the “acceleration principle” and the “multiplier” theory’ (Harrod, 1939, p. 14), the latter being represented by the reciprocal of the term ‘ s ’ in his equations. So interpreted, the Harrod growth model equates the average propensity to save (S/Y) and the multiplier-determining marginal propensity to save, thereby ruling out any autonomous consumption. It follows that if we abstract from the government and foreign sectors of the economy, and assume ‘ s ’ to be constant, in Harrod’s model the sole source of growth in demand is an increase in investment demand. In this respect the Harrod growth model is diametrically opposed to Hobson’s underconsumption theory, and in so far as it is used to explain low rates of growth it might by analogy be labelled an ‘underinvestment’ theory.

A pair of equations analogous with equations (1) and (2) can be derived to represent Hobson’s underconsumption theory. The first is the *ex post* identity that the rate of growth of consumption $(C_2 - C_1)/C_1$, multiplied by the *actual* marginal capital–consumption ratio $(K_2 - K_1)/(C_2 - C_1)$, equals

the saving–consumption ratio S_1/C_1 . This equation can be derived as follows:

$$\begin{aligned} [(C_2 - C_1)/C_1][(K_2 - K_1)/(C_2 - C_1)] &\equiv (K_2 - K_1)/C_1 \\ &\equiv I_1/C_1 \\ &\equiv S_1/C_1 \end{aligned}$$

Or, in simpler form:

$$g.c \equiv h \quad (4)$$

where g is the rate of growth of consumption between (say) period 1 and period 2; c is the *actual* addition to the stock of fixed and circulating capital between the beginning of period 1 and the beginning of period 2, divided by the increase in the flow of goods consumed as between those two periods; and h is the Hobsonian saving–consumption ratio.

The second equation in our Hobson model is the following identity, which defines a concept we shall call the ‘warranted saving–consumption ratio’:

$$[(C_2 - C_1)/C_1][(K_2^* - K_1)/(C_2 - C_1)] (S_1/C_1)_w$$

where $(S_1/C_1)_w$ is the saving–consumption ratio which is ‘warranted’ in the sense that it makes entrepreneurs ‘satisfied’ with the level of capital stock existing at the beginning of period 2 (that is, satisfied in the sense that all the capital stock existing at the beginning of period 2 will be utilised during period 2). Or, in simpler form:

$$g.c_r \equiv h_w \quad (5)$$

where c_r is the required marginal capital–consumption ratio, and h_w is the Hobsonian warranted saving–consumption ratio. Hobson argued that the ‘great bulk of capital fructifies in an early increase of commodities, and so the saving embodied in it is only socially useful on condition that an early increase of consumption proportionate to the increased saving takes place . . . this implies the maintenance of a definite proportion between the aggregate of saving and of spending over a term of years’ (1969, p. 53); ‘spending’ refers here to consumption, and h_w can be taken as giving expression to this ‘definite proportion’.

From equations (4) and (5) we can draw the Hobsonian conclusion that

the condition for steady-state growth is that the actual saving–consumption ratio be equal to the warranted ratio ($h = h_w$). By contrast, if the actual saving–consumption ratio is greater than the warranted ratio ($h > h_w$), the *actual* addition to capital stock must exceed what is required ($c > c_r$), because a rise in the saving–consumption ratio entails a fall in the other term on the left hand side of equation (4), namely the rate of growth of consumption (g). In other words, if the actual saving–consumption ratio is greater than the warranted ratio, there will be idle capacity, which in turn will drive down the rate of growth of output (and hence employment). In this model ‘underconsumption’ is represented by an actual saving–consumption ratio which is greater than the warranted ratio.

In an economy in which existing capital stock is fully utilised in period 1 (that is, $K_1 = K_1^*$), the required marginal capital–consumption ratio (c_r) will be determined by *two* factors, namely the required marginal capital–output ratio (C_r) and the rate of growth of consumption (g). To see why this must be so, and thus why our Hobson model is necessarily more complex than the Harrod model, let us take the simplest case by considering an economy characterised by a *constant* positive rate of growth of consumption (g') which is expected to continue in the future. We can derive the required marginal capital–consumption ratio for such an economy as follows.

Since by assumption the required capital–output ratio is constant, the required marginal capital–output ratio (C_r) will equal the required average capital–output ratio. Hence:

$$\begin{aligned} C_r &= K_1^*/Y_1 \\ 1/C_r &= Y_1/K_1^* \\ &= (C_1 + I_1)/K_1^* \\ &= C_1/K_1^* + I_1/K_1^* \end{aligned}$$

Given the assumption that there is a fixed technique of production, to cater for consumption growing at the rate g' the capital stock also will have to grow at the rate g' . In symbols:

$$I_1^*/K_1 = I_1^*/K_1^* = g' \tag{6}$$

where I_1^* is planned net investment in period 1. Hence:

$$1/C_r = C_1/K_1^* + I_1^*/K_1^*$$

From equation (6):

$$1/C_r = C_1/K_1^* + g'$$

Hence:

$$\begin{aligned} C_1/K_1^* &= 1/C_r - g' \\ &= (1 - g'C_r)/C_r \\ K_1^*/C_1 &= C_r/(1 - g'C_r) \end{aligned} \quad (7)$$

Equation (7) expresses in symbols the concept referred to in the latter part of Hobson's proposition that 'the right amount of saving out of a given income, i.e. the right proportion of saving, will be determined by the amount of new capital economically needed to furnish a given increase in consumption goods' (1969, p. 54).

It is clear from equation (7) that the desired capital-consumption ratio depends on the rate of growth of consumption. If the steady-state rate of growth of consumption (g'), were zero, and planned net investment were hence zero, equation (7) not surprisingly tells us that the required capital-consumption ratio would be given by C_r , the required capital-output ratio. But since in the economy under consideration g' is positive, the ratio of planned capital stock to consumption must be greater than C_r , so as to allow for investment as well. As equation (7) indicates, the greater the steady-state rate of growth of consumption, the greater will be the ratio between planned capital stock and consumption.

Since, as already noted, the required *average* capital-consumption ratio in our economy equals the required *marginal* capital-consumption ratio, the left-hand side of the equation (7) can be substituted for as follows:

$$(K_2^* - K_1^*)/(C2^e - C1) = C_r/(1 - g'C_r) \quad (8)$$

Thus in such an economy the required marginal capital-consumption ratio, the c_r of equation (5) will equal $C_r/(1 - g'C_r)$. Consequently, from equation (5), the warranted saving-consumption ratio will equal $g'C_r/(1 - g'C_r)$. We have thus arrived at a precise formulation of the optimum ratio between saving and consumption, a formulation which gives expression to the key element in Hobson's underconsumption theory. Indeed, this formula or some variant of it can also be used to give expression to the key element in other underconsumption theories, such as those of Malthus and Sismondi.

Let us now drop the assumption of steady-state growth, and examine what happens if the actual saving-consumption ratio rises above the war-

ranted saving–consumption ratio. Hobson himself provided the following example of the path likely to be followed by such an economy:

Take the case of an economic community of a progressive type with an income of twenty units, spending seventeen, and saving three for regular investment in new productive capital, which finds full, regular employment in meeting the growing demand for commodities. Now suppose, owing to some change in distribution of incomes, some return to simplicity of living or some increased appreciation of future as compared with present satisfactions, spending is reduced to sixteen, saving raised to four, what must happen? The increased savings cannot take shape in productive capital for, as the increase of current and prospective consumption of commodities is reduced, a smaller amount of new productive capital can be put into operation, and any attempt to put into operation as much as before must speedily be checked by the obvious glut. . . .

Directly a shrinkage in demand for commodities and new productive capital occurs, the lessened rate of production begins to reduce all incomes, including those of the saving class. Aggregate income no longer stands at twenty, but falls to eighteen, or even to seventeen. The saving class who were trying to save four out of a total of twenty, are not willing to save four or even three out of an aggregate income reduced to eighteen or seventeen. Their permanent standard of comfort stands in the way. (1969, pp. 302–3)

To formalise this example, we could adopt an aggregate consumption function of the form $C = a + bY$, with ‘some change in the distribution of incomes, some return to simplicity of living or some increased appreciation of future as compared with present satisfactions’ being represented by a decrease in ‘ a ’. Then the aggregate consumption functions before and after (say) a redistribution of income in the direction of greater inequality could for example be $C = 7 + 0.5Y$, and $C = 6 + 0.5Y$ (assuming income falls only to 18, and saving only to 3).

In order to make the analysis of inequality between actual and warranted saving–consumption ratios more general, let us suppose that in (say) period 2, following steady-state growth in the past, the rate of growth of consumption in an economy falls below g' to g'' , perhaps because of a redistribution of income in the direction of greater inequality; that is to say, the actual saving–consumption ratio rises above the warranted saving–consumption ratio. Several possibilities arise, depending on the level of consumption expected in period 3. At one extreme (say case 1), capitalists may expect that while the rate of growth of consumption has fallen below g' in period

2, it will rise so far above g' in period 3 as to return consumption to its original growth path. Alternatively (case 2), they may expect that the rate of growth of consumption will return to g' in period 3 and remain at that level thereafter. Alternatively again (case 3), they may expect that the rate of growth of consumption will remain at g'' in period 3 and in subsequent periods. Each of these cases has different implications with respect to the rate of growth of the economy as a whole.

To illustrate the alternative paths which an economy might follow when the actual saving–consumption ratio rises above the warranted level, we use an example in which the aggregate consumption function takes the form $C = a + bY$. The figures in our example have been chosen not on the grounds of realism, but for ease of calculation, including avoidance of negative net investment. Capital stock at the beginning of period 1 is 88 000, the marginal and average capital–output ratio is 4:3, and capacity output (Y^*) in period 1 is hence 66 000. The economy is assumed to be initially characterised by full capacity utilisation, so that in period 1 income too is 66 000, with autonomous consumption (a) being assumed to be 11 000. The economy is also assumed to be initially characterised by steady-state growth, and the rate of growth of consumption being 0.25, the warranted saving–consumption ratio ($g'C_r/(1 - g'C_r)$) is hence 1:2. From this information we can deduce that in period 1 saving and net investment will be 22 000, total consumption 44 000, and induced consumption 33 000, the marginal propensity to consume (b) thus being 1:2. The steady-state growth path for this economy, which is set out in Table 6.1 as a benchmark, yields for period 2 an initial capital stock of 110 000, and values for capacity output, autonomous consumption, induced consumption, net investment and income of 82 500, 13 750, 41 250, 27 500 and 82 500 respectively.

Table 6.1

	<i>Initial K</i>	<i>Y*</i>	<i>A</i>	<i>bY</i>	<i>g</i>	<i>I</i>	<i>Y</i>	<i>b</i>
1	88 000	66 000	11 000	33 000	0.25	22 000	66 000	0.5
2	110 000	82 500	13 750	41 250	0.25	27 250	82 500	0.5
3	137 500	103 125	17 187.5	51 562.5	0.25	34 375	103 125	0.5

For period 3 the initial capital stock is 137 500, and in the steady-state growth case capacity output, autonomous consumption, induced consumption, net investment and income are 103 125, 17 187.5, 51 562.5, 34 375 and 103 125 respectively.

Suppose now instead that the rate of growth of both autonomous and induced consumption between period 1 and period 2 is not 0.25 (i.e. g') but 0.2 (i.e. g''), yielding levels of autonomous and induced consumption in period 2 of 13 200 and 39 600 respectively. For net investment of 27 500 still to take place in period 2 (case 1 above, set out in Table 6.2), capitalists must desire a capital stock at the beginning of period 3 of 137 500.

Table 6.2

	<i>Initial K</i>	<i>Y*</i>	<i>A</i>	<i>bY</i>	<i>g</i>	<i>I</i>	<i>Y</i>	<i>b</i>
1	88 000	66 000	11 000	33 000	0.25	22 000	66 000	0.5
2	110 000	82 500	13 200	39 600	0.2	27 500	80 300	0.49
3	137 500	103 125	17 187.5	51 562.5	0.25	34 375	103 125	0.5

They will only do so if they expect consumption in period 3 to be 137 500 divided by the desired capital-consumption ratio [$C_r/(1 - g' C_c) = 2$], namely 68 750. In this case income in period 2 will be 80 300 (2200 short of capacity output, due to the shortfall in consumption), with the marginal propensity to consume falling below 1:2 because investment has grown more rapidly than consumption. Total consumption in period 2 being 52 800, the required rate of growth of consumption between period 2 and period 3 is just over 0.3. If consumption is expected thereafter to grow at its long term rate of 0.25, net investment and income in period 3 will be 34 375 and 103 125 respectively, and the economy will be back on its original steady-state growth path; only in period 2 will there have been excess capacity.

Alternatively (case 2 above, set out in Table 6.3), suppose that capitalists

Table 6.3

	<i>Initial K</i>	<i>Y*</i>	<i>A</i>	<i>bY</i>	<i>g</i>	<i>I</i>	<i>Y</i>	<i>b</i>
1	88 000	66 000	11 000	33 000	0.25	22 000	66 000	0.5
2	110 000	82 500	13 200	39 600	0.2	22 000	74 800	0.53
3	132 500	99 000	16 500	49 500	0.25	33 000	99 000	0.5
4	165 000	123 750	20 625	61 875	0.25	41 250	123 750	0.5
5	206 250		25 781	77 344				

expect that the growth rate of consumption will simply revert to its long-term figure of 0.25 from period 3 onward.

In this case expected consumption in period 3 will be 66 000, requiring a capital stock at the beginning of period 3 of 132 000. This causes net investment and income in period 2 to be 22 000 and 74 800 (7700 short of capacity output, due to a shortfall of 2200 in consumption and 5500 in net investment). With induced consumption in period 2 being 39 600, the marginal propensity to consume will rise above 1:2, as a result of consumption increasing faster than investment. In turn, expected consumption in period 4 will be 82 500, requiring a capital stock at the beginning of period 4 of 165 000, which leads to net investment and income in period 3 of 33 000 and 99 000 respectively. Induced consumption in period 3 being 49 500, the marginal propensity to consume returns to its original level of 1:2. In this case the economy will follow a steady-state growth path parallel with the original one but lower; again, only in period 2 will there have been excess capacity.

Alternatively again (case 3 above, set out in Table 6.4), if capitalists expect the rate of growth of consumption to remain at 0.2 from period 2 on, the desired capital-consumption ratio will fall from 2 to 20:11.

Table 6.4

	<i>Initial K</i>	<i>Y*</i>	<i>A</i>	<i>bY</i>	<i>g</i>	<i>I</i>	<i>Y</i>	<i>b</i>
1	88 000	66 000	11 000	33 000	0.25	22 000	66 000	0.5
2	110 000	82 500	13 200	39 600	0.2	5 200	58 000	0.68
3	115 500	86 400	15 840	47 520	0.2	23 040	86 400	0.55
4	138 240	103 680	19 008	57 024	0.2	27 648	103 680	0.55
5	165 888		22 809.6	68 428.8				

Since expected consumption in period 3 is 66 360, the desired capital stock at the beginning of period 3 will be only 115 200, causing net investment and income in period 2 to be only 5200 and 58 000 (24 500 short of capacity output due to a shortfall of 2200 in consumption and 22 300 in net investment). Induced consumption in period 2 being 39 600, the marginal propensity to consume rises above 1:2, because as in the previous case consumption has increased more rapidly than investment. In turn, expected consumption in period 4 will be 76 032, requiring a capital stock at the

beginning of period 4 of 138 240. This leads to net investment and income in period 3 of 23 040 and 86 400 respectively. Induced consumption in period 3 being 47 520, the marginal propensity to consume is 11:20, the steady-state growth figure where the rate of growth is 0.2. Although in this case too there will have been excess capacity only in period 2, the economy will follow a steady-state growth path which is not only lower than the original one but also has a shallower slope. These three cases taken together provide an illustration of Mummery's and Hobson's contention that 'the capital of a community cannot be advantageously increased without a subsequent increase in consumption of commodities' (1956, p. 37).

A partial anticipation of the preceding section of this paper is to be found in Coppock (1953). Coppock put forward the follow rudimentary model:

If real capital is denoted by K and real consumption by C , Hobson postulated a ratio of the following type: $K = \beta(1 + e)C$, where $e.C$ is the value of distant future consumption. From this ratio the permissible maximum amount of "socially useful" investment in a period may be derived, viz., $I = \beta(1 + e)\Delta C$. (1953, p. 9)

This model is deficient in that it fails either to explain what determines β , or to recognise that β depends on e , but it otherwise points in the same direction as our Harrod-type model of Hobson's underconsumption theory. This can be seen by relating it to our example. In the steady-state growth case where the rate of growth of consumption equals 0.25, Coppock's period 2 ' ΔC ' is 11 000, his ' e ' is 5:4, and using our model his ' β ' can be shown to be 8:9. This yields a figure for period 2 ' I ' of 22 000. If the steady-state rate of growth of consumption is instead 0.2, his ' e ' is 6:5, and using our model his ' β ' can be shown to be 100:121, yielding a figure for period 3 ' I ' of 23 040. These are the same figures as those which we obtained using the Harrod-type model of Hobson's underconsumption theory.

In both *The Physiology of Industry* and *The Industrial System* Hobson used his underconsumption theory to explain the depression phase of a trade cycle. In *The Economics of Unemployment* (1922, however, Hobson used it to explain secular stagnation, as the following passage indicates:

Why does consumption fail to keep pace with increased powers of production? Or, conversely, why do the powers of production increase faster than the rate of consumption?

The answer is found in two related phenomena: first, the conservative character of the arts of consumption, or standards of living, as compared

with the modern arts of production; second, the ways in which the current distribution of income confirms this conservatism of consumption.

In primitive societies the standards or methods of work are almost as conservative as those of consumption. Of civilised societies, and especially of modern industrial nations, this is no longer true. Invention and business initiative, enlisted in the cause of quick profiteering, transforms (sic) with great rapidity the arts of industry, raising this productivity by leaps and bounds. Though modern man, in his capacity of consumer, is far more progressive than his ancestors, his power of taking on new economic needs and of raising rapidly the quantity, variety and quality of his consumption, is limited by a narrowness of imagination and a servitude of habit which are far less dominant in production (1922), pp. 32–3).

This aspect of Hobson's thinking, which perhaps because of the increasing influence of advertising was not repeated in those of his works which were published from 1929 onward,³ can also be illustrated by the example which we have already used. A variant of case 3 could show the path followed by an economy in which the rate of growth of consumption falls not just once, but continuously.

IV A DOMAR-TYPE MODEL OF HOBSON'S UNDERCONSUMPTION THEORY

We turn now to the Domar growth model, which unlike the Harrod model does not incorporate the acceleration principle; investment is instead treated as an exogenous variable. Furthermore, the marginal propensity to save is explicitly assumed to be equal to the average propensity to save (see Domar, 1964, p. 140); as we have already noted, this rules out any autonomous consumption. The condition for sustained capacity utilisation of capital can accordingly be set out as follows (the left-hand side represents the increase in total demand for output, and the right-hand side the increase in full capacity output):

$$(I_2 - I_1)/\alpha = \sigma I_1 \quad (9)$$

where α is the marginal (and average) propensity to save, and σ is the marginal output–investment ratio. By rearranging terms we can derive the rate of growth of investment required for sustained capacity utilisation, as follows:

$$(I_2 - I_1)/I_1 = \sigma\alpha \tag{10}$$

The condition for sustained capacity utilisation is thus that investment grow at the rate $\sigma\alpha$.

A comparable formula can be derived to represent Hobson's underconsumption theory. In Hobson's theory there is no autonomous investment, and additional demand can therefore be initiated only by an increase in consumption. As we have already seen, in an economy in which potential income is being fully realised, and in which consumption is growing at a constant rate g' , the desired capital-consumption ratio will be $C_r/(1 - g'C_r)$, or, using Domar's ' σ ', $1/(\sigma - g')$. To maintain this ratio, net investment also will have to grow at the rate g' . Thus given a growth rate of consumption in period 2 of g' and an expectation on the part of entrepreneurs that the growth rate of consumption will again be g' in period 3, the increase in total demand for output in period 2 (compared with period 1) will be $(G'C_1 + g'I_1)$.

On the supply side, the increase in output which the increased capital stock resulting from investment in period 1 makes possible is given in terms of Domar's symbols by σI_1 . Thus the condition for sustained full realisation of potential income is:

$$g'I/C_1 + g'I_1 = \sigma I_1$$

Rearranging terms:

$$\begin{aligned} (\sigma - g')I_1 &= g'C_1 \\ I_1/C_1 &= g'/(\sigma - g') \end{aligned} \tag{11}$$

Thus we have arrived at the same optimum ratio of investment (or saving) to consumption as in the case of our Hobsonian variant of the Harrod model, albeit by a different route.

Equation (11) can alternatively be expressed as a variant of the acceleration principle, namely:

$$\begin{aligned} I_1/C_1 &= g'C_1/(\sigma - g') \\ &= (C_2^0 - C_1)/(\sigma - g') \end{aligned}$$

where $1/(\sigma - g')$ is the 'acceleration coefficient'. Curiously enough, when J. M. Clark first put forward the acceleration principle (see Clark, 1917) it was not in terms of changes in output, as is the case with most modern versions, but in terms of changes in consumption. His formula for the

demand for new construction was $I(\Delta C/C)$, where I/C represents the marginal capital-output ratio. Now in *The Physiology of Industry* Mummery and Hobson argued that '[t]he plant required to produce any individual commodity by modern methods vastly exceeds in value the individual commodity itself, and we certainly do not over-estimate this difference if we assume that an increase of ten per cent. in the annual consumption of any community would require an increase of fifty per cent in the production of that community during the year of increase' (1956, p. 85). It seems clear that Mummery and Hobson deserve some recognition for their anticipation of the basic principle of the accelerator theory.

The difference between Domar's own model and our variant of it representing Hobson's ideas can be illustrated diagrammatically, using and adapting a diagram first devised by Pilvin (1952). Pilvin illustrated the Domar model by means of a diagram, labelled here Figure 6.1 in which income is plotted on the horizontal axis, and saving and investment on the vertical axis.

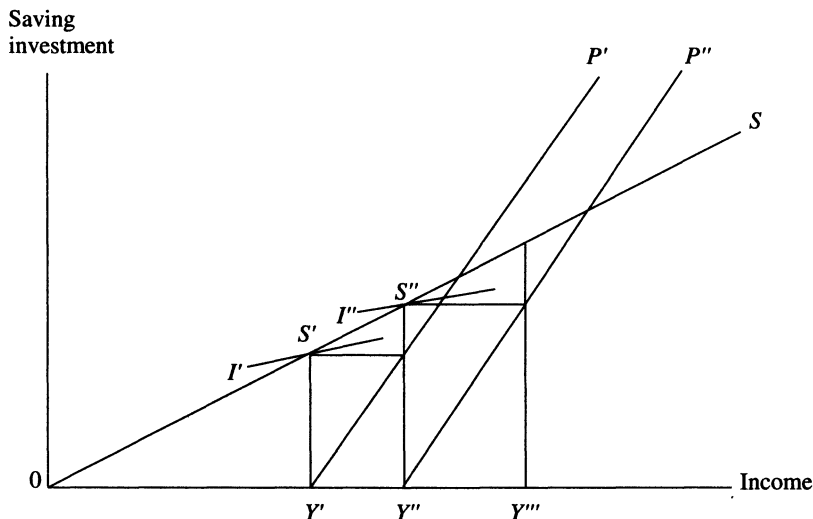


Figure 6.1

The point of intersection S' between a linear saving function (S) passing through the origin and a flatter investment function (I') yields an initial equilibrium level of income Y' . From Y' a linear productivity function (P') is drawn upwards to the right with a slope of $1/\sigma$, showing horizontally the

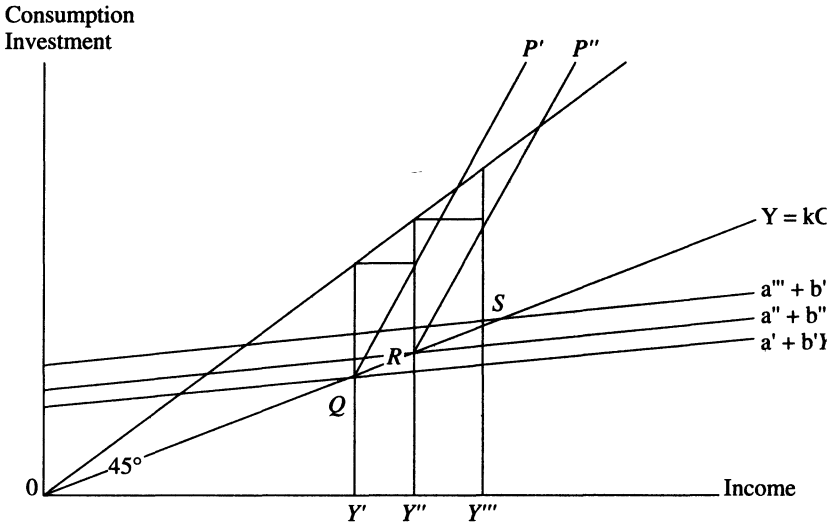


Figure 6.2

additional productive capacity resulting from any given investment measured vertically. Given that investment in period 1 is equal to $Y'S'$, the P' line can be used to read off on the horizontal axis the resulting new level of capacity output Y'' . For Y'' also to be an equilibrium level of income, a new investment function (I'') will have to cut the saving function at a point S'' directly above Y'' . Assuming that Y'' is achieved, the process can be repeated by drawing from Y'' a P'' line parallel to the P' line, yielding Y''' , and so on.

This diagram can be adapted to illustrate our Domar model of Hobson's underconsumption theory, as is shown in Figure 6.2. Here the horizontal axis is again used to plot income, but by contrast with the previous diagram the vertical axis is used to plot *consumption* and investment. In order to derive this diagram, draw from the origin both a 45-degree line, and an income function shallower than this showing how in the steady-state-growth case income varies with consumption. To indicate that income is here the dependent variable and that we are assuming full capacity utilisation, we label the income line $Y^* = kC$, its slope therefore being measured by the reciprocal of k . Since $k = Y^*/C$, k will equal $\sigma/(\sigma - g)$, as $K^*/C = 1/(\sigma - g)$ and $Y^* = \sigma K^*$. Next plot a consumption function $a' + b'Y$, and label its intersection with the Y^* line Q , and the resulting steady-state-growth level of income on the horizontal axis Y' . Then the vertical distance between Q and the 45-degree line will represent that part of income not accounted for

by consumption, namely net investment (I'). Given that this vertical distance measures I' , if we draw from Q upwards to the right a linear P' function with a slope of $1/\sigma$, showing horizontally the additional capacity output resulting from any given investment measured vertically, we can find from the P' line the new potential level of income Y'' . For Y'' also to be the realised level of income, a new consumption function must cut the Y^* line at the point R vertically above Y'' , this may come about through an increase in either autonomous consumption (as illustrated in the diagram, where $a''' > a'' > a'$, though $b''' = b'' = b'$) or the marginal propensity to consume, or through an increase in both. Should the consumption function in period 2 cut the Y^* line below the point R , the level of income in period 2 will fall short of capacity output. Assuming that Y'' is realised, however, the process can be repeated by drawing from R a P'' line parallel to the P' line, yielding Y''' . For Y''' to be realised, in turn, a new consumption function must cut the Y^* line at the point S vertically above Y''' , and so on.

V CONCLUSION

In *Confessions of an Economic Heretic* Hobson ascribed the London Extension Board's refusal (in 1890, and again in 1892 – see Kadish, 1990, pp. 141–7) to allow him to offer courses in political economy to 'an economic (*sic*) 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' (1976, p. 30). The Professor concerned was Foxwell, who added a note to a letter he wrote advocating refusal which referred to Hobson as 'a man only notorious for a very fallacious attempt to prove that thrift is morally & socially a vice' (quoted by Kadish, 1990, p. 145). Another professor, Edgeworth, in his review of *The Physiology of Industry* noted with an air of astonishment that Mummery and Hobson 'attack Mill's position that saving enriches and spending impoverishes the community along with the individual' (Edgeworth, 1890, p. 194). He added that:

[t]he attempt to unsettle consecrated tenets is not very helpful, unless the public whose attention is solicited, have some security against waste of their time and trouble. It may fairly be required of very paradoxical writers that they should either evince undoubted speculative genius, or extraordinarily wide learning. We do not feel able to offer these guarantees to the reading public. (Edgeworth, 1890, p. 194)

The argument of this paper indicates that both Foxwell and Edgeworth could hardly have been more wrong in their assessment. Hobson's

underconsumption theory raises an important question which is bypassed in conventional Keynesian theory, namely whether failure to achieve sustained capacity utilisation is more often due to a fall in the rate of growth of investment demand or a fall in the rate of growth of consumption demand.

Domar defended his exclusive emphasis on a lack of investment demand by citing Kuznets' evidence that in the long run the average propensity to save is relatively constant (1946, pp. 140–1); and Harrod argued that any changes in the average propensity to save (and therefore in the average propensity to consume) were likely to be small relative to prospective changes in the rate of growth of income. In the 1970s and 1980s, however, savings behaviour was quite unstable; what happened is neatly summarised in the following passage from the June 1988 issue of the OECD *Economic Outlook*:

Once thought of as being among the most predictable of macroeconomic parameters, household savings ratios climbed steeply in the late 1970s and early 1980s. They subsequently fell back in several OECD countries to historically low levels. . . . As private consumption spending accounts for well over half of GDP in the average OECD country, movements in savings ratios have had an important influence on GDP growth. Their fall during the 1980s has helped sustain growth in the face of stable or declining real wages and, in Europe at least, declining employment also. (1988, p. 2)

In the late 1970s many who would be far from regarding themselves as underconsumptionists, including the conservative Prime Minister of Australia, referred to the need for a 'consumption-led recovery' if the economic recession existing at that time were to be brought to an end; and in the 1980s, as the above OECD report indicates, economic growth was 'consumption-led'. The central message of Hobson's underconsumption theory is that even if we restrict ourselves to the demand side of the economy, Keynesian theory is not a sufficient guide to policy-making. If an economy is depressed, or for that matter overheated, it will depend on the exact circumstances as to which component of aggregate demand should be increased or decreased respectively.

Notes

1. The term 'underconsumption' may be of American origin. Backhouse (1987, p. 443) quotes the passage below from *Money and Trade* (*sic*) by the American economist F. A. Walker; referring to unemployed 'labour power' and 'capital power'. Walker wrote as follows:

How can this be? In the absence of any attempt by professional economists to account for the phenomenon, public speakers and the newspapers are driven to answer for themselves the question with which we started. This they generally do by the use of one of two phrases, which seem to be regarded as mutually exclusive. 'Over-production' says one party, 'under-consumption', retorts the other; and those who say over-production ridicule those who allege under-consumption, while the latter retort with equal scorn [1889, p. 118].

The same passage appears on the same page in the 1880 London edition (Macmillan) of *Money in its Relation to Trade and Industry*, which was probably a reprint of the 1879 New York edition (Henry Holt). And the passage implies that at the time of writing the word was already in common use.

2. In private correspondence Allett has pointed out that on page 76 of *The Physiology of Industry* Mummery and Hobson cite a chapter from vol. I of Marx's *Capital* 'which contains two references to Sismondi, one substantial, the other brief, but both of which are relevant, I think, to Hobson's endeavours in *The Physiology*'. Relevant to Hobson's endeavours as these references are, they are not however of such a character as to have served as a source of inspiration. And while some of the other fourteen references to Sismondi in vol. I of *Capital* allude to Sismondi's emphasis on the necessity (from the capitalist's point of view) of commodities being sold, none refers explicitly to Sismondi's underconsumptionist views. On the other hand, as Allett went on to point out, in the first edition of *The Evolution of Modern Capitalism* Hobson cited J. M. Robertson's *The Fallacy of Saving* (1892), pages 38–40 of which are devoted to Sismondi, and in his *Confession* Hobson mingled out Robertson's book for special mention, 'so it may be presumed that he read the book carefully', at some stage.
3. See Allett, 1981, pp. 109–11, for a more detailed discussion of this question.

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7 J.A. Hobson's Macroeconomics: The Last Ten Years (1930–40)*

John King

I

There exists a rare unanimity among authorities on J.A. Hobson, to the effect that his macroeconomic thinking underwent no substantial change in the final decades of his life. Thus D.J. Coppock concludes that, 'though substantially complete in 1910 the analysis of depression was refined in his later exposition' (Coppock 1953, p. 20). John Allett agrees that it was in *The Industrial System* (Hobson 1909) that 'the major aspects of Hobson's conceptual apparatus for analysing underconsumption crises [were] brought to a completion' (Allett 1981, p. 101). The arguments were repeated in Hobson's *The Economics of Unemployment* (1922), *Rationalisation and Unemployment* (1930), and *Property and Improperly* (1937a), but 'no major conceptual innovation took place after 1909' (Allett 1981, p. 101). Mark Blaug expresses some surprise that Hobson ignored the Keynesian revolution in his *Confessions* (Hobson 1938). 'But Hobson was eighty-years-old when he wrote his autobiography and might perhaps be excused for not paying much attention to the latest developments in economic theory' (Blaug 1986, p. 95.)¹ More recently, Peter Clarke has maintained that Hobson's interwar writings added very little to the analysis set out in his previous work: 'His central contentions on over-saving had not significantly changed but when he reiterated them, amid widespread unemployment, he found a more sympathetic response, even among professional economists who had previously accepted a full-employment assumption' (Clarke 1987, p. 666).

In broad outline these claims are, of course, incontrovertible. The main

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features of Hobson's macroeconomics – his underconsumptionism, his analysis of the trade cycle, his hostility to primarily monetary theories of depression, his advocacy of income redistribution as a remedy for unemployment – were all in place by the turn of the century or very shortly thereafter, and Hobson's economic writings thus display an impressive consistency over fully half a century. But this is not the whole story. His later work involves more than a mere recapitulation of these central themes. In the final decade of his life, with which this chapter is concerned, his thinking continued to evolve as he grappled with the new challenges posed by his critics, and by a changing reality.

I shall emphasise three aspects of the development of Hobson's ideas in the 1930s. One is the analysis of the relationship between monopoly power and underconsumption which he undertook in his appraisal of industrial rationalisation. The second is his reaction to the classical – or, more precisely, the Austrian – objection that any tendency to oversaving would automatically be eliminated through a fall in the rate of interest. Finally, Hobson was forced to confront Keynes's criticism that underinvestment, rather than oversaving, represented the fundamental macroeconomic problem. In view of Hobson's longevity and enormous literary output, it would be foolish to claim that he had never anticipated these theoretical innovations in his earlier work. I think it can be shown, however, that on all three questions this unusually vigorous septuagenarian had something new to say.

II

There is a sense in which the assumption of monopoly had always underpinned Hobson's analysis. For one thing, his theory of income distribution hinged on the appropriation of unearned 'surplus' incomes by factor owners who possessed superior bargaining power, and who were chiefly responsible for excessive saving (Hobson 1891, 1900; King 1988, pp. 113–15). For another, he had consistently rejected the orthodox contention that a fall in the price level constituted an effective cure for overproduction. One of the grounds for Hobson's scepticism on this point was precisely the possibility that monopoly power might prevent prices from falling in response to excess supply (Hobson 1922, p. 54).

Before 1930, however, these considerations were peripheral. Hobson dismissed the macroeconomic efficacy of price cuts, even if they did occur, arguing that the 'conservatism of consumption' would restrict the price elasticity of demand and (more importantly) that a declining price level

would only reduce money incomes and thereby intensify a depression (Hobson 1922, p. 55; cf. Mummery and Hobson 1889, pp. 119–23). Moreover, his conception of unequal bargaining advantage was a very diffuse and general one which relied, not on the existence of monopoly or even oligopoly power in any formal sense, but rather on a very wide range of imperfections, stemming from uneven bargaining power and inadequate information. These imperfections, Hobson claimed, existed in almost all markets, including those for primary products, capital, land and – universally – for labour-power. Only ‘a very small proportion of bargains can be referred to as open-faced, two-sided competition in a market where outside prices are so directly operative as to equalise the gain for the individuals who take part as buyers or sellers in the market’ (Hobson 1900, p. 33).

Thus *Rationalisation and Unemployment* marked a significant change in Hobson’s thinking.² Up to 1914 British industry had been substantially more competitive than was the case in Germany or the United States, where amalgamations, trusts and cartels dominated many sectors of the economy. In the 1920s the growth of the ‘rationalisation’ movement began to transform the structure of industry. Although ‘a term of ambiguous meaning’ (Allen 1961, p. 150), rationalisation denoted ‘a consolidation of interests within an industry, or co-operation among groups of manufacturers, for the purpose of removing surplus capacity. For a time rationalisation enjoyed a high repute as a panacea in certain business and official circles, and schemes were introduced into a number of depressed industries as well as into some others’. These included cotton, coal, shipbuilding, wool-combing, tinsplate and iron and steel (*ibid.*, pp. 69, 151). The process was endorsed by the Balfour Committee in 1927, and was defended by many contemporary economists as a more effective means of eliminating excess capacity, and thus achieving lower unit costs, than would have been possible through the spontaneous operation of market forces (*ibid.*, pp. 127, 150, 155; Hannah 1983, pp. 32–9; Elbaum and Lazonick 1986, pp. 44–5, 105–6, 230–4).

A rather different interpretation of rationalisation came from the head of the newly-established Imperial Chemical Industries, Sir Alfred Mond, for whom it represented ‘an attempt to adjust the means of production to the probable means of consumption, and so to regulate prices that, instead of curves rising and falling like the contour of the Alps, there should be a fairly level roadway of prices along which trade and commerce could move’ (Mond 1927, p. 211). In the (expanding) chemical industry, rationalisation offered ‘the great advantage of saving any unnecessary expenditure of capital by duplication and overlapping’ (*ibid.*, p. 214). ‘One of the main reasons behind this tendency is the fact that modern science and modern engineering and the facilities for obtaining capital have today brought into

existence a capacity for the production of goods which, if not regulated in some way, leads to a chaotic form of competition, over-production, and the appearance of those periods of booms and slumps which are equally inimical to the interests of the worker and the consumer' (ibid., pp. 210–11). In other words it cut out price competition, in this way setting 'an example to British industry' as a whole (ibid., p. 215) and paving the way for the international cartels which Mond also favoured (ibid., pp. 222–48; cf. Elbaum and Lazonick 1986, pp. 13, 105).

Rationalisation was most actively pursued in the United States. Similar developments in Germany led socialist theoreticians to postulate a new stage of 'organised capitalism' in which the economic contradictions of its earlier, competitive phase had been successfully overcome (Howard and King 1989, pp. 272–6; cf. Hobson 1934b, pp. 38–9, 47). Would this 'most recent and progressive type of Capitalism', Hobson asked in *Rationalisation and Unemployment*, really involve an increase in real wages, rising employment and a larger share of wages in national income? The evidence from the United States did not favour such an optimistic conclusion: increased monopoly power had suppressed price competition, lowered output, increased the profit share in total income, and reduced employment (Hobson, 1930, pp. 67–8).

Thus Hobson argued that:

there can be no ground for holding that rationalisation as a whole tends to a distribution of income favourable to the workers, either through raising wages or lowering prices. On the contrary, the policy plays in two ways into the hands of Capital: first, by substituting more plant and power for manual labour, and, secondly, by strengthening the Capitalists' power to limit supply and fix selling prices at a level which yields the maximum profits. (Hobson 1930, p. 88)

Hence:

rationalisation is driving home the truth that our malady is one of distribution of income. For it is clear that rationalisation itself is an aggravation of that malady. The increased productivity it exhibits is not merely a "saving of labour" in the several industries. It is a reduction of the part which labour plays as a productive agent in respect of the output and an increase of the parts played by capital and organising ability. This means that the distribution of the product tends to give a larger share as payment to capital and ability, a smaller to labour'. (ibid., p. 73)

These consequences of rationalisation had been only partially offset, Hobson argued, by 'the concealed waste of excessive selling-apparatus' in an attempt to stimulate consumption by 'mind-standardisation' (*ibid.*, pp. 76, 81). In this way the underconsumptionist tendencies which had preceded rationalisation were being intensified by it:

In a word, all the economic evidence tends to show that rationalisation carried with it a net diminution of employment, the substitution of a large proportion of low-skilled for high-skilled workers, and a distribution of the product which increases the proportionate share of Capital, reduces that of Labour'. (*ibid.*, p. 90)

What was to be done? Hobson opposed general nationalisation, on the grounds that state ownership might retard the pace of technical change. His remedies were the familiar Hobsonian ones of higher wages and increased state expenditure on social welfare, financed by an excess profits tax. Interestingly, he emphasised that even higher military spending might be expected to increase the level of employment, so long as the burden of taxation could not be shifted from profits to wages (Hobson 1930, pp. 92–100; 1937a, pp. 185–6).

Hobson's analysis of monopoly capitalism anticipates at several points, and in a striking manner, the principal theses of Sweezy (1942) and Baran and Sweezy (1964); Sweezy's own early tribute to Hobson was a generous one (Sweezy 1938).³ The parallels have sometimes been noted by other writers (see for example Blaug 1986, p. 94), but seem not to have been associated with *Rationalisation and Unemployment*, which is where Hobson's argument is for the first time fully elaborated. His own influences are difficult to establish. He employs the neoclassical theory of monopoly pricing which he had used, much earlier, in his analysis of dumping (Hobson 1930, p. 86; cf. Culbertson and Eklund 1977), and in addition cites the British writers Mond, Loveday and Martin (Hobson 1930, pp. 65n, 69–70, 72n, 76n).⁴ Given Hobson's well-known connections with the United States (King 1988, pp. 126–8; Rutherford 1993), I suspect that he may well also have drawn on American sources. He was certainly aware of the work of David Wells and others who, in the late nineteenth century, had drawn a link between mechanisation and industrial depression (Hobson 1926b, pp. 276–7). More recently, in 1923, his friend (and eventual obituarist) J. M. Clark had defended restraints on price competition because of his fear that overhead costs would otherwise generate wasteful excess capacity (Clark 1923, pp. 448–9; cf. Dorfman 1969, pp. 447–8). Over the next few years the future technocrat Stuart Chase was to publish a series of books arguing that

mass production tended to cut across more rapidly than prices; the various categories of 'waste' amounted to at least 50 per cent of output in the United States; and that unemployment was due to production outstripping purchasing power (Chase 1925; Chase and Schlink 1927, ch. 5; Chase 1929, ch. 11).⁵

Any theoretical connection between Hobson, Clark and Chase is a matter of speculation. What cannot be denied, however, is that Hobson's analysis of rationalisation marked a significant advance in his thinking. It was a theme to which he returned repeatedly in subsequent writings. In a 1931 article in *Political Quarterly*, for example, he reaffirmed his belief that 'the normal tendency of trade rationalisation is towards monopoly'. The consequences would be, not 'industrial harmony' but rather 'a new type of internecine conflict among the rationalised trades themselves' and a form of economic dualism in which the remaining competitive, non-rationalised industries would be forced to pay excessive prices for their inputs.⁶ On the positive side, industrial rationalisation had thrown into sharp relief the need for the state to rationalise the economic system as a whole (Hobson 1931a, pp. 32–3, 37). In the same year Hobson invoked the declining share of wages, induced by rationalisation, to explain why the world depression was the most severe in the entire history of capitalism (Hobson 1931b, ch. X), and coined a phrase which was to feature prominently in *Monopoly Capital* by posing 'the problem of absorbing the "surplus" for social uses' as the most fundamental of all macroeconomic issues (*ibid.*, p. 35).

Hobson reiterated his views on rationalisation in the *Confessions* (Hobson 1938, pp. 167–9), and criticised Veblen for failing to recognise that monopoly power was a pre-condition for 'industrial sabotage' (Hobson 1936, pp. 203–4). He alluded to rationalisation again in his ironic imaginary dialogue between the Messenger to Earth and the Recording Angel (Hobson 1932c, pp. 54–5), and, more seriously, in the *Economica* article replying to Lionel Robbins's (1932) criticisms which constitutes his only substantial publication in a professional economics journal in Britain. Here Hobson begins his defence of underconsumptionism with the tendency for mechanisation to increase the profit share, which he regarded as inevitable so long as cartels prevented prices from falling when costs were reduced (Hobson 1933, pp. 404–5). This is the argument of *Rationalisation and Unemployment* in very thin disguise.

III

Hobson was also breaking new ground in his discussion of the relationship

between underconsumption and the rate of interest. The orthodox approach to this question was set out, from an Austrian perspective, by Hayek (1931) and – rather less lucidly – by Lionel Robbins (1932). In essence their argument is that crises originate in unwarranted monetary expansion, which pushes down the short-term interest rate below its long-run or ‘natural’ level and encourages an unsustainable and inflationary increase in investment. Rising savings are a result of this process, not a cause, and should be regarded as ‘forced’ rather than voluntary (Robbins 1932, pp. 422–7). Implicit in this analysis is the claim that (voluntary) saving can in the long-run never be excessive, since equilibrium will always eventually be restored by a reduction in the rate of interest.

In his *Economica* article Hobson criticised this theory on the grounds that the interest rate was likely to be inflexible downwards, owing to the monopoly power of the banks, the existence of risk premia, and the continuing demand for loans by the state; he also maintained that investment was interest-inelastic (Hobson 1933, pp. 410–11). Elsewhere, however, he was more concerned with the connection between savings and the rate of interest. In addition to a decline in the general price level, the orthodox economists of the 1880s had also relied upon ‘Such a fall in the rate of interest (or profit) as will act as a check upon saving, and restore the proper relation between production and consumption’ (Mummery and Hobson 1889, p. 117). Mummery and Hobson had reacted to this by denying that ‘a fall in profit’ would induce either the capitalist or the worker to consume more. It would, they maintained, operate only by reducing the level of production and causing a depression. A falling interest rate is thus ‘the immediate cause of the very malady which it is supposed to prevent’ (*ibid.*, pp. 130–2).

This assertion is far from convincing, confusing as it does the rate of return on investment (‘the rate of profit’) and the rate of return to saving (‘the rate of interest’). Hobson’s analysis in *The Industrial System* is even less satisfactory (Hobson 1909, pp. 71–4). As late as *The Economics of Unemployment*, in fact, he was strangely hesitant on the question. On the one hand he appeared to accept the validity in principle of ‘classical economics’, objecting merely that the check to oversaving afforded by a decline in the interest rate was ‘slow in operating’, because net saving in any one year represented only a very small fraction of the total stock of capital (Hobson 1922, pp. 51–2). On the other hand he denied that savings were as interest-elastic as orthodox theorists made out, since ‘automatic’ saving did not respond at all to changes in the rate of interest, while in some other cases the response might be perverse (*ibid.*, p. 52).

By the time he came to write *Rationalisation and Unemployment* all Hobson’s doubts had been dispelled, and he was able to point out that:

economists have themselves furnished trenchant criticisms of this supposition of a natural harmony between spending and saving. For they have admitted that, as regulators either of the volume of saving or of its proportion to spending, the rates of interest and profits are extremely defective. For much saving is, indeed, regardless of the rate of interest, an almost automatic setting aside of surplus income, while some private saving is even stimulated by a lower rate of interest when the motive of the saving is some fixed provision for the future. It is true that, as has been stated, saving tends to dry up in bad times because the "surplus" over costs, distributed in interest and profits, is largely reduced. But to remedy oversaving by undersaving is an aggravation of the disease. (Hobson 1930, p. 47)

As he concluded in the following year, 'there is no ground for holding that the price of saving conforms at all closely to "the law of supply" which assumes that the amount of supply will vary directly and closely with the price' (Hobson 1931b, pp. 52–3). By 1932 Hobson was asserting confidently that saving was a function of income and not of the rate of interest:

What may be termed "bourgeois saving", directed consciously to make some definite provision for the future income of the saver or his family, will probably be larger when interest is high, for an increased amount of "sacrifice" will yield larger results at such a time. But here, as in working-class savings, the amount saved will depend much more upon the rates of salaries, wages and other incomes than upon the rate of interest offered for new savings . . .

. . . taking the saving process as a whole, the "price law" is inoperative. There is no ascertainable relation between the price of saving and the supply (Hobson 1932a, pp. 29–30; cf. 1934a, p. 443 and 1937a, pp. 40–1).

It is instructive to compare the evolution of Hobson's views on this subject with those of Keynes. In the *Treatise* Keynes regards the equilibrium real interest rate as a function of real factors only, with monetary variables playing no independent role. The Great Depression, Keynes argued, had been caused by an increase in the market rate above this long-run or natural rate of interest. In essence this is the orthodox view described by Hobson in 1922, and later by Keynes himself, as 'classical' (see Clarke 1988 and Dimand 1988). It has been established that 'the crucial breach . . . occurred in 1932 with the introduction of the concept of a "monetary theory of production"' and Keynes's consequent abandonment of any notion of a

natural rate of interest depending on capital, and hence on savings. Thus '1932 is the turning point in the elaboration of his thought', and the theory of interest is the key (Panico 1987, pp. 55, 60; cf. Clarke 1988, pp. 260–4; Clarke 1990, p. 110; and Harcourt and O'Shaughnessy 1985, pp. 13, 23; but see Dimand 1988, pp. 127, 155, 160–3, 167). The first clear evidence of the break is supplied by a typed lecture dating from November 1932. Further clarification of Keynes's ideas occurred during 1933, and by the summer of 1934 he was explicitly denying that the interest rate was a function of the level of savings (Keynes 1979, pp. 54–9; Keynes 1973b, p. 471; Panico 1987; cf. Moggridge 1973).

As we have seen, Hobson had broken decisively with the classical theory of interest in 1930. There is no evidence that Keynes was influenced by Hobson on this, nor even that he was familiar with *Rationalisation and Unemployment*; indeed, it is notorious that imperfections in the competitive process play no part in Keynes's mature analysis. Keynes's study of Hobson seems to have been confined to *The Physiology of Industry* and to have begun only in the summer of 1935, when the *General Theory* was largely complete (Clarke 1990, p. 112). Certainly the brief reference to Hobson in the *Treatise* is unenthusiastic:

Mr J.A. Hobson and others deserve recognition for trying to analyse the influence of saving and investment on the price level and on the credit cycle, at a time when orthodox economists were content to neglect almost entirely this very real problem. But I do not think they have succeeded in linking up their conclusions with the theory of money or with the part played by the rate of interest (Keynes 1971, p. 161).

The two men did however correspond just prior to the publication of the *Treatise*, when Hobson submitted an article to the *Economic Journal* which Keynes, as editor, declined to publish.⁷ They corresponded again between July and November 1931, on Hobson's initiative (Keynes 1973a, pp. 330–6). Unfortunately neither his initial letter of 1 July, nor that dated 31 August, have survived.⁸ The 'Notes on Oversaving' appended to his second letter set out a scenario in which productivity growth leads to increased real income and thus to a rise in the savings ratio from 20 to 30 per cent, owing to 'a shift in the distribution of the general income favourable to saving and by enlarged company reserves and by the quasi-automatic saving of the enlarged incomes of the rich, due to the low "utility" of further spending on their part'. Restrictions on the money supply might make matters worse, Hobson concluded, but even 'if there were no monetary trouble, this en-

largement of productivity would still operate to bring about disequilibrium' (Hobson to Keynes, 18 August 1931, *ibid.*, p. 332).

Keynes's initial response was favourable. 'I do not think there is anything with which I disagree in your "Notes on Over Saving [sic]", and I think that this exposition of your point of view does bring us much nearer together' (Keynes to Hobson, 28 August 1931, *ibid.*, p. 332). However, there follows a lengthy and very significant qualification:

But my main point on these notes is that you are only contemplating one case. You are pointing to the exit of diminished savings as a remedy for the situation you are contemplating. But I suggest to you that there is also another way out besides the way of increased consumption, namely, through a fall in the rate of interest – a point which I have mentioned in previous letters. For, if the rate of interest were to fall, consumption goods, the production of which requires much capital, would be cheapened relatively to other consumption goods, with the result that consumption would change over to such goods, thus creating an increased demand for capital, and so absorbing the extra savings.

The mischief arises, to my way of thinking, when the world accepts neither exit. That is to say, when social customs or the distribution of wealth, or other causes maintain savings at a higher level than is appropriate to the existing rate of interest, whilst at the same time the working of the monetary system prevents a fall in the rate of interest.

If you could accept this other side of the shield which I offer, as well as the face which you have stamped with your imprint, we should be at peace. (*ibid.*, p. 333)⁹

In the absence of Hobson's reply there is no way of knowing how he reacted to the proposed armistice. The remaining letters in this sequence serve to confuse rather than to illuminate; like much of Keynes's correspondence, they indicate a frustrating inability of the writers to understand and reply to the other party's arguments. They do however contain one striking statement by Hobson:

That "the rate of interest" plays a part, sometimes an important part, I would admit, but 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. (Hobson to Keynes, 14 October 1931, *ibid.*, p. 335)¹⁰

With this, at least, the Keynes of the *General Theory* would heartily agree.

The argument of this section can be summarised as follows. Hobson's critique of classical macroeconomics was explicit and complete by 1930, and centred on his denial that the level of savings was interest-elastic. Keynes's break with classical theory came at least two years later. His analysis was of course much more comprehensive than that of Hobson, for whom money was a minor issue; Hobson had no precise theory of the interest rate, and felt no need of one (see Backhouse 1990). However, one essential element in the *General Theory* was the treatment of savings as a function of the level and distribution of income, largely unrelated to the rate of interest. In this Keynes was anticipated by Hobson.

IV

The most important difference between them remains to be discussed. Keynes was primarily concerned with deficient investment, while Hobson, as Keynes explained in a radio broadcast in November 1934, 'believe[d] that the great resources at the disposal of the entrepreneur are a chronic cause of his setting up plant capable of producing more than the limited resources of the consumer can absorb' (Keynes 1973a, p. 487). Contemporaries like Stamp and Robbins recognised the significance of this point:

The underconsumption theory as developed by Mr. Hobson and others has nothing to do with Mr. Keynes' theory of the cycle, though in recent discussions it has sometimes been identified with it . . . In Mr. Keynes' view the difficulty rises when the monetary savings are not turned into real investment, whereas in Mr. Hobson's view it arises because that real investment is excessive in relation to real consumption. For Mr. Keynes, one way out of the slump would be a revival of investment; for Mr. Hobson, this would simply make matters worse. (Robbins 1932, p. 420; cf. Stamp 1931, p. 245)

Hobson never abandoned his own position, but in the course of the 1930s he did make significant concessions to the Keynesian viewpoint. The first sign of this came in his nineteen propositions on 'The World's Economic Crisis' in *The Nation* in July 1932, the third of which reads as follows:

3. If, therefore, there is insufficient purchase of consumption goods, this must be due either to an excessive purchase of new producers' goods

(through saving and investment) *or else to withholding of some purchasing power from purchase either of consumption goods or producers' goods (capital goods)*. (Hobson 1932b, p. 53, stress added)

Here Hobson suggests that there are two causes of deficient effective demand: overinvestment, and 'the withholding of some purchasing power', which implies underinvestment. In subsequent theses, however, he ignores the latter possibility:

4. The present visible excess of productive power must be attributed in the first place to an earlier tendency to put more income into the purchase of new production goods than is required to supply consumption goods at the rate they can be purchased by the money that remains in consumers' hands. (ibid)

This, he insists, is the true cause of economic crises; it involves, in the words of his fifth thesis, 'an excess of productive power'.

Similar ambiguity is apparent in a *New Statesman* article in March 1934, where Hobson makes the striking statement that 'Now, as we see, saving is not by any means identical with investment', only to continue by attributing the depression to 'an irrational attempt to save *and invest*' an excessive proportion to surplus incomes (Hobson 1934a, p. 443; stress added). In his book *Democracy and a Changing Civilisation*, Hobson asserted that 'It matters not how large a quantity of income is saved so long as it is spent in buying new capital goods, through processes of investment' (Hobson 1934b, p. 50). And, in the same year, Hobson contributed to a series of radio broadcasts on the crisis (Keynes's talk was cited above). In the published version of his address, he again distinguished between saving and investment.

Now the strange situation has arisen in which income which is saved *either does not pass into investment* or, if it does, it goes to expand the productive process of capital and labour beyond the limit at which increased capital can be utilised in producing consumption goods to be sold at a price covering costs of production and a minimum profit to the capitalists. In other words, the rate of saving seems somehow to outrun the rate of spending. (Hobson 1935, p. 50; stress added)

Once again, however, he failed to follow up the distinction which he had drawn between saving and investment.

There is an unpublished source, also dating from 1934, which shows a

much less hesitant Hobson. In an autobiographical paper delivered as a lecture to the South Place Ethical Society, Hobson wrote:

Over-saving, as I expounded it earlier in this address, signified excessive employment in the creation of capital goods as compared with consumptive [*sic*] goods. That is still the first stage in the disequilibrium between spending and saving. But so long as that erroneous course is pursued, there need be no depression or unemployment. *It is only when this over-creation of capital, this over-investment, stops, that the real trouble begins.* (Hobson 1934c, p. 11; stress added)

This brought Hobson much closer to the position taken by Keynes.¹¹

When the *General Theory* was published at the beginning of 1936 Keynes arranged for a copy to be sent to Hobson, who thanked him profusely both for the book and for ‘the handsome recognition which I see you give to the early book by Mummery and myself’ (Hobson to Keynes, 3 February 1936, in Keynes 1979, p. 209).¹² ‘I find a good deal of it difficult’, he told Keynes in typical self-deprecating fashion, ‘because my brain is getting feeble and unable to concentrate effectively’ (*ibid.*, p. 208). A week later he wrote again to Keynes. He had now finished reading the *General Theory*, and was generous in his praise for ‘your great book’, with ‘its shattering exposure of the neo-classical theory and policy’ (Hobson to Keynes, 10 February 1936, *ibid.*, p. 209).

Hobson went on to suggest that his own theory could be integrated with that of Keynes by supposing that they represented different stages of the trade cycle, with an initial burst of overinvestment leading to a depression and subsequent fall in the level of investment:

Again, I have supposed there was evidence and support of the view that a ‘lag’ in the investment of savings took place when a depression was recognised as beginning and that during an actual depression the proportion of saving to spending fell below the level allowable for replacement and enlargement of capital. The order of events, as I have seen it, is underconsumption or oversaving, overinvestment, stoppage of new investment, check on saving and upon all production processes with simultaneous and proportionate unemployment of all factors of production. (Hobson to Keynes, 10 February 1936, *ibid.*, p. 209)

Keynes, however, was not convinced. Overinvestment was not an absolute phenomenon, he replied to Hobson, but was relative to the prevailing rate of interest. Consumption fell in the downturn because of the decline in in-

comes, and this in turn was due to falling investment. Thus the cure for depression was increased investment, since 'the effect of this on incomes will increase demand up to a point where the apparent redundancy [in consumption demand] disappears' (Keynes to Hobson, 14 February 1936, *ibid.*, p. 210).

There is no record of any further correspondence between Keynes and Hobson. Evidence of the latter's continuing interest in these issues comes from the delightfully-titled *Property and Improperty*, with Hobson's account of the upper turning-point in the trade cycle:

The first stage consists in the excessive payment of income to the productive factors in the industries making capital goods (plant or raw material or other non-consumable goods). So long as this process continues, the portion of the savings expended in these industries which goes to labour or to other productive agents is available for the purchase of consumption goods and no unemployment is created. This is the element of truth in the commonly accepted doctrine that saving employs as much labour as spending. So it does, *as long as it is invested without delay in payment for the production of capital goods*. But as soon as it is discovered that the increased fabric of capital exceeds the size required and used to produce consumption goods at the rate they are being purchased by consumers, there is a necessary check upon the further creation of capital by investment of new savings, and *these savings*, so far as they continue to be made, *lie uninvested*. Then the depression, with accompanying unemployment, actually begins. (Hobson 1937a, pp. 48–9; stress added)

Thereafter the incomes of the well-to-do decline, and with them the level of saving.

There is little sign here of a sharp contrast between Hobsonian overinvestment and Keynesian underinvestment.¹³ Even less is this apparent in the long footnote¹⁴ added by Hobson to the relevant passage in his *Confessions* which, possibly because it does not refer to Keynes by name, has often been overlooked:

I hope that the later statement of my over-saving heresy has made clear the right distinction between over-saving and over-investment. A nation, like an individual, may save any proportion of his income he likes [*sic*] without causing excess of investment or depression of trade, provided it can find an adequate internal or external market for the increase of capital goods or consumption goods into which his savings go. So long as savings continue to be employed in paying workers to produce more

capital goods, in plant and materials, either for home use or for export, there is no over-saving in the proper sense of the term. *It is only when some of the current savings cannot find a profitable investment*, owing to the failure of consumer markets (home or external) to keep pace with the increase of producing power, that depression and unemployment set in. Part of the recent savings lies idle in banks waiting an opportunity for investment, and the decline of profit which under-production brings about causes a reduction in the rate of savings and in the proportion of the aggregate income which is saved. (Hobson 1938, pp. 192–3; stress added)

This is not a repudiation of Hobson's fifty-year-old position on oversaving, but rather a clarification and extension of his argument. Hobson had never claimed that overinvestment could be 'absolute' in the sense that it was independent of profitability. It had always been implicit in his writings that the marginal rate of profit on investment falls once the equilibrium ratio of capital to consumption expenditure has been surpassed. This is what makes further investment 'excessive' (see e.g. Rutherford 1993, pp. 190–1). In the *Confessions* this proposition has become an explicit component of his argument. There is nothing inherently absurd about it (Coppock 1953; Schneider 1987, 1993); it has interested more than one of Keynes's followers (e.g. Robinson 1942, p. 49); and it is arguable that Keynes's own treatment of the 'marginal efficiency of investment' is inferior to it.

V

Hobson had ended his last letter to Keynes with an expression of appreciation. 'But aged as I now am,' he wrote, 'I hope that my mind is not closed to the acceptance of new reasoning such as you have put in a volume which may, I hope, revolutionise economic science' (Keynes 1979, p. 209). His mind had indeed remained open to the very last, though few of his contemporaries realised it. Keynes, as we have seen, regarded the 1889 *Physiology of Industry* as the apex of Hobson's economic achievement. Heresy-hunters like Robbins (1932) and Durbin (1933a, 1933b) drew no distinction between his early and later work. Reviewers were few and unperceptive, one describing *Rationalisation and Unemployment* as simply 'another restatement of his well-known views on under-consumption and over-production' (Meriam 1931, p. 162).¹⁵ As I have attempted to show, such judgements do less than justice to the last ten years of Hobson's life.

Notes

1. This is wrong on two counts, one major and one minor. As will be seen in section IV, Hobson did make an oblique, but very important, reference to Keynes in the *Confessions*. And, since the book was reviewed by Paul Sweezy in New York at the end of August 1938 (Sweezy 1938), Hobson must have been 79 rather than 80 when he completed the manuscript (he was born on 6 July 1858).
2. The change was anticipated in Hobson (1926a). This one-page article should however be contrasted with the third edition of *The Evolution of Modern Capitalism*, published in the same year (Hobson 1926b), where, despite substantial additions to the text, Hobson still draws no explicit connection between maldistribution and the growth of monopoly power.
3. It was not repeated; Hobson's name is missing from the index of both Sweezy (1942), which cites largely classical Marxian authorities, and Baran and Sweezy (1964), where more recent non-Marxian sources are freely drawn upon.
4. A Loveday was head of the Economic Intelligent Service of the League of Nations. His 1930 essay 'Quo Vadimus?', reprinted in Loveday (1930), is neither particularly penetrating nor consistent with Hobson's argument. The underconsumptionist P. W. Martin (1924, 1929), who was employed by the International Labour Organisation, advocated that the money supply be increased at the same rate as the growth of production (See King 1990).
5. Chase and Hobson cited each others' work (Chase 1925, pp. 30, 41, 72, 139; Hobson 1937b, p. 41n). Chase (1925) is the work of an unacknowledged forerunner of *Monopoly Capital*, including a numerical estimate of the level of 'waste' (or 'surplus').
6. Such a dualism is implicit in the writings of Marx and Lenin, and all but explicit in Rudolf Hilferding's *Finance Capital* (Hilferding 1910, ch. 23). There is however no evidence that Hobson had read this important text, which was not translated into English until 1981.
7. Lee (1970, p. 289), citing Keynes to Hobson 23 April 1930 and Hobson to Keynes 24 April 1930, both (as yet unpublished) in the Keynes papers at Cambridge. Hobson's article appears not to have survived.
8. Keynes returned Hobson's letters to facilitate his replies (Keynes 1973a, pp. 330–1, 334). Hobson's correspondence appears to have been lost in its entirety.
9. The 'previous letters' referred to in the first paragraph of this passage represent something of a mystery. Keynes's letter of 24 July 1931 (*ibid.*, pp. 330–1) is the first to Hobson which is included in the *Collected Writings*, and contains no reference to the rate of interest.
10. Hobson concludes: 'Don't trouble to reply. When you are a little freer, we might meet for a talk' (*ibid.*, p. 335). That Keynes did reply (on 1 November) suggests that the meeting did not take place.
11. The circumstances relating to this paper are described by Lee (1970, pp. 296–7), who also quotes hitherto unpublished correspondence between Keynes and Hobson on the matter. The first nine pages of Hobson's typescript are in the Keynes papers at Cambridge; the remaining seven pages are in the Hobson

- Collection at Hull. I am grateful to Mr Brian Dyson, Archivist, Brynmor Jones Library, University of Hull, for permission to quote from them.
12. Given the highly qualified nature of Keynes's praise (Keynes 1936, pp. 364–71), this was a generous response. One wonders how Hobson would have reacted had he known Keynes's private views on Mummery ('Hobson never fully understood him and went off on a side-track after his death': Keynes to Kahn, 30 July 1935, in Keynes 1973a, p. 634; how, one wonders, did Keynes know this?). In correspondence with Hobson, Keynes took a quite different line; 'But I am ashamed how blind I was for many years to your essential contention as to the insufficiency of effective demand': Keynes to Hobson, 14 February 1936, in Keynes 1979, p. 211).
 13. Nor can I agree with Peter Clarke that 'Hobson remained unreceptive to the income-adjustment process that lay at the heart of the theory of effective demand; and efforts to read it back into his own work must falter accordingly' (Clarke 1990, p. 114).
 14. It would be interesting to know whether this was an afterthought, and if so, at what stage in the writing of the *Confessions* it was included, and on whose prompting.
 15. Hobson is granted just one paragraph in this 29-page article, which reviews eleven books on unemployment. Dearle (1931) offers greater length but no more insight.

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8 Hobson and Imperialism: An Appraisal¹

Lars Magnusson

I

John Atkinson Hobson's *Imperialism: A Study* (1902) was undoubtedly one of the most influential books of the early twentieth century. In a period when 'imperialism' was a catchword of politicians for winning popular support, he portrayed imperialism in a more grim fashion, showing it to be devastating both at home and in the colonies and pursued mainly in the interest of a few wealthy financial capitalists. As Richard Koebner has shown, this word 'imperialism' – 'loaded with an emotive force eluding all demands for precise definition'² – has a long history back to the early decades of the nineteenth century when it was mainly used to describe a policy of military grandeur and aggrandisement by acquisition of dependencies in the style of the *Imperium* of ancient Rome – or to use a more recent comparison, the empire of Napoleon. However, by the 1890s the word had found an alternative usage and most of its early derogatory meaning 'had paled', according to Koebner.³ In Britain Chamberlain and his followers had launched a policy of 'popular imperialism' in fashion not only among the Conservatives, but also among many Liberals and Socialists (especially of the Fabian brand). It was this policy that Hobson – probably more thoroughly and certainly more effectively than anyone else at the time – so fiercely attacked in his several books and articles by the turn of the century, among which *Imperialism: A Study* stands out as the most central.

However although probably the most influential, Hobson by no means stood alone in his critique. On the contrary the tone of the public debate in Britain after 1898 was once again much more critical towards imperialism as a general phenomenon. As Koebner suggests, it was mainly the South African question and the outbreak of the Boer war which resulted in imperialism's 'reversion to the status of a partisan abuse'.⁴ Thus when the war broke out in 1899 – after four years of increasing tension following the Jameson raid of 1895 – a chorus of critical voices were raised against what was termed 'imperialism'. Hobson and one of the leaders of the Liberal party, John Morley, saw it as a similar phenomenon to 'jingoism'; while it

was dubbed the 'vulgar and bastard imperialism of irritation and provocation' by Campbell-Bannerman, or as 'military bravado and reckless desire for expansion' by some other critics, for example Leonard Courtney and John Hammond.⁵ However, among these critics Hobson was the only one who while attacking imperialism root and branch also tried to present an analysis of its main features as well as explanations for its emergence, as it seemed, during the last decades of the nineteenth century. Like others in the debate he thus especially emphasised the role of material greed, particularly the commercial and capitalist interest, as a driving force behind imperialist expansionism. However, most notably in *Imperialism: A Study* he does this from a point of view which really nullifies the notion of a simple 'economic' explanation of imperialism. This is an important point which has always puzzled Hobson's later interpreters, not least the Marxists, and which we will come back to. Misunderstandings on this point have also led to the view that Hobson is sometimes seen as a mere forerunner of the later Marxist discussion and especially of Lenin's theory of imperialism. Thus for example Giovanni Arrighi states that 'Lenin shared not just a few isolated hypotheses, but the very mode in which Hobson had outlined his *diagnosis* of imperialism'. Or in another place: 'Lenin does not seem to have diverged a great deal . . . from Hobson's theoretical positions. In fact, what Lenin explicitly refuted was not so much Hobson's theoretical construction as the political conclusions which he draw from his diagnosis'.⁶

Although it is of course possible to find some linkages between Hobson and Lenin – in a sense Lenin was an eclectic putting together bits and pieces from everywhere while at the same time drawing his own very obstinate conclusions – it is a clear mistake to talk about a 'Hobson-Lenin paradigm'. Unquestionably, this is based on a misapprehension of Hobson's explanation of imperialism which is much richer and more complex than Lenin's. Moreover, it builds on a procedure of reading Hobson backwards from the point of view of the Leninist interpretation of Hobson. Without doubt, such an anachronistic reading is an injustice to him as well as preventing us understanding what he really wanted to say. Rather, in order to understand Hobson we must interpret his theory of imperialism in the framework of his other writings in economics, politics and international relations – and how he himself regarded the relations between these entities. As with so much of the history of economic ideas in general, the discourse of the 'theories of imperialism' is permeated with anachronistical viewpoints in which the history of ideas is read backwards from the point of view of later interpretations. Without doubt this has made historiography more ideological and less historical than necessary.⁷ It has also led to much confusion and some severe misapprehensions – not the least obvious with

regard to Hobson and the later debate concerning his contribution to the study of imperialism and its origins. Thus the aim of this chapter is, first, to present Hobson's theory, in its own right and especially show its multi-layered and complex character. Without doubt, Hobson himself can to some extent at least be blamed for these misunderstandings. The arguments in *Imperialism* are not very clear-cut and – as we shall see later – it is unclear which factors he stresses most in his actual analysis; economical or political; oversaving as a general or a relative phenomenon, etc. Secondly, by suggesting the need for such a thorough reading of Hobson's text we will also be able to point to some real differences between Hobson and what later interpreters – from Lenin to Fieldhouse – thought they saw in his *Imperialism: A Study*. However, this latter interpretative, and very interesting, part of the story will not be dealt with here. It clearly awaits a fuller treatment of the 'theories of imperialism' controversy as such.

II

In his autobiography *Confessions of an Economic Heretic* (1938) Hobson emphasised South Africa as the main influence upon him: 'The Boer war was both a turning-point in my career and an illumination to my understanding of the real relations between economics and politics which were to occupy a large place in my future work'.⁸ Although we may not take this at its face value – it is clear from an article in 1898 concerning the struggle for spheres of influence in China that Hobson had already had come a long way towards formulating his later 'theory' of imperialism⁹ – it seems nevertheless true that his experience in Africa to a great extent bolstered his general outlook on these matters. In 1899 – just before the war began – Hobson had arrived in Johannesburg as a correspondent for the *Manchester Guardian*. His main task as a journalist was to understand the factors which had made war inevitable and who was to be blamed for the situation. In his articles for the *Manchester Guardian*, later published in the book *The War in South Africa* (1900), he made his opinion clear that the war could result in no gain either to Britain or the colonists of South Africa, including the British Outlanders of Transvaal. Thus it was not really fought in order to procure a greater market for British wares. In fact the industrial future for South Africa did not look very bright. Neither would it, mainly for climatic reasons, he suggested, be an important destination for British immigration in the future. Thus South Africa was not – and would not be – especially important for Britain from an economical point of view.¹⁰

Instead, after having interviewed several of the leading personalities on

the spot, including Cecil Rhodes, he drew the conclusion that this war was in fact a cover to gratify the interests of a very small clique of people:

The lesson I learned from this experience was the dominant power of a particularly crude form of capitalism operating in a mixed field. It became evidence that, while the politicians were hesitant and divided, the capitalists of the Rand were planning straight for war and were using the British Press of South Africa as their instrument for rousing the war-spirit in England.¹¹

Especially in the British press, stories of the ill-treatment of the Outlander population were commonplace. However in *The War in South Africa* Hobson held forth at length on the 'outrages and sensational grievances' of the Outlanders, complaining that '. . . English people were subject to brutal ill-treatment and went about in fear of their lives . . .'¹² On the whole these Outlanders had little to complain about regarding their Boer hosts – and neither did they do so very explicitly on the spot. Hobson agrees of course that to some extent the Transvaal government, headed by President Kruger, could be said to be both corrupt and incompetent, but the stories of ill-treatment gravely overstated the case, and would not in any case warrant any armed interference by the British. Also demand for the franchise on the part of Transvaal's Outlanders – emphasised in the British press as one of the main grievances – was mainly a pretext of aggression and not very strongly demanded by the Outlanders themselves; most of whom were newcomers to the country and had made no plans to stay for very long; they were miners, skilled workers, engineers, etc.¹³ In the press there was also much talk about an 'alleged Dutch conspiracy' for taking over the whole of the Cape colony. This also was a fabrication by a 'chartered press', according to Hobson: 'There never has existed in Cape colony any desire to expel British control, or any conspiracy to achieve such an object. All the direct evidence goes to prove the contrary'.¹⁴

But if these grievances were only pretexts produced by a chartered press in order to whip up public opinion for war, who were the organisers of these campaigns; who reimbursed the press to print these stories? According to Hobson the answer to this was clear: 'South Africa presents a unique example of a large press, owned, controlled, and operated in recent time by a small body of men with the direct aim of bringing about a conflict which shall serve their business interests.'¹⁵ He further presented these men as: '. . . a small group of international financiers, chiefly German in origin and Jewish in race'.¹⁶ It was for these men, scouting for investment opportunities in gold and diamonds, that the war was fought. Further it was for such

'foreign Jews' – besides Rhodes he mentions Beit, Eckstein, Barnato, etc. who according to Hobson had a direct economic interest in the overthrow of the Boer regiment – that this war which implied a 'terrible disaster for every one else in England and South Africa' had been brought about. Besides campaigning for the abolishment of some of the monopolies upheld by the Boer government – which according to Hobson cost the mining capitalists a mere two and a half million pounds in indirect taxation every year¹⁷ – the main question was the need for an increased supply of native labour. Such an increase was in fact sabotaged by the laws of the Transvaal, especially the prohibition of 'Kaffir labour' to settle permanently in the republic. Thus, according to Hobson, 'it may be said that this war is being waged in order to secure for the mines a cheap, adequate supply of labour'.¹⁸

Thus it is important to notice that Hobson was already describing what he actually thought he could observe in South Africa – and later on in his general writings about imperialism in which he tended to use South Africa as a standard example – he points out that the South African war was not fought in the interest of the whole capitalist class, but only in the interest of a minor fraction of it. And although Hobson is hesitant as to falling into the general trap of *Judenhetze*, his many allusions to the 'Jewish interest', 'foreign Jews', etc., shows at least that he was ready to use the popular notion of a Jewish conspiracy in order to emphasise his point about the corruptive causes of the South African war. Further the war was not 'rational' from the point of view of the economic system, capitalist or whatever. Rather, the tensions leading forward to war were a direct consequence of private gain on the part of a small majority augmented by the political and propaganda manoeuvres of the jingoists. Thus the war must be regarded as having a political background as much as an economic. To what extent he actually regarded such political and psychological explanations as being of equal importance for the understanding of 'imperialism' as the economic explanations is shown in, for example, his *Psychology of Jingoism* (1901) which discusses different forms of popular imperialism and how it evolved, and also in the conclusive work *Imperialism: A Study* (1902).

III

Already in *Imperialism: A Study* Hobson emphasises that since the 1870s a new aggressive imperialism had emerged which subsequently led to a scramble for new lands and the dividing-up of many of the territories inhabited by non-white populations. At its core it was the outcome of a struggle between several rival nations and it evoked a calculating 'greedy

type of Machiavellianism' while for the public it was dressed up in doctrines of national destiny and imperial missions of civilisation.¹⁹ It was completely different from the old 'colonialism', he emphasised. While for Britain before the 1880s this had implied the colonisation of mostly unpopulated areas with a view to developing them economically, inaugurate democratic institutions and prepare them for self-governance within an imperial federation, this was no longer the case. Thus, the 'new' imperialism was no longer directed towards lands with a predominantly white-settler population, but rather towards areas inhabited by the 'lower races' and without their general approval. He draws the following division between the old and the new imperialism:

Thus this recent imperial expansion stands entirely distinct from the colonization of sparsely peopled lands in temperate zones, where white colonists carry with them the modes of government, the industrial and other arts of the civilisation of the mother country. The 'occupation' of these new territories was compromised in the presence of a small minority of white men, officials, traders, and industrial organisers, exercising political and economic sway over great hordes of population regarded as inferior and as incapable of exercising any considerable right of self-government, in politics or industry.²⁰

As in his earlier articles Hobson stresses that Britain as a nation had little to gain from this new imperialism. As trade does not always follow the flag the commercial gain of installing a colonial power in such areas dominated by native people had in fact been very slight, he says, and provides statistics to show that during the last decades of the nineteenth century trade with the colonies and dependencies had hardly grown at all while the trade with other industrial nations – 'whom we regard as our industrial enemies' – had increased considerably.²¹ Also among the dependencies and colonies the new 'tropical' colonies were of very little importance with regard to trade. Neither were there any signs of these areas becoming more important in the future.²² It was a general trait, according to Hobson, that the proportion of imports and exports to the national product would decrease in the future as 'an increasing proportion of her productive energies will begin to pass into higher kinds of industry, into the transport services, into distribution, and into professional, official and personal services . . .'.²³ Much in the same way he dismisses the argument that these new territories could to any great extent serve as an outlet for British emigrants. This is mainly due to their 'tropical' character, Hobson argues.

Thus, according to Hobson, the 'new' imperialism was clearly a failure

from the business policy point of view. Instead it had chiefly meant great expense which the public was forced to reimburse via its tax-bills. As in *The War in South Africa* he insisted that the procurers of this policy were a tiny fraction of finance capitalists who by political and military means had been able to pursue their own interests: 'Although the new Imperialism has been bad business for the nation, it has been good business for certain classes and certain trades within the nation'.²⁴ Or, more fully in another context:

A completely socialist State which kept good books and presented regular balance-sheets of expenditure and assets would soon discard Imperialism; an intelligent laissez-faire democracy which gave duly proportionate weight in its policy to *all economic interests* [emphasis added] alike would do the same. But a state in which certain well-organised business interests are able to outweigh the weak, diffused interest of the community is bound to pursue a policy which accords with the pressure of the former interests.²⁵

Hence behind the new imperialism stood a group of rich finance capitalists²⁶ and to some lesser extent certain industrialists who gained from the arms-race unleashed by aggressive imperialism. The fundamental economic 'taproot' of imperialism was thus, according to Hobson, the 'struggle for profitable markets of investment'. During recent decades both the total capital invested abroad and the income from such investments had increased considerably. This was true not only of Britain, he stated (however without presenting any statistical proof), but also of the other modern capitalistic states such as France, Germany and the United States. The reason for this was a tendency for oversaving which prevailed within these developed industrial economies.

However, discussing the economic 'taproot' of imperialism it is notable how little he bases it on his general theory of undersaving already developed in *The Physiology of Industry* (1889), written jointly with A.F. Mummery. In order to explain the emergence of aggressive imperialism it is now in *Imperialism* very much amplified by an institutional and historical argument: the rise of an 'organised' capitalism (to use Hilferding's term) in which the competition of many small firms has been replaced by big trusts, and free trade has been supplanted by a policy of protection. Thus when in this connection he discusses the specific determining factors behind 'oversaving' he relies on a kind of historical argument which had been hinted at by Kautsky in some of his articles for *Neue Zeit* in the late 1890s – although we have no evidence that Hobson was aware of Kautsky's articles on the subject²⁷ – and which was later developed by other scholars: Hilferding,

Schumpeter and, to some extent, Kalecki. Hence it hinges on an economic-historical argument discussing the replacement of a Cobdenite competitive capitalism by an 'organised' trust-like capitalistic economic in the late nineteenth century. As an effect of the development of the methods of production, a 'machine economy' emerges for which an increased control of ownership as well as a rapid increase of concentration of production are characteristic features. A further corollary is that 'this concentration of industry in "trusts", "combines", etc. 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'.²⁸ It is this which eventually leads to the failure of consumption to keep pace automatically with the output of a fast-rising production sector. The tendency to excess saving is thus very much reinforced by a policy of protection and the rise of trusts which limits the investment opportunities while at the same time leading to huge profits for the monopolists or oligopolists. How close he actually comes to, for example, the later interpretations by Schumpeter and Kalecki can be shown in the following passage: 'But this rigid limitation of trade though required for the separate economy of each trust, does not suit the trust-maker, who is driven to compensate for strictly regulated industry at home by cutting new foreign channels as outlets for his productive power and his excessive savings'. And following from this:

Thus we reach the conclusion that 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.²⁹

However, as is well known, Hobson argues that this step is really unnecessary. Through an alteration in the distribution of wealth – by the introduction of progressive taxation and of social welfare schemes, etc. – much of this surplus or excess savings would be absorbed by a declining savings rate.

Thus, this 'trust' or 'monopoly' argument is really the cornerstone of Hobson's treatment of 'the economic taproot' of modern aggressive imperialism. In several places in his writings he stresses the clear 'connection between Imperialism and Protectionism'³⁰ and in others the increasing aggressions between the 'haves' and the 'have-nots' of colonies unleashed as a consequence of the protectionist policy of setting restrictions on 'markets and immigration'.³¹ Instead of a mere necessary glut of wares generated by oversaving in the capitalist economy – as in some of his other writings – here he emphasises the *relative* excess of savings made possibly by the

emergence of 'organised capitalism'. He thus develops a historical and institutional argument for the rise of excess savings – and we must draw the conclusion that his analysis is much more institutional than most of the nineteenth-century underconsumption theories – as well as in comparison with Keynes's more static version of the underconsumption (under-investment) gospel later on. In this instance he really points toward the later contributions by American institutionalism, including Veblen's as well as to some of the contemporary Marxists: Hilferding and Kautsky.

However, as already pointed out, this economic explanation is only a part of the total explanation of the 'new imperialism' that Hobson wanted to put forward. Without doubt it has always puzzled later interpreters of *Imperialism: A Study* that more than half of this book is devoted to the politics and ideologies of imperialism. Lenin, for example, cannot hide his impatience. In making notes from Hobson's book for his own pamphlet – besides mocking Hobson's political views with scribbles in the margin such as 'Ha ha!!', 'ethical socialist', 'quaint', 'ha-ha!! the essence of philistine criticisms of imperialism' – he characterises, for example, the chapter in which Hobson treats the 'scientific defence of imperialism' as 'twaddle'.³² But these long passages in Hobson's book dealing with other things than pure economical components is hardly coincidental: in fact according to Hobson imperialism is as much a political and ideological phenomena as an economic 'hard fact'. This is clear already in *Imperialism: A Study*, although Hobson later in his life thought his argumentation in this book was too 'economistic'. He was led, he says in his autobiography, 'to an excessive and too simple advocacy of the economic determinism of history'.³³ However, a careful reading of this text seems hardly to admit to such a conclusion.

Thus although the new imperialism had an economic ground it was also an atavism 'fed from the barbarous traditions of a dateless past'.³⁴ It relied on a defunct view according to which 'the power to do anything constitutes a right' to do it. According to Hobson it was this idea applied on the international scene which was most characteristic of the 'new' imperialism. The chapter 'The Scientific Defence of Imperialism' in particular is devoted to a very important argument against evolutionism in its socio-Darwinistic version – so cherished at the time among the followers of aggressive imperialism.³⁵ As men have given up their barbaric competition for the survival of the fittest and formed societies in order to cooperate with each other, this should also be the case of nation states on the international scene, he argues. While competition between nations is still necessary it must be elevated to a higher stage. The survival of the fittest among nations is not a game which should rely on brutal and irrational violence but on peaceful

competition as well as cooperation, he maintains. He draws the following analogy from biology in order to differentiate between a modern 'rational' and a barbarian 'irrational' order:

Irrational nature selects wastefully and with the maximum of pain and misery, requiring innumerable individuals to be born in order that they may struggle and perish. Rational humanity would economise and humanise the struggle by substituting a rational, social test of parenthood for the destruction by starvation, disease, or weakness.³⁶

Hence the current scramble for colonies, the warlike stance of states, and the reliance on violence as a means of solving conflicts are an outcome of such a step back to barbarism. So also the new aggressive imperialism is to a large extent a child of such ideological features. Here he seems to have drawn on Le Bon's discussion about the instincts and passions of the crowd – unleashing the lower instincts of men, otherwise hidden behind a mask of civilisation – as a possible explanation for the irrational and savage features which were characteristic of 'new imperialism'.³⁷

Being true to his Cobdenite presuppositions Hobson condemns the British Liberal Party for having surrendered to these instincts of the mob and in practice accepted the notion that 'might is right', thus at the same time abandoning its principles of free trade and self-government for the colonies in order to pursue a policy of aggressive nationalism and expansionism. According to Hobson they had also fallen foul of a small minority of men who were the main beneficiaries of this policy in an economic sense: the stock jobbers, the mighty finance capitalists. For all except this small conspiracy of men imperialism is highly irrational, he states. Its consequences for the democratic and representative institutions at home are devastating. In fact, according to his opinion, imperialism and popular government are directly opposed to each other. First, the existence of aggressive imperialism leads to the erection of a powerful state with centralistic and autocratic features: 'Representative institutions are ill adapted for empire, either as regards men or methods', he concludes.³⁸ Secondly, political corruption and a contempt for democracy are a direct consequence of imperialism:

As the despotic portion of our Empire has grown in area, a larger and larger number of men, trained in the temper and methods of autocracy as soldiers and civil officials in our Crown colonies, protectorates, and Indian Empire, reinforced by numbers of merchants, planters, engineers, and overseers, whose lives have been those of a superior caste living an

artificial life removed from all the healthy restraints of ordinary European society, have returned to this country, bringing back the characters, sentiments, and ideas imposed by this foreign environment.³⁹

A third consequence would be increasing militarism. Not only would the scramble for new colonies and the competition lead to ruinous wars in the future among the competing Western powers. Likewise in the colonies the imperialist power must be ready to strike down any revolt directed against its rule. Such militarism was calamitous, not the least from the point of view of general morality. It also implied an enormous waste of economic resources which instead could have been used for social welfare or other 'useful' purposes. Thus there is a total antagonistic relationship between militarism and social reform.

In some of the last chapters he also touches upon the question of how imperialism affects the colonised and native peoples. Here – as in his earlier *The War in South Africa* – he is very critical towards the colonial policy followed by Great Britain which hid its real exploitive ambitions behind a mask of the white man's burden. He by no means altogether rules out the case that, in some instances, it could be justifiable for 'civilised Governments' to 'take political and economic control of lower races'. But in that case such interference must be followed by improvement and the 'elevation of the character of the people who are brought under this control'.⁴⁰ However with regard to the new imperialism this has not been the case, he argues. To this extent his condemnation of imperialism is devastating:

Nowhere . . . is the theory of white government as a trust for civilization made valid; nowhere is there any provision to secure the predominance of the interests, either of the world at large or of the governed people, over those of the encroaching nations, or more commonly a section of that nation. The relations subsisting between the superior and the inferior nations, commonly established by pure force, and resting on that basis, are such as preclude the genuine sympathy essential to the operation of the best civilizing influences, and usually resolve themselves into the maintenance of external good order so as to forward the profitable development of certain natural resources of the land, under "forced" native labour, primarily for the benefit of white traders and investors, and secondarily for the benefit of the world of white Western consumers.⁴¹

Although he would in the future vacillate between a more or less pessimistic view regarding the general implications of imperialism – both in the colo-

nies and at home – he would nevertheless retain his overall critical position.⁴²

IV

Especially during the last decades and in the wake of the discussion stirred up by the publication of Robinson, Gallagher and Denny, and Semmels' work on 'free trade imperialism', Hobson's *Imperialism: A Study* was severely criticised from different points of view.⁴³ For many this critique seemed so destructive that it became questionable whether Hobson's book really brought anything of value to the discussion at all. Also from the insistence of a close connection between Hobson and Lenin it was possible to draw the same conclusion; namely, if Lenin's theory was seen to be false it could be argued that this would also falsify Hobson's theory. However, as we will briefly discuss below, this is surely an overstatement and to some extent relies on an anachronistic and biased reading of Hobson's work – regarding him from the point of view of the later Marxist tradition of theories of imperialism more than as a theorist in his own right.

In order to summarise the main points of criticism directed at Hobson it is useful to take our point of departure from D.K. Fieldhouse, who perhaps more thoroughly than anybody else has summarised the criticism directed at Hobson over the years:

(1) It has been questioned whether the colonial expansion after 1870 really can be explained in economic terms. Thus for example Fieldhouse senses that it is ridiculous to argue that for example Fiji (1874), British New Guinea (1883), or Burma (1886) was annexed by Britain in order to serve as an outlet for investments and wares – or for protecting such investments.⁴⁴ Instead Fieldhouse argues that the scramble for colonies during this period was an extremely complicated matter which has to be explained from many viewpoints: political, military strategical, social and economic.

(2) In relation to this – more specifically – Fieldhouse questions the role of capital export as a dominant factor behind the 'new imperialism' after 1870. First it was clear – as already recognised by Hobson of course⁴⁵ but later pointed out in more detail in the works of Cairncross, Paish, Simon and others⁴⁶ – that most foreign investment went to other developed capitalist economies while especially the tropical new colonies inhabited by native population received but a tiny slice of the cake. The only exceptions to this rule seemed to be India and (to some extent, South Africa). Against this background it is of course easy to draw the conclusion – as Fieldhouse indeed does – that it is 'unrealistic' to believe that Great Britain annexed

these territories in order to find new outlets for investments.⁴⁷ Secondly, however, he also maintains that Hobson's underconsumption theory is naive, whereas there is no proof that investments in the colonies really received a higher rate of return than domestic investments. Thus it cannot be stated, Fieldhouse further argues, that investments abroad were a way to check a declining rate of return on investments at home. However, this last statement is highly questionable, as shown for example in an important study by Edelstein,⁴⁸ which we will come back to later.

(3) Further, there is the problem which Fieldhouse points to, whether it is justifiable to speak of a 'new' imperialism emerging in the decades after 1870 or whether it is not more appropriate, especially for Great Britain, to emphasise continuous colonial expansion throughout the nineteenth century as a general trait. Surely, this is close to the "timing" problem between the rise of a trustified capitalism relying on capital export for its survival to the one hand and colonial expansionism on the other, pointed out in the critique of Lenin by Robinson, Gallagher and Denny, Barrat-Brown and others. Thus according to Fieldhouse, the list of British annexations preceding 1870 is as long as the list after that year. This implies among other things that the dramatic differences that Hobson wanted to emphasise disappear and we will have to look at the main explanations for Britain's expansionism elsewhere than in a mere surge of investment opportunities.

(4) Lastly, Fieldhouse and others, have also emphasised that social reforms and income redistribution were not – as Hobson so strongly stressed – delayed or opposed by imperialist policies. Here Fieldhouse especially builds on Bernard Semmel's general discussion of the relation between British liberalism and imperialism but also on that author's more specific argument that the British Liberal Party was very well able during the first decade of this century to combine a defence of empire with economic redistribution and social reform.⁴⁹ Thus, just as *laissez-faire* views could be combined with an imperialist outlook, so could liberal reform blend with imperial expansionism. Those two were not in total opposition to each other, as Hobson so strongly claimed them to be.

Although much of this critique is valid it might not be so totally calamitous for Hobson as it might at first appear. Four points concern us most:

(1) To do justice to Hobson we ought to take him at his word when he explicitly emphasises that the 'Imperialism of England' was 'essentially but not an exclusively' an economic phenomenon,⁵⁰ or in another context when he stresses with regard to 'modern' imperialism that: 'everywhere some definite economic or political gain is sought by the Imperial aggressor'.⁵¹ In

fact, as we saw, his discussion is much too complex to be subsumed under the heading of mere 'economic explanation'. Thus he believes, already in *Imperialism: A Study*, that aggressive imperialism after 1870 to a great extent relied on the emergence of, or relapse back to, a barbaric vision of international relations as a violent struggle for the survival of the fittest among nation states. According to Hobson the emergence of theories of socio-Darwinist tendency, including race theories, as well the (revival) of increased nationalism and 'misguided' patriotism, can only be understood in relation to the development of new socio-economic processes at the end of the nineteenth century which implied the building up of a trust-like 'organised' capitalism which used protection and aggressive imperialism as weapons in order to protect the interest of the capitalist state. Without doubt, Hobson's discussion in this context comes very close to the view Schumpeter developed some decades later in his well-known essay *Zur Sociologie der Imperialismen* (1919). As with Hobson, Schumpeter of course emphasises that imperialism must to some extent be regarded as an atavism. It could only be understood as a result of a political capture of the state by social forces and groups inherently alien to democratic laissez-faire institutions. More openly in countries like Germany and Austria this was also pertinent for Britain but in a more indirect and hidden sense. Further, as with Schumpeter, imperialism is irrational from the point of view of the capitalist system as such. Only a small minority gains from it while everybody else loses. To a large extent, therefore, imperialism is an irrational phenomenon which could only have been brought about by a minority through the use of ideological and political means. Hobson is thus very far from Lenin's insistence on imperialism being both a rational and an irresistible part of an expanding capitalist system.

As noted above, Hobson's stubborn insistence on dealing also with ideological and political factors in his discussion on imperialism has puzzled many of his interpreters. However from the point of view of Hobson's overall institutional and historical approach to economic phenomena this of course should not surprise us. For Hobson, political and moral factors were inseparable from economic ones. However, if we tend to regard Hobson's *Imperialism: A Study* as a prototype of Lenin's *Imperialism as the Highest Stage of Capitalism* the chapters on politics and ideology doubtless seem out of place and it becomes easy to interpret Hobson's argument in a much too 'economistic' fashion. For Hobson himself, we must insist however, that these chapters are an inseparable part of his total argument.

(2) It must be admitted that Hobson did not believe that the annexations of new colonies – for example in Africa – after the 1870s could be exhaustively explained in economic terms or as a rational quest for more markets

and investment opportunities, but must in the first place be regarded as a highly irrational process pursued by militaristic politicians and financier capitalists mainly to serve the first group's warlike appetite and the latter's economic interests. From this ought to follow that it is naive to interpret Hobson as trying to explain every annexation after 1870 in economic terms; or to believe that he should have thought that no colonies were annexed before 1870 for economic reasons – as (implicitly at least) suggested by adherents to the free trade imperialism formula. In this sense there might not be – not at least with regard to Britain – such a definite break between the periods before and after 1870. In fact, in some later texts, for example in *Democracy after the War* (1917), he explicitly stressed that imperialism could have other motives than purely economical.⁵²

However, the crucial question seems to be: can one speak of the emergence of new factors after the 1870s which to some extent accelerated the scramble for new territories or led this urge into new directions (for example to annex in a greater proportion areas inhabited by native populations which from the point of view of trade and white settlement seemed to be of rather scant interest, at least in a short-run perspective)? Unfortunately this important problem has not been seriously taken account of by Hobson's critics, who mainly have been content with showing that in many cases there were no direct links between imperial expansion and economic interests – or that such motives only developed during the last decades of the nineteenth century. Surely, however, the period after 1870 demonstrated the emergence of new political as well as economic traits, which up to a point can explain the increased competition for colonies during this time. We have already mentioned on the economic side – as noted by Schumpeter, as well as Hilferding, for example – the emergence of trusts and big industry hand in hand with the introduction of a policy of protection and increased trade barriers. To this we must also add, of course, the entry of new European powers to the colonial race, the build-up of strong tensions between different expanding nations as well as between nation-systems, etc. All this is commonplace: but can we then avoid the conclusion that a set of socio-economic and political forces were let loose at the end of the nineteenth century which among other things gave rise to aggressive, 'irrational', imperialism on a scale that was hardly possible before?

(3) A crucial point in the critique of Hobson has been to question his 'over-saving' argument, especially its supposition that capital was exported abroad in order to gain a higher return.⁵³ That Hobson still might have a case here at least with regard to Britain has been shown in an important contribution by Michael Edelstein. In the first place this author is able to show empirically that the net return for overseas portfolio investments – which of

course was the main form of investment during the whole pre-1914 period – was higher than holdings of domestic portfolio investments – in some cases considerably higher. This was especially the case in the period 1897–1909, mainly due to the strength of the US and Latin American portfolio returns but even more importantly owing to an unusual weakness in almost all sectors of the domestic portfolio. Of course this does not at all have to imply that there is a causal affinity between aggressive imperialism and the higher rates of return to be captured by foreign lending during this period. However, Edelstein probably comes closest to the truth of how this relationship should be comprehended historically when he admits that these returns were only to some extent earned in regions where Britain expanded its formal rule during this period, but argues that ‘it is plausible to hypothesize that these optimistic investment conditions abroad affected both the ideology and politics of the groups most interested in expansion and lowered the resistance of some of their opponents’.⁵⁴

Seen against this background Hobson’s insistence on the role of capital export and foreign lending in order to increase the rate of return of investments seems hardly exceptional. Rather, it seems to have been shared by many observers during this period. As Edelstein suggests it probably also influenced the general public as well as the politicians during this period into believing that to secure financial markets abroad was a sound policy. However, as suggested above, this economic factor is also paired with ideological and political components in Hobson’s discussion and cannot be looked at in isolation.

In his study Edelstein also put Hobson’s general oversavings hypothesis to an empirical test and with the help of some simple formal modelling draws the following conclusion: ‘Although Hobson’s view of oversaving does not explain the trend of all cycles in net foreign lending in the years 1850–1913, a reformulated concept of oversaving seems to fit the facts of particular episodes at the origin of the 1877–90 and 1903–1913 foreign investment surges’.⁵⁵

(4) As has already been suggested it is also an oversimplification to suggest that Hobson’s analysis of the causes of aggressive imperialism relies on a crude version of the underconsumption theory. In fact there is only an indirect relation between oversaving, underconsumption and capital export as the ‘taproot’ of imperialism. Hence in *Imperialism* he only in passing refers to his general analysis of oversaving and underconsumption as for example formulated in *The Physiology of Industry*. Seemingly uncertain whether his general theory of oversaving is applicable in this case he here mainly refers to oversaving in a relative sense; namely in the form of a decline of the level of interest (or profits). Thus if oversaving exists as a

general phenomenon it is here manifested by a drop in the return for capital – as pointed out by many interpreters it is clear that Hobson is in contradiction to Keynes's thought that all savings were invested.⁵⁶ Thus, in a theoretical as well as a historical sense Hobson's argument that capital export during this period to some extent at least relied on a relative decline in the rate of return on investments – an argument made quite plausible by the work of Edelman for example – does not necessitate his (and Mummery's) general theory of oversaving. In line with Kalecki and others it is possible to interpret him as merely saying that the capturing of 'external markets' was an important way to increase 'external' profits during this period.⁵⁷ However, it is doubtful whether Hobson would have agreed to this. Without doubt – for example as stated in *The Problem of the Unemployed* (1896) – he would have seen such a decline in the rate of profit as a secondary phenomenon linked to the general existence of oversaving: it would, as a prime mover, lead to excess capital investment which would lead to overproduction which in turn would lead to a business depression, lower profits, etc. – and then to a liquidation of excess capacity and a new upswing of the business cycle. However, as John King shows in Chapter 7 in this volume, he was still reluctant to admit that this apparent decline of the interest rate in the down-turn of the cycle would lead to a check on oversaving. This mechanism only operates slowly, he maintains, as the net savings of one year only represent a small fraction of the total stock of capital.⁵⁸ However, it is not our aim here to deal extensively with Hobson's underconsumption theory which is very complicated as it is and also went through some development over time.⁵⁹ What I rather want to stress is that Hobson's argument here does not necessarily link directly with the oversaving argument developed in his earlier works and capital export. Thus as a historical description it can be accurate without such a theoretical dressing.

However, as also suggested above, his discussion elsewhere in this volume relies to an even greater extent on an institutional and historical argument which was later developed by other scholars of such different theoretical persuasions as Schumpeter⁶⁰ and Steindl⁶¹ – as well as Kalecki to some extent.⁶² Thus according to Schumpeter a trust-like economy relying on a policy of protective markets faces a real dilemma: it can only sell a part of its wares if it has a capacity to produce at a high monopoly price within its own protected market and must therefore either dump its 'surplus' somewhere else or invest its capital elsewhere: taking into account the high barriers of entry in a trustified economy this might mean that it has to export that surplus.⁶³ Or according to Steindl – relying heavily upon Kalecki's *Studies in Economic Dynamics* – the internal accumulation in productive industries, especially where entry by new bidders is difficult, 'tends to

exceed the amount required for expansion of capital equipment in these industries' while at the same time 'the flow of the surplus funds into other industries is impeded by the additional effort required for entering new lines which weakens the incentive to invest for the owners of these funds'.⁶⁴ He also interprets the US situation at the turn of the century in a sense which come close to Hobson's and Schumpeter's historical argument:

already towards the end of the last century – in the 1890s – the American economy had undergone a transition which gave considerable weight to the oligopolistic pattern in the total economy. This transition had raised profit margins at that time . . . As a consequence there should have been a fall in utilisation below the previous level. We might regard the big depression in the middle of the nineties as the signal of these difficulties arising from an increase in profit margins, and subsequent fall in effective demand in relation to capacity.⁶⁵

It seems it was towards such a historical and institutional interpretation that Hobson was directing in his discussion. Hence, firstly, Hobson's *Imperialism* should rather be regarded as a precursor of modern institutional economics than merely as a prototype of the defunct Leninist theory of imperialism. Neither should it be regarded as a mere illustration of the general oversaving theme developed elsewhere by Hobson. Rather, it must be regarded and scrutinised in its own right. Hobson himself might have seen a clear link between oversaving and imperialism. However, as our discussion has suggested, his analysis is far too multi-layered and historical to be regarded merely in such terms. Therefore essentially, although with obvious shortcomings, Hobson's book should still be regarded as a landmark in its ambition to depict the main causes behind the dramatic contest for colonies which undoubtedly was a characteristic feature of the late nineteenth century. In its effort to assemble political, ideological and economic factors it still deserves our careful attention.

Notes

1. I want especially to thank Michael Freeden, Jules Townshend, John King, Alon Kadish and Michael Schneider for comments on an earlier draft of this paper.
2. R. Koebner and H.D. Schmidt, *Imperialism. The Story and Significance of a Political Word, 1840–1960*. (Cambridge, 1964), p. xix.
3. *Ibid.*, p. 221.
4. *Ibid.*, p. 221.
5. *Ibid.*, p. 223.
6. G. Arrighi, *The Geometry of Imperialism – The Limits of Hobson's Paradigm*

- (London, 1978), pp. 24, 25. For another standpoint see for example B. Sutcliffe, ed, *Studies in the Theory of Imperialism*, p. 315.
7. For a general discussion of the anachronistical tendency in most mainstream history of economics, see for example K. Tribe, *Governing Economy*. (Cambridge, 1988).
 8. J.A. Hobson, *Confessions of an Economic Heretic* (London: 1938), p. 59.
 9. 'Free trade and foreign policy. *Contemporary Review*, vol. 74, (1898), pp. 167–80, 183–4.
 10. *The War in South Africa: Its Causes and Effects*. (London, 1900), pp. 243–78.
 11. J.A. Hobson, *Confessions of an Economic Heretic*, p. 61.
 12. J.A. Hobson, *The War in South Africa*. (London, 1900), pp. 52f.
 13. *Ibid.*, pp. 63ff, 96ff.
 14. *Ibid.*, p. 112.
 15. *Ibid.*, p. 206.
 16. *Ibid.*, p. 189.
 17. *Ibid.*, p. 229.
 18. *Ibid.*, p. 231.
 19. J.A. Hobson, *Imperialism: A Study*. 3rd edn (London, 1938), p. 13.
 20. *Ibid.*, p. 27.
 21. *Ibid.*, p. 35.
 22. This view he seems to have retained to a large extent also in his later writings. For a treatment see P.J. Cain, 'Cobdenism and the radical theory of imperialism', *Economic History Review*, 2nd series, vol. XXXI (1978) and the same author, 'Variations on a famous theme: Hobson, international trade and imperialism 1902–1938', in M. Freeden ed., *Reappraising J.A. Hobson. Humanism & Welfare* (London, 1990), pp. 32f.
 23. J.A. Hobson, *Imperialism*, p. 30.
 24. *Ibid.*, p. 46.
 25. *Ibid.*, p. 47.
 26. *Ibid.*, p. 57.
 27. Cf. especially K. Kautsky, 'Ältere und neuere Kolonialpolitik', *Neue Zeit*, 1898, pp. 769ff. See also his later *Der Weg Zu Mach* (1909) in which he reiterates his views.
 28. J.A. Hobson, *Imperialism*, pp. 75f.
 29. *Ibid.*, p. 85.
 30. J.A. Hobson, *Confessions*, p. 66.
 31. *Ibid.*, p. 109.
 32. V.I. Lenin, *Collected Works*, vol. 39(Moscow, 1974), pp. 405ff., 419.
 33. J.A. Hobson, *Confessions*, p. 63.
 34. J.A. Hobson, *The Morals of Economic Internationalism*. (Boston and New York, 1916), p. 16.
 35. For the important discussion around these themes see M. Freeden, 'Hobson's evolving conceptions of human nature', in M. Freeden, ed., *Reappraising J.A. Hobson. Humanism and Welfare*, pp. 54ff.
 36. J.A. Hobson, *Imperialism*, p. 163.
 37. J.A. Hobson, *The Psychology of Jingoism*, pp. 18ff. For this see M. Freeden, 'Hobson's conceptions of human nature', pp. 61f.
 38. J.A. Hobson, *Imperialism*, p. 145.
 39. *Ibid.*, pp. 150f.

40. *Ibid.*, p. 232.
41. *Ibid.*, p. 283.
42. See P.J. Cain, Variations on a famous theme: Hobson, 'International Trade and Imperialism, 1902–1938', in Freedon (1990).
43. See for example R. Robinson, J. Gallagher, A. Denny, *Africa and the Victorians. The Official Mind of Imperialism* (London, 1961); J. Gallagher, R. Robinson, 'The Imperialism of Free Trade', *Economic History Review*, 2nd series, vol. VI, no. 1 (1953); B. Semmel, *The Rise of Free Trade Imperialism: Classical Political Economy, the Empire and Imperialism 1750–1850* (Cambridge, 1970). See also the overview of the debate in R. Louis, ed., *Imperialism. The Robinson and Gallagher Controversy* (New York, 1976).
44. D.K. Fieldhouse, (1961), p. 196. Cf. also by the same author, *The Colonial Empires* (London, 1965) and *The Theory of Capitalist Imperialism* (London, 1967). See also M. Barrat-Brown, *The Economics of Imperialism* (Harmondsworth, 1974), ch. 6, 7, 8.
45. J.A. Hobson, *Imperialism*, p. 62.
46. G. Paish, 'Great Britain's Capital Investments in Individual Colonies and Foreign Countries', *Journal of the Royal Statistical Society*, vol. LXXIV (1911); A. K. Cairncross, *Home and Foreign Investment 1870–1913* (London, 1953); and J. Simon, 'The Patterns of New British Portfolio Foreign Investments 1865–1914', in H. Adler, ed., *Capital Movements and Economic Depression* (London, 1967).
47. See for example D.K. Fieldhouse, (1961), p. 199.
48. M. Edelstein, *Overseas Investment in the Age of High Imperialism. The United Kingdom, 1850–1914* (London, 1982).
49. D.K. Fieldhouse, (1965). See further, B. Semmel, *Imperialism and Social Reform: English Social-Imperial Thought 1895–1914* (London, 1960).
50. J.A. Hobson, *Imperialism*, p. 105
51. *Ibid.*, p. 200.
52. J.A. Hobson, *Democracy After the War* (London, 1917), pp. 90ff.
53. D.K. Fieldhouse (1961).
54. M. Edelstein, *Overseas Investment*, p. 159.
55. *Ibid.*, p. 195.
56. For a recent discussion on the relationship between Hobson and Keynes on this point see P. Clarke, 'Hobson and Keynes as economic heretics', in M. Freedon, ed., *Reappraising J.A. Hobson*, especially pp. 104f.
57. M. Kalecki, *Theory of Economic Dynamics* (London and New York, 1968).
58. J.E. King, J.A. Hobson's macroeconomics: the last ten years (1930–40) – Chapter 7 of the present volume.
59. See for example the contributions by J.E. King and M. Rutherford to this collection. See also J. Allet, *New Liberalism: The Political Economy of J.A. Hobson* (Toronto, 1981).
60. See the English edition of his essay on imperialism in J. Schumpeter, *Imperialism and Social Classes* (New York, 1951).
61. J. Steindl, *Maturity and Stagnation in American Capitalism* (New York and London, 1976).
62. M. Kalecki, *Theory of Economic Dynamics* (New York, 1968).
63. J. Schumpeter, *Imperialism and Social Classes*, pp. 104ff.
64. J. Steindl, *Maturity and Stagnation*, p. 55.
65. *Ibid.*, pp. 191f.

9 Three Modes of Internationalism in the Work of J.A. Hobson

David Long¹

INTRODUCTION

J.A. Hobson's discussions of international relations have a wide range: from proposals for an international government to a critique of the League of Nations, from a defence of free trade to proposals for international economic organisation. While most studies of Hobson's international relations concentrate on the theory of imperialism, this paper examines J.A. Hobson's internationalism.

Hobson's writings on domestic politics, economics and society have been interpreted as New liberal.² New liberalism transformed liberalism through a refutation of the doctrine of *laissez faire* and a turn towards state intervention in the economy. As Freedon has remarked, Hobson's analysis of one issue or subject tends to relate to his discussions of others.³ One is prompted, therefore, to wonder if there is a New liberal approach to international relations in Hobson's work.

If 'internationalism is the idea that we both are and should be part of a broader community than that of the nation or the state',⁴ then Hobson's approach to international relations is internationalist. Despite his concerns over imperialism, Hobson believed that the growing interactions of actions were a factor of growing importance in international relations.⁵ Hobson's internationalism fits well into Fred Halliday's delimitation of liberal internationalism: Hobson's is 'a generally optimistic approach based upon the belief that independent societies and autonomous individuals can through greater interaction and cooperation evolve towards common purposes, chief among these being peace and prosperity'.⁶ Hobson's position on international relations has been described as Cobdenite.⁷ This reading of Hobson's international relations is disputed here. Three modes of internationalism are identified in Hobson's writings.

Hobson devoted much of his time and energy to addressing the 'social problem'.⁸ His internationalism is a response to what can be called the

international problem. International relations, through imperialism, had for some time been part of the social problem. However, the First World War and the attempts to create a universal international organisation to establish post-war international order made the international problem a problem in its own right, for Hobson as for other liberals and socialists.

As its most general and abstract, the international problem poses a problem for an internationalism built on the premises of Hobson's New liberalism. New liberalism involved the turn in liberalism to a conception of a beneficent, interventionist state. In international relations there is no central authority to which to appeal.

Whereas men [*sic*] within each state are subject to a common government, sovereign states in their mutual relations are not. This anarchy it is possible to regard as the central fact of international life and the starting-point of theorizing about it.⁹

What, then, if anything, can a New liberal 'turn' in international relations mean? Presumably, liberal internationalism must seek to overcome the anarchy of international relations in order to pursue the greater welfare of humanity at large. This chapter examines Hobson's internationalism as the interaction of the international problem and his New liberalism.

Hobson's internationalist writings solve the international problem in three distinctive ways. This gives rise to three modes of internationalism. The first is Cobdenism. Continuing a radical liberal tradition, this mode of internationalism emphasises free trade in international economic relations and non-intervention in other nations' domestic political affairs. It thus eschews the need for an international government or governmental intervention in international relations. Indeed internationalism is seen to be based solely on non-governmental relations of non-state actors, individuals and sub-national groups. The fundamental assumption underlying Cobdenism is the limitations placed on politics and encouragement of economic relations as the basis of internationalism.

The second mode of internationalism is Hobson's constructive internationalism. Included here are Hobson's discussions of the development of international organisations, his recommendations for emergency measures following the First World War, and his general discussions of internationalism in his books on welfare economics. Constructive internationalism involves governmental action at both national and international levels, and can be interpreted as Hobson's New liberal turn from Cobdenite tradition. Underlying this internationalism are two concepts of central importance to Hobson's work as a whole. First, the notion of cooperative surplus and the

human law of distribution is applied to international economic relations. Second, Hobson's analogy of society to an organism is extended to include the whole of humanity.

The third mode is institutional reform of international relations. Hobson recommends a centralised international government, with executive, legislative and judicial functions and powers. The premises of this mode of internationalism are that swift centralisation of force in an international government is required if an international society is to be established. In short, international order and peace have to be secured through an international government before human welfare can be attended to. As we shall see, this approach rests on a rather crude form of the domestic analogy, the analogy of states in international relations to persons in society. It appears in Hobson's writings as he faced the urgent, practical need to control the international anarchy that had precipitated the First World War.

These three modes of internationalism are each a response to the international problem, though in different ways. Cobdenism sees the formation of an international government or any governmental intervention as inimical to internationalism. It would be an interference in the free intercourse of peoples that constituted internationalism. The most that an international government would be required to do in this perspective would be to act as holder of international law; it would in short be a classic example of the night-watchman state writ large.¹⁰ Constructive internationalism, on the other hand, sees governmental intervention as integral to the progress of internationalism and to ensuring its justice. International government is a logical corollary of the emerging international society. International government created through the actions and interactions of nations and states, as international federal and functional institutions are created to facilitate their day-to-day dealings with each other. This in turn contrasts with institutional reform that seeks to maintain peace through the creation of a unitary international governmental mechanism order to prevent international conflict and keep unlawful states in line.

This chapter examines the three modes of internationalism in Hobson's writings. Unlike Bernard Porter's recent paper on Hobson's internationalism, the chapter is not organised historically, but analyses the logic of the modes of internationalism.¹¹ It then proceeds critically to assess Hobson's internationalism as a part of his New liberalism. The first, second and third sections of the chapter describe the modes of internationalism in Hobson's writings and the central assumptions underlying each. In the fourth section I consider the implications of these attempts to reconcile New liberalism and the international problem. While the three modes appear to be logically distinct, the evolutionary perspective of Hobson's New liberalism can re-

solve them, if only within Hobson's own New liberal framework. The fifth section examines some of the central theoretical problems of a New liberal internationalism. The chapter concludes with a few remarks on Hobson's place in the development of liberal internationalism.

COBDENISM

Hobson's writings on international affairs continue the liberal tradition of thinking on international relations of radicals such as Cobden and Bright. The radical liberal critique of the aristocratic meddling of foreign politics, and the advocacy of free trade and non-intervention forms the basis for Hobson's Cobdenite internationalism and also for his critique of imperialism. The importance of international relations to Hobson's liberalism can be measured by the fact that he left the Liberal Party over its abandonment of free trade.

Hobson, following Cobden, argued in favour of increased international connection through the webs of commercial and cultural exchange. Hobson confessed to being steeped in Cobdenite principles.¹² Cobdenism involved two arguments derived from the so-called negative conception of liberty: the political principle of non-intervention in the affairs of other nations, and the encouragement of free exchange between nations. The political principle suggested that nations be left to their own devices and that '[a] true strong internationalism in form or spirit would . . . imply the existence of powerful self-respecting nationalities . . .'.¹³ In Hobson's *Imperialism*, internationalism is the alternative to the choice of imperialism or nationalism. Hobson followed Cobden in his belief that, without the perverse influence of imperialism, '[n]ationalism is a plain highway to internationalism.' Hobson proposed non-intervention as one solution to the interventionist foreign policy of imperialism. In *Imperialism*, however, his critique of imperialism is couched in Cobdenite terms, though the analysis resting on underconsumption tends to undermine Hobson's Cobdenite credentials.¹⁴

Hobson applauded the growth of commercial connections between nations and stressed that, in international affairs, economic relations were in the vanguard of internationalism.¹⁵ Hobson's Cobdenite internationalism stressed the benefits of commercial intercourse as the fount of peace and prosperity: 'commerce has always been the greatest civilizer of mankind. All other fruits of civilisation have travelled along trade routes . . . Cut off commerce, and you destroy every mode of higher intercourse.'¹⁶ Hobson would have agreed, it appears, with Cobden that 'commerce is the great panacea, which, like a beneficent medical discovery, will serve to inoculate

with the healthy and saving taste for civilisation all the nations of the world'.¹⁷ Similarly, Hobson rejected the arguments for protection: '[t]he more numerous and higher tariff barriers by which each nation seeks to minimise its co-operation with its neighbour, is a continuous source of friction and ill-will'.¹⁸ A policy of free trade, according to this argument, makes for easier and more pacific relations between nations as each respective party to commercial deals realises his or her interest in maintaining peaceful contact with their trading partner.

In the decade before the First World War, Hobson extended the Cobdenite argument to international financial integration. He became something of a disciple to Norman Angell, stressing the importance of international financial interdependence as a source of peace. He claimed that '[m]odern finance is the great sympathetic system in an economic organism in which political divisions are of constantly diminishing importance'.¹⁹ During the War, he was a prominent member of the Union for Democratic Control (UDC), the twentieth century inheritor of the radical liberal critique of foreign policy.

Hobson's Cobdenite internationalism appears to deprecate politics at the expense of economics and to rest on what Richard Ashley has called economism, 'an exaggeration of the economic sphere's importance in the determination of social and political relations, and as a result, an underestimation of the autonomy and integrity of the political sphere'.²⁰ Examples of the influence of economism include the use of national income as the prime indicator of development or of great power status, or growing national income as the sole goal of national economic policy. Other economic arguments are that outflows of capital to foreign countries cause imperialism; that free trade leads to the peaceful relations of states; or that the satisfaction of welfare needs causes international integration and removes the causes of international conflict. So far as he followed Cobden, Hobson's internationalism remains part of a tradition of liberal thought that privileges economic over political factors. Furthermore, it might be argued that, as an economist, Hobson might be expected to accord importance to economics in his work.

This economism, if such it is, does not extend to Hobson's writings as a whole, however. Indeed, Hobson's Cobdenite internationalism sits uneasily with his critique of *laissez faire* in the domestic economy. Hobson attacked the domestic policies of the Manchester School even as he supported Cobdenite internationalism. Hobson was fervently critical of the separation of politics from economics, and his studies in welfare economics were an attempt to 'transform economics into a broader study of human welfare. Indeed, Hobson was a heretical economist because he accorded influence to

non-economic factors.²¹ The critical science for Hobson was not in fact economics but ethics, the science of human values as Hobson thought of it.²²

What, then, of Hobson's economism in this mode of internationalism? Hobson argued the moral rather than the economic case for free trade:

[E]very bond of economic interest involves a moral obligation also. If it is true that the fabric of commercial relations is all the time being knit closer between the different peoples of the earth, then moral isolation and the antagonism which earlier statecraft inculcated . . . must be dissipated and give place to active sentiments of human cooperation.²³

The main aim of Hobson's internationalism is ethical, human welfare; for Hobson, economic and ethical considerations are intermingled, but the latter may be said to predominate.

The idea that Hobson's internationalism is based on an emphasis of economics over politics is further qualified by his reaction to the Great War and his reassessment of the opinions he had held prior to the War. After the War, he acknowledged the failure of *laissez faire* and of international free trade, especially with the onset of the Great Depression. Political arrangements became more important in the light of the stark facts of the War that '[t]he complex informal web of international relations through commerce and finance has proved as feeble a defence of peace as the more formal bonds of treaty and of international law'. He came subsequently to emphasise the importance of international political arrangements for the task of maintaining international intercourse, including commercial and financial relations, and acknowledged that 'it has been the absence of any legitimate political organism through which economic internationalism might operate that has been the cause of its comparative impotence.'²⁴

CONSTRUCTIVE INTERNATIONALISM

Hobson went beyond the economic internationalism of the Cobdenism. As Hobson put it in closing his book on Richard Cobden,

Modern internationalists are no longer mere noninterventionists, for the same reason that modern Radicals are no longer philosophic individualists. Experience has forced upon them the truth that governments are not essentially and of necessity the enemies of personal or national liberty, but that upon certain conditions they may become its creators, either by

removing fetters or by furnishing the instruments of active co-operation by which both individuals and nations better realize themselves.²⁵

Hobson's discussions of inter-governmental cooperation also qualify the assessment that Hobson was a Cobdenite. Hobson referred to his modification of Cobdenism as 'constructive' (or positive) internationalism. Constructive internationalism involves increased governmental intervention in international relations and also international organisation, both inter-governmental and non-governmental, and perhaps a central international government to manage human welfare in the international society. Hobson's constructive internationalism covers his discussion of the growing level of inter-governmental organisation to deal with common interests; Hobson's suggestions regarding the international arrangements for a swift recovery from the ravages of World War One; Hobson's remarks concerning the relevance of international government to the relations of advanced and backward nations and on the issue of population; and the ideal of internationalism conveyed in his broader works, such as *The Social Problem, Work and Wealth, Wealth and Life*, and in his inter-war books on the Depression.

Hobson discussed the development of international organisations such as The Hague and the ILO. With improved international communications, as seen in the Hague Congresses and international organisations set up to smooth international relations in the face of recent technical developments. Hobson saw this as the basis of a new arrangement of international relations, a new form of internationalism.²⁶ In particular, he noted the emergence of the functional international bodies such as the Inter-Telegraphic Union and the Universal Postal Union. Hobson also refers to the increasing institutionalisation of the Concert of Europe and in The Hague.²⁷ In *Imperialism*, Hobson proposes international government as one of the necessary elements of a just solution to the problem of the development of backward countries and to oversee the control of world population growth.²⁸ Finally, in his proposals for post-war reconstruction, Hobson also proposes inter-governmental cooperation and suggests an international government would be a good idea. For Hobson, the inter-war period was a time when humanity had to face the task of reconstructing domestic and international, social, political and economic arrangements after the dislocations and destruction of the Great War.²⁹

Hobson observed in *Evolution of Modern Capitalism* that an interdependent society of nations had emerged since the industrial revolution. He considered the financial integration of the world in *Economic Interpretation of Investment*, and was convinced that there was a world economy, not several national economies.³⁰

Hobson's constructive internationalism follows from the supersession of the conditions in the world economy for Cobdenite internationalism. Constructive internationalism entails the application of Hobson's theory of the cooperative surplus, the economy of organisation and the human law of distribution to this interdependent global economy. Hobson saw that the logic of the cooperative surplus, that he had first developed in *The Social Problem*, applied beyond the boundaries of national societies. Hobson also applied his analogy of society to an organism to the 'society of all mankind'.

Cooperation and International Organisation

The basis of Hobson's conviction that there was a process of increasing international organisation is his theory of cooperative surplus in which 'organised cooperation' is seen as productive of human value.³¹ It follows that international cooperation, being cooperation, has a similar result. Following the classical political economy logic of the division of labour and specialisation, the wider and deeper the division and specialisation, the greater the gains to the participants and the cooperating group as a whole. Increasing interdependence is a consequence of cooperation to realise surplus value. Hobson deviates from classical political economy in his emphasis on the social aspect of all production and cooperation, and also in his critique of capitalist distribution, substituting his own theory of distribution centring on the distinction between costs and (unproductive) surplus.³²

Hobson's arguments are premised on the idea that society is a cooperative group, of which the state is the administrative organisation. The state was thus the regulatory mechanism of the entire economic system. Thus, applied to international relations, Hobson's theory of surplus value ultimately suggested the ideal of an international federation of cooperating nations to maximise human welfare.

Hobson's theory of surplus value suggests the supersession of the disorganised system of *laissez faire* in economics, and its analogues in politics and society, by organised cooperation. Man could now intervene to prevent the irrationalities of the *laissez faire* system.

For Hobson, human society was evolving through improved communication between people towards a society of all mankind:

There is in the modern widening of human intercourse a large and various growth of common interests and activities among men of different nations which for certain purposes requires and evokes the friendly co-

operation of States and calls into being genuinely international institutions.³³

Hobson called for international redistribution of wealth to avoid global underconsumption on the basis of this existence of a world economy and society:

Closer and more effective international movements for such improvements in the distribution of income as will enable world consumption to keep pace with and stimulate improvements in production, form the foundation of the progressive economy and the humaner civilisation of the future.³⁴

For Hobson, the ideal of constructive internationalism meant firstly the abandonment of *laissez-faire*, and secondly the setting up of 'functional' institutions and instruments of governance at the international level to control the operations of the world society and economy to ensure the achievement of the highest human welfare. With the advent of the global economy, cooperation in the market was already international, and there was a need for international control and organisation to produce the maximum welfare. Hobson claimed that '[t]he chief desiderata of economic welfare, productivity, and economic justice, are impractical without international government' and he believed that '[r]eal internationalism means that nations and their governments shall consciously realize and co-operate in achieving common forms of welfare, positive in their nature and consciously conducive to the prosperity of the world.'

Humanity as a Social Organism

Michael Freeden and others have identified the organic analogy that runs through Hobson's work as central to an understanding of Hobson's thought.³⁵ Hobson applied the analogy of society to an organism, and the corollary of federalism, to international relations. Thus extending the 'organic analogy' to international relations creates an internationalism in which inter-state relations appear as just one part of a global society of all humanity.

For Hobson:

Internationalism, as a policy of peace and progress, demands that the individual feelings of goodwill which give substance to the smaller groupings, from family to nation, shall be so extended that the single

citizen of England, America, Germany, France, Russia, shall supersede the governments of these countries as units of internationalism.³⁶

Hobson was hoping for

the displacement of national by human sentiment, involving a willingness to sacrifice the interest of one's own nation for the general good of humanity, . . . the spirit needed to make the mind of modern man conform to the moral and economic fabric of the world in which we live.

This did not lead Hobson to conceive of humanity as a global mass society of isolated individuals. From the perspective of the individual '[e]veryone lives in a series of concentric circles of association which affect him in general as a human being. Such are the home, the neighbourhood (village or town), his class, his country, the world.'³⁷ These concentric circles were the product of cooperation discussed above.

The organic analogy extended to international relations is the basis of Hobson's attacks on the claims of priority of separate national interests in international relations. That there is a global social organism implies that such national separatism is harmful to the whole of humanity and also to the members of that nation. Hobson's approach thus renders sovereign rights contingent on global welfare. He believed that:

History is rife with instances where fear, hubris, or hate, rushes nations into wasteful or destructive wars. So likewise the narrow selfishness of small group-life everywhere cramps the progress of humanity, the preference of our city to our country, our empire to the world, in matters where the wider is the truer economy.³⁸

However, the analogy of the humanity as an organism did not lead Hobson to posit the need of a unified world state. Rather, by utilising the principle of federalism, rule should be balanced between national and international interests.

The principle of federalism must qualify the principle of self-determination. This is the harmony of unity and diversity as it shows itself in every field of conduct. Autonomy so far as aims are separate, union so far as they are identical. Federation connotes the political harmony of the opposing principles. Upon every scale of social cooperation, from family to humanity, the problem is continually before us.³⁹

Hobson thus proposed a federation of nations as the future method of world organisation superseding the balance of power, derived from the extension of the organic analogy to international relations:

It [federalism] may be regarded as an economy of government, each area, from the family through the widening areas of local and national government to internationalism, practising free self-government in such matters as fall predominantly within the compass of its own knowledge, interest and capacity . . . Its moral root lies in the basic concept of fraternity, interpreted in various phases and areas of the common life, the humanity which binds man to man ever more closely as practicing furnishes closer and more numerous modes of communication, material, intellectual and moral.⁴⁰

In summary, constructive internationalism in its practical application is seen in the increasing levels of cooperation and organisation in international relations. Underlying this analysis is Hobson's ideas of cooperative surplus and the notion of humanity as a social organism that prompt his ideal of an international federation of nations. Hobson's analysis does not focus on international relations solely, but considers international relations as part of the emerging world society. This world society is not identified with any one level of relations, personal, professional, social, international, but applies to all of them. Hobson's constructive internationalism of international organisation is thus a theory of an emergent world society, not of inter-state relations. It is a vision of international relations as one part of a global network of interaction, cooperation, and organisation.⁴¹

INSTITUTIONAL REFORM OF INTERNATIONAL RELATIONS

Hobson adopts an altogether different approach in his proposals for institutional reform of international relations during the war and in the inter-war period. While the first two modes of internationalism begin with nations as their units, Hobson's institutional reform is aimed at the anarchical international realm of states. The clearest indication of this is the reference throughout the first half of *Towards International Government* to 'Powers', a term Hobson elsewhere condemned.⁴² Hobson conceived international society as a society of nations, not of states, and criticised the state-centric view of the balance of power(s) as merely the ideology of old diplomacy.⁴³ Hobson's institutional arrangements for peace and order in international relations, on

the other hand, gives priority to factors of power. This is anomalous in terms of much of the rest of work and the other forms of internationalism.⁴⁴

Hobson proposed an international government to fulfil the need for some form of sanction to deter states from engaging in aggressive war, during and shortly after the First World War. He proposed the establishment and potential use of central international force to back up the decisions made in international arbitration and the international court. He advocated a structure of international government with a legislature to make and strengthen international law and an international executive council to direct the use of the international force. He emphatically denied the national right to make war.⁴⁵

These proposals for an international government might superficially appear similar to the evolution of international institutions to achieve international economic equality. There is, however, a fundamental difference between constructive internationalism and the constitutional approach to problems of international disorder and conflict in Hobson's institutional reform proposals.⁴⁶ Constructive internationalism is in essence incremental and founded on the establishment of functional institutions to satisfy (broadly economic) welfare; Hobson's proposals for the institutional reform of international relations are strictly practical, constitutional measures aimed at controlling a political situation.

If the first two modes of internationalism can be labelled peace through exchange and peace through organisation respectively, then Hobson's institutional reform is peace through power. This 'peace through power' entails two steps: first, the creation of a comprehensive body of international law prohibiting the national right to make war; and second, a centralised force to support and enforce that law, imposing sanctions where necessary. While Cobdenism and constructive internationalism appear to posit the growth of international society as a prerequisite for international peace, here the establishment of international peace is the necessary condition for international society.

Hobson justified his proposals by asserting that international government 'involves . . . the introduction of no new political principle, but only an extension of that moving force of the mutuality of interests which has everywhere and always been operative upon smaller areas'.⁴⁷ Underlying the institutional reforms then is a rather simple-minded domestic analogy as states to persons in society.⁴⁸ This permits the transposition onto international relations of certain domestic institutions or arrangements on the basis of the similarity between domestic society and international relations. Because these institutions have 'worked' domestically, they will also work in the international arena.⁴⁹ Domestic analogy entails the analogy of states or

nations as persons, and the application of institutional arrangements between states or nations analogous to those between persons in domestic society. Domestic analogy is the basis for an internationalism of institutional reform, where the international institutions proposed are similar in form to those in domestic societies. A state's rights or duties in relation to the international government are understood through an analogy with the rights and duties of individuals in respect of the domestic state.⁵⁰

NEW LIBERALISM, THE INTERNATIONAL PROBLEM AND THE THREE MODES

What are we to make of these three distinct modes of internationalism? Analytically they appear to be mutually exclusive. It would appear that constructive internationalism is the logical extension to international relations of Hobson's new liberal ideas, and that the other two modes are alien to Hobson's overall social philosophy. Constructive internationalism, through the application to international relations of the theory of cooperative surplus and the 'organic analogy', is consistent with the rest of Hobson's work. Cobdenism and institutional reform operate on different principles. Institutional reform privileges power over welfare, domestic arrangements for conflict resolution over those in international relations. Cobdenism violates Hobson's belief in the unity of politics and economics under ethics and a single science of society. There is, further, the paradox of Hobson's advocacy of intervention in the domestic economy and *laissez faire* in the global economy.

The historical context of Hobson's articulation of the three modes is relevant here. Cobdenism is prevalent in his work in his writings before the First World War, both in his critiques of the aggressive foreign policy of imperialism and in his idealistic Angellite celebration of the financial integration of the world. Constructive internationalism appears mainly after the War, but there are flashes of the approach before the War with regard to international government and the progressive institutionalisation of international relations. Institutional reform is uppermost during the First World War and immediately afterwards, and then again in the latter part of the thirties.

Applying the New liberal framework that was shown to underlie constructive internationalism, however, it is possible to see constructive internationalism itself as something of an ideal for the international system. In general, Hobson believed that:

There is evidence of the ascent of human society towards a larger and closer complexity of human relations and a clearer intellectual and moral consciousness. This means that mankind, as a whole, is becoming more capable of a human valuation and of a collective conduct of affairs guided by this conscious process.⁵¹

Following Hobson's theory of the cooperative surplus developed in *The Social Problem*, the whole of humanity would be the last social group to cooperate and consciously organise that cooperation. According to Hobson, history shows that progressive organisation from the family, to the tribal, to the city, to national life, all of them organised social systems, produces cooperative surpluses that produces higher social welfare, and permit surplus time and energy to be devoted to higher (and in this context, wider) pursuits.⁵² This leads to the apparently paradoxical position on international relations held by Hobson: international relations are at once currently primitive, disorganised social relations, and yet, as they encompass the whole of humankind, hold the greatest potential for welfare gains when organised.

Extending Hobson's evolutionary approach to the 'more intricate and more elusive organism of international or human relations',⁵³ there is an assumption of increasing integration of the world, taking two forms. First, there is the combination of peoples into nations and nations into international society. Second, there is combination in industry, the combination of economics and politics into a global political economy. The evolution of the world into a single economic, political and social unit follows a pattern already established domestically. Each of the modes of internationalism is then a reflection of Hobson's estimation of the extent of the development of the international realm, his reactions to unfolding international events and his conception of international relations as currently a primitive but developing realm of social interaction.

Institutional reform is a response to the absence of the most basic elements of social order in international relations and the requirement to impose this from a central authority. International relations is a primitive moral realm. Institutional reform is used by Hobson as a short cut to order in international relations. He adopted the crude domestic analogy of institutional reform when there was an international emergency or crisis. For instance, during the thirties, Hobson proposed the establishment of an international police force of bombers to deter states from aggression.⁵⁴ This is clearly the case during the First World War and in the immediate inter-war period.

With the defeats for democracy, peace and internationalism in the 1930s, Hobson retreated even further from constructive internationalism in his

renewed emphasis on the need for a reformed sense of nationhood in internationalism. Hobson claimed that each nation must put its own house in order before internationalism could succeed.⁵⁵

Apply the theory of cooperative surplus to international relations, Cobdenism can be construed as the minimum requirement for cooperation in international relations according. Politics and politicians have to be kept out of this process because they would introduce the influence of harmful sectional interests. Cobdenism appears when Hobson believes that more constructive internationalism is not possible; it is a minimal form of internationalism. On the other hand, when Hobson discusses more involved forms of international cooperation, he explicitly challenges the negative internationalism of the Cobdenite perspective.⁵⁶

Constructive internationalism is Hobson's ideal. It emphasises the importance of governmental as well as non-governmental connections in internationalism, suggesting that the latter is a requisite for the smooth running of the internationalism of the latter. It parallels almost exactly the prescriptions of Hobson's New liberalism domestically, although it is also clear that Hobson did not think this through terribly rigorously, particularly with regard to international redistribution. Hobson wrote both as if he hoped that constructive internationalism would come about and, occasionally, as if it had.

This perspective on Hobson's internationalism as embedded in an evolutionary framework incorporates the three modes but construes Hobson's opinions of international relations as realistic; he held a dismal view of current international relations. Another perspective on Hobson's internationalism is rather more idealistic. Hobson himself accounts for the development from Cobdenism to constructive internationalism, as we have seen above. The progressive evolution of the social life of humanity subsumes the international problem through the economy of organisation and the productivity of cooperation, as also discussed. However, the international problem is reasserted in international conflict and war, particularly in the outbreak of the Great War. The collapse of the liberal hopes of harmony in international relations resulted in Hobson's (and others) proposals for the centralisation of force in international relations.⁵⁷ These proposals appear as a reflex reaction of a liberal to a situation that was anomalous to his evolutionary framework of growing civilisation. The contradiction of the international problem of a realm without a central authority and Hobson's New liberalism turning towards the state authority in the domestic context demonstrates that the liberal hopes of harmony in international relations were shattered in the early twentieth century. The supersession of Cobdenism by Hobson's constructive internationalism can be explained by his evolu-

tionary framework, but institutional reform is based on altogether different, illiberal, or perhaps one might say, pre-liberal, Hobbesian premises.

Hobson himself did not trouble to distinguish his internationalism in this way. However, each of the perspectives on Hobson's internationalism has its strengths and its weaknesses. It is to these that I now turn.

CRITICISMS: THE 'ORGANIC ANALOGY', DOMESTIC ANALOGY AND ECONOMISM

The evolutionary framework and the three modes of internationalism are vulnerable to a number of criticisms. Here I shall consider the problems with Hobson's internationalism: the charge that international government is impractical; the criticism that the organic analogy, particularly extended to international relations, is incoherent; the claim that Hobson's internationalism is dominated by the domestic analogy; and finally, that Hobson's evolutionary framework and his internationalism are economic.

International Government

The establishment of an international government from the logic of constructive internationalism is problematic. Hobson's resort during the War to institutional reform hints at the problem of operationalising constructive internationalism. Aside of institutional reform, he outlined no clear plan nor suggested how an international government would be established or maintained. His proposals are vague and abstract, and subject to the counter-influence of the states which they are supposed to transcend. For Hobson, if an international government is needed, it must be set up. This, of course, begs the question, how? Except for institutional reform, Hobson assumed that because it was needed, an international government would be created, or rather, evolve. Institutional reform, though, as we have seen, rests on illiberal premises. For the rest, Hobson's writings on international relations are startlingly lacking in concrete proposals in this regard.

Hobson's proposals for international government were questioned by many of those who might have been thought to have been sympathetic, such as Leonard Woolf, Alfred Zimmern, J.M. Keynes and G. Lowes Dickinson.⁵⁸ Hobson's proposals were thought to be impractical because of the cessions of sovereignty they would require and the wholesale changes in international relations that they entailed.

He is also unclear on the role and function of an international government. His economic 'world state' for instance barely merits the name

governance let alone government.⁵⁹ Furthermore, according to the 'organic analogy', an 'organic' state is beneficent and necessary to a just domestic social order as it legitimately appropriates the cooperative surplus of society. It is difficult to see, though, why this legitimate claim of an 'organic' state should be compromised within a weak international society of nations. It is possible to make the same point from the perspective of the international society. The growth of what today we would call welfare states may not appear to enhance but rather upset the international order, and may possibly lead the international government into conflict with member states.⁶⁰ Hobson's reply was that, to the extent that states are closed, they are militarist and dictatorial, because of the constraints of maintaining security of the national state. Only by being open, by being part of the world economy and society, can nations and their governments fulfil the interests of themselves and the world in terms of welfare.⁶¹

Constructive internationalism is for Hobson the rational management of international affairs, especially economic relations, through institutionalisation. Hobson's vision of an organic society of all humanity involves an international federal government, with a division of functions and of powers.⁶² The question is whether issues of state sovereignty and the legitimacy of global authority, in which the concerns of political power take their most stark form, are as readily resolvable within federalism, as Hobson hoped. In Hobson's constructive internationalism, diversity appears as the vexed question of the proper level of governance; federalism implies government at the appropriate level. However, it is not as straightforward as this. In international relations, questions of value and the problems of cooperation and order are of central importance. Hobson has little to say as to how diversity of valuation between different cultures and civilisations would be resolved in an international government.⁶³

The problem of defining the requisite powers of the beneficent organic state is magnified at the international level. Hobson tells us little of what a beneficent global authority should do or what its powers should be. A global authority would lack a constituency: is that constituency to be nations, states, individuals, industries, other groups?

The Organic Analogy

There are a number of difficulties with the analogy of society to an organism. However, these problems are magnified when the society being referred to is the emergent international society. Hobson's vision of the international society as part of the society of all humankind is problematic. The idea of humanity as a social entity, some personification of humanity as

a unity, seems to be beyond our current experience of international relations. Our common sense and experience of the current organisation of the world as a system of states contradicts such a notion, though in recent times this may be changing.⁶⁴ Finally, if this world society is to be a society of nations, as Hobson conceives it, how do nations *qua* nations interact other than through their states?

In short, the organic analogy in Hobson's constructive internationalism suffers from the problems of relating the whole (international society) to the parts (nations), questions regarding the proper level of governance and the role of the international government, and the delimitation of the units of internationalism. In addition, the comprehensiveness of organic approach and also the evolutionary framework permit Hobson to hold a collection of contradictory ideas and proposals, suitably malleable for rhetorical purposes, but ill-suited as the foundation for a substantive position on international relations.

Furthermore, if Hobson's organic approach to international relations is deprived of the evolutionary teleology of his theory of cooperative surplus, it would be reduced to a conservative, that is in this case, realist, tautology. Social goals would take primacy over individuals' needs, international interests would predominate over national interests, but in each case the agenda would be according to the status quo. This is clear in international relations in Hobson's turning to illiberal institutional reform and his realistic assessment of international relations as the realm of power politics.

Finally, Hobson and liberals in general failed to come to grips with the international problem and the issue of political power. Hobson's New liberalism in international relations becomes an oscillation between the hope of finding international harmony in the peaceful relations of nations and of establishing it through mechanisms of government, with constructive internationalism as an unstable midpoint between the two.

Domestic Analogy

A critical problem with Hobson's internationalism is that it is based on domestic analogy. All three modes rest on a domestic analogy in that they prescribe for international relations according to lessons taken from domestic social and political experience and theory.⁶⁵ The evolutionary framework of increasing internationalism is similarly based on domestic logic.

The domestic analogy is an infamous route to internationalism and method of overcoming the international problem. It assumes that international relations is a fundamentally similar realm to domestic society. This includes the tendency to explain international relations as a primitive social realm,

because the referent for the label 'primitive' is the history of the development of (certain) domestic societies. Hobson applied the 'organic analogy' to the society of nations: 'just as an individual can only fully realise his personality in a society of other individuals, that is, a nation, so nations cannot rise to the full stature of nationalism save in a society of nations.'⁶⁶

Beyond the crude domestic analogy of institutional reform, the application of the 'organic analogy' and the logic of the evolutionary framework beyond domestic society to inter-state relations or world society presumes the universalisability of domestic experience, and is also based on guesswork about tendencies in international relations that are easily refuted, for example, by the outbreak of the First World War and the rise of dictatorship. The implication of this is that Hobson's internationalist schemes are the product of domestic rather than international political experience and logic derived therefrom.⁶⁷ For Hobson, the international society, if so it be called, is an emergent phenomenon; that is, international relations are becoming more like (domestic) society. The form of domestic analogy being discussed here is the 'internationalist' form, whereby states are conceived as persons in an international society. An alternative 'cosmopolitan' form proposes a world state made up of individuals, where the world government encompasses humanity under a state which is the domestic state writ large. Interestingly, Hobson usually adopts the former variant of the analogy, yet his only reference to the domestic analogy is in terms of the cosmopolitan version.⁶⁸

It might be replied that Hobson's use of the organic analogy undermines the charge of domestic analogy in his constructive internationalism because the developmental logic blurs the distinction between domestic and international society, and because it is humanity and not domestic society that is the social organism. For Hobson, federalism and autonomy apply throughout the social world, and 'organic' systems generally.⁶⁹ However, this merely means that the charge of domestic analogy does not go far enough. Hobson's evolutionary framework for international relations is permeated by isomorphism of social forms from the family to world society: all social forms are fundamentally similar. This is a perspective that has its limitations, and certainly obscures the many important differences between physical organisms, human individuals and societies.⁷⁰

Economism

Nor does the charge of economism levelled at Hobson's Cobdenism stop there. His constructive internationalism and the evolutionary dynamic of the cooperative surplus can also be accused of being based on economic

premises. The emphasis on the satisfaction of human welfare needs as the basis for international organisation divides political and economic factors and privileges the latter.⁷¹ While the constructive internationalism eschews economistic *laissez faire*, the basis for intervention in international affairs is the same, that is, the need to control the economy to maximise welfare narrowly understood as an economic category. Hobson's preoccupation with international economic relations is a further indication that his internationalism is economistic.⁷² International government must fit itself to the shape of international economic relations. Thus, both Hobson's defence of free trade and his proposals for international economic government suffer from economism. Economic factors determine political factors in Hobson's constructive internationalism.

Hobson admitted that he had overstressed economic factors in the early formulation of his theory of imperialism; that he had been led by his combative instincts 'to an excessive and too simple advocacy of the economic determination of history.'⁷³ But this is imperialism, not internationalism: in one case, economic relations are the source of war and strife, in the other, they are the fount of peace and prosperity. However, economism appears in Hobson's internationalism also. First, to the extent that Hobson relied on Cobdenism, his internationalism rests on economistic premises, as we have seen above. Further, Hobson's theory of the cooperative surplus is materialistic; material values come before other values in Hobson's evolutionary framework. This materialism is especially clear in his internationalism, where Cobdenism is the minimal defence of international cooperation advocated by Hobson.

CONCLUSION

I conclude with a few remarks about Hobson's place in the development of liberal theorising on international relations. Hobson is an important figure in the development of liberal internationalism from Cobden's liberal internationalism of free trade and non-intervention to David Mitrany's functionalist approach to international organisation. Though he only discussed functional international organisation briefly in vague terms, Hobson provides the theoretical basis of the transformation in international theory away from the 'negative liberty' and 'constitutionalism' disdained by Mitrany, towards welfare needs as the criterion for international political action and institutions.⁷⁴ Hobson also provides the theoretical apparatus that underpins the 'spill-over' of functionalism towards the increasing organisation of international affairs. Mitrany, it has been said, learned much from the Red

Professors, Tawney, Cole and Laski, as well as from Leonard Woolf.⁷⁵ The analysis of international relations that Mitrany derived from these authors drew much of its rhetorical power from the underlying theoretical analysis of the socio-economic system provided by Hobson.⁷⁶ In short, Hobson's constructive internationalism and the evolutionary dynamic underlying it, foreshadow functionalist analysis of international organisation, provide it with a theoretical framework, and place functionalism firmly in the tradition of radical liberal thought on international relations.⁷⁷

Though a self-titled economic heretic, Hobson lived to see his economic ideas somewhat vindicated by J.M. Keynes's *General Theory*.⁷⁸ While his theory of imperialism has given him some renown, there is no such happy ending to Hobson's theorising on international relations. Hobson died in the first year of the Second World War, on 1 April 1940. In his last few years, he became increasingly disillusioned with the League and counselled that each state must put its own house in order for internationalism to work. This contradicted earlier writings on the indivisibility of peace, democracy and internationalism, but was doubtless a realistic estimate of the times.⁷⁹ Increasingly preoccupied with the demise of democracy and the aggression of the Axis powers, Hobson's last published work calls for an early American intervention in the war in order to defend liberal democracy and to shorten the carnage.⁸⁰

This chapter has identified three modes of internationalism in Hobson's writings: Cobdenism, constructive internationalism, and institutional reform of international relations. At different times, Hobson resorted to each of these. He did not doggedly follow any single approach for his whole writing career. This is not necessarily a great problem and may even be a strength of his writings. Hobson, however, failed to acknowledge the serious limitations of liberal thought, and especially new liberal thought, when it came to international relations. Though an evolutionary framework can account for the three modes of internationalism, and to some extent transcend (in theoretical terms, at least) the international problem of the absence of government, a number of serious difficulties with Hobson's internationalism remain. In summary, Hobson did not found a coherent 'new liberal' internationalism. Nevertheless, his thought was a significant influence on later international theorists.

Notes

1. The author wishes to thank Hidemi Suganami for his comments on an earlier draft of this paper.
2. For instance, see M. Freedon, *New Liberalism* (Oxford, 1978); J. Allett, *New Liberalism: The Political Economy of J.A. Hobson* (Toronto, 1981); P. Weiler,

- New Liberalism: English Social Theory 1898–1914* (New York, Garland, 1982); and also P.F. Clarke, *Liberals and Social Democrats* (Cambridge, 1978).
3. M. Freedden, 'Introduction', in M. Freedden, ed., *J.A. Hobson: A Reader* (London, 1988), p. 1.
 4. F. Halliday, 'Three Concepts of Internationalism', *International Affairs*, vol. 64, no. 2, Spring 1988, p. 187.
 5. For example, *Towards International Government*, 1915), ch. 11.
 6. Halliday, 'Three Concepts of Internationalism', p. 192.
 7. See Clarke, *Liberals and Social Democrats*, pp. 177–8. Also Bernard Porter, *Critics of Empire* (London, 1969), pp. 195–7.
 8. Most obviously in *The Social Problem*, 1901.
 9. H. Bull, 'Society and Anarchy in International Relations', in H. Butterfield and M. Wight, *Diplomatic Investigations: Essays in the Theory of International Politics* (London, 1966), p. 35. For a more recent articulation of the same 'problem' in international relations, see K. Oye, ed., *Cooperation Under Anarchy* (Princeton, 1986), pp. 1–2.
 10. Cf. F.A. Hayek, *The Road to Serfdom*, ch. 15.
 11. B. Porter, 'Hobson and Internationalism', in M. Freedden, ed., *Reappraising J.A. Hobson: Humanism and Welfare* (London, 1990).
 12. *Morals of Economic Internationalism*, (1920), p. 29.
 13. *Imperialism: A Study*, 1988 reprint of 3rd edn., pp. 10 – 11. For a discussion of cobden on non-intervention, see R.J. Vincent, *Nonintervention and International Order* (Princeton, 1974).
 14. P.J. Cain, 'J.A. Hobson, Cobdenism and the Radical Theory of Economic Imperialism, 1898–1914,' *Economic History Review* (vol. 31, no. 4, November 1978), p. 570–1.
 15. *The Modern State*, p. 32.
 16. *Economic Interpretation of Investment*, p. 121; *The New Protectionism*, p. 115. See also *Democracy After the War*, p. 198; *Property and Impropriety*, p. 205; *International Government*, p. 95; *The Case for Arbitration*, p. 3.
 17. R. Cobden, *The Political Writings of Richard Cobden* (New York, 1973), p. 36. *Modern State*, p. 33.
 18. See *Economic Interpretation of Investment*, p. 121.
 19. R.K. Ashley, 'Three Modes of Economism', *International Studies Quarterly* (vol. 27, 1983), p. 463.
 20. He was something of an 'anti-economist', according to B. Porter, (1968), p. 170–1.
 21. See H.N. Brailsford, *The Life-work of J.A. Hobson* (London: L.T. Hobhouse Memorial Lecture, 1947), p. 11.
 22. *Morals of Economic Internationalism*, p. 15.
 23. *International Government*, p. 177, 198; see also *The Evolution of Modern Capitalism*, 4th edn, p. 491.
 24. *Richard Cobden: The International Man*, p. 406.
 25. *International Government*, pp. 193–4; *League of Nations*, pp. 4ff. See also 'The Origins of the I.L.O', *Contemporary Review* (vol. 147, no. 403, August 1935), pp. 497–9; 'Political Basis of a World State', p. 268.
 26. *Case for Arbitration*, pp. 1–2; *League of Nations*, pp. 4, 7.
 27. *Imperialism*, pp. 191–3, 232–39.
 28. *Morals of Economic Internationalism*, pp. 31ff.

30. *Evolution of Modern Capitalism*, 4th edn, pp. 458–60; *Economic Interpretation of Investment*, pp. 17ff; 'A World Economy', *New Statesman and Nation* (vol. 1, 18 April 1931), pp. 274–5.
31. See Allett, *New Liberalism*, ch. 3.
32. Hobson first fully outlined his theory of distribution according to costs and surpluses in *The Industrial System*. While I shall not be dealing with imperialism in this paper, it is of some relevance to note that imperialism as a foreign policy and as a competitive international system derive for Hobson from unproductive surplus.
33. *Democracy After the War*, pp. 85–6.
34. *Rationalization and Unemployment*, pp. 124–5; *Modern State*, p. 36; *Wealth and Life*, p. 390.
35. M. Freedon, 'Introduction', *Confessions of an Economic Heretic* (1976 [1938]), pp. vii–ix.
36. 'The Ethics of Humanity', *South Place Monthly Record* (August 1939), p. 4.
37. *Wealth and Life*, pp. 36, 222.
38. *Wealth and Life*, p. 69. See also *Problems of a New World*, p. 151.
39. *Poverty in Plenty*, p. 84; *Problems of a New World*, p. 253.
40. *Democracy and a Changing Civilization*, p. 138. See also *Work and Wealth*, p. 17; *The Social Problem*, pp. 132, 261; *Wealth and Life*, pp. 23–4. For Hobson's criticism of the Victorian complacency of the Cobdenite version of this argument, see *Rationalism and Humanism*, p. 20.
41. By extension from Hobson's comments in *Social Problem*, pp. 61, 261, 271.
42. *Towards International Government*, ch. 1–8. For examples of Hobson's anti-statism and specifically his dislike of the terminology of power, see his comments later in *International Government*, pp. 181–3, and *Free Thought in the Social Sciences*, pp. 25, 182.
43. *Social Problem*, p. 272; 'The Morality of Nations' in *The Crisis of Liberalism: New Issues of Democracy*, especially p. 248; *International Government*, p. 193. See also *Democracy After the War*, p. 208, where Hobson states that 'Democratic control of the Society of Nations, as of the several nations, is the only full security for peace and progress . . . But in order to warrant the confidence of our democracy, the foundations of the League of Nations must be well and truly laid'. Hobson here sees the society of nations as a society with then League as its government. For a different view of Hobson's use of League of Nations and Society of Nations, see M. Freedon in *J.A. Hobson: A Reader*, p. 21.
44. Though not all, see 'Force Necessary to Government', *Hibbert Journal* (vol. 33, no. 3, April 1935). For an alternative view of the extended role of an international government in Hobson's eyes, see *International Government*, pp. 127–48; *Wealth and Life*, pp. 399–400.
45. *Towards International Government*, pp. 6, 21–3, 73–80; *A League of Nations*, p. 14; 'Political Basis of a World State', in F. S. Marvin, ed., *The Unity of Western Civilisation* (London, 1915), pp. 263, 273–5.
46. See D. Mitrany, *A Working Peace System* (London, 1943), pp. 7–8. 19–42, for both the meaning of functionalism in international relations and the distinction between this approach and that of international constitutional proposals.
47. *Problems of a New World*, p. 253; see also *Towards International Government*, pp. 85, 153.
48. Examples appear in *International Government*, pp. 70, 125, 176; *A League of*

- Nations*, p. 19; *Free Thought*, p. 259; *Wealth and Life: A Study in Values*, p. 395; *Democracy and a Changing Civilization*, pp. 115–16, 121.
49. H. Suganami, 'Reflections on the Domestic Analogy: The Case of Bull, Beitz and Linklater', *Review of International Studies*, vol. 12, no. 2, 1986), p. 155.
 50. An interesting case is the principle of equal representation, one person one vote. Hobson rejects the international corollary of one state (or nation) one vote, not because of a disanalogy between international and domestic society, but because the prudential maxim of absolute equality applied to individuals can be dropped in favour of the more fundamental principles of treating only equals equally. See *League of Nations*, p. 19.
 51. *Work and Wealth*, pp. 350–1; see also *Problems of a New World*, p. 255.
 52. See note 38. On Hobson's evolutionism, see M. Freedon, 'J.A. Hobson as a New Liberal Theorist: Some Aspects of his Social Thought Until 1914', *Journal of the History of Ideas* (vol. 34, no. 3, 1973), pp. 423–4, 428.
 53. *The Social Problem*, p. 261.
 54. 'Force Necessary To Government', *Hibbert Journal* (vol. 33 (1934). Cf. David Davies's proposal: see B. Porter 'David Davies: A Hunter After Peace', *Review of International Studies*, vol. 15, no. 1, January 1989.
 55. *Confessions*, p. 113; *Property and Improperly*, p. 106; 'Thoughts on our Present Discontents', *Political Quarterly*, vol. 9, no. 1, January 1938, p. 48.
 56. For instance in the last chapter of *Richard Cobden The International Man*.
 57. For the turn towards compulsion to back up international law, see Suganami, *Domestic Analogy and World Order Proposals*, p. 79; F. Northedge and M. Donelan, *International Disputes: The Political Aspects* (London, 1971), pp. 19–20, claim that the turn towards compulsion occurred in the thirties.
 58. See L. Woolf, review of *Towards International Government*, *Nation*, vol. 17, 1915, p. 614; A. Zimmern, 'Nationality and Government', in *Nationality and Government* (London: Chatto & Windus, 1918), pp. 39–45; J.M. Keynes, *Collected Works*, vol. 28, ed. D. Moggeridge (London, 1982), pp. 10–11; P.F. Clarke, *Liberals and Social Democrats*, pp. 178–9.
 59. See Hobson's 'Political Basis of a World State', p. 260.
 60. A point made by E.H. Carr in his *Nationalism and After* (London, 1945), pp. 17–24, and, from a different perspective, L. Robbins, *Economic Planning and International Order* (London, 1937), ch. 3.
 61. *Democracy After the War*, pt. 2, ch. 5; *Democracy and a Changing Civilization*, ch. 7–8.
 62. Thus avoiding the global Leviathan underpinning the calls for institutional reform.
 63. 'The wide variants of natural environment and of race, reacting constantly one upon the other, oblige to conceive civilisation as "multiform"', *Social Problem*, p. 275, but the universalising logic of international government, either in constructive internationalism or in institutional reform, puts Hobson's commitment to such variation in doubt.
 64. And it might be claimed in Hobson's defence that changes in the early part of the century also made the adoption of a different perspective appealing. For a recent attempt to reorient international relations towards a world society perspective, see J.W. Burton, *World Society* (Cambridge, 1972).
 65. For a definition of the domestic analogy, see H. Suganami, *Domestic Analogy and World Order Proposals*, p. 1.

66. *The Morals of Economic Internationalism*, pp. 62–3; see also *Problems of a New World*, p. 251.
67. M. Freeden, *Liberalism Divided*, pp. 363–5.
68. See Suganami, *Domestic Analogy*, ch. 1.
69. *Problems of a New World*, p. 253.
70. A further difficulty associated with this isomorphism is the understanding of cooperation as the basis of society. Following Oakeshott, one might say that Hobson has mistaken society as a purposive association when it is in fact a practical association. For an application of the Oakeshottian distinction to international relations, see T. Nardin, *Law, Morality and the Relations of States* (Princeton, 1983).
71. This is a common complaint against functionalism and other transnationalist approaches in international relations. See Ashley, 'Three Modes of Economism', p. 468; C. Reynolds, *Theory and Explanation in International Politics* (London, 1973), pp. 217–8, 247–53; R.J. Vincent, 'The Functions of Functionalism in International Relations', *The Year Book of World Affairs* (1973); and R. Tooze, 'Functionalism', *British Journal of International Studies*, vol. 3, no. 2, July 1977, pp. 212–13.
72. See, for instance, the chapters on 'International Economic Government' in *Poverty in Plenty* and on 'Economic Internationalism' in *Rationalisation and Unemployment*.
73. *Confessions*, p. 63. But see also Hobson's preface to *Democracy After the War*, p. 9, where he conceded that the 'socialist analysis' that capitalism causes war may have some validity.
74. D. Mitrany, *A Working Peace System*, p. 21.
75. P. Taylor, 'Functionalism: The Theory of David Mitrany', in Paul Taylor and A.J.R. Groom, eds, *International Organisation: A Conceptual Approach* (London, 1978), p. 237.
76. For the influence of Hobson on Cole and Tawney, see G.D.H. Cole, 'J.A. Hobson', *Economic Journal*, vol. 50, 1940, pp. 439–41, and R.H. Tawney, 'J.A. Hobson', *Dictionary of National Biography* (London, 1949), pp. 435–6. This point might be qualified by that made by Michael Freeden, that these thinkers were so close intellectually and socially and exchanged ideas so freely that to point to one as the source of ideas is to misrepresent the origin of ideas. Nonetheless, Freeden believes that Hobson was the most penetrating of the new liberal thinkers, see Freeden, *New Liberalism: An Ideology of Social Reform* (Oxford, 1978), p. 253.
77. Though this does exaggerate the similarity between Hobson and Mitrany somewhat. In contrast to Mitrany, Hobson was a statist, anti-syndicalist, and held a broader, more sophisticated notion of human welfare.
78. Especially the discussion of *Physiology of Industry* in *The General Theory of Employment, Interest and Money* (London, 1957 [1936]), pp. 364–71.
79. Compare *Confessions*, p. 113, with *Democracy After the War*, pp. 9, 201–3.
80. 'America in the War?', *South Place Monthly Record* (December 1939), pp. 3–4.

10 J.A. Hobson and American Institutionalism: Under-Consumption and Technological Change*

Malcolm Rutherford

INTRODUCTION

Although the existence of a relationship between J.A. Hobson and American institutionalism has often been noted, only a few of its aspects have been examined in any depth. Veblen's influence on Hobson has been recognised,¹ and it is well known that Hobson expended many efforts to develop an English audience for Veblen's work (Brailsford 1948; Minchinton 1959; Allett 1981). In his own writings, Hobson utilised ideas taken from Veblen's *The Theory of the Leisure Class* (1899) and *The Theory of Business Enterprise* (1904). Indeed, Hobson eagerly awaited the publication of the latter book and immediately incorporated some of Veblen's arguments concerning business capitalisation and the activities of financiers into the revised (1906) edition of his *Evolution of Modern Capitalism*. It is also worth noting that Hobson saw in America a 'model of advanced capitalism' (Allett 1981, p. 30), and throughout his career Hobson paid close attention to the latest in American economic investigation.

The reverse line of influence has been less fully recognised, but institutionalists did take a considerable interest in Hobson's work. Veblen reviewed Hobson's *Imperialism* (Veblen 1903), Wesley Mitchell, Walton Hamilton, and J.M. Clark all discussed Hobson's welfare economics (Mitchell 1969; Hamilton 1974; Clark 1914), but more significant was the impact of Hobson's underconsumptionist theory of depression and unemployment.² A number of writers have made passing reference to the Hobsonian nature of

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the theory of depression put forward by institutionalists in the period of the New Deal, but little of a detailed nature has been done. Fairly typical is Donald Winch,³ who, in his *Economics and Policy* (1969), comments on the adoption of underconsumptionist ideas by institutionalists in the following terms:

The anti-orthodox bias of institutional modes of thought made it receptive to the heretical ideas of men like J.A. Hobson and his American equivalents, William Foster and Waddill Catchings. Institutionalists were less pre-disposed to see harmony and inevitability in the workings of the economic machine; they were, consequently, more prone to believe in the possibility of an inherent tendency toward over-production and under-consumption – a tendency which could only be overcome by deliberate intervention and planning. Hobson certainly seems to have enjoyed a greater reputation among American institutionalists than he did at home. (Winch 1969, p. 232)

The difficulty with this summary interpretation is that the influence of Hobson's underconsumptionism on institutionalism was by no means a constant or consistent one. Veblen makes some key references to Hobson in his discussion of depressions in *Business Enterprise* (1904), but between Veblen's use of Hobson's ideas and the 1930's Hobson's underconsumptionism did not play a very significant role within institutionalist discussion.⁴ This paper seeks to fill this gap in the literature by investigating the precise part Hobson played in the history of the institutionalist treatment of cycles and depressions in the period from Veblen through to the late 1930s.

HOBSON: UNDERCONSUMPTION AND TECHNOLOGICAL CHANGE

The exact formulation of Hobson's underconsumptionist position went through some development over time (Allett 1981; King 1988). Despite this, the most obvious distinguishing mark of Hobson's particular version of underconsumptionism is the emphasis he placed on the maldistribution of income, and particularly of unearned income, as the most fundamental cause of unemployment and industrial depression.⁵ For Hobson this maldistribution was partly structural in nature and partly cyclical, the result of a lag of wages behind prices in the upswing. It led to excessively high rates of saving among the better-off and to a tendency to overinvestment and underconsumption. In Hobson's earliest work (Mummery and Hobson

1889) the thesis was stated very crudely, and this version gave rise to many of the criticisms of his ideas. However, even by the time of *The Problem of the Unemployed* (1896) Hobson was stating his thesis in a much more satisfactory form. The maldistribution of income leads to oversaving and from there the 'order of causation' is that 'underconsumption or over-saving causes over-capitalization, first in forms of fixed capital, then in a glut of goods; the glut checks the investment of loanable capital; this check restricts production and a period of under-production with low prices ensues' (p. 97). In the resulting downswing and depression incomes and savings decline, businesses are liquidated and excess capacity is gradually eliminated. The upswing resumes with the recovery of business incomes and investment opportunities.

Hobson has often been criticised for failing to realise that investment is also an expenditure stream, or for conceptualising the problem as one of too much savings and investment rather than of too little investment relative to the full employment level of savings. In fact, Hobson was not quite so naive. He wrote that the 'immediate cause of the under-production and unemployment is the inability of would-be savers and investors to find any forms of capital capable of embodying their savings'. Thus, no reduction in income or employment is caused 'so long as "saving" can be vested in new forms of capital, whether these are socially useful or not' (1896, pp. 96–7). The downswing occurs only when investment expenditure actually declines below the level of savings generated at full employment income. The question that remains is why saving and investment are carried on to such an extent, continuing even in the face of the early signs of excess capacity? Why do the growing symptoms of weakness in business earnings not redirect expenditures away from investment and into consumption? Hobson's answer was to emphasise the 'automatic' nature of saving and its interest inelasticity (Hobson 1896, p. 91; 1906 pp. 307–8), and the competitive nature of business investment activity.

Hobson's argument that competition tends to lead to excess capacity was one of his most consistent themes, being present from the first. His point was that new investment will proceed even when there is sufficient capacity already, if new investors think they can displace the old. In Hobson's words, 'it is just this spirit of competition among individuals which supplies the force that operates to bring about Over-production'. Even '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?' (1889, p. 112). Of course, under such circumstances the new investor must have some reason for believing

that he can supplant one or more of his competitors. Hobson did suggest a number of possible reasons for such a belief (1889, p. 113). One was that cost-reducing technological change embodied in new machinery gave the new investor in an industry an advantage over his rivals operating with older plants.

Technological change is not a factor much discussed in the context of Hobson's work, but it has particular importance in connection with his influence on institutionalists. Hobson repeatedly argued that rapid technological change had 'intensified' the problem of over-investment:

With the quickening of competition in machine industries the opportunities to individuals of making good their new "savings" by cancelling the old "savings" of others continually grow in number . . . ; the struggles of weaker firms with old machinery to hold their own, the efforts of improved machinery to find a market for its expanded product, will continue to produce gluts more frequently, and the subsequent checks to productive activity, the collapse of businesses, the sudden displacement of large masses of labour, in a word, all the symptoms of the malady of "depression" will appear with increased virulence. (1894, p. 208)

Technological change 'exacerbated' the failure of consumption to keep pace with productive power. This was due not only to the greater productivity of new technology but also to the tendency to over-investment that arose out of new technologies enabling individuals 'to set up "savings" in new forms of capital' and 'cancel' the old savings of others: 'Since obsolete forms do not at once perish, but struggle to keep the breath of industrial life and to play their accustomed part, we find in existence at any given time a large excess of plants of various kinds beyond what is fully utilized for actual work of production' (1896, p. 86).

It should be stressed that the link between technological change and unemployment postulated by Hobson did not involve the simple displacement of labour by capital. Hobson claimed that when the economy was prosperous or booming displaced workers were readily reabsorbed (1896, pp. 49–50); it was only when the economy was in any case depressed that technological unemployment appeared. Additionally, Hobson argued that provided cost-savings were passed on to the mass of consumers in the form of lower prices, labour displaced by new technology would be reabsorbed with the increase in real income and consumption, with little or no long-run effect on the overall level of employment (1894, pp. 168–9). The problem created by new technology was rather the extra incentive it gave to competitive over-investment and its intensification of the tendency to excess capac-

ity. This could lead to an expansion of industrial capacity far in excess of any increase in consumption that could be brought about by price reductions in line with lower costs.

There is, however, a difficulty with Hobson's discussion of the link between technological change and depressions. Given his own arguments, it follows that technological change results in a greater build-up of productive capacity than would otherwise be the case, but it is also true that cost-reducing technological change maintains the profitability of new plants even in the face of price reductions making older plants unprofitable. Technological change should thus help to sustain the level of investment expenditures, something which in Hobson's system should help to delay, or even prevent, the onset of recession. Admittedly, older plants will be put out of business, but provided the pace of technologically induced investment is both steady and rapid enough, there should be little difficulty in savers continuing to find 'forms of capital capable of embodying their savings'. A more satisfactory link between technological innovation and cycles is that found in Schumpeter's view of 'creative destruction', with the upswing generated by clusters or *waves* of innovation and the downswing by falling output prices and reduced investment levels (Schumpeter 1974).⁶

VEBLÉN: CYCLES AND CHRONIC DEPRESSION

Veblen's work on depressions is often far from clear. Part of the difficulty is that he discussed both business cycles and the possibility of *chronic* depression. The arguments in each case are related but distinct. It is in the treatment of chronic depression that the links between Veblen and Hobson are most evident.⁷

Veblen's earliest discussion of the issue of business depression is contained in his 1892 article "The Overproduction Fallacy" (Veblen 1934).⁸ He elaborated and extended the same lines of argument in *The Theory of Business Enterprise* (Veblen 1904). Veblen strongly denied the possibility of 'overproduction' in the sense of any actual physical surplus of unsold goods, or 'glut' as Hobson sometimes suggested. What the term 'overproduction' signified to Veblen was 'a situation where goods have been produced in excess of the demand at such prices as will afford the customary profit on the capital employed in their production' (Veblen 1934, p. 109). Such a situation could, according to Veblen, arise for two possible reasons: a 'speculative movement' or 'an increased efficiency of industry' (p. 111). The first Veblen developed in his theory of cycles, the second in his theory of chronic depression.

Veblen's thinking on business cycles was not built on maldistribution or oversaving arguments of a Hobsonian sort. Instead, it was based on the ideas that businessmen respond to changes in actual and expected profit, that wage and other cost movements lag behind changes in prices, and the pro-cyclical behaviour of financial institutions. The course of the cycle is presented in a straightforward and not particularly novel manner. Some increase in demand raises prices and profits in certain lines of business. Businessmen in this line expand their operations and the increase in investment spreads the expansion into other lines. Optimism spreads, and firms borrow and capitalise on the basis of increased expected earnings. Credit expansion raises prices and leads to a speculative upswing. Eventually, costs rise and/or output prices begin to fall, earnings decline, banks cease to lend, investment falls, firms find themselves overcapitalised and burdened with fixed interest charges they can no longer meet, and liquidations result. Readjustment, in the form of disinvestment and reduction of capitalised values to the now lower level of earnings, takes place only slowly. The period of depression is one in which there is too much productive capacity to supply the market at 'reasonable prices' (Veblen 1904, pp. 186–209).

In his discussion of cycles Veblen does refer to Hobson and the idea of underconsumption (Veblen 1904, pp. 214–18), but it is hardly possible to characterise his cycle theory as particularly Hobsonian or underconsumptionist in nature. A somewhat different picture, however, emerges from Veblen's treatment of chronic depressions. A chronic depression, he believed, could result from anything that persistently lowered the actual earning capacity of existing firms and maintained a permanent state of disequilibrium between the capitalised value of industrial assets and their actual earning power. Veblen argued that such a state had indeed arisen in the United States due to a number of factors acting in concert: (i) the unequal distribution of income; (ii) the ingrained habit of high rates of saving among the better off; (iii) the businessman's habit of searching for shrewd investment opportunities; and (iv) technological change increasing productivity and lowering the cost of capital goods (Veblen 1904, pp. 254–8).

As pointed out above, all these factors played a part in Hobson's treatment of depression, but whereas Hobson agreed that new machinery could be the 'efficient cause of industrial disease', he maintained that the 'root evil of depressed trade is underconsumption' (Hobson 1906, p. 258). Veblen, on the other hand, placed much greater emphasis on the role of cost reducing technological change. He claimed that toward the end of the 1870s 'the advancing efficiency and articulation of the processes of the machine industry reached such a pitch that the cost of production of productive goods has

since then persistently out-stripped such readjustment of capitalization as has from time to time been made'. This prevented the consistent speculative advance characteristic of previous periods. Crises and liquidations reduced capitalised values but 'the cheapening of capital goods has overtaken the lowered capitalization of investments before the shock-effect of the liquidation has worn off'. Thus, 'depression is normal to the industrial situation under the consummate regime of the machine, so long as competition is unchecked and no *deus ex machina* interposes'. The result is a persistent 'relative overproduction of industrial apparatus' and 'surplus productivity' leading to declining profits (Veblen 1904, pp. 254–5).

Veblen's argument has obvious similarities with Hobson's point concerning the incentive new technology gives to competitive investment and overcapacity, and Veblen specifically refers to those parts of Hobson's work dealing with this issue (pp. 227, 255). Veblen's argument, too, shares the same difficulty. If, due to technological change, new investment is continuing to proceed at a steady pace and at a sufficient level it is far from obvious why the result should be a depression. Prices will fall, profits on older plants may decline more quickly than their owners originally expected, labour will have to be reallocated, and questions concerning socially optimal rates of innovation arise, but it is far from clear that total employment or real output will necessarily fall. Veblen was not unaware of this. He argued that 'yearly output does not usually vary extremely between brisk and dull times, except as measured in price' (p. 238), and 'the primary hardship of a period of depression is a persistent lesion on the affections of the business men' (p. 239). Thus, the primary symptom of depression, for Veblen, was declining prices.⁹

The resemblances between Hobson's and Veblen's arguments concerning the role of cost reducing technological change in creating excess capacity did not carry through into matters of policy. Veblen directly criticised Hobson's policy conclusions on the grounds that persistent depressions can only be overcome properly through the elimination of competitive investment. Hobson's proposals concerning redistributive and tax measures he attacked for failing to strike at the heart of the problem, and unlikely to be adopted as long as public policy making is dominated by business interests. Veblen also argued that 'unproductive consumption', even when augmented by government expenditures on arms and 'public edifices', was unlikely to be large enough to absorb the excess industrial capacity. The business response to depressed markets and competitive over-investment was one of monopolisation and restriction of capacity and output in order to raise and maintain prices and profits; an argument he took so far as to claim that the

larger business interests were attempting to establish an effective monopoly control over all of the key sectors of the economy, thus removing the threat of competitive over-investment and low prices (pp. 255–65).¹⁰ Veblen's later work concentrated almost directly on the analysis of this monopoly control of the economy. Although he often repeated the argument that monopoly resulted from the productivity of industry outstripping the demand at reasonable prices, he did not further develop the details of his theory of chronic depression.

In contrast, for Hobson, the primary cause of recession was ever and always the maldistribution of income, and his arguments concerning technological change were a supplementary theme. On this Veblen's arguments failed to move him,¹¹ and just as Veblen felt that Hobson had missed the heart of the matter, so Hobson, in summing up Veblen's contribution in 1937, was to complain that 'Veblen nowhere directly tackled the real problem of maldistribution of income which periodically upsets the changing balance between spending and saving, between new investment and increased consumption, that lies at the root of the failure of current capitalism to function as well as it used to do' (Hobson 1937, p. 143).

Despite the disagreements between Hobson and Veblen as to the primary cause of depression, some of the differences between them are matters of emphasis and context. It is clear that their discussions share a number of common elements and that Veblen's arguments concerning chronic depression have a strong, and more than coincidental, similarity with Hobson's views on technological change exacerbating over-investment. It must be said that neither Veblen nor Hobson connected technological change to depression and unemployment in a satisfactory manner, but later writers in the institutionalist tradition were to return to exactly this topic in the 1930s.

MITCHELL, CLARK, AND MILLS: CYCLES, OVERHEADS, AND PRICES

In the years following the appearance of Veblen's *Business Enterprise*, institutionalists developed and investigated a number of its themes. Most obviously, Wesley Mitchell's 1913 and 1927 volumes on business cycles contain a strong Veblenian orientation, particularly in the concentration on changes in actual and prospective profits, the leads and lags in the movement of prices and wages, and the representation of the cycle as fundamentally a matter of pecuniary, business, institutions. Mitchell's work can be seen as an attempt to elaborate and empirically examine Veblen's discus-

sion of cycles. In turn, J.M. Clark's work on the accelerator grew out of his study of Mitchell (Dorfman 1969, pp. 440, 452).¹² The institutionalist research programme on cycles through to the late 1920s paid both empirical and theoretical dividends.

Mitchell's treatment of cycles, however, made no real use of underconsumptionist arguments of a Hobsonian type. In his 1913 volume Mitchell took a quite critical attitude to 'Hobson's theory of over-saving'. He argued that there was 'no satisfactory data to confirm or disprove Hobson's assertion that the proportion of income saved gains upon the proportion spent' in the upswing (Mitchell 1913, p. 501). More damaging, Mitchell found that raw material and producer goods industries suffered declining profits *before*, not after, consumer goods industries: 'the difficulty of warding off encroachments upon profits by advancing costs comes to a head earlier in other lines of business than in those concerned with consumers' goods' (p. 502). Underconsumptionist theories locate 'one of the possible obstacles in the way of preventing the encroachments of costs upon profits', but 'it has never been proven that consumers' demand falls behind supply before a crisis has begun' (p. 580). These observations are compatible with Clark's accelerator thesis but not with Hobson's presentation of the course of events at the beginning of the downturn. Again, Hobson's work was discussed in Mitchell's 1927 volume (Mitchell 1927, pp. 24–5, 52), but no particular use was made of his ideas.

In a somewhat similar fashion Mitchell excluded Veblen's treatment of chronic depression from active consideration. Mitchell was well aware of Veblen's notion of cost reducing technological change leading to chronic excess capacity and depression, but he did not pursue the issue because he found the argument not borne out by the facts. Mitchell did not entirely reject the line of reasoning itself; what he did claim was simply that 'other price making factors have proved more potent than technical improvements in methods of production' (Mitchell 1913, p. 569). Mitchell identified combination, cost reductions in older enterprises, and increases in demand for construction as factors that had maintained profitability even in the face of technological improvements. He also noted that the changes depression brought about in the efficiency of labour, the policy of investors, the capitalisation of corporations, and in relative prices, would probably 'continue to over-balance the depressing influence exercised by the introduction of improved processes and machinery' and result in renewed prosperity (p. 569). Thus, although Mitchell did not pursue Veblen's point, he seems to have accepted that new technology would, in and of itself, have a depressing effect. Mitchell also criticised Veblen's claim that combinations

and trusts stabilised the economic system. Mitchell pointed to contrary evidence, and argued that 'the claims freely made a decade since, both in America and Germany, that the development of trusts and cartels would put an end to crises, have not been sustained by business history' (p. 580).

At this point in the development of institutionalist discussion, then, neither Hobson's underconsumptionism nor Veblen's view of chronic depression held much appeal. Other research, however, worked to provide a basis for the later reintegration of some of Hobson's and Veblen's ideas. Of particular importance in this respect were the empirical investigations undertaken by W.I. King and F.C. Mills for the NBER,¹³ and J.M. Clark's study of overhead costs.

The significant work by W.I. King was that concerning employment in large and small firms (King 1923). King found greater fluctuations in output and employment in larger firms than in small. Mitchell referred to his result (1927, p. 88) that 'the correspondence between scale of organization and violence of fluctuations holds not merely among industries as wholes, but also among the establishments within an industry'. King's work provoked other investigations. For example, J.M. Clark's *Studies in the Economics of Overhead Costs* (1923) provided, among many other things, an attempt to explain King's observations in terms of the effects of new technology on the structure of costs and pricing policy of firms.

Clark's work on overheads continued the institutionalist line of research dealing with technological change, excess capacity, and the tendency to low prices and profits.¹⁴ Clark appreciated that new technology had increased the fixed cost component of a firm's costs, and that covering this overhead had become a key problem for the firm. Particularly strong (cut-throat) competition or depressed markets could reduce price to variable cost, leaving the firm with significant short-run losses. Such firms had an obvious interest in the maintenance of stable conditions, but 'due to this very fact of large fixed capital . . . business breeds . . . calamities for itself, out of the laws of its own being' (1923, p. 386). Part of Clark's discussion concerned the accelerator mechanism resulting in cumulative upswings and downswings, but another part dealt with the attempt by large firms to undertake 'the steadying of business through steadying prices' (p. 403). Clark saw that the 'danger of cut-throat competition is bound in time to develop adaptive reactions, and any industry which can protect itself against this danger must have some control over the lengths to which price-cutting goes during depressions' (p. 404). However, while he understood the business motivation, Clark was also aware that 'steadying industry by steadying prices is an economic paradox' (p. 404). Steadying prices in the face of fluctuating

demand leads to greater fluctuations in output and employment. Furthermore, it is falling prices that eventually revive demand and begin the upswing again, and, due to the accelerator, 'steady prices will always mean violently unsteady demand in the capital-making industries, and these will affect the rest' (p. 406).

An additional dimension was given to these arguments by the empirical studies of productivity, prices and incomes undertaken by F.C. Mills. In these studies Mills focused on the trends in price, output, and income by industry and sector. His first major work, *The Behavior of Prices* (1927), was highly descriptive in nature,¹⁵ but in subsequent studies he gradually added interpretation. Mills's contribution to the 1929 volume *Recent Economic Changes* is of particular interest. For the period 1922–27, Mills found substantial growth in manufacturing output, coupled with a slight decline in manufacturing employment. This increasing productivity in manufacturing was accompanied by rising wages, slightly falling wholesale price levels, very slightly rising retail price levels, and very substantial increases in profits. Significantly, Mills also found a growth in the stability of prices and price relations (Mills 1929, pp. 653–5). Mills did not attempt to explain this growth of price stability, nor, in his work completed prior to the Great Depression, did he indicate that his findings represented any particular problem for the economic system.¹⁶ By contrast, in his later work increasing productivity and price inflexibility play central roles in his discussion of depression (Mills 1932; 1936).

The various works of King, Clark and Mills all operated to bring (or to keep) institutionalists' attention on the issue of technological change as it affected (i) the behaviour of the firms, particularly their pricing policy, and (ii) the ability of the economic system to maintain high and stable levels of output and employment. Just as significantly, these works marked the beginning of the transition within institutionalism from the analysis of the economic system in predominantly flexible price terms to predominantly inflexible price terms. Nevertheless, until the advent of the Great Depression Mitchell's treatment of the business cycle held sway. With the Great Depression, its severity and length, Mitchell's concept of a regular cycle in which prosperity bred depression and depression bred revival and prosperity seemed clearly inadequate. Institutionalists, like others, searched for new theories or additional factors that might explain the course of events, and as a part of this, Hobson's underconsumptionist ideas experienced a revival among institutionalists. Hobson's ideas, however, were not simply adopted wholesale, but integrated into the research program developing from Clark and Mills. This process was aided by the fact that Hobson also modified his ideas in a not entirely dissimilar way.

THE 1930S: UNDERCONSUMPTION AND TECHNOLOGICAL CHANGE REVISITED

During the Great Depression both Hobson and many institutionalists produced theories of depression that combined an underconsumptionist point of view with an analysis of the effects of price inflexibility¹⁷ and technological change. In this, the work of F.C. Mills was of particular importance. His findings were used and discussed by Hobson and by virtually all other institutionalists. In addition to Mills, the work of J.M. Clark, Rexford Tugwell, and the Brookings Institute studies headed by H.G. Moulton¹⁸ and Edwin Nourse will be taken as typical of the institutionalist literature of the period.

In his two later books (Mills 1932; 1936), Mills developed and extended his earlier investigations. This later work did not materially alter his empirical results. He continued to find growing productivity in manufacturing due to technological change, falling employment in manufacturing, and inflexible prices.¹⁹ Of course, the price inflexibility thesis was also stated by Gardiner Means (1935a; 1935b) and A.R. Burns (1936), but Mills's version had special significance. Not only did Mills identify the trend to price inflexibility in 1929, his work brought price inflexibility together with technological change to produce an argument concerning shifts in the distribution of income (particularly towards profits) and the obstacles to achieving a wide diffusion of purchasing power.

In an economy marked by frictions of many types, . . . rigid prices, inflexible rates for services of many sorts, immobility of labor and capital – innumerable barriers stand in the way of the wide and prompt diffusion of purchasing power. The pressure of new purchasing power in one segment of the economic system may exert a negligible effect on displaced labor and idle capital in a remote section, within time limits that have significance for ordinary human activities. (Mills 1936, p. 440)

Mills's discussion was not cast in explicitly underconsumptionist or oversaving, overinvestment terms, but his findings obviously lent themselves to such an interpretation. This interpretation was provided by Hobson himself in 1930. He both incorporated price inflexibility, and made use of Mills's 1929 findings (Hobson 1930, p. 68)²⁰ in his argument that the 'rationalisation' of industry had raised productivity but, due to inflexible prices, had also raised profits and worsened the maldistribution of income and the problem of oversaving:

If the economy of rationalisation were consistent with genuine competition . . . prices would fall with the falling costs of unrestricted supply, and the consuming public would secure the gains of cheaper production. . . . But the full economies are seldom achieved by a rationalisation within this competitive order. The process normally signifies the organization of a Combine, Cartel, or Trust . . . eliminating competition in selling prices, and regulating output to maintain a profitable price level. Under such circumstances there is no reason to hold that the consuming public will get in lower prices the whole or, indeed, any considerable part of the gain. (Hobson 1930, pp. 85–6)

Mills's empirical results, along with something of Hobson's interpretation, set the tone of much of the institutionalist literature that followed. While there are areas of difference and disagreement within this literature that are not insignificant, in overall terms there is an impressive degree of commonality.

As noted above, J.M. Clark's work on cycles is best known for his development of the accelerator, but Clark also included other elements in his discussion, and in his 1930s writings in particular he shows the influence of both Hobson and Mills. Even after the arrival of Keynesian ideas, Clark retained his regard for Hobson, awarding him 'high rank in the "brave army of heretics"' (Clark 1940).

Clark discussed Mills's findings concerning the increasing proportion of fixed capital to labour, increasing labour productivity, and rising profits. Clark saw these developments primarily as longer-term trends tending to compound the problem of cycles and maintaining 'balance' in the economy (Clark 1935, pp. 96–110). The short cycle Clark described in terms that had their origin in Mitchell's work (pp. 174–90), but modified by a heavier emphasis on the accelerator mechanism and on cyclical shifts in 'the proportionate distribution of the national dividend between different classes and income groups'. These shifts 'taken in conjunction with the diverse habits and standards of consumption and savings of these groups' result in 'instability in the proportions of the national income saved and consumed' over the course of the cycle (p. 189). The growth of profits (particularly undistributed profits) during the boom phase of the cycle 'represents an absorption of purchasing power which will not be fully spent, of which much less than the general average will go for consumption, and much more than the general average will be saved or invested, with the result that actual consumers' spending cannot increase as fast as the total dollar magnitude of production, while savings increase faster' (Clark 1965, p. 33).

In addition to this, Clark discussed the disturbing effects of certain

'progressive changes', among them increasing consumption of durables, productivity improvements, and chronic tendencies to oversaving. On productivity improvements Clark echoed Mills's emphasis on the difficulties of making rapid adjustments and the long-lived nature of the problems which may arise: 'mere technical progress seems capable, lacking the necessary adjustments, of bringing on a state of chronic inability to use all our labor power' (Clark 1965, p. 46). Similarly, on the tendency to oversaving in rich nations Clark argued that if such savings could be readily 'spent for tangible goods in ways that created employment and a corresponding distribution of incomes' little difficulty would arise. However, 'the limiting factor seems to be not our power to accumulate capital but our power to make the difficult adjustments necessary to absorb it'. He concluded that 'if these adjustments could be speeded up, over-saving might be impossible; but as things are there seems good *prima facie* ground for thinking that over-saving exists, relative to the power of absorption possessed by our economic institutions' (Clark 1965, pp. 47–8; Clark 1935, pp. 210–14).

Clark was unwilling to speculate as to how much of the unemployment of the 1930s was due to cyclical factors and how much to longer-term tendencies, but he did propose a flexible public works programme combined with appropriate credit and wage/price policies to counter unemployment. He also argued for a movement toward a system of long-range planning (Clark 1965, pp. 155–68).

Rexford Tugwell's contribution to the New Deal has been widely recognised (Sternsher 1964; Namorato 1988), as has the distinctly Hobsonian nature of his analysis of the causes of depression (Winch 1969, p. 232). Although Tugwell's own writings emphasised his intellectual debt to Veblen and Simon Patten (Tugwell 1950), he acknowledged Hobson's influence in his report of his 1932 discussion with Roosevelt: 'I explained that what I had said . . . was only an extended version of what economists knew as the "over-saving theory" . . . I explained that it was usually attributed to the English economist J.A. Hobson, but that there had been hints of it in earlier works, and it had been elaborated by several others, among them some Americans' (Tugwell 1968, pp. 42–3).

Tugwell's position grew out of what was initially a highly optimistic view of the possibilities opened up by new technology, forms of organisation, and organisational technique. He characterised 1920s developments in the United States as 'a new industrial revolution' that had opened up the possibility of significantly increased living standards for all (Tugwell 1927, pp. v–viii, 2, 26). Tugwell did recognise barriers in the way of achieving this goal, such as continued poverty among certain groups with little or no bargaining power and industrial depressions (Tugwell 1927, pp. 26–8;

204–11), and these themes he developed immediately prior to and during his involvement with the New Deal.

Tugwell's under-consumptionist approach to depressions is most fully developed in his 'The Theory of Occupational Obsolescence' (1931) and 'Flaws in the Hoover Economic Plan' (1932a). Some of these ideas are also expressed in 'The Principle of Planning and the Institution of Laissez Faire' (1932b) and in 'When Corporations Save', a note written in 1934 and published a year later in *The Battle for Democracy*. Tugwell fully accepted Mills's empirical findings, and quoted them extensively (1932a pp. 525–6). Unlike Mills he attempted to provide an explanation for the observed stability of prices in manufacturing by extending J.M. Clark's point in *Overhead Costs*. Firms utilising modern technology have high overheads which makes them particularly vulnerable to downward fluctuations in demand. They attempt to build up liquid reserves – to generate accumulated surpluses – and to do this they do not reduce prices as costs fall, but increase their margins (Tugwell 1931, pp. 185–7). As Tugwell put it: 'duty to stockholders involved the creation of a fund which could be drawn on when earnings failed' (Tugwell 1935, p. 187).

Tugwell saw the 1920s as a period of cost-reducing technological improvement with little or no reduction in selling prices. Profits rose, and rose by more than enough to meet dividend requirements (Tugwell 1932a, p. 526). Firms took advantage by building up reserves, but this policy, when followed by many corporations, created oversaving, overinvestment, and a deficiency of final demand:

If, instead of using its earnings to enlarge its surplus, the corporation used them to increase its payroll or reduce its prices to consumers it would be enlarging the demand for its own products along with those of others . . . it is as a result of following the course of saving that industries find themselves periodically with a falling market. When too much is saved and finds its way into factories, warehouses, transport facilities and the like, our productive equipment tends to outgrow any demand there may be for the product. (Tugwell 1935, p. 187)

None of Tugwell's work developed these ideas much further, so that it is unclear whether he thought of the problem of oversaving and overinvestment as merely cyclical or as chronic. Despite this, it is quite obvious that he did think that the problem could not be overcome without the implementation of radical policies. He argued that investment should be centrally planned and directed to enterprises with 'a clear prospective market', and that the stream of purchasing power should be enlarged and protected (1935,

pp. 189–91). Tugwell admitted that the operation of the NRA codes had been largely of a ‘negative, repressive sort’, restricting output and maintaining or increasing prices, but he argued that the NRA could, nevertheless, provide a mechanism through which more positive action could be taken: ‘through a mere extension of the activities undertaken in the codes and otherwise under the Recovery Act, all that is needful to be done may be accomplished’ (1935, p. 190).

H.G. Moulton, an admirer of Veblen’s and collaborator with Walton Hamilton, first expressed underconsumptionist ideas in a series of articles published in 1918. Later, as President of the Brookings Institute, he directed a series of studies with Edwin Nourse and others which appeared in 1934 and ’35: *America’s Capacity to Produce* (Nourse and Associates 1936); *America’s Capacity to Consume* (Levin, Moulton and Warburton 1934); *The Formation of Capital* (Moulton 1935a); and *Income and Economic Progress* (Moulton 1935b). Nourse and H.B. Drury later produced a related volume: *Industrial Price Policies and Economic Progress* (1938).

It is not easy to disentangle the various influences that lie behind these works, but Nourse held both Wesley Mitchell and J.M. Clark in high regard, and stated that J.A. Hobson was the ‘intellectual daddy of what we did at Brookings on the Price and Income Books’ (Knapp 1979, pp. 470–1). Although the foreword to Nourse’s *America’s Capacity to Produce* makes major reference to Foster and Catchings, the argument presented in the series of works as a whole is undoubtedly maldistributionist in nature.

In the first two books it is claimed that America’s capacity production, even in normal times, had exceeded actual output by about 20%, but that this excess capacity was caused by no *physical* inability to consume more, but rather by an insufficiency of purchasing power (Nourse et al. 1934, pp. 415–30; Levin et al. 1934, pp. 126–33). This idea of chronic excess capacity is very reminiscent of Veblen, except that much more attention is given to the problem of purchasing power. However, *no* general build-up of excess capacity was found immediately prior to the collapse of 1929, undermining the description of events given by Tugwell and others who claimed that *rising* overinvestment provided the trigger for the crash. Moulton’s *Formation of Capital* (1935a) developed this argument. The distribution of income had been changing, with the result that the proportion of income saved had risen throughout the Twenties. Business investment did not rise by enough to absorb all the additional savings, so ‘excess savings’ had flowed into security markets, inflating security values but not necessarily producing new capital investment. Moulton argued that the level of productive investment had been restricted by the level of consumer spending so that, until the recession actually hit, excess capacity had re-

mained fairly constant. Excess saving, according to Moulton, had gone primarily into the inflation of security prices (pp. 136–60).

The notion of excess savings resulting in an inflation of security prices can also be found in J.M. Clark and R.G. Tugwell, but Moulton emphasised it to a much greater extent. His findings led him to the conclusion that it was the stock market crash that precipitated the depression, stock market losses resulting in a decline in consumption. Nevertheless, although Moulton believed the problem of oversaving first manifested itself in financial markets, the underlying cause was still the maladjustment between saving and consumption (Moulton 1935a, pp. 55–7).

The proposed solution was presented in the final volume (Moulton 1935b). In this work the changes in the distribution of income noted in the earlier volumes are explained in a way that relies heavily on the work of F.C. Mills. Productivity improvements combined with growing monopolisation and price stability had resulted in increased profits, dividends, wages and salaries in manufacturing industry, but the broad expansion of purchasing power required to maintain economic progress had not occurred. The answer lay in restoring price flexibility by attacking the ‘abuse’ perpetrated by ‘corporate consolidation, pools, trusts, cartels, trade associations, and code authorities’:

. . . there is one type of distributive reform which in our judgement outranks all others in its promise of attaining the goal we seek. This is the gradual but persistent revamping of price policy so as to pass on the benefits of technological progress and rising productivity to all the population in their role of consumers. Such a procedure seems to us to assure the maximum gain to the masses both in the short-run and in the long-run. (Moulton 1935b, p. 161)

The Nourse and Drury book continued this theme, suggesting a policy of ‘dynamic price making’ consistent with technological change and rising productivity (Nourse and Drury 1938, pp. 259–75).

CONCLUSION

The various institutionalist treatments of depression, from Veblen, through Mitchell, to Clark, Tugwell, Nourse and Moulton, vary considerably. This is especially obvious in the shift from the flexible price-competitive context of Veblen’s theory (with monopoly as stabilising) to the later emphasis on

price inflexibility (with monopoly as destabilising); but even within the later literature there are significant differences in the details of the various presentations. Nevertheless, it is clear that Hobson's maldistributionist underconsumptionism had a considerable influence on institutionalism, particularly in the 1930s, an influence that can be traced back to 1904 and Veblen's *Theory of Business Enterprise*.

The widespread adoption of underconsumptionism among institutionalists in the 1930s however, resulted not just from Veblen's direct influence or, as Winch suggests, simply from the compatibility between underconsumptionism and the institutionalist bias against the market. What actually occurred was more complex, with institutionalists after Veblen pursuing Mitchell's approach to cycle theory along lines that owed little, if anything, to Hobson or to underconsumptionist ideas in general. The shift to underconsumptionism in the 1930s, then, represented a break from the previously dominant research programme based on Mitchell's work. This was undoubtedly the result of the Great Depression, which seemed to reveal the inadequacy of Mitchell's cycle theory, but the exact form of the break, and the resurgence of Hobson's influence, were due to the prior development, during the 1920s, of arguments and findings which provided a basis for the reconciliation of Hobson's maldistributionist underconsumptionism with other long-standing institutionalist themes, particularly that of technological change. The Great Depression may have provided the immediate impetus for the shift in research programme, but the nature of that shift was shaped by factors internal to the institutionalist movement itself.

The work of F.C. Mills had a special significance in the formation of the particular brand of underconsumptionism that emerged. Originally conceived as part of Mitchell's programme of research on cycles Mills's work generated results that ultimately helped to undermine that programme. First, it promoted the shift from a flexible price to an inflexible price context. Second, it created an obvious congruence between the institutionalist emphasis on technological change, inherited from Veblen, and underconsumptionism. The new synthesis of ideas seemed empirically well supported and overcame the theoretical and empirical difficulties in both Veblen's work on chronic depression and Hobson's earlier approach to the relationship between technological change and unemployment.

It is also worth recalling that the lines of influence between Hobson and American institutionalists ran in both directions. Not only did Hobson influence Veblen and later institutionalists, but Veblen influenced Hobson, and other American investigations, particularly Mills's, played a part in some of the later modifications Hobson made to his ideas. Indeed, the

mutual contact, respect, and influence maintained between Hobson and American institutionalists is remarkable in its contrast to the insularity that more often characterises the development of economics.

A final observation is that the appreciation of Hobson and the particular combination of underconsumptionist ideas and the emphasis on technological improvement creating a special need to sustain and increase mass purchasing power remained intact within institutionalism even after the comparative statics of Keynesian economics had taken over elsewhere. The long-lived influence of Hobson at Wisconsin is mentioned by Nemmers (1956),²¹ while Clarence Ayres' (1966) work on guaranteed income schemes demonstrates the continuance into more recent times of the combination of a maldistributionist underconsumptionism with a stress on technological change and improved productivity:

What we need is some device that can be permanently instituted as a regular feature of the industrial economy by which demand can be made to keep pace with a constantly proliferating supply. The guarantee of a basic income . . . to all members of the community irrespective of the earnings of employment . . . would provide the flow of effective demand that the economy more and more desperately requires. (Ayres 1966, p. 162)

Notes

1. Hobson and Veblen also corresponded occasionally and met more than once. For details see Brailsford (1948, pp. 7–8), Minchinton (1959, pp. 29–34), Dorfman (1973, pp. 22, 66, 86–9, 250, 275, 293).
2. It is noteworthy that Hobson was invited to teach at the Brookings Graduate School during 1925/6. Walton Hamilton was largely responsible for the invitation. During that visit Hobson also met with Wesley Mitchell, their second meeting (Mitchell 1969, 491, 14).
3. Other examples are to be found in Stein (1969, pp. 148–9) and Fusfeld (1954, pp. 210–12).
4. Ayres (1966, pp. 161–2) also notes the lack of an underconsumptionist element within institutionalism before the 1930s. Somewhat unfairly, he also includes Veblen in his condemnation.
5. This maldistributionist argument is not found in *The Physiology of Industry*, but is a constant theme in Hobson's later work.
6. Hobson does not indicate whether he thought of technological innovation as proceeding continuously or in waves.
7. There is also something of a link between Veblen and D.A. Wells. Veblen drew on Wells's work, as is obvious in Veblen (1934). Some areas of similarity between Veblen's work on chronic excess capacity and Wells's ideas can be seen in Wells *Recent Economic Changes* (1889, pp. 73–4). Hobson also knew of Wells. In his *Evolution of Modern Capitalism* (1894, p. 171) Hobson refers

to an 1887 article by Wells in *The Contemporary Review*. Hobson credits Wells with providing 'the most abundant information regarding the excess of machinery of production in the several branches of industry', and classifies him as one who sees 'machinery as the direct cause of depressed trade'. Interestingly, Schumpeter, too, was aware of Wells's work (Schumpeter 1966, p. 867). Of course the idea that technological advance, *in a variety of ways*, contributed to low prices and profits and to 'surplus capital' was not uncommon in the late 1890s. Relevant arguments can be found in works by Hadley (1896), Conant (1896) and Jenks (1900). Jenks was closely involved with the Industrial Commission, and, again, both Hobson and Veblen were familiar with his work. For some discussion of this literature see Parrini and Sklar (1983).

8. The title of this article is in quotes as it refers to another piece of the same name by U.H. Crocker. Veblen seems unimpressed with Say's law, although accepting it as an identity (Sowell 1967, p. 187). Veblen also rejects the conventional meaning of "overproduction" as an actual excess of goods, but attempts to define its real (business) meaning.
9. This has also been noted by other commentators on Veblen's work. See Arrow (1975); Sowell (1967); and Walker (1977).
10. The idea of monopoly control as a corrective for competitive overinvestment was also put forward by Jenks, Conant and by others. Veblen, however, saw this as only a business solution and one with many adverse social consequences. Veblen can be seen as agreeing with the thrust of their critique of the competitive market, but rejecting their highly pro-corporate response.
11. Hobson had read and absorbed Veblen's *The Theory of Business Enterprise* (1904) in time for his 1906 revision of *The Evolution of Modern Capitalism*, Hobson did use some points from *Business Enterprise* but did not change his discussion of the role of technological change.
12. Hobson's work also contained some appreciation of the accelerator, but it remained underdeveloped. Hobson does not appear to have been the source of Clark's ideas.
13. Wesley Mitchell was Director of Research for the NBER during this time. The works of King and Mills were a part of Mitchell's overall programme of research into business cycles.
14. Clark's work was also influenced by Hadley. See Clark (1923, pp. 12–14).
15. Mills's (1927) volume was highly statistical but lacked any interpretation. It was later the subject of a sharp attack on methodological grounds by R.T. Bye (1940).
16. If anything he seems to favour greater price stability as implying 'business stability'. See Mills (1929, p. 655).
17. Even Mitchell modified his cycle theory with the argument that price inflexibility was making recovery a much more difficult process. See Mitchell (1950, p. 92).
18. Moulton's inclusion as an institutionalist may be questionable but his work on the Brookings Institute studies is included here for three reasons: (i) institutionalists such as Nourse were also involved; (ii) Moulton was quite clearly influenced by Veblen; and (iii) the Brookings studies (particularly the first two volumes) were very widely cited by institutionalists and rapidly became part of the institutionalist canon.
19. Even in his later work, Mills does not provide much of an explanation for price

- inflexibilities, although he does make some reference to J.M. Clark's arguments concerning overhead costs. See Mills (1936, pp. 430–56).
20. Hobson does not explicitly identify the source, but the figures are Mills's. Hobson also quotes Mitchell (Hobson 1930, pp. 75–6).
 21. Martin Bronfenbrenner has confirmed Nemmers's view for the period 1947–57 in a letter to this author, but it should be understood that it is *not* claimed that all the major personalities at Wisconsin during this period accepted Hobson's point of view.

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11 John Hobson: Admirer and Critic of Thorstein Veblen

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INTRODUCTION

The British social thinker John Hobson (1858–1940) and the Norwegian-American social scientist Thorstein Veblen (1857–1929) knew each other personally and corresponded (Dorfman 1934 and 1973; Minchinton 1959).¹ Veblen cited Hobson extensively in *The Theory of Business Enterprise* (1904) and Hobson cited Veblen frequently, for example in *Work and Wealth* (1914), *Free-Thought in the Social Sciences* (1926a), *The Evolution of Modern Capitalism* (1926b), and *Wealth and Life* (1926a). Veblen reviewed Hobson's *Imperialism* (1903) and Hobson wrote a book, an article and an obituary on Veblen (1937, 1936 and 1926b).² They both commented extensively on the political economist Mallock (Veblen 1898; Hobson 1898a), and they both responded to the utopian socialist Bellamy (Hobson 1898b; Tilman 1985; Edgell and Tilman 1989).

The parallels in their relatively unsuccessful academic careers and their critical social thoughts have often been remarked upon (cf. Brailsford 1948; Minchinton 1959; Riesman 1960; Townshend 1973; Allett 1981). It is only more recently that detailed studies of the intellectual relationship between Hobson and Veblen have begun to appear.

First, Rutherford has suggested that:

Hobson's mal-distributionist version of underconsumption was ... combined with other institutional themes inherited from Veblen, particularly the importance of technological change, the tendency of chronic depression, and the problem of depression being fundamentally due to the pecuniary nature of existing institutions. (Rutherford 1985: 21)

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Second, Smith has noted that Veblen and Hobson shared a similar conception of economic man as ‘active, purposive and, increasingly humane and rational’ (1990: 93) and argued that:

Hobson concurred with Veblen in the main outlines of his analysis of industrial capitalism. However, he differed from Veblen on how the development of democracy was related to the progress of capitalism. (Smith 1990: 96)

Finally, in the next chapter, Neale and Mayhew consider how Hobson’s views diverged from American Institutionalism in general and Veblen’s in particular.

Thus, we know that Hobson and Veblen were significant radical thinkers, but marginal academics who were part of a heterodox critical tradition in Britain and America.³ Moreover, we know that they influenced each other, developed similar theories on some issues and contrasting theories on others. Therefore there would seem to be two basic approaches to the Hobson–Veblen intellectual relationship; the influence of Veblen on Hobson and the influence of Hobson on Veblen. Both approaches would perforce reveal the continuities and discontinuities in their contributions.

The purpose of this chapter is to continue the examination of the intellectual relationship between Hobson and Veblen begun in earnest by Rutherford and Smith with special reference to Veblen’s influence on Hobson, and Hobson’s critical evaluation of Veblen. However, whereas Rutherford, Smith, Mayhew and Neale have focused on their political-economic analyses, our aim is to compare and contrast their critical-social theories. More specifically, we intend to consider exactly what Hobson got from Veblen and what he rejected, with particular reference to what Hobson called the ‘social implications of Veblen’s economic interpretation of history’ (1936: 87).

HOBSON: ACQUAINTANCE AND ADMIRER OF VEBLEN

During the 1880s, before he had published his first book in collaboration with the American Mummy (1889), Hobson had married an American woman and had visited America (Townshend, 1973). Between 1902 and 1905 Hobson visited America – and Canada – many times to lecture (Minchinton 1959).

In the course of his visits to America, Hobson made or strengthened

friendships with a number of Americans of radical views, with Henry Demarest Lloyd, “the first and greatest of the muckrakers”, with E.A. Ross, the sociologist, and with William Jennings Bryan ... During these visits, Hobson also met Thorstein Veblen and subsequently corresponded with him. (Minchinton 1959: 29)

According to Dorfman, Veblen’s biographer, Hobson wrote to Veblen to enquire: ‘When will your textbook on Business be out? I am trying to put together an elementary textbook on economics (general) and shall expect to get some definite assistance from your book’ (Dorfman 1934: 222).

In his updated version of this study, Dorfman reports that Hobson wrote to him about Veblen in 1932: ‘I am an admirer of his economic work, especially his development of “the money power” and the conflict between the entrepreneur and “the engineer”’ (Dorfman 1973: 178).

In addition to the evidence provided by his correspondence, Hobson’s admiration of Veblen was expressed in his books. To take just two examples. First, in his book on Veblen, Hobson was full of praise as the following quotations illustrate.

No American sociologist has brought a wider intellectual equipment, a keener brain and a more objective vision to bear upon the spectacle of American social processes and institutions . . . He was essentially a powerful exploratory thinker, his economic and sociological teaching being based upon deep philosophical and psychological studies which gave him a fuller understanding of human personality and society than any other of his countryman . . . one of the most brilliant, independent and penetrative minds of our age . . . one of the great sociologists of our time. (Hobson 1936: 9, 22)

Second, in his autobiography published in 1938, Hobson recollected that Ross and Veblen ‘seemed to have the most comprehensive understanding of the recent evolution of American political-economic life’ (Hobson 1976: 69).

Hobson’s intellectual admiration of Veblen was also expressed in his review article of *What Veblen Taught*, edited by Mitchell. Hobson wrote that Thorstein Veblen was ‘one of the few original thinkers of his age in the field of sociology and economics’ (1937: 139). Finally, in his obituary of Veblen published in *The Sociological Review*, he concluded that Veblen was ‘an exceptionally alert, penetrating and fearless mind, utterly recalcitrant to academic traditions and customary thinking’ (Hobson 1929b: 342).

It was impossible not to conclude from these general comments on

Veblen by Hobson that the latter was very impressed by Veblen's intellect, scholarship and integrity. However, as we will show below, Hobson was a critical admirer of Veblen who was more attracted to some of his ideas than to others. The next step therefore is to consider the selective nature of Hobson's admiration of Veblen, arguably one of the key American sources of his ideas.

VEBLEN AND HOBSON ON CLASS, MATERIAL CONSUMPTION AND WASTE

Veblen's first and most famous book, *The Theory of the Leisure Class*, advances the thesis that during the predatory (feudal) era, a parasitic leisure class emerges that is exempt from useful work and consumes conspicuously, i.e. expensively and wastefully. Drawing heavily on the work of Rae (Edgell and Tilman 1991), Veblen distinguishes between the production and consumption of utilities that satisfy real needs, and goods that demonstrated social status. Also, he argues that:

The prescriptive position of the leisure class as the exemplar of respectability has imposed many features of the leisure-class theory of life upon the lower classes; with the result that there goes on, always and throughout society, a more or less persistent cultivation of these aristocratic traits. (Veblen 1970: 163)

Moreover, Veblen suggests that in the process of competitive conspicuous consumption, 'each class envies and emulates the class next above it in the social scale' and that the 'leisure class sets the pace in all matters of decency' (Veblen 1970: 81 and 131). Thus, according to Veblen the non-utilitarian leisure-class ideology is the dominant one during the first predatory era and survives to become the dominant ideology of the later predatory (capitalist) era, thereby contaminating the cultures of both.

The survival of the predatory traits under the leisure class culture is furthered both negatively, through the industrial exemption of the class, and positively, through the sanction of the leisure-class canons of decency. (Veblen 1970: 219)

Hence, the values of the leisure class affect the whole culture of industrial capitalism to the extent that useful activities and commodities tend to be less prestigious than wasteful activities and commodities. For example, the

high status of pecuniary or non-productive work as opposed to productive or industrial types of employment, and conspicuous consumption in contrast to the consumption of utilities. Veblen also illustrated his theory with reference to food and feasting, clothing and fashion, art and beauty, gambling and religion, and sport and education. The main thrust of Veblen's analysis however, was not only to explain the origins, nature and persistence of leisure-class culture, but also to emphasise its deleterious social consequences. Thus, for Veblen, the hegemonic character of leisure-class values tend to integrate the working classes, waste scarce resources, discourage innovation, and generally retard economic growth.

Veblen's theory of the leisure class became a central chapter in Hobson's attempt to develop a 'humanist economics' in *Work and Wealth* (1914). The chapter in question was entitled 'Class Standards of Consumption' and in it Hobson distinguished between organic and wasteful consumption. The former was concerned with the satisfaction of physical needs but modified by the 'conditions of work' (Hobson 1914: 121). The latter type of consumption was 'not based upon considerations of physical or economic environment but imposed by social custom' (Hobson 1914: 121). In his analysis of 'conventional' as opposed to 'natural' consumption, Hobson argued that the increase in new products and social mobility in England and America combined to stimulate 'the process of imitation by prestige' (1914: 140). Following Veblen he suggested that:

The actual expenditure of the income of every class in these countries is very largely determined, not by organic needs, but by imitation of the conventional consumption of the class immediately above in income or in social esteem. That conventional consumption in its turn is formed by imitation of the class above. The aristocracy, plutocracy, or class with most power or prestige, thus makes the standards for the other classes. (Hobson 1914: 140)

For Hobson, the social significance of lower-class imitation of upper-class prestigious consumption is the 'incalculable damage and waste' it causes. Interestingly, Hobson illustrates his claim with reference to dress, one of Veblen's favourite examples of conspicuous consumption (cf. Veblen 1894 and 1970), and concludes by echoing Veblen's thoughts on class, consumption and waste.

If the inconvenience of decorative dress is bad for rich women, who live a life of ease and leisure, its imitation by the active housewives of the middle, and the women-workers of the lower classes, inflicts a graver

disutility. For the waste of income is more injurious and the physical impediments to liberty of movement are more onerous ... It is the immeasurable importance of this prestige of the upper class, percolating through all lower social grades, and imposing, not merely elements of conventional consumption, but standards and ideas of life which affect the whole mode of living, that requires us to give closer consideration to the life of the leisure class. (Hobson, 1914: 141)

At this point Hobson comments critically on Veblen's book *The Theory of the Leisure Class*. He suggests that this study 'has two considerable defects, one of manner, one of matter' (1914: 142). The former refers to the 'half-humorous parade of pompous terminology' that characterises Veblen's style, and the latter, and more serious defect, concerns Veblen's 'exaggerated stress upon a single strain of personality, as a dominant influence in the formation of habits and the direction of conduct' (Hobson 1914: 142). This is a reference to an earlier point made by Hobson to the effect that Veblen's analysis of leisure-class consumption is confined to its alleged deleterious aspects.

In fact, the more closely we study the conventional factors in consumption, the less are we able to dismiss them out of hand as mere extravagance or waste. Some organic impulses, half physical, half psychical, nearly always enters into the least desirable elements. A margin of expenditure, either conventional or expressing individual caprice, which serves to evoke pleasure, to stir interest, and above all to satisfy a sense of personal dignity, even though at the expense of some more obvious and immediate utilities, may be justified by considerations of individual and social progress. (Hobson, 1914: 128)

However, it is not the case that Veblen was unaware of the dual nature of consumption, namely that it typically involved elements of both utility and waste, it was his view that the latter element tended to 'contaminate' and dominate the former (cf. Edgell and Tilman 1991)

In the final analysis, Hobson concluded that this was a book of 'profound and penetrating power' and that its discussion of waste 'is of first-rate importance' (1914: 142). Hence, following his summary of Veblen's theory, Hobson arrived at the same historical conclusion, namely that leisure-class values are 'still paramount' and 'induce futile extravagance in expenditure', not just in relation to food and clothing, but particularly on 'recreation, education and charity' (1914: 144 and 145).

Hobson provides a longer, more detailed and essentially uncritical sum-

mary of Veblen's theory of the leisure class in his book-length study of *Veblen* (1936). At the end of the chapter devoted to the 'social implications of a predatory system', Hobson concluded that 'what chiefly concerns Veblen in dealing with this wasteful conservatism in modern times is the support it gives to the social domination of the wealthy class and in particular the recent rulers of finance. (Hobson 1936: 102)

Thus, Hobson's appraisal of Veblen's theory of the leisure class was in the main a favourable one. More specifically, he drew upon Veblen's analysis of waste and, by implication, concurred with Veblen regarding the deleterious economic impact of conspicuous consumption. Hobson also endorsed Veblen's point about the integrative implications of the tendency for leisure-class standards of conspicuous leisure to be diffused throughout the class structure. However, Hobson regarded non-material expenditure as the 'largest' source of 'injurious waste' (1914: 145). Hence, according to Hobson:

It is a matter of far more vital importance that religion, ethics, art, literature and the whole range of intellectual activities, manners, amusements, take their shapes and values largely by the same process of infiltration from above. (Hobson 1914: 140)

VEBLÉN AND HOBSON ON NON-MATERIAL LEISURE-CLASS CONSUMPTION

An integral part of Veblen's theory of the leisure class concerned non-material consumption. Veblen deprecated warfare, sport, gambling, religion, philanthropy and certain forms of higher learning on the grounds that they involve predation rather than workmanship, and as such are honourable manifestations of leisure-class culture (Veblen 1970: 21). Veblen was particularly severe on sport because of its 'substantial futility', 'colorable make-believe of purpose' and the scope for emulation that it afforded. Thus, according to Veblen, sport has very little to do with physical development and a lot to do with 'the leisure-class canon of reputable waste' (Veblen 1970: 172). Thus, 'the relation of football to physical culture is much the same as that of the bull-fight to agriculture' (173-4).

Veblen considered gambling to be closely related to sportmanship, and similarly wasteful:

The gambling propensity is another subsidiary trait of the barbarian temperament. It is a concomitant variation of character of almost univer-

sal prevalence among sporting men and among men given to warlike and emulative activities generally. This trait also has a direct economic value. It is recognized to be a hindrance to the highest industrial efficiency of the aggregate in any community where it prevails in an appreciable degree. (Veblen 1970: 182–3)

Furthermore, according to Veblen, ‘The gambling spirit which pervades the sporting element shades off by insensible gradations into that frame of mind which finds gratification in devout observances’ (193).

However, his main objection to ‘the devout consumption of goods and services’, was economic. He argued that the ‘consumption of ceremonial paraphernalia . . . may . . . be broadly characterized as items of conspicuous waste’ (201).

A final illustration of the venom expressed by Veblen on the wasteful, albeit prestigious non-material aspects of leisure-class culture, concerns ‘the acquisition of dead languages’ and the role of ‘the classics’ as a ‘voucher of scholastic respectability’:

it is their utility as evidence of wasted time and effort, and hence of the pecuniary strength necessary in order to afford this waste, that has secured to the classics their position of prerogative in the scheme of higher learning, and this has led to their being esteemed the most honorific of all learning. (255–6)

There is a marked continuity between Veblen and Hobson’s critical analyses of non-material leisure-class consumption, the only perceptible difference is in the linguistic style used. Thus when Hobson discusses Veblenian themes such as sport, gambling, religion and a classical education, there is far less satire, circumlocution and convoluted rhetoric than in Veblen. However, that he viewed the world much as Veblen viewed it, there can be little doubt. This is particularly evident in the chapter entitled ‘Sport, Culture and Charity’ in *Work and Wealth* which applies Veblen’s central theses regarding these topics. For example, Hobson attacked sport on the Veblenian grounds that it is wasteful and impedes progress.

The sportsman and the gamester are baser artists choosing the lower instead of the higher modes of self-realisation in manual and intellectual skill. The maintenance of barbarian standards of values by the classes possessing social prestige is a great obstacle to the development of science, art, and literature. In the second place, sport . . . carries the Nemesis of boredom. The sense of triviality and of futility gradually eats

through, and the make-believe realism, when confronted with the serious values of life, shows its emptiness. A heavier social damage is the economic cost which the expensive futility imposes. For sport involves the largest diversion of unearned income into unproductive expenditure. (Hobson 1914: 149–50)

Again, following Veblen, Hobson recognised a link not just between sport and gambling, but also between both these ancient forms of conspicuous leisure and devoutness.

The hazard belonging to a sporting life makes for superstition. Nobody is more crudely superstitious than the gambler, and everybody to whom life is primarily a game conceives of it as proceeding by rules which may be evaded or tampered with. This aspect of the sporting character gave the priestly caste its chief opportunity to get power. So pietism was grafted on the sportsman and the fighting-man, and religion kept a hold on the ruling and possessing classes, adapting its moral teaching to his case. (Hobson, 1914: 154)

Finally, Hobson like Veblen discussed the ‘place of honour accorded to dead languages’ compared to the lower status of ‘subjects of strictly vital utility’, and deplored the resulting waste of ‘intellectual “efficiency”’.

Great as the merits of Greek and Latin may be for the purposes of intellectual and emotional training, their predominance is not mainly determined by their merits, but by the traditional repute which has made them the chosen instruments for a parade of “useless” culture ... this waste is due to the acceptance and survival of barbarian standards of culture. (Hobson 1914: 151–2, 153)

Hobson’s admiration of Veblen’s analysis of non-material leisure-class consumption was tempered by two related criticisms. First, Hobson qualified Veblen’s harsh assessment of dogs in general as the ‘filthiest’ and ‘nastiest’ of domestic animals, and ‘fancy-bred’ ones in particular as ‘items of conspicuous consumption’ (Veblen 1970: 103), by suggesting: ‘Veblen, I think fails to note the special value of the dog ... as a child-substitute to women. The care bestowed on dogs to keep them clean ... and properly fed and exercised, is manifestly of the nature of an ersatz’ (Hobson 1936: 175)

Thus, Hobson criticised Veblen’s one-sided analysis of dogs as ‘expensive’; ‘wasteful’ and ‘useless’ and therefore an expression of leisure class consumption, by emphasising the affective dimension of keeping pets,

especially for women. In Veblen's defence, however, he did mention certain 'serviceable traits' in dogs such as 'intelligence and fidelity' (1970: 103). Moreover, it could be argued that regarding a dog as a child-substitute for women is a sexist statement of what is a dehumanising potentiality in its own right.

Second, and more importantly, Hobson recognised both the positive and the negative aspects of leisure, whereas Veblen's focus was almost entirely negative. Thus, whenever Veblen introduced a particular item of leisure-class consumption he tended to dismiss the useful, non-predatory, non-wasteful, inexpensive, pleasure-giving dimensions. For example, in his discussion of sport he noted that motives other than 'exploit and ferocity' are often assigned to it, 'but these can not be the chief incentives' (Veblen 1970: 171). This is in contrast to Hobson, who in addition to agreeing with the main thrust of Veblen's analysis of sport, also argued that:

No one who analyses carefully the feelings of pleasure got from a boundary hit, a run with the ball, neck-to-neck race, or any other athletic achievement, can doubt their nature ... Sport ... after all has health for its permanent utility. (Hobson 1914: 147, 149)

CONCLUSIONS

In his summary and estimate of Veblen's life-work, Hobson commented on his 'mode of expression' and the 'applicability' of his 'distinctly American critique to the wider field of present-day civilization', and in a long and perceptive passage suggested that these two aspects of Veblen's sociology 'are not unrelated' (1936: 219–20).

He did not deliberately choose and cultivate his humorous attitude. It was inherent in the social situation as he saw it. His approach was throughout that of an interested onlooker, seeking to understand the spectacle of American life ... This enabled him to give novel and surprising exhibitions and interpretations of situations, occurrences and valuations, which by ordinary Americans were accepted as normal, natural and calling for no explanation ... When Veblen, therefore showed how the interests of the economic master-class drew into its gainful course ... the controls of politics, religion, culture, recreation, social prestige, that could give assistance and protection to its business methods, the unmasking of such a relation between presumably independent activities and institutions was essentially humorous. (Hobson 1936: 220–1)

Consequently, Hobson concluded: 'To all who knew him the style was inseparable from the man, his natural mode of expression' (1936: 222).

Hobson went on to note: 'How far this method of expression and the substance of its revelation are fully applicable to the wider world is a question to which no confident answer is possible' (1936: 222). This is because American capitalism has been 'less hampered by political and legal controls, and by humanitarian sentiments and customary curbs' compared to European capitalism (*ibid.*). Hence: 'As applied to capitalist countries of Europe these sharp methods of analysis, though essentially true, would be blurred by many qualifying and even counteracting motives and movements less active in the United States' (223). In particular, Hobson mentions the 'mitigating' force of the state and the extent of the public sector provision in Europe. He concluded that:

Such considerations, however, do not impair the essential soundness of Veblen's central economic analysis, alike in its direct economic and its indirect social bearings upon the modern course of development in all countries advanced in their industrial and financial methods. (224)

Thus, Hobson's admiration of Veblen was founded upon a sympathetic appreciation of his inimitable style and the way in which he thought that it was inextricably related to what he regarded as his substantially correct analysis of the deleterious social implications of industrial capitalism.

It is both interesting and pertinent to note that Hobson once claimed that: '*The Theory of the Leisure Class* contained in embryo all the most distinctive thinking of his later works'. (1929: 343). Hence, this exercise in the history of ideas represents the beginning, rather than the end, of what Rutherford has referred to as the two-way relationship between Veblen and Hobson (1985: 22).

What we have been concerned to assess is Hobson's appraisal of Veblen's essential ideas. We have therefore concentrated on the points of convergence and divergence between Hobson and Veblen with special reference to Hobson's admiring yet critical response to Veblen's analysis of leisure-class culture. We have argued that Hobson incorporated into his own analysis of industrial capitalism the Veblenian thesis that leisure-class values are dominant in terms of both the prestige attached to them and their incidence throughout the class structure. However, he did so without systematic reference to Veblen's theory of evolutionary change, which was an integral part of all Veblen's social thought (Edgell 1975). Nonetheless, Hobson concurred with Veblen regarding the wastefulness occasioned by the cultural significance of leisure-class forms of consumption.

Hobson, in contrast to Veblen, claimed that the largest source of waste in capitalist societies was to be found in the expenditure on non-material rather than material leisure-class consumption. Although Veblen discussed both types of expenditure, he did not emphasise the distinction and consequently did not attempt to estimate the degree of waste that could be attributed to each type of wasteful consumption.

However, Hobson's major criticism of what, in all other respects, he judged to be Veblen's valuable and powerful analysis of the deleterious social implications of the predatory social system known as capitalism, was its one-sidedness. Hobson argued that conventional consumption was not only wasteful but also involved some positive elements, such as pleasure, interest and personal dignity, that contribute to individual and social progress.

Thus, Hobson's discussion of leisure-class consumption introduced a distinction between material and non-material expenditures, emphasised the latter in relation to waste, and developed a more balanced analysis of both. In other words, his account of leisure-class consumption is more complex than Veblen's to the extent that he recognised the positive as well as the negative aspects of competitive consumption. This is an important and constructive criticism, made by a sympathetic and informed commentator. It may well explain not just the persistence of 'wasteful' leisure-class consumption, but its growth during the second half of the twentieth century, thereby attesting to the continued relevance of both Veblen's and Hobson's respective contributions to the social scientific study of consumption.

Finally, on the basis of our analysis we suggest that Veblen probably influenced his contemporary Hobson more than did any other British social thinker. For his part, Hobson was less radical but more prescriptive than Veblen, and was arguably his most telling British critic.

Notes

1. The British archives which contain most of Hobson's surviving correspondence do not have any of the letters that were exchanged between Hobson and Veblen (The Brynmor Jones Library, University of Hull, England, and the Allen and Unwin Archive, Reading University Library, England).
2. Victor Branford, editor of the *Sociological Review*, apologised to his friend Patrick Geddes: 'I am afraid the *Review* will be late again, as I had to keep the proofs back in order to insert a memoir of Veblen, which, after considerable correspondence, I got Hobson to write. He says that he has seen no appreciation of Veblen anywhere, either in American or English papers, except an article in the *New Republic* (Victor Branford to Patrick Geddes, 21 September 1929, Geddes Papers, National Library of Scotland, Edinburgh).
3. Although Veblen was a more radical critic of neo-classicism than Hobson, there is considerable similarity in their approach to the deficiencies of conven-

tional economics. See for example, Veblen (1919) and Hobson (1925); plus the chapters by Rutherford, and Neale and Mayhew in this volume.

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12 Hobson, Veblen and American Institutionalism

Walter C. Neale and Anne Mayhew

Was John A. Hobson an institutionalist? Institutionalism has usually been regarded as peculiarly American. However, Hobson shared with the institutionalists an appreciation of the inadequacy of received economic theory to describe an industrial society. More importantly, many of his own analyses were similar to those of American institutionalists. We here attempt to answer our question by looking for a common core in the analyses of both. In doing so we focus upon a comparison of Hobson and Thorstein Veblen, who was a contemporary of Hobson's and who first articulated many of the basic propositions of institutionalism.¹

PROBLEMS FOR THE ANALYST

Three problems may affect our evaluation of Hobson's work when set against the three criteria that we use to characterize institutionalism. The first is the problem of time, place and style. Hobson was British (nay, plainly English), and a Victorian: his thought, his choice of words, his sentence structure, his structure of paragraphs and of argument create problems for Americans today. We differ from Hobson in time, place and style, and from Veblen in time and style. Hobson differs from Veblen in place and style. How much may we misunderstand for these reasons? Certainly Hobson thought that place and style were important in accounting for his own disagreements with Veblen; we take his realization on this point as warning not to exaggerate the apparent differences.²

The second problem is that most American institutionalists find Hobson's ethical characterizations and evaluations congenial, and this response works in the opposite way, to magnify similarities between his work and that of institutionalists. American institutionalists agree, more often than not, with Hobson's recommendations and hopes – often forlornly phrased hopes – for policy. He favoured full employment, redistribution of income, labour unions, equal pay for women (we think), and colonial policies directed towards the development of the people indigenous to the colonies. He had

no hope that the market, as it existed, would achieve the ends he sought. We cannot but enjoy his characterization of small investors as a 'great capitalist proletariat' or the consequences of imperialism as 'Mafficking'.³ But we should be wary indeed of taking similarities in attitudes, and similarities in policy conclusions, as evidence that Hobson was an institutionalist.

A third problem arises because, in a corpus of works as large as Hobson's and extending, as it does, over more than half a century, there are going to be variations in phrasings as well as conscious changes in analysis. Instead of pursuing a pointless matching game in which we find statements X and Y and someone else finds statements W and Z that are inconsistent with X and Y – and *vice versa* – we have tried to reach conclusions by judgements about the tenor rather than the precise wording of each book, and especially about the tenor of the whole corpus.

Two possible ambiguities illustrate the kinds of issues that may arise in close textual analysis. Both are of some importance to our own understanding of Hobson. First, in 'Imperialism and the Lower Races,' Hobson usually, but not always, puts 'lower' in quotation marks.⁴ He also argues that no humans should be exploited, that the only justification for rule over other people is that the imperial power helps the ruled to overcome their backwardness and improve their lives – which Hobson emphatically doubts has been an objective of the imperial powers – and that 'liberty might be the most essential condition of progress'.⁵ But he does speak of the backwardness of many colonial peoples and he does not always use quotation marks around 'lower'.

It would be possible to take the omission of this punctuation and his description of people as backward to argue that Hobson thought that progressivity and higher civilisation were racial characteristics. We, however, take the tenor of all of Hobson's work to indicate that the occasional absence of quotation marks was inadvertent (Hobson and his editors do not appear to have been overly meticulous). We also assume that he used race as it was then often used, to mean what we today call culture.⁶

Second, in 'Women in Modern Industry', Hobson discusses why women's wages are lower than men's wages.⁷ 'Where the elements of design, resource, judgment, enter in, the superiority of male labour is unquestioned' certainly sounds like gender bigotry, but Hobson also remarks that, 'where the product is of the highest *intellectual* or artistic quality, sex makes no difference in the price'. He emphasises the importance of male prejudice, even commenting that '[m]en workers . . . encourag[e] their wives and driv[e] their children to the mills . . .' Where Hobson starts a sentence with reference to women's 'inferior physique and manual skill, lower intelligence and mental capacity', he immediately adds that 'lack of education

and knowledge of life, irregularity of work, [and] more restricted freedom of choice' contribute 'to the inferior productivity of woman's *industrial labour*'. (Emphasis added.) Earlier he remarked, 'How far these defects [or female labour] are natural, how far the results of defective education and industrial training, we are not called upon here to consider. The *fact* stands that women do not work so well.' Most pointed is his comment, 'Women are paid low wages because they are relatively inefficient workers, but they are also inefficient workers because they are paid low wages.'⁸ Although he dropped this chapter from the later editions, in 1933 he was still saying, 'The reluctance to admit women into the learned professions on equal terms with men undoubtedly involves a loss to society of some of the finest service of the human intellect. while it entrusts some of the skilled and responsible work, thus denied to women, to relatively ignorant and incompetent men.'⁹ We think that Hobson was describing a *system* as it worked, not the *merits* of the genders, and offer seven to three odds that, on Judgment Day, She will absolve Hobson of the charge of being a male chauvinist pig.

THE FIRST CRITERION: EMPHASIS ON HOW SYSTEMS WORK

The first and probably least important criterion by which we will judge whether Hobson's work in institutionalism is emphasis on how system – the plural is used intentionally – actually work. This is the least important criterion because it is widely shared among social scientists. In the discipline of economics, however, such emphasis contrasts with a 'natural law' view that societies are manifestations of underlying and overarching universal principles. (Among standard economists, cultural differences are regarded as sometimes peculiar and sometimes constricting aberrations from the universal norm that is 'economic analysis'; and it often appears that they use 'the facts of the case' as no more than illustrations of their universal principles.) In its emphasis on particular systems and his rejection of a universal economic analysis, Hobson's work is much like the work of institutionalists. We have already spoken about his focus on how the (British) capitalist system, as it worked then, explains the lower wages paid to women. Hobson also describes mercantilism and the putting-out system in their own terms, not as precursors or logical constructs.¹⁰ Here we shall illustrate the strength of his emphasis on systems by discussing the role of finance in imperial ventures.

The argument in *Imperialism* derives directly and critically from the argument in *The Physiology of Industry* – that the economy would function

at a full-employment level if incomes were more equally distributed, but that the capitalist owners (industrial and financial) and the landlords (big British, not family-farming American) receive more income than they know how to spend, or want to spend; while labour, and even the 'great capitalist proletariat', do not among themselves have large enough incomes to purchase the output that industrial society is capable of producing.¹¹ In *Imperialism* Hobson argues that, unable to find remunerative outlets for this surplus – Hobson's word for excess savings and excess productive capacity – the owners of the surplus saving and surplus capacity look abroad for remunerative and *safe* outlets.

So far the logic of the argument is good. But Hobson realised that he had a problem: exports to and imports from the colonies, especially to and from the colonies acquired after 1870, constituted a minute portion of Britain's national product, and a small portion compared with Britain's trade with the developed, independent nations of Europe and North America.¹² 'Seeing that the Imperialism of the last six decades is clearly condemned as a business policy, in that at enormous expense it has procured a small, bad, unsafe increase in markets, and has jeopardized the entire wealth of the nation is rousing the strong resentment of other nations, we may ask, "How is the British nation induced to embark upon such unsound business?"'¹³

His answer is systemic and factual: 'A state in which certain well-organised business interests are able to outweigh the weak, diffused interest of the community is bound to pursue a policy which accords with the pressure of the former interests.' This line of argument, Hobson realises, would be mere assertion unless he can 'find in Great Britain any well-organized group of special commercial and social interests which stand to gain by aggressive Imperialism' and which also has 'the power to work its will in the arena of politics'.¹⁴ To establish the reality of these requirements he adds together the groups that derive benefits – some more, some less – from the colonies: suppliers of military goods, the 'great manufacturers for export trades', the shipping industry, those in the military services, and the upper classes in need of 'a vast system of outdoor relief' in the form of military commissions and positions in the colonial services.¹⁵ But '[b]y far the most important factor in Imperialism is the influence . . . [of] investments', and 'still more dangerous is the special interest of the financiers . . . who use stocks and shares not so much as investments to yield them interest, but as material for speculation in the money market'. These 'magnates of the Bourse . . . [a] little group of financial kings . . . constitute . . . the gravest single factor in the economics of Imperialism . . . The wealth of these houses, the scale of their operations, and their cosmopolitan organisation make them the prime determinants of imperial policy. They have

. . . the amplest means of forcing their will upon the policy of nations.’¹⁶ Thus – in much more detail, including commentary upon relations with the press and the church – does Hobson establish (or attempt to establish) that the groups did exist and that they did have disproportionate access to political power. The drive towards imperial conquests is thus founded on the British political system, not only on the logical construct of ‘surplus’.

That we find Hobson’s explanation of imperialism too narrow and do not accept his emphasis is not the point. The point is that his argument is specifically systemic and supported by argument from facts (as he understood them).

It should be noted, however, that Hobson is not consistently systemic in his analyses. For instance, his treatment of money is not systemic and is not drawn from facts about a system. Hobson largely followed the received doctrine of his day. He and Mummery asserted that the ‘conveyance of purchasing power from one individual to another is the only use of currency. It is for this purpose, and this alone, that banks with all their apparatus of bills and cheques, and drafts and acceptances, &c., &c., exist’.¹⁷ It is surprising that they failed to pursue their own emphasis on purchasing power and so develop a flow-of-funds analysis to account for changes in spending on real capital goods. J.A. Schumpeter had arrived at this point in 1910. It is, we think, implicit in passages in John R. Commons’ *Legal Foundations of Capitalism* (contemporaneous with Hobson’s fourth edition of *The Evolution of Modern Capitalism*), and implicit, if not explicit, in the work of Wesley C. Mitchell. But Hobson sees investment in real capital as a consequence of savings; he does not grasp that realised savings are a consequence of investment spending. We suspect that Hobson had his ‘surplus’ of saving and so looked no further at the actual processes of money creation and money use and so, in this case, failed to be systemic.

THE SECOND CRITERION: SYSTEMS AS EVOLVING

The title of *The Evolution of Modern Capitalism* and its table of contents must cause American institutionalists to say, ‘How Veblenian!’ Veblen, and all institutionalists following him, have shared a view that systems are constantly evolving, not by discrete movements from one state to another, but through an incessant process of valuing and revaluing. In *The Evolution of Modern Capitalism* Hobson argues that the characteristics of capitalism owe much to the developing, changing characteristics of industrial technology: how the scale of operations, the quantities and kinds of equipment required, the nature and sophistication of the technological processes, and

the expansion of markets from local to world-wide as a result of railways and steamships – how all these lead to the growth of large corporations, combination into trusts and monopolies, the separation of ownership from control, and the increasingly important role of financial agencies and institutions. However, and unlike Veblen's descriptions, the processes that Hobson describes are more mechanical than biological. The processes do not appear to involve testing by trial-and-error (see below for the importance of this) and the particularities of an existing system do not seem to affect the evolutionary changes to the next system. Hobson's is not a stages theory, nor is it teleological; but it does owe more to Newton or the rude mechanics of the Industrial Revolution than it does to Darwin or to the breeders of merino sheep.

There is little on valuing or on peoples' perceptions of how the world works in Hobson's writing. Valuing, as part of the trial-and-error process, is an integral part of the evolutionary process as understood by institutionalists. In Veblen's analyses, the industrial world-of-matter-of-fact shapes people's perceptions of the nature of the universe in which they live as well as of what should be. In John R. Commons' analyses the economic and technological processes give rise to conflicts, and the processes of settling these conflicts change the rules and the values of the participants. Hobson's evolution of capitalism has no equivalents. Hobson's evolution was non-biological, not interactingly adaptive, and lacked an account or analysis of the processes that mould social evolution.

THE THIRD CRITERION: EVOLUTIONARY VALUING

Institutionalists from Veblen onward have shared a theory of evolutionary valuing that drives social change and is fundamental to an understanding of how new systems emerge from existing systems.¹⁸ In an evolutionary interpretation people respond and adapt to changing circumstances. The changing circumstances may originate in a number of ways – technological change (in which Veblen was most interested), contacts of cultures, sometimes plagues (e.g. the Black Death) or other changes. People respond by changing their rules for action in a process of trial and error (their unarticulated and informal rules as well as their conscious and formal rules).¹⁹ The effectiveness of new rules is judged against the common understanding of the new problem or opportunity, while this understanding is always a mixture of what people have learned about the new as well as a residue of past understanding. It is, of course, true that the thoughts and reactions of individuals have an integral role in changing rules: this is a major emphasis

in Commons' work. But the changed rules become effective only when the group comes to regard them as effective. This is what is meant by social evolution.

Just as rules for action evolve – adapt to changing circumstances and problems – so also do the associated values evolve. It is this view or theory of valuing that marks institutionalist thought. It is not a view that such values are or should be universal, true, or right; it is a view that in fact the values of any people do so evolve.²⁰ Existing values limit and affect reactions to changing circumstances but are themselves then altered by both the new circumstances and the new rules that they themselves produce. The process is cumulative and never-ending.

In considering whether or not Hobson shared the institutionalist view of how human values form and change, one should recognise that a typical trait of institutionalists is to focus on real-world problems: problems that arise as people manage and re-order society; not, as a rule, problems that arise from philosophy or intellectual history – at least not primarily. Such focus is marked in Hobson: How did the market-capitalism of 1870 to 1926 work? How did the system fail? What could people do about it? It is quite possible that Hobson did not find it necessary to present an explicit statement of his perceptions of the social processes of valuing; perhaps he was not interested in doing so.

Although Hobson never articulated a theory of value, there are passages, not all entirely consistent, that do indicate his views. We now quote three paragraphs that come closest to an evolutionary view of valuing (and may imply a Veblenian view of social process as involving an opposition between the industrial and the pecuniary):

The actual growth of material wealth, however great, has been by no means commensurate with the enormously increased powers of producing material commodities afforded by the discoveries of modern science, and the partial utilisation of these discoveries has been attended by a very unequal distribution of the advantages of this increase in the stock of common knowledge and control of nature. Moreover, as an offset against the growth of material wealth, machinery has been a direct agent in producing certain material and moral maladies which impair the health of modern industrial communities.

The unprecedented rapidity and irregularity of the discovery and adoption of the new methods made it impossible for the structure of industrial society to adjust itself at once to the conditions of the new environment. The maladies and defects which we detect in modern industry are but the measure of a present maladjustment.

The progressive adjustment of structure to environment in the unconscious or low-conscious world is necessarily slow. But where the conscious will of man, either as an individual or as a society, can be utilised for an adjusting force, the pace of progress may be indefinitely quickened. A strongly-rooted custom in a man yields very slowly to the pressure of changed circumstances which make it useful or harmful, unless the man consciously recognises the futility of the custom and sets himself to root it out and plant another custom in its place. So the slowness of this work of industrial adjustment has been in no small measure due to the lack of definite realisation by the members of modern communities of the need and importance of this adjustment. A society which should bring its conscious will to bear upon the work of constructing new social and industrial forms to fit the new economic conditions, may make a progress which, while rapid, may yet be safe, because it is not a speculative progress, but one which is guided in its line of movement by precedent changes of environment.²¹

The author of such paragraphs could have an evolutionary view of valuing; and there is nothing in the passages inconsistent with the institutionalists' view of valuing as problem-solving. However, the passages are also consistent with a view that people as individuals have to decide consciously, in contrast to an institutionalist view that experience leads to change, quite possibly at an unconscious level – the change of perception of God from a father to a skilled workman during the seventeenth and eighteenth centuries was certainly not a conscious choice²² – and certainly through social processes.

A different view of where Hobson stood on this matter can be found in his harsh critiques of Veblen's strong rejection of hedonism. To Hobson it appeared that, in rejecting utilitarianism and hedonism, Veblen was rejecting the proposition that people consciously strive to get what they want.²³ This objection to Veblen's argument was first presented (so far as we know) by John R. Commons.²⁴ The same objection in its most extreme version is expressed in Richard Langlois' remark that, 'Caught up in the materialism of his day, Veblen actually argued for a kind of proto-Skinnerian behaviorism, and *wished to rid economics of any sort of human intelligence and purpose.*'²⁵ Hobson was closer to Veblen's point when he said that, upon a close examination of Veblen's interpretation of modern evolutionary society, we shall perceive that the conscious striving after prestige and power as testimony to economic success occupies the centre of the modern social-economic stage'.²⁶ Indeed, we might ask, what other than conscious striving after power and prestige explains the actions of the savage, the business-

man, the pirate, and the gentlemen in *The Theory of the Leisure Class*, *The Theory of Business Enterprise*, and *Imperial Germany and the Industrial Revolution*?²⁷

Veblen's rejection of hedonism and utilitarianism was not a denial that individuals tried to do the best they could for themselves. Rather, it was a denial that what individuals thought best for themselves was rooted in individuals independently of their cultures. Because Hobson had somewhat different concerns, and even though he joined Veblen in rejecting a simple-minded utilitarianism, he insisted upon emphasising the biological basis of consumption and the utility derived from it:

For, through the crude hedonism which presents man as consciously impelled to all actions by a desire to win a definite pleasure, or to avoid a definite pain, is clearly indefensible, it by no means follows that such utilitarianism as that of J.S. Mill and some of the later economists must be rejected. For what is this 'coherent structure of propensities and habits which seeks realization and expression' apart from the conscious satisfaction of attainment? Propensities and habits are not created by chance or in the void: they are ultimately rooted in biological utilities.²⁸

It seems unlikely that Veblen would have disagreed with this argument, but he would have treated it as unimportant in a world where biological utilities were so malleable as to allow an enormous range of culturally-determined satisfactions.

It seems likely that Hobson stressed the importance of biological utilities, and was disturbed by Veblen's strong rejection of hedonism, because Hobson was most concerned to argue that consumption could be improved. He used John Ruskin's notion of wealth and 'illth' to argue that greater utility could indeed be obtained from available output if only consumers were better educated in the ways of wise consumption.²⁹ For such purpose it was useful to keep in mind that it was satisfaction of basic biological requirements that consumption was all about. Improved grates could be used by an educated population to extract more biologically required heat from a given amount of coal and the 'illth' derived from drink and gambling could be changed to 'wealth' by using resources instead to satisfy 'sound tastes'.³⁰

Veblen, though he also railed in his own sardonic way against waste, was less concerned with what might happen if consumers were better educated, and much more concerned to argue that even the most educated of tastes were culturally shaped. Hobson makes it clear that he too appreciates that standards of proper consumption change over time, but that is not his major concern. Even though Hobson, when he treats consumption as a perfectible

art, does not emphasise evolutionary valuing, he clearly does do so in other passages.

Closely related to Hobson's dismay over Veblen's strong rejection of hedonism was his concern over Veblen's emphasis on technology as source of cultural change. This concern also illustrates how Hobson and Veblen were arguing in consistent but not always overlapping ways. Veblen stressed that experience of the 'world-of-matter-of-fact' altered people's understanding of the world in which they lived. It affected all of people's perceptions, values and endeavours – sometimes sooner, sometimes later. Hobson took issue with Veblen on this point, and responded with a denial that modern industry has caused a 'robotisation' of the workforce, arguing that machine tenders were no more committed to routine than were craftsmen and, in any event, had more free time. He then went on to consider whether or not 'mechanical control over the producer' encroached upon workers' liberty and decided that it did not.³¹ Hobson appears to have thought that the valuations that took place during leisure time – values associated with home life, recreation, and ethics – were immune from the experiences of the machine in the workplace. Involvement with the world-of-matter-of-fact is in fact largely associated with what we call the 'workday', but to Veblen it was not the socioeconomic relationship of being employed as opposed to being at leisure that mattered. What mattered was whether or not 'matter-of-fact' criteria prevailed in the task at hand. Such criteria tended to dominate in the workplace and might dominate in such household chores as cooking and washing, but were not nearly so likely to dominate in sport and recreation. Veblen stressed that the world-of-matter-of-fact that governed 'work' in industrial society did affect the ways that people thought about and did many other things. Hobson recognised that this was Veblen's argument – this recognition runs through chapter 2 of *Veblen* – but to him it was more important to assess whether or not technological change had increased available leisure and therefore the opportunity to exercise those values that were not immediately and directly tied to the workplace. Veblen's question – the question of how technological change in the workplace affected the entire range of human values – was of far less interest to Hobson. This is not to say that Hobson was not interested in the formation of values. He notes with considerable approval Veblen's treatment of values as transmitted through society, with the working class emulating 'high society'.³²

It is fairly easy to account for the divergence, although not so easy to account for the disagreement, between Veblen and Hobson on these matters. First, Hobson was far less interested in processes of cultural evolution and far more interested in the immediate possibilities for improving the economic system in Britain.

Second, Hobson was more concerned to argue within the confines of the economic debate of his day than was Veblen. Hobson notes 'the disturbing hostile attitude of Veblen towards the neo-classical economics' and attributes this attitude in part to Veblen's interpretation of 'the economic system as he found it working in the America of his time'.³³ Of this system Hobson wrote, 'Repeated visits to America during the past half-century have perhaps taught me more of the ethics and politics of the economic system in its modern capitalistic shape and development than any experience available in England, where the play of social-economic forces is more obscure and more impeded by traditional and humane considerations.'³⁴ Veblen was, in Hobson's view, led to a harsher rejection of neo-classical economics than Hobson required for his own analysis of his native land.

Does this mean that Hobson fails to satisfy the third criterion and thus fails as an institutionalist? That is not clear. As he himself said in *Confessions of an Economic Heretic*, he did not develop his 'humanist theory' in an orderly way.³⁵ He was enough of a heretic to recognise, in what he called his 'most destructive heresy', that the division of the product could not be 'naturally' explained as a consequence of the 'true' value of inputs even under the unlikely conditions of perfect competition. The belief that 'laws of economics' explained distribution was a social convention.³⁶ (Hobson had no truck with marginal productivity theories of wage determination. In *The Industrial System* Hobson presented an intriguing, half-logical, half-factual – but *not* half-illogical – criticism of marginal productivity theories.³⁷)

Perhaps, had his concerns been different, Hobson would have moved easily to an explanation of social evolution driven by and always producing the economic valuations that he described and so often criticised.

CONCLUSION

Was Hobson an institutionalist? Not quite, or not clearly; but he was certainly close enough to be called a proto-institutionalist.

Notes

1. We follow Stephen Edgell's and Rick Tilman's description of the convergences and divergences in the thought of Hobson and Veblen. See previous chapter.
2. J.A. Hobson, *Veblen* (London: Chapman & Hall, 1936), pp. 183–4.
3. J.A. Hobson, *The Evolution of Modern Capitalism: A Study of Machine Pro-*

- duction, 4th edn (London: Allen & Unwin, 1926), p. 242. Hereafter citations of *The Evolution of Modern Capitalism* refer to this edition except when otherwise noted. *Imperialism: A Study*, 3rd edn (London: Allen & Unwin, 1938), p. 101.
4. *Imperialism*, Part II, ch. 4.
 5. *Imperialism*, p. 230. Also see J.S. Furnivall, *Colonial Policy and Practice* (New York: NYU Press, 1956 [c1948]), chs 8–11, especially ch. 11, on welfare and autonomy as pre-conditions for progress.
 6. See, for instance, H. Maine, *Ancient Law* (London: Dent, 1954 [c1861]), who uses the term as equivalent to our ‘language group’, and who was definitely not a racist.
 7. *The Evolution of Modern Capitalism*, 1st edn (London: Walter Scott, 1894), ch. 12.
 8. *The Evolution of Modern Capitalism*, 1st edn, pp. 299 (italics added), 308, 304, 301, 304.
 9. J.A. Hobson, *Work and Wealth: A Human Valuation* (London: Allen & Unwin, 1933), p. 83.
 10. *The Evolution of Modern Capitalism*, ch. 2.
 11. A.F. Mummery and J.A. Hobson, *The Physiology of Industry: Being an Exposure of Certain Fallacies in Existing Theories of Economics* (New York: Kelley, 1971), [c1889]).
 12. ‘The Commercial Value of Imperialism’, ch. 2 in *Imperialism*.
 13. *Imperialism*, p. 46.
 14. *Ibid.*, p. 48, for this and previous quotation.
 15. *Ibid.*, pp. 48–51. Hobson attributes the remark about ‘outdoor relief’ to James Mill.
 16. *Imperialism*, pp. 51, 56–7, 59.
 17. *Physiology of Industry*, p. 187.
 18. The institutionalist view about how people value received its most widely-known presentation in the works of C.S. Peirce and J. Dewey. It was first called *pragmatism* and then *instrumentalism*; and these terms have caused some confusion when people are unaware that American institutionalists use the terms in this specific way. In much general use the terms often carry with them the more unpleasant connotations of the word ‘expediency’, an implication of selfishness, perhaps of ethical indifference. It is also often assumed that the values that emerge are personal or individual. Adding to these confusions are those that have developed from the relatively recent use by Milton Friedman of ‘instrumentalism’ to describe his own ‘philosophy of economic science’. This has led some to think that American institutionalists share this ‘philosophy’ with Friedman. All such misunderstandings misinterpret institutionalists’ use of the terms, so we here propose and use the term evolutionary to modify values (how people value).
 19. See W.C. Neale, ‘Institutions’, *Journal of Economic Issues* (September 1987) 21:3: 1177–208, pp. 1181–5, for a discussion of this use of ‘the rules for action’.
 20. See W. Gordon, ‘The Role of Institutional Economics’, *Journal of Economic Issues* (June 1984) 18:2: 369–81.
 21. *The Evolution of Modern Capitalism*, p. 402.
 22. Thorstein Veblen, ‘The Place of Science in Modern Civilization’, *American*

- Journal of Sociology* XI (March 1906) as reprinted in *The Place of Science in Modern Civilization and Other Essays* (New Brunswick, NJ/London: Transaction Publishers, 1990), pp. 14–15.
23. Hobson, *Veblen*, p. 37.
 24. J.R. Commons, *Institutional Economics* (New York: Macmillan, 1934), p. 657. Commons seems to assume that, when Veblen insists that evolution is non-teleological – meaning that evolution has no fore-ordained end – Veblen means that the people involved have no purposes in mind. Veblen certainly thought that people do have purposes, and that their purposes affect their actions and the structure of society.
 25. R.N. Langlois, ‘The New Institutional Economics: An Introductory Essay’, in R.N. Langlois, ed., *Economics as a Process* (Cambridge University Press, 1986).
 26. *Veblen*, p. 37.
 27. T.B. Veblen, *The Theory of the Leisure Class* (New York: Kelley, 1975, [c1899]); *The Theory of Business Enterprise* (New York: Kelley, 1975 [c1904]); *Imperial Germany and the Industrial Revolution* (Ann Arbor: University of Michigan Press, 1966 [c1915]).
 28. *Veblen*, p. 36.
 29. *Work and Wealth*, pp. 9–12 and ch. 9.
 30. *Ibid.*, pp. 108–10.
 31. *Veblen*, pp. 29–30.
 32. *Ibid.*, pp. 36–7.
 33. *Ibid.*, p. 44.
 34. J.A. Hobson, *Confessions of an Economic Heretic* (London: George Allen & Unwin, 1938), p. 68. ‘Humane’? As we said, ‘British (nay, English)’.
 35. *Confessions*, p. 83.
 36. *Ibid.*, pp. 168–9.
 37. ‘Marginal Productivity as Basis of Distribution’, appendix (pp. 112–20) to ch. 5 of *The Industrial System: An Inquiry into Earned and Unearned Income*, 2nd edn (London: Longmans, Green, 1910).

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