

John A. Hobson: Economic Heretic

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ABSTRACT. *John A. Hobson* was a self-styled economic heretic who developed an original and remarkably comprehensive system of *economic and social thought*. This system is based on certain distinctively Hobsonian concepts and theories. Hobson's economic heresies were based on his *theory of distribution* in which he rejected orthodox *marginal productivity theory* and developed a theory of *economic surplus* the distribution of which is determined by *economic power*. This underlay his theory of *under-consumption* which in turn was used to explain and analyze economic and social issues such as *unemployment*, the *business cycle*, the *labor movement*, *imperialism* and *taxation*. Hobson was also critical of the whole methodology of economic science on the grounds that it abstracted from human *welfare* in its widest sense. He argued that proper values should be introduced into the study of economic activity so that it could assist in the attainment of the best conditions of human life, both social and individual.

IN THE HISTORY of ideas, one of the most interesting—and surprisingly neglected—figures of relatively recent times is John A. Hobson. Hobson started his career as a school teacher but, aided by a private income, spent the greater part of his life as a journalist and independent intellectual. During the period from 1889 (when he was 31) to 1938 (two years before his death in his 82nd year) he wrote hundreds of articles in journals and newspapers, and about fifty books in which were distilled all his major ideas. Some of his books have rightly been called pot-boilers, but many represent important and path-breaking contributions to economic and social thought and more than twenty of them were reviewed in leading academic journals.

However, the academic establishment, of which Hobson was never part, maintained an attitude of cautious reserve towards Hobson's work, an attitude well expressed by a comment of John Maynard Keynes (Lord Keynes) in a review of a book published in 1913: "One comes to a new book by Mr. Hobson with mixed feelings, in hope of stimulating ideas and some fruitful criticisms of orthodoxy from an independent and individual standpoint, but expectant also of much sophistry, misunderstanding and perverse thought" (1). Such reservations were not wholly unjust but have to be seen in part as a response to the fact that Hobson was a self-confessed heretic (2). Unlike many heretics, however, his ideas formed an elaborate and coherent system of thought, and with the welcome trend to a more integrated

approach in the social sciences Hobson's work is assuming increasing significance in the history of ideas.

The breadth of Hobson's analysis is quite amazing. Among other things he is of major importance as a liberal theorist during the period which he himself perceptively termed the crisis of liberalism (3), and after the first world war, when his views shifted somewhat to the left, as what one author has termed the "intellectual godfather" of the British Labour Party (4). His writings on international relations, dating from the time of the events in South Africa which he reported for the *Manchester Guardian*, and his dedication to the ideals of internationalism and world peace, also give him an important place in the history of ideas and the peace movement in England.

But Hobson continually returned to grapple with problems relating to both the economic order of society and to the nature of the body of theory which purported to explain how that order functioned. For it was here that he saw the key to human welfare and progress. The aim of this paper is thus to outline the main elements of Hobson's economic heresy.

I

HOBSON'S FIRST MAJOR WORK was a book published in 1889 and titled *The Physiology of Industry*. This was written in conjunction with a man called Mummery with whom Hobson came into contact when he was teaching school at Exeter in the 1880s. Mummery was a businessman and mountain climber. Little is known about him and he wrote nothing more on economics because he was killed in a climbing accident shortly after the publication of *The Physiology*. The book put forward a theory of underconsumption which Hobson was later to refer to proudly as "my first heresy" (5). The essence of the argument was that, contrary to orthodox thinking at the time, "an undue exercise of the habit of saving is possible, and that such undue exercise impoverishes the Community, throws labourers out of work drives down wages, and spreads that gloom and prostration through the commercial world which is known as Depression in Trade" (6). Hobson and Mummery saw saving as being automatically translated into investment. The effect of an "undue exercise of saving" was thus an increased accumulation of capital and, as a result, a state of general overproduction.

This argument was subsequently criticized by Keynes in his *General Theory of Employment, Interest and Money* on the grounds that Hobson and Mummery assumed that saving would in fact always result

in investment, whereas the problem, as Keynes identified it, was the possibility of the level of saving being such as to *require* but *not result in* a level of investment expenditure sufficient to maintain economic activity at a level such that all resources, notably labor, were employed. Despite this Keynes declared that "the book marks, in a sense, an epoch in economic thought" (7). For Hobson and Mummery had highlighted the critical importance of the demand for consumption goods as a determinant of the level of economic activity. The argument was illustrated most vividly in terms of the Franco-German War.

It is indisputable that the immense prosperity enjoyed by English producers during this war . . . must be attributed directly to the prodigious waste of wealth which that war occasioned. We are far from advocating war as a convenient remedy for commercial depression . . . [but it is] obvious that if the community, instead of expending its surplus accumulations in the endeavour to cut its members' throats, consented to increase its consumption of luxuries, or applied the surplus funds to the improvement of the condition of the working classes or the sanitation of its great towns, all the contingent economic advantages of a war would be reaped, and the direct advantage of increased consumption of luxuries, of an improved condition of labourers, or of sanitary towns would be obtained (8).

These ideas seem fairly unremarkable today. But they assailed the prevailing orthodoxy. *The Physiology* played no small part in Hobson's subsequent exclusion from the academic establishment. Professor Edgeworth—who then held a chair at Oxford and was the foundation editor of the *Economic Journal*—reviewed the book very unfavorably: "It may fairly be required of very paradoxical writers that they should either evince undoubted speculative genius or extraordinarily wide learning," he suggested, implying very strongly that neither was the case here (9). For all that the book broke new ground, as Keynes later noted; it also formed the basis of much of Hobson's later work.

Now, in this first statement of the underconsumption theory by Hobson, the basis of the problem was merely identified rather vaguely with "undue thrift" on the part of certain individuals. Over the next two decades Hobson went to to explain the phenomenon of underconsumption in terms of the distribution (or maldistribution) of income; he also developed a theory of distribution; and he related underconsumption forward, in a detailed way, to consequences such as unemployment and imperialism.

The first step, which was taken in an 1896 book called *The Problem*

of the Unemployed, was to identify underconsumption with "causes which affect the *distribution* of power to consume, and induce individuals to endeavour to capitalize unearned elements of income at a greater pace than is economically needed to satisfy the demands of current consumption" (10). In other words Hobson suggested that underconsumption—or over-saving, or over-investment, which in his view represented the same thing—occurred because some people gained incomes which, quite simply, were in excess of what they required to satisfy not only what he described as their "wholesome" wants but also their "luxurious" wants; and it was this "idle surplus of income" which was used to accumulate capital in excess of that warranted by the demand for consumption goods.

However, Hobson did not at this stage develop a theory of distribution as such—that is, an explanation of *how* this surplus income came to be generated. This came in two later books, *The Economics of Distribution*, published in 1900, and *The Industrial System*, published in 1909. In the latter he proposed that national income could be divided into three categories in terms of how it was distributed (11). The first part consists of payments to factors which are necessary to *maintain* the productive efficiency of factors. It is that part of the output of the industrial system necessary to "pay the keep" of factors, to replace the energy given out in production. In the case of labor, for example, it is represented by a "subsistence wage"; in the case of land and capital by a "wear-and-tear fund" to make good any depreciation of capital or loss in productivity of land. *All output in excess of that necessary for maintenance or subsistence, Hobson regarded as "surplus,"* which he divided into two categories. The first he labelled "productive surplus" which was defined as that part of output directed not merely to maintenance but *growth*. In Hobson's words: "A growing industrial system requires more than its keep: it must be furnished with surplus matter and energy to make new tissue and to do more work." Now in Hobson's view the total output of a system *could* be absorbed by payments for maintenance and growth, but in fact total output of the modern industrial system was greater: the remainder formed a third category which Hobson called "unproductive surplus."

The way that national income, and most particularly the unproductive surplus part of it, was distributed was explained by Hobson in terms of what he called "the law of superior force." The word "force" was used by Hobson in a fairly special sense. "The true surplus

value," he said (apparently in criticism of Marx) "is derived not from some vague, unintelligible idea of tyranny," but "from different forms and pressures of economic force" which derived from "the various hindrances to perfect equality of bargaining-power in the owners of the various factors of production" (12). These "various hindrances" give factors an element of scarcity, which allows their owners to get a return which may *exceed* that necessary to evoke the productive power of the factor and to that extent earn surplus income.

One of Hobson's favorite illustrations of this point was income gained by the medical profession. The very large sums paid to physicians and surgeons were not, Hobson argued, necessary to evoke their services.

If the physician is paid more than the porter, it is not because of any greater inherent skill in the former calling which gives its services a higher value. We pay the physician a relatively high fee because the present distribution of economic and educational opportunities is such that only a small proportion of the population can equip their sons for competition in that market, hence the competitors by fairly close organisation, can maintain a high rate of piece wages (13).

Such a view may again not seem very remarkable today but it was put by Hobson—in his 1900 book—at a time when it was hardly fashionable to criticize the incomes of the medical profession and, more importantly, when the orthodox economic theory of distribution, based on the concept of marginal productivity, held that each factor received the value of what it produced, and was regarded by many as providing a justification for the distribution of income under the existing economic system.

The concept of the surplus became a pivotal one in Hobson's writing and he regarded the existence of the surplus or, more specifically, what was done with it as the nub of all social problems. In his words: "The abuse or uneconomical use of the surplus product is the source of every sort of trouble or malady of the industrial system, and the whole problem of industrial reform may be conceived in terms of a truly economical disposal of this surplus" (14). Much of Hobson's writing on social issues has to be seen in terms of this statement.

II

HOBSON'S THEORY OF UNEMPLOYMENT has already been mentioned. His analysis of the modern industrial system led him to conclude that there was a chronic tendency to produce a surplus, the distribution of which was determined by relative bargaining power which in turn was determined by the natural or contrived scarcity of some factors

of production. The owners of such factors to whom the surplus accrued found themselves with incomes in excess of what they needed or even wanted to spend on consumption and accordingly applied it directly or indirectly towards capital accumulation. Hobson saw the chronic tendency to oversaving and underconsumption as the cause of periodic crises in the industrial system. Periodically a "congestion of the industrial system" builds up as a result of over-saving; after a point the bubble bursts, businesses are bankrupted, and there is a general fall in production, income and employment. This brings the proportion of saving to spending down to or even below what Hobson called "the normal rate" and a process of recuperation begins. A spell of good trade follows but the chronic impulse towards over-saving due to surplus income soon becomes fully operative again and prepares the way for a new collapse.

Hobson also brought this theory to bear on his analysis of imperialism, for which he is probably best known. His theory of imperialism was much more comprehensive than is often recognized and involves much more than the application of his underconsumptionist ideas to the issue; however the theory of underconsumption plays a key role. In his 1902 book *Imperialism* he has a chapter titled "The Economic Taproot of Imperialism" where he argues that imperialist activity is simply the political manifestation of the economic need for outlets for surplus production. In Hobson's words:

Over-production in the sense of an excessive manufacturing plant, and surplus capital which could not find sound investments within the country, forced Great Britain, Germany, Holland, France to place larger and larger portions of their economic resources outside the area of their present political domain, and then stimulate a policy of political expansion so as to take in the new areas . . . Every improvement of methods of production, every concentration of ownership and control, seems to accentuate the tendency. As one nation after another enters the machine economy and adopts advanced industrial methods, it becomes more difficult for its manufacturers, merchants and financiers to dispose profitably of their economic resources and they are tempted more and more to use their Governments in order to secure for their particular use some distant undeveloped country by annexation and protection . . . Everywhere appear excessive powers of production, excessive capital in search of investment . . . It is this economic condition of affairs that forms the taproot of Imperialism (15).

So again surplus income in the hands of a few, powerful, people can be identified as the basic cause of imperialist activity which Hobson viewed as "a depraved choice of national life" (16).

The *solution* to these problems lay, in Hobson's view, in converting surplus income either into wages which could be spent in raising the standard of living of workers, or into public revenue which could be spent in raising the standard of public life. It is here we find the basis of Hobson's views on taxation and trade unions.

To Hobson the concept of the unproductive surplus was of the utmost importance for theory of public finance. He saw the surplus as the sole legitimate source of public revenue and a source that *should* be tapped and applied in the *public* interest instead of in the socially harmful ways that it was being applied by the private people to whom it accrued. He thus concluded that all taxes should be devised as to lie upon unproductive surplus. He recognized the difficulty of applying this principle in practice and admitted that the greater part of the surplus was not clearly traceable and measurable. But the principle pointed fairly clearly to the desirability of major emphasis on direct taxation, particularly a graduated personal income tax, supplemented by inheritance taxation, and to the general undesirability of indirect taxation except on goods and services which were "indications of superfluity of income" (17). Once again the conclusions do not seem especially remarkable today but were path-breaking in many respects at the time Hobson put them forward.

Hobson also spelt out what he saw as the rationale of the labor movement in terms of the surplus. He argued that trade unionism should be understood as an organized attempt to divert the unproductive surplus, or 'unearned' income, into wages. Because, normally, labor was the weakest claimant for the surplus it was necessary for labor to enhance its bargaining-power. This end was served, in Hobson's view, not only by combination, but by trade union support of social reform over a whole range of issues from land legislation to education and in particular to what he called anti-destitution measures.

Hobson wrote on many other economic questions and in all cases his analyses revolved basically around the concept of the surplus and its distribution according to the law of superior force; (while he didn't always use the latter term it describes the theory quite well). Some of his ideas have subsequently been accepted into the orthodoxy at least in part—perhaps the most notable instance being the acknowledgement by Keynes of the importance of Hobson's underconsumptionist thesis. But basically Hobson was, and remains, a heretic who was positively antagonistic to the system of thought, known as neo-

classical economics, which was developed in England after the early 1870s and which remains the basis of orthodox economics today.

Hobson was especially critical of the neo-classical theory of distribution based as it is around the concept of marginal productivity. He objected to marginal productivity theory firstly because he thought that it implied that the industrial system could be treated as though it were "composed of factors of production that were infinite in quantity and divisibility and absolutely mobile and competitive in character." Quite simply, he suggested, such was not the case.

In the industrial system regarded as a productive and distributive instrument, combination is as much a real factor as competition, and the scarcities of various sorts and degrees which occur throughout the system are as much determinative facts, both of production and of distribution as the free flows which they negate.

In other words, marginal productivity theory was based on the assumption of a freely competitive industrial society which simply didn't exist. By making the assumptions necessary for the application of marginal analysis economics was cutting itself off from the real world (18).

A more important element in Hobson's criticism of marginal productivity theory was probably his irritation with the way what purported to be a value-free theory was used to argue that all factors were rewarded according to their productivity; thus moral conclusions about the existing economic system were inferred from it. As Hobson put it:

[The expositors of marginal productivity theory] are able to deduce from it practical precepts very acceptable to those politicians and businessmen who wish to show the injustice, the damage and the final futility of all attempts of the labouring classes . . . to get higher wages or other expensive improvements of the conditions of their employment (19).

Not that Hobson objected in principle to the intrusion of values into economics. Indeed—and this is the basis of his more fundamental objection to economic science—he argued that a grave weakness of economics as it had developed since the closing decades of the 19th century was that it *failed* to involve itself properly with the wider aspects of human welfare. Hobson's "economic heresy" thus involved not only a critique of economics *within* its own terms but also *of* these terms.

III

DURING THE FIRST 25 years of the half century his writings span Hobson undertook this critique on a different plane to what he sub-

sequently described as his "more distinctively economic thought," though the two planes were converging. His doubts about the basic nature of social science and its relation to human welfare in its broadest sense can be traced quite clearly to the work of John Ruskin, whom Hobson once described as "the most enlightened and poetic of political economists" (20). As he saw it, Ruskin's main charge against the economics of his time was that "it had systematically degraded the true and formerly accepted meaning of such terms as 'wealth,' 'value' and 'profit' by putting them to the narrow service of business mentality" (21). He was taken with Ruskin's dictum, "there is no wealth but life" which appears often in the pages of many of his books.

Thus, what was required, in Hobson's view, was a social science or a theory of social conduct which bore a direct relation to human welfare, a requirement not being fulfilled by economic science. He considered the 'new economics' to be "a commercial science, with material, marketable wealth as its main and dominant consideration," in which motives other than the purely self-seeking ones of the 'economic man'—that is so-called 'non-economic' motives—were admitted only in so far as they affected the conduct of men in the pursuit of wealth. He admitted the theoretical validity of a science of economics which confined itself to "the study of industry as a group of objective phenomena, valued by a monetary standard." But he questioned the usefulness of such a science in helping us to confront "the Social Question," namely: how can a society of human beings best organize themselves to attain health and happiness to the greatest extent possible?

. . . the science and art of social life [cannot] be broken up into several sciences and arts . . . its unity [must be] preserved, if true knowledge and sound policy are to be attained (22).

In essence Hobson was rejecting the usefulness of the distinction between the 'science' and the 'art' of economics, or what would now be termed the distinction between positive and normative economics, because the former provided no guidance for the latter. What he wanted to see was a theory of economics which set forth the principles on which the production and distribution of goods and services could be undertaken such that human welfare in the broad sense, and not only the material aspects of it, could be maximised. What he wanted—and what much of his work was directed towards developing—was a "humanist economics." This involved the explicit rejection of the positive/normative distinction between "what is" and "what ought to

be." Hobson argued that economic science should not attempt to purge itself of values; on the contrary he maintained *that proper values should be explicitly introduced into the study of economic activity.*

This line of thought reached fruition with the publication in 1914 of a book titled *Work and Wealth: A Human Valuation* where Hobson's humanist views were integrated with his more specifically economic thought.

We [need] to ask, What are the proper and particular services [the social] sciences can render? How can they assist a people in utilising its human and natural resources for the attainment of the best conditions of human life, individual and social? (23)

Hobson's particular goal in *Work and Wealth* was to develop what he termed the "Human Law of Distribution" which was in fact a formula for the production and distribution of wealth so as to maximize "Human Utility." He suggested that with respect to certain types of economic activity the *human* costs and utilities associated with and inherent in that activity may differ from the *economic* costs and utilities associated with it. In other words in a human rather than a narrowly economic sense utility may well be derived from productive activity, that is from work; and similarly *disutility* may well be associated with consumption, to the extent that it exceeds that level necessary to make provision for the satisfaction of "sound personal needs." While he regarded the system as fairly successful in fulfilling the criteria of human welfare (and indeed commented that "the necessity of attending more closely to the defects than to the successes of the present system must not lead us to disparage the latter") he recognized that there were defects, and in his scheme these could be identified with the *human disutilities* or costs associated with production or consumption (24).

Now the interesting point about Hobson's 1914 book is that he links up this human law of distribution with his theory of distribution which he had been developing, as it were, in parallel. He now identifies the divergences between the economic and the human law of distribution with the concept of the unproductive surplus. The surplus thus becomes "the direct efficient cause of all the *human* defects in our economic system" as well as the source of much purely material waste and inefficiency.

If our analysis of this surplus is correct, it consists in the seizure of a large portion of the fruits of individual and social productive energies, required for the full support, and further stimulation of these energies

and for the wider human life which they are designed to serve, and their assignment to persons who have not helped to make them, do not need them, and cannot use them. The payment of surplus takes large sections of the income, needed to raise the economic and human efficiency of the working classes, or to enable society to enlarge the scope and to improve the quality of the public services, and disposes them in ways that are not merely wasteful but injurious. In effect, all the excessive human costs of production and all the defective human utilities of consumption, which our separate analysis of the two processes disclosed, find their concrete and condensed expression in this 'surplus' (25).

So the concept of the unproductive surplus remained central to the Hobsonian theory, and its redistribution remained as the keynote of social reform. Now, however, Hobson attached a much wider *human* significance to the attack on the surplus and a new dimension was added to his views on specific matters.

IV

THE FOREGOING has been an attempt to identify some of the basic elements underlying Hobson's economic and social thought. Hobson built upon these elements a system of ideas which is characterized by its concern for human welfare in the wider sense. Indeed, as suggested at the beginning of the paper, it is in large part Hobson's contributions to the development of a truly universal sociology which give his work special significance. It may therefore be appropriate to conclude with a characteristically percipient view of the problem of over-specialization expressed by Hobson at the turn of the century:

This over-specialization marks out for each man or woman some minute corner, some little "claim" in the field of knowledge. Here he must grub a life long, digging a neat little hole in which he may lie completely buried, laboriously accumulating some minute hoard of recondite truths to contribute to the intellectual market. We have in modern universities hundreds of men who thus completely lose themselves in work of research, absorbed by the smallness of the task they essay, and often hypnotized to torpor by gazing at it. This is sometimes called "thoroughness" . . .

. . . by peering incessantly into one little group of facts, [the academic specialist] injures the focus of his mental eyesight. His abandonment of the wider survey of knowledge, the renunciation which is either forced upon him or is self-imposed, destroys his intellectual judgment. Every bit of new knowledge needs to be assayed by submission to the touchstone of the Universal before its value can be ascertained, or it can be set in relation to knowledge as a whole. The over-specialist has let slip the standard of knowledge, and is at the mercy of all sorts of private superstitions and illusions. Thus, with misspent scrupulosity, he squanders his labour on vain trifles, counting every bit of knowledge worth the pains it has cost, because he owns no standard of

economy. Man is the measure of all things, and the specialist who has made himself less than a man can measure nothing (26).

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1. Review of *Gold, Prices and Wages*, in *Economic Journal*, 23 (September 1913), p. 393.
2. Hobson titled his last book, a good-humored intellectual biography, *Confessions of an Economic Heretic* (London: George Allen & Unwin, 1938).
3. See Michael 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 (July-September, 1973), pp. 421-43. See also Hobson, *The Crisis of Liberalism* (London: P. S. King & Son, 1909).
4. Ben B. Seligman, *Main Currents in Modern Economics* (Chicago: Quadrangle Books, 1971), p. 238.
5. *Confessions*, p. 30.
6. *The Physiology of Industry* (1889) (New York: Kelley & Millman, 1956), p. iv.
7. J. M. Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936), p. 365. Keynes made the remark despite the fact that, as Hobson himself later noted, "the heresy had a fairly long record in the annals of English economic thinking" and that it was "far from being as original a sin as I had supposed." (*Confessions*, p. 31). See also Keynes, *General Theory*, pp. 358-71.
8. *The Physiology of Industry*, pp. 138-39, 162-63.
9. Quoted in T. W. Hutchison, *A Review of Economic Doctrines, 1870-1929* (London: Oxford Univ. Press, 1953), p. 118.
10. *The Problem of the Unemployed* (London: Methuen, 1896), p. viii.
11. *The Industrial System* (1909), rev. ed. (London: Longmans, 1910), Ch. IV.
12. *The Economics of Distribution* (New York: Macmillan, 1900), p. 360.
13. *Ibid.*, pp. 339-40.
14. *The Industrial System*, p. 78.
15. *Imperialism* (1902), (Ann Arbor: Univ. of Michigan Press, 1965), pp. 80-81.
16. *Ibid.*, p. 368. Hobson's theory of imperialism is of particular interest because a similar argument forms the core of the later work by Lenin, *Imperialism*, first published in 1917. In fact the economic theory of imperialism is now widely referred to as the 'Hobson-Lenin theory.' However the extent to which Lenin used Hobson's theory and indeed whether the two writers were primarily concerned with the same phenomenon are still matters of debate. See for example Eric Stokes, "Late Nineteenth-Century Colonial Expansion and the Attack on the Theory of Economic Imperialism: A Case of Mistaken Identity?" *Historical Journal*, Vol. 12, No. 2, 1969; and L. G. Churchward, "Towards the Understanding of Lenin's Imperialism," *Australian Journal of Politics and History*, Vol. V, 1959. No. 1 (May 1959).
17. *The Industrial System*, Ch. XIV. See also *Taxation in the New State* (London: Methuen, 1919).
18. *Ibid.*, appendix to Ch. V, pp. 112-20. See also *Free Thought in the Social Sciences* (London: George Allen & Unwin, 1926), Part II, Ch. 3.
19. *Work and Wealth: A Human Valuation* (London: George Allen & Unwin, 1914), p. 174.
20. "The Subjective and the Objective View of Distribution," *Annals of the American Academy of Political and Social Science*, Vol. 4, No. 3 (November 1893), p. 403.
21. *Confessions*, pp. 38-39.
22. *The Social Problem* (London: Nisbet, 1901), p. 38.
23. *Work and Wealth*, p. 359.
24. *Ibid.*, Ch. XII.
25. *Ibid.*, pp. 186-87.
26. *The Social Problem*, pp. 231-34.