THE DEVELOPMENT OF THE CONCEPT OF UNEMPLOYMENT LEADING TO KEYNES'S *GENERAL THEORY*

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ABSTRACT

Economics is a central element of statecraft. Ricardo argued for a natural system of political order through which the free operation of partial interests would achieve the general interest. The premise of this system was the independent labourer. This premise has been the most important for any system of economics in that it is not just the first assumption but also the result to be achieved. After Ricardo we can follow the course of political economy as it sought to secure its initial assumptions within changing social circumstances. We can see the changes which occurred in political economy in the 19th century as a response to the problems posed by the emergence of a political challenge to the market. First the classical conception of poverty was replaced by the modern conception of shortage and then the concept of unemployment and so full employment replaced the old idea of redundant persons. In this light Keynes's *General Theory* can be regarded as the completion of the process in that it completed a history of reform that had set out to retrieve a sustainable political order on the basis of the independent labourer. In the course of this development the foundation of the economic theory evolved from a natural basis to one in which policy played a critical role; this evolution marked the emergence and containment of the collective worker.

Keywords
Ricardo, Keynes, Beveridge, Toynbee Hall, Poverty, Unemployment, Political Order, Economics, Social Policy, the Wage.

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There are many people whom I could thank for many fruitful and stimulating conversations but to mention some I am bound to offend by missing others so, to be fair, I will offend everyone equally. However for this thesis I must thank Geoff Kay who has been an exceptional supervisor.

Introduction

The topic of the thesis is the Keynesian Revolution. It sets out to examine the historical developments that lead up to the concepts and analysis found in *The General Theory*. This does not mean a straightforward work of history but the tracing of a selective history of thought between Ricardo and Keynes. The history examined is not the one that would usually be expected. It does not focus on the internal development of value theory that structures the majority of histories of economic thought. Instead the focus is on the development of the concept unemployment. By tracing how the concept came about and grasping its significance, the aim is to demonstrate the role that economics has had as a branch of statecraft.

The thesis argues that the development of thought that lead to, and included, the Keynesian Revolution was driven by the requirements of statecraft. Keynes's thought is treated as the continuation, and indeed conclusion of, a theoretical effort to preserve a particular sphere of political order that we can call government by economy; we will be examining an active concern about economy not just as a central aspect of political order but an aspect whose centrality was considered both desirable and essential. It is because of the focus on economics as a part of statecraft, and so concerned with the establishment of social order, that this thesis covers some thinkers who would not usually be deemed part of economic thought. They were concerned about the status of the orthodox economics from which they were expected to derive practical policy; we shall see that their concerns would lay the basis for the Keynesian revolution. The motive for the development of thought we examine here arose from concern about social relevance rather than from an internalist discovery of theoretical inconsistencies. This should not be taken to imply that there are two incompatible histories, only

that here we attempt a side of the history that has been neglected and in doing so the aim is to throw some light on the social function of economic thought.

The method employed is to demonstrate changes between Ricardo and Keynes through a close textual analysis rather than simply by argument. This does not mean that argument is absent and certainly is not meant to imply that the thesis has no theoretical contribution. However the view put here, concerning the position of economics as a branch of statecraft, is sufficiently unconventional to require considerable textual backing for it to be credible. To take one example, the first chapter presents a view of Ricardo that dismisses the usual version of him as an abstract economist; it achieves this by demonstrating through an analysis of Ricardo's collected writings that he was someone who, as a political economist, was concerned with political order. We might have made a subtle argument regarding Ricardo's role in statecraft but this would have no impact without the clear evidence, appearing in quotation, that Ricardo himself thought of these issues and that, furthermore, his thoughts can be tied together to form a coherent system. Quotation will be used throughout the thesis as necessary evidence for the arguments made in the thesis.

The development of unemployment is treated as the key conceptual development for any understanding of economics as a branch of statecraft. Ricardo had no concept of unemployment or full employment[1]; it would be meaningless to compare Ricardo to Keynes, narrowly, in terms only of a theory of unemployment, but the historical and textual analysis can identify the movement that takes us from Ricardo's conception of the role of the economic as constituting a central sphere in political order to Keynes's conception. One aim is to replace the conventional view of a move from the abstract (mistaken)

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[1]see Sardoni (1987) who argues convincingly that in as much as Ricardo could have spoken of unemployment it would have been unemployment of capital. For Ricardo there was a theoretical possibility of an excess population but this was dealt with under the theory of population established by Malthus (Malthus 1798). This was not a theory of full employment.

Ricardo to the practical (correct) Keynes. Instead we will trace the development away from a conception of a natural economy in which the concept of unemployment was irrelevant to Keynes's recognition of changed circumstances in which unemployment had become central to economic thought. We will examine how those changed circumstances were understood.

A complete story cannot be presented here, but by focusing on the concept unemployment the assumption is made that the argument has taken up the central issue for an understanding of the significance of economics within political order. Concerns about social policy, political stability, and the position of the independent worker are all focused in the concept of unemployment; it was Keynes's achievement to have developed an economic theory which internalised unemployment and produced a framework in which social and political concerns remained compatible with the free play of the individual. In this sense he developed a theoretical framework that preserved the sphere of economy and so made a considerable contribution to the practice of statecraft.

The subject matter of the thesis is not Ricardo, nor is it any of the authors taken as intervening between Ricardo and Keynes, nor, even, is it Keynes himself, despite the latter's centrality to the purpose of the thesis. The subject matter is the movement of thought itself which takes us through from Ricardo to Keynes and which must then have some explanation of the force behind the movement, as well as of its consistencies and ruptures. In this view we can see a history of ideas, focused on poverty and unemployment, that is generated from doubts concerning the role of economics in the framing of a political order. We will eventually be able to apprehend the social logic of the conceptual framework that formed Keynes's *General Theory*.

As a branch of statecraft economics must develop with the development of problems of statecraft. The particular focus here is on how thought and so

ultimately state practice adapted to the changing condition of the working class. However this does not mean a focus on the struggle of the workers' themselves but rather on the reasoned evolution of a strategy for containment of that struggle. While the emergence of a working class movement is one driving force in the developments of thought we study here, the subject matter of the thesis is not the process of class formation itself but rather the response of the state to it. Underlying the thesis is an important development from the early conception of the individual worker, Ricardo's independent labourer, to the rise of a collective worker, a collective subject recognised as having a potential for social change and hence asserting the independence of the political from the constraints of economy. This thesis presupposes the process of class formation; none of the developments studied in the following text would make sense without the background of struggle. It is implicit throughout the thesis that the response to class formation has to influence that formation so, even though we do not study it directly, we are examining class formation obliquely in the sense that the making of the modern working class was 'crowded', involving characters who were outside the class itself.

We need to distinguish the approach taken by this thesis from other recent attempts to re-examine Keynes or the Keynesian revolution. The collapse of Keynesianism was marked in the political world by the speech of James Callaghan to the Labour Party Conference in 1976, 'We used to think you could spend your way out of a recession, and increase employment by cutting taxes and boosting government spending. I tell you in all candour that that option no longer exists.' In the academic world it was marked by the rise of monetarism especially through Friedman and then subsequently rational expectations and was consolidated in the period after 1979 both in the political and academic world.

Despite what was heralded by many as the death of Keynesianism there was a revival of interest in Keynes. The opportunity for this revival was the

distinction made by Joan Robinson between the work of Keynes and what she unequivocally rejected as 'bastard' Keynesianism. The basis for the revival was the belief, indeed hope, that, whatever may have gone wrong with Keynesianism, there had to be an alternative to the kind of free market conceptions that have dominated so much of the political and economic agenda since the seventies.

The reinvestigation of Keynes has set out to retrieve Keynes's central message from the besmirched reputation of the neo-classical synthesis[2]. This has resulted in works that have gone back to Keynes for a close reading of his works, especially *The General Theory* and *The Treatise* for a theoretical basis for a new Keynesianism. Perhaps the most important of these works was by Leijonhufvud (1968), in that he clearly marked a boundary between Keynes and the Keynesians. In more recent times, the work that has epitomised these efforts has been *Macroeconomics after Keynes* by Victoria Chick (1983). Here Chick attempts to return to a reading of Keynes's *General Theory* as a basis for diverging from the standard textbook presentations. The thesis presented here has been informed by such scholarship, it is not a continuation of it. The present purpose is not to establish what the central message of Keynes was, although the work done here could make a contribution to anyone seeking such a resolution.

The re-examination of Keynes that this thesis is closer to, although again different from, is that work which has sought to form a picture of Keynes's concerns wider than just his economics. This new scholarship has given us a richer understanding of Keynes's philosophical background; the motivating interest is in Keynes's relevance to a middle way alternative to the free market. This field of inquiry has been complementary to much of the interest in Keynes's central message. The prominent works in this field have been Fitzgibbon (1988), Carabelli (1988), O'Donnell (1989) and Davis (1994) as well as several

[2]see Coddington (1983) for a good introduction to this reappraisal including a critical summary of the different schools.

collections of essays e.g Lawson and Pesaran (1985) Hamouda and Smithin (1988) or Bateman and Davis (1991).

Fitzgibbon (1988) sets out to show that Keynes's middle way was founded on a coherent set of ideas and therefore had a wider significance than granted it by economists; Fitzgibbon's complaint is that, 'cut off from Keynes's vision, Keynesian economic theory was inconsistent and intellectually indefensible.' (Fitzgibbon 1988 p.134). Carabelli (1988) also has sought to rescue Keynes by looking wider than economics itself; in her book *On Keynes's Method* she argues that Keynes's method was quite different from the neo-positivism of Keynesianism but, because the latter was taken to be his method, the rest of his economics could then be easily absorbed into the neo-classical synthesis. As with the other writers the motivating concern is to separate Keynes from orthodox Keynesianism. O'Donnell (1989) again sets out to rescue Keynes; he explores Keynes's philosophy making the case that this was the 'ante-chamber' to both Keynes's economics and politics, 'To comprehend the political economist adequately we must first understand the philosopher.' (O'Donnell 1989 p.2). Indeed this sums up the approach of all this school that is repeated in the various essays; the attempt has advanced our understanding of Keynes's work; however it remains an explanation of thought by thought.

We can investigate Keynes's philosophy, his methodology, and we can discover Keynes's special influences but this still doesn't explain why he wrote a work of economics. This relates to another failure; emphasis on Keynes's special intellectual roots has accepted too readily the genius myth of Keynes. The consequence has been that he has appeared increasingly cut off from the development of thought in this country and especially of economic and social thought. This has worked both to the detriment of any understanding of Keynes but also to the detriment of an understanding of the significance of economics itself, especially in relation to statecraft.

Here the aim is to correct the imbalance in Keynes scholarship by locating Keynes's thought as following on from a consistent development. We will see Keynes as tackling problems that were common to an historical range of authors. Although the distinctive nature of Keynes's thought is recognised, there is an emphasis on the continuity, just as much as the rupture, between him and Ricardo. The most vital link is in their common concerns with the independent labourer. The authors selected here either set out to secure conditions for the independent labourer or they recognise that the independent labourer has been compromised and so seek new conditions that can re-establish the independent labourer as the basis of the system. Keynes presented his framework as enabling the realisation, not supersession, of the 'Manchester School'. This also helps clear up some differences of view regarding Keynes in respect to him being an organicist or atomist (see Brown-Collier and Bausor 1988 and John B. Davis 1989). It is not inconsistent to claim that Keynes was both so long as we carefully define in what respects the terms apply. Keynes was an organicist but only because he wanted to achieve social conditions adequate for the independent labourer. His theory was general because it completed a line of development not overturned it.

Once we have accepted that the linking theme in the project we have outlined here was the establishment under different conditions of the independent labourer, we can grasp the significance of economics as a branch of statecraft, whilst also at the same time being able to link it to other subject areas such as politics, social policy and sociology. The establishment of the independent labourer was simultaneously the establishment of an economic sphere as a part of political order; it established the conditions for the liberal citizen - this is why we can refer to government by economy as a distinctive development in political order. The independent labourer was the focus for social policy concerns, political concerns and then later the development of sociology. The independent labourer was the centre of a complete vision of society in which all the separate social

disciplines were concerned. Economics has been the leading discipline because in it the theory of the achievement of the independent labourer has been worked out, from which then, for example, the appropriate social policy is then derived. Economics has been the theory around which the different disciplines could cohere.

When the need for a new social policy was recognised, if society were to preserve political order, this necessarily had to challenge the orthodox economics of its period and would eventually lead to a new economic theory. While this does grant a chronological primacy to the development of social policy it does not thereby accept the theoretical primacy. One of the points developed in this thesis is that change did occur outside, and against, the economics discipline itself; nevertheless the scope for change remained limited as it departed from what was prescribed by the orthodoxy. Any changes in social policy remained threatened by the potential for a reassertion of orthodoxy; changes in social policy required changes in economic theory to re-establish the coherent vision of a social order.

The path of development pursued by this thesis is, as we have said, from Ricardo to Keynes; however we will be following a selective path. We start with Ricardo because Keynes himself presented his thought as a revolution against the Ricardian tradition. After Ricardo the period of greatest concern to this thesis will be the latter part of the nineteenth and early part of the twentieth century. This period is recognised as containing the origins of the welfare state as well as of the concept unemployment (see Fraser 1984, Harris 1972, Garraty 1979). The origins of the welfare state, as well as modern social science can be seen in key figures of this period, such as Charles Booth and William Beveridge, both of whom are covered in the following pages.

The one figure of importance that the selection has left out is John Stuart Mill. The justification for this is that, firstly, he is not immediately associated

with the movement leading to the welfare state and to Keynes's *General Theory* but also, secondly, on an issue central to this thesis, the Poor Law, John Stuart Mill held a position that had scarcely evolved from that of the classical economists. He supported the principles of the 1834 Amendment Act (Mill 1994 p.355). In this thesis we examine how the Poor Law system evolved into the system of national insurance and then macroeconomic management; although Mill had much to say contingent to the themes of this thesis he was not sufficiently involved in our main concern to be included.

The concept of poverty and how it changed in the course of the development studied here is a theme that holds the thesis together. Poverty was at the core of the establishment of political economy. It was the state of one who had to work and was the means by which nature was understood to be acting within society. Concretely, poverty meant the independent labourer free of any dole from the state and working for a wage gained solely from the enterprise, hence a unified enterprise wage. We shall see that Ricardo outlined a system of political order in which the enterprise wage was the central element for the relation of the worker to that system. The viability of this system was founded on the labourer's support for the removal of restraints on capital that would allow greater accumulation as the source of rising wages.

Support for accumulation by workers would also imply support for a system in which needs were not recognised directly, but were mediated by the wage. This should be contrasted with the condition from which Ricardo had, with others, sought to free the worker, the condition of dependency enshrined in the old poor law, in which the gentry held a predominant role in mediating needs. We can contrast the independent worker who was free to work for any employer, in principle, and entered what were, formally anyway, equal relations of contract with employers, to, on the other hand, the dependent worker tied in a system of status to which he related through a specific paternalistic hierarchy. In the latter

condition it can not be appropriate to have a discipline of economics since no such sphere could be said to have existed independently of political relations.

Success in achieving the freedom of the worker from dependency would be synonymous with the establishment of a specifically economic sphere. The movement from status to contract would disentangle the economy from specific hierarchical political relations and hence allow the development of a sphere that was no longer characterised by specified relations of power but that was rather held together by natural laws. Poverty was central to the emergence of economy because through it, through the necessity to labour, political relations could be subordinated to natural objectivity. We shall see how important the latter was to Ricardo's conception of political order.

We shall also see that Ricardo's pure vision could not hold. In Ricardo poverty was the natural condition of the worker but, from the 1870s onwards, it emerged with a new content as the condition in which the fate of the individual was determined; poverty came to be understood as a condition of lack requiring social policy to counteract it. The distinction was between poverty as moral freedom in which the independent labourer could develop character through his interaction with the natural laws of the system, and, on the other side, poverty as a determining condition in which moral development was not possible, in which character was a result of conditions rather than of free action. In other words, while in the first vision of poverty the independent labourer could be grasped as the foundation of the system, in the latter conception this basis was questioned. Furthermore, where this basis was questioned then the 'natural' laws could be and were questioned. Concretely, it was when these laws were questioned, by the formation of the collective worker capable of posing an alternative vision of social order, that reliance on the natural as constitutive of social order also had to be questioned. The emergence of a collective worker threatened to achieve an independent political sphere, a subjectivity freed from the constraints of natural

laws and capable of achieving its own autonomy. It threatened then the whole basis of the order of political economy and for the defenders of the latter this could mean, at best, chaos, at worst, in the destruction of the economic sphere the creation of a system of servitude.

Poverty was central to the changes that had to take place if political economy, albeit modified, was to be preserved. Poverty was central to the first conception of the independent labourer; it was the contact of the independent labourer to the laws of nature. Once the independent labourer and the natural laws were questioned this natural conception of poverty was not adequate. Policy began with the conception of poverty as a lack in which the labourer was not able to secure his independence; the aim of policy was to achieve the conditions in which independence could be achieved. This would preserve an economic sphere in which the labourer could determine his own fate and so the political could again be subordinated to government by economy, even if within an active policy framework that had not been envisaged by Ricardo.

In examining Arnold Toynbee, the Barnetts and Charles Booth we shall be looking at the concrete process by which the classical conception of poverty was questioned to establish the modern conception defined in terms of lack. We shall see through Benjamin Kidd how these changes could be understood as posing a problem for the viability of economics in terms of its role within social order. After that we shall see how concern about poverty lead to investigation of the labour market and hence, with William Beveridge, to investigation of the causes of that poverty in lack of work - unemployment. Through Beveridge, and the concept unemployment, the social policy concerns of the previous thinkers were assimilated into an economic theory from which could follow policy. The breakdown of that policy in the nineteen thirties was the occasion for Keynes's development of *The General Theory.*

1. Ricardo and Political Order[3]

When Keynes presented his revolution in economic thought as the overturning of a century long Ricardian tradition he made it necessary, if we are to grasp the significance of the Keynesian revolution, to understand Ricardo's thought. This could mean that we investigate Ricardian thought from the perspective of the Keynesian Revolution itself. Such a procedure would not though throw any distinguishing light on the significance of Keynes's thought. For that we need to step outside the limits of Keynes's own view. Keynes was thoroughly dismissive of Ricardo and also of the effect his thought had had on the history of economic thought. By contrast to Malthus, 'the inductive and intuitive investigator who hated to stray too far from what he could test by reference to the facts', Ricardo, according to Keynes, was an 'abstract and *a priori* theorist'. (CW vol X p.95). The Keynesian Revolution was a return to the commonsense from which in Keynes's view the Ricardian episode had been a long and useless diversion. In such a view there would be little to understand in Ricardo's thought.

Here we will develop an understanding of the Keynesian Revolution by looking backward. We will examine the journey from Ricardo to Keynes not as a leap from curious abstraction to commonsense but as a real history of economic thought. We know for example that while Keynes famously dismissed the long-run in favour of the short, Ricardo had just as unequivocally asserted the centrality of the permanent state of things against Malthus's concentration on the temporary. We will take this difference seriously as something to be explained not dismissed to the detriment of Ricardo. This implies that we must come to an understanding of Ricardo's thought and that from this we will gain an insight into the categories

[3]This chapter was presented as a paper at the Conference for the History of Economics, Erasmus University, Rotterdam, February 1995.

used by Keynes.

The Keynesian view of Ricardo does have some pedigree in the history of economic thought. Marshall spoke of 'his delight in abstract reasonings' (Marshall 1920 p. 629). Jevons was more damning when he asserted that 'the only hope of attaining a true system of economics is to fling aside once and for ever, the mazy and preposterous assumptions of the Ricardian school.' (Jevons 1970 p.67). Indeed Jevons even anticipated the gist of Keynes's subsequent judgement when he claimed that,

> 'When at length a true system of economics comes to be established, it will be seen that that able but wrong-headed man David Ricardo, shunted the car of economic science on to a wrong line - a line, however, on which it was further urged towards confusion, by his equally able and wrong headed admirer, John Stuart Mill. There were economists such as Malthus and Senior, who had a far better comprehension of the true doctrines... but they were driven out of the field by the unity and influence of the Ricardo - Mill school.' (ibid p.72)

A more recent commentator on economic thought, Schumpeter, acknowledged Ricardo's interest in current events, but believed 'Ricardo's was not the mind that is primarily interested in either fundamentals or wide generalisations;' - in fact, according to Schumpeter, Ricardo 'had no philosophy at all'. (Schumpeter 1954 pp.471-2) He went on to dismiss any critic who on reading Ricardo's theory 'misses institutional disquisitions' as having 'simply called at the wrong address.' (ibid. p.472). The terms of assessment change, sometimes flattering, sometimes, critical; but a common element remains that Ricardo's economics were quite distinct from the real world and therefore from any political vision[4]. O'Brien expressed the usual consensus when he described Ricardo's method as model building 'with no more than token reference to the real world' (O'Brien 1975 p.3).

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[4]Schumpeter may be counted an exception to this in that he regarded Ricardo's economics as subservient to policy preferences but this merely leaves Ricardo's economics as purely opportunistic and without any structural role in the construction of a vision of social order.

The impact of these views is that while, with qualifications, certain methods could be employed from Ricardo's thought the concepts as a whole were irrelevant to the world, apparently having been deduced from thin air. This view is wrong not just in the dismissal of the concepts but also in its view of the method employed by Ricardo. In order to understand the argument here we must retrieve Ricardo from the most general complaint made against him that he was separated from the facts as an abstract model builder, an economist without political vision who, if he had any social perspective, was rigorous in keeping it from his economics.

In this chapter we shall attempt to retrieve a more meaningful Ricardo, one who had a real political vision to which the economic was an essential structural component. This will provide us with a basis for an investigation into the period between Ricardo and Keynes and then will enable us to place Keynes in a new light. In the course of this investigation we will be examining the nature of economic thought itself, placing it within a social context not as a scientific discipline that has no values but as a genuine social science in which values are intrinsic even if often disposed of in readily forgotten initial assumptions. We need not question whether economics has been a science but we should ask what a science means in a social context and this will require important qualifications.

The orthodox view of Ricardo has been challenged before and we shall quickly examine this before taking up Ricardo for ourselves. The challenge has appeared, firstly, to some extent in Hollander's (1979) grand opus on Ricardo and then, secondly, in work by Milgate and Stimson(1992). Hollander defends Ricardo's pragmatism and Milgate and Stimson examine his politics, but neither seriously contests the central element in the orthodox interpretation. Hollander defends Ricardo against the charge of being too abstract on the grounds that he was fully aware of the political realities of his day. But in claiming that Ricardo addressed these realities as a pragmatist who compromised his economic

principles when expediency required, he effectively treats economic theory and political concerns as separate strands in Ricardo's thought. Milgate and Stimson (1992) do go further, even stating that his economics and politics were in fact integrated, however their downplaying of the theory of value which is the economic locus of Ricardo's political thought compromises their argument. They recognise it as a key feature of his economics but it is absent from their 'account of his thinking about politics' (Milgate and Stimson 1992 p.146) because 'no appeal to the labour theory of value is to be found in any part of Ricardo's own contributions to political thought' (ibid p.147). This is not an effective criteria for judging the significance of the theory of value to his conception of politics because it fails to consider Ricardo's economics as a medium in which political ideas were expressed: for instance it does not interpret the relation of price and value i.e. market and natural price, as the means for examining the relation of private interests to the general interest.

We will firstly establish that Ricardo did not have a narrow economic perspective, that he was concerned with the social context. When we have done this we can develop an understanding of Ricardo's economic thought and in doing so we will be able to place aspects of Ricardo's thought, for example his abstraction, his theory of value and his long-run analysis in a more meaningful context than is usually accorded him. Once we have established that central aspects of Ricardo's thought were neither arbitrary nor mistaken methodological decisions but were integral to a vision of political order we will have imposed the necessity of tracing the journey from Ricardo to Keynes in terms of the relation of economic thought to political order. We will be able to grasp how economic concepts and methodology changed in response to problems posed by political order.

In his speeches to parliament Ricardo consistently revealed a concern with the relation of partial interests to the general interest. During debate on the Corn

Laws Ricardo announced himself as someone who 'consulted the interests of the whole community' (Ricardo 1951, V p.49) and who rejected the notion that particular interests, such as those of landlords, were so important that they should be 'forced at the general good' (ibid p.47). The duty of the legislature, he argued, was to look not at the 'partial loss which would be endured by a few ... but to the general interests of the nation..' (ibid p.49-50) In a subsequent debate he made the general point that,

> '..it was useless to urge partial views in behalf of one set of men or another. [This] house', he added, 'ought not to look to the right or left[5], but consider merely how the people of England, as a body, could best employ their capital and labour.' (ibid p.104)[6]

Ricardo approached the problem of the establishment of political order from the standpoint of a market society. He made no appeal to civic pride but invariably based his argument on self interest since '..it must be recollected', he said, 'that all men, in all situations, act.. under the influence of motives.'(ibid p.288). Order had to be established despite each individual freely pursuing their self-interest. Consistent with this he rejected proposals for 'virtual representation' in which one group supposedly acted in an enlightened way on behalf of the interests of another group[7]. He rejected this both in relation to political power and to the conduct of economic management.

As an MP Ricardo found himself called upon to deal with the leading economic issues of the day such as banking, the sinking fund and price protection.

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[5]It gives an indication of the context of Ricardo's thought if we record that this opposition of left and right was first used in connection to the National Assembly of the French Republic and that this assembly was associated by many in England with a descent into chaos.

[6] These are not isolated statements but are repeated throughout his work and particularly in his Parliamentary speeches. (see ibid. p.190, p.258, p.268, p.276,p.285-7, p.289, p.310,p.470, p.476, p.478, p.484, p.498)

[7]This issue is dealt with in *Ricardo's Politics* Milgate and Stimson Princeton 1992

His detailed comments on these issues refer back to a coherent underlying view of political order and before we attempt to construct his political theory we will illustrate his particular concerns through a brief examination of his parliamentary record.

Ricardo's Parliamentary Record.

In each of the issues examined here Ricardo employed a framework of general and partial interests as the basis of his analysis and policy proposals. After this examination we can then show what he understood to be the natural system as an alternative to the aristocracy, how he envisaged the natural system would reconcile partial and general interests and how he assessed the viability of this system as a system of political order.

i. Banking

On the question of currency Ricardo's analysis, though backed by economic theory, was primarily concerned with the consequences of institutional arrangements. While willing to concede that the power of the Bank 'might have been so used as to have become formidable to the interests of the country.'(ibid p.310), Ricardo observed that in practice, as a private bank with distinct interests of its own, it had frequently acted 'according to the caprice or interest of a company of merchants.' (ibid p.310). The issues of which standard should be used for the currency, and what value should be chosen, took second place in his mind to the need to fix the currency to a standard in the first place, as this alone would prevent discretion being exercised on behalf of private interests. (ibid p.310). For Ricardo the premise of sound monetary policy was constitutional[8], it might be fruitful to argue that monetary neutrality was not a theoretical presupposition but an objective that should be achieved by legislation.

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[8]*Blackwood's* magazine which went much further in recognising the theoretical possibility of an active monetary policy nevertheless shared with Ricardo a caution regarding the existing private form of the bank and so stopped short of advocating activism. (F.W.Fetter Economica Nov 1965 p.429)

ii. The Sinking Fund

The problem of the national debt also resolved itself into a constitutional question for Ricardo. The debt he considered 'a very serious evil' (Ricardo 1951, V p.268). He believed that because of the resulting taxation the debt 'hung like a mill-stone round the exertion and industry of the country', (ibid p.20) and along with the Corn Laws, he considered it one of 'two great evils' (ibid p.55.) without which the country would be 'the happiest country in the world.' (ibid p.55). Despite this he opposed a sinking fund to reduce the debt because it would place money in the hands of ministers who, being responsible to a House of Commons 'constituted like ours' (ibid p.25) from a limited franchise that fostered a 'disposition to ministerial compliance' (ibid p.269) would be under no pressure to use it for its intended purpose. The temptation for ministers to use it as a 'resource of which they might avail themselves when they were under any difficulty...' (ibid p.24 also p.268) had nothing to hold it in check. The fund, he argued, was nothing but a 'delusion on the public.' The government's own statements revealed the 'real object of the fund [was to] enable us to fight ...a war'.(ibid p.251) Quite simply, the control of expenditure and hence taxation could not be trusted to existing constitutional arrangements. Sound fiscal policy required democratic reform since only the people had a genuine interest in controlling the 'expenditure of their own money.' (ibid p.288).

iii. Price Protection

Most legislation considered by Parliament in Ricardo's day consisted of private bills pleading for protection. Their context was the depression of trade that had followed the war and their ultimate purpose was to support private revenues or, as Ricardo referred to them, 'remunerative prices'. The House, Ricardo complained, was assailed 'on all sides for protecting duties' (Ricardo 1951, V p. 219). Their object, as he said in the case of a duty proposed on foreign tallow, was to put 'money into the hands of the landed interest by taking it out of the pockets of the rest of the people.' (ibid. 291).

Ricardo consistently argued for free trade for reasons which suggest he had a broader view than the one generally credited to him. He believed that,

> 'once [free trade had been properly] arrived at...the House would no longer be tormented with these discussions to sacrifice the public good to particular interests.' (Ricardo 1951, V p.190).

For Free Trade to be established, the House had to recognise the priority of the general interest over particular interests and, in Ricardo's view, this could not be achieved without wholesale reform. The aristocracy, who as landlords benefited from high agricultural prices, would oppose good government since '..it may prevent them from having the same emoluments, advantage or power, which they would have if government.... chiefly concerned itself about the happiness of the few..' (ibid p.498).

In Ricardo's view legislative interference with prices acted against the general interest. The duties paid on sugar meant that 'the people of England paid grievously for their sugar' and what they paid was 'swallowed up in the fruitless waste of human labour.' (Ricardo 1951, V p.189). Comparing sugar duties with the corn laws Ricardo made the general claim that 'the mischief in such cases, was there was much human labour thrown away without any equivalent.' (ibid p.190). Where particular interests centred on money incomes, the general interest was tied to the best use of labour,

> 'A nation is rich, not according to the abundance of its money, nor to the high money value at which its commodities circulate, but according to the abundance of its commodities, contributing to its comforts and enjoyments.' (Ricardo 1951, IV p.22, also see IX p.83).

This simple distinction between riches on the one hand and money values on the other held within it the essential problem of political order for a market society. Ricardo argued that though few would disagree with the distinction

> 'many look with the greatest alarm at the prospect of the diminution of their money revenue, though such reduced revenue should have so improved in exchangeable value, as to procure considerably more of all the necessaries and luxuries of life.' (Ricardo 1951, IV p. 22)

Ricardo considered the 'interests of the different classes of the State' (Ricardo 1951, I p.8) in terms of money revenues. The conflict between 'remunerative price' from which money revenue was derived and 'natural price' in which '...a commodity would be sold as cheap as the producer could afford... ', (Ricardo 1951, V p.189-90) was just as much a political as an economic question. Through the attachment of interests to money revenues that were derived from 'remunerative prices' Ricardo had established in his theory of value an analytical framework which specified the relation of particular interests to the general interest. It was clear that maximising money revenues was not synonymous with the general interest (general wealth). If the constitution allowed particular groups to influence prices, then their pursuit of money income would be detrimental to the growth of wealth from which all groups benefited. The remunerative price established a share of the product but the total produced depended on the economy of labour, hence the extent to which goods were produced at their natural prices. Since remunerative price could conflict with natural price and since it was subject to political intervention the issue of the appropriate regime for prices was just as much a constitutional issue as banking policy and the sinking fund.

The Necessity for Reform

Ricardo considered constitutional reform central to the issue of economic management. Was there anything, he asked, 'in our institutions to retard our progress?' (ibid p.499). He likened the defence of existing institutions to arguments against steam engines on the grounds that we 'had flourished without them, and why not let well enough alone?' (ibid p.500) The problem with the existing franchise was that it allowed disproportionate influence to the landed interests which '..had already too many regulations in their favour.' (ibid p.291).

For Ricardo the purpose of reform was not to curtail self-interest but to establish a framework in which it would promote the general interest. The ideal arrangements, he argued, were those in which all sanctions 'concur to make it the

interest of all men to be virtuous, which is the same thing as to say, to use their best endeavour to promote the general interest.' (ibid p.500). He had no prescription for people to act virtuously out of self denying civic pride or from elevated knowledge[9]. He regarded political representatives as agents in the economy, 'Let me know what the state of their interests is and I'll tell you what measures they recommend.' (ibid p.500) Self-interest should neither be denied nor restricted, but to give it its due *all* interests must be given free rein and no group should be able to exercise political advantage in its favour. For Ricardo the system of self-interest had to be accompanied by a political order of universal and indiscriminate right which the existing constitution stopped far short of effecting. The check to the monarchy was the House of Commons but the House was chosen by peers so that 'the really efficient power of government is ... in the hands of the wealthy aristocracy.' (ibid. p.497). Where power and influence were divided between monarchy and aristocracy, the only means by which people could act on the constitution was the threat of insurrection but this, by its nature, even when assisted by a free press, was irregular in its influence. (ibid p.497-8).

The importance of the constitution for the progress of wealth made 'reform ....the most important question which could come before [the] house.' (ibid p.112). The House of Commons had to be made representative of the public voice.(ibid p.112, 470.). The 'House of Commons ..... should represent the people fully and efficiently, instead of representing only a small proportion of the people of England.' (ibid p.484). Against a situation where '..ministers were not infrequently obliged to favour particular interests,' (ibid p.477-8) Ricardo wanted 'a House of Commons free from party, where the interests of the public would

[9]Ricardo explicitly criticises Montesquieu because in the *Esprit des Lois* 'the virtue he makes the active principle in Republics is represented too much as a disinterested principle of action.' (Ricardo, 1951, VII p.383). Ricardo can be seen as 'applying the organon of self-interest to political theory' (see Winch *Adam Smith's Politics* p.165-6, G.S.Stigler, *Smith's Travels on the Ship of State* in *Essays on Adam Smith* eds. Skinner and Wilson pp 237-46)

alone be considered, in which a deaf ear would be turned to all partial application.' (ibid p.478). Democracy was the only effective defence against abuse of the general interest by partial interests.

The Good System

Ricardo opposed a system founded on the aristocracy from the standpoint of a *natural system* which was sustained by its own laws. For Ricardo, it was political economy more than any other field of enquiry which established the lawlike nature of society and hence the possibility of a natural system. His opponents who supported the artificial system held the same view but identified political economy as the foundation of what they sought to undermine. Ricardo complained that he had 'frequently to repel the attacks which were made upon the science of political economy' (Ricardo 1951, V p.248). When it was suggested that the principles of political economy varied every two or three years Ricardo affirmed that '..the principles of true political economy never changed' (ibid p.296). 'The [very] words "political economy"', he complained, 'had of late, become terms of ridicule and reproach. They were used as a substitute for an argument...' (ibid p.307). The contrast was between, on one side, pleas to undermine the claims of science and, on the other, a defence of 'argument' - the same contrast as that between 'wrong notions of commercial policy that urged partial views on behalf of one set of men or another.' (ibid p.104) and, on the other, 'sounder principles'.

The complaint that he 'ignored the facts' lay behind the dismissal of him by his contemporaries as a 'theorist' (ibid. p.94) and formed the basis of Brougham's comment that Ricardo 'argued as if he had dropped from another planet..' (ibid p.56). While Ricardo looked beyond the world of detail this should not be taken to mean that his abstraction was merely a matter of economic model building. This version of abstraction, upheld by historians of economic thought, sets up an opposition between theory and the 'facts' that is deceptive since the

former, posited as the general conditions which lie behind the 'facts', is not necessarily less real than the 'facts' themselves. The 'facts' were the claims of partial interests and it was in this context that Ricardo's abstractness was dismissed by contemporaries in terms of his 'abominable theories'. The abstractions on which he concentrated concerned the general interest which particular groups, the 'facts', wished to set aside.

The tension here is not reducible to one between competing methodologies since these were themselves only indicative of the more intractable problem of how to order immediate interests within a process of change and hence with the necessity, or otherwise, of 'partial loss'. The question then was how individual interests could make up the general interest. Those who brought out the importance of the 'facts' pursued a methodology that began in a specific view of the validity of the claims of partial interests and was opposed to the view of partial interests stressed in 'abstract' political economy. The differences between these two views, both in methodology and in economic concepts can be examined through a contrast of the theories of Ricardo to Malthus. The only resolution between these views would be in the historical direction taken by reform. This would be partly determined by reaction to the French Revolution and the lessons it held for political order.

Malthus distinguished himself from Ricardo when he appealed to 'things as they are'; it was the point of departure if 'one's writings ...were to be...practically useful to society..' (Ricardo 1951, VII p.122). This view has been used to confirm the usual prejudices against Ricardo, especially when it is taken in conjunction with Ricardo's claim that as against Malthus who studied the 'temporary' he, Ricardo, fixed his 'whole attention on the permanent state of things' (ibid.p.120). This distinction between the two was taken up by Keynes to the detriment of Ricardo. It appears that Ricardo was simply a long-run theorist and therefore so abstract that his theory was useless if not worse. Sensitive to this

charge, Hollander sets out to defend Ricardo by pointing out the instances where Ricardo had adopted a short-run analysis and so by implication a practical viewpoint. In doing this Hollander presents Ricardo's method as little more than a choice for time period with no firmer status in his thought than a subjective 'predilection' that would be the source for subsequent judgement of his divorce from 'day-to-day considerations...' (1979 p.657). While Hollander defends Ricardo he condemns Ricardo's theory by accepting the view of Ricardo's critics that the long-run view was impractical. Hollander's defence must inevitably regard the divergences between Malthus and Ricardo in terms of personal preferences and ignores how their differences arise from how they believed political order could be achieved. Ricardo's choice for analysis of the 'permanent state of things' was far from being a 'predilection' but was fundamental to his whole approach to political order.

Ricardo and Malthus's debate, conducted to a great extent through their correspondence, was preoccupied with what appear to be technical differences over value theory. For Malthus wealth was inseparable from exchange value. He rejected Ricardo's version of wealth as use-values and, with it, Ricardo's assumption of profit in a naturally balanced system. For Malthus it was *realised* profit that determined accumulation, '..it will be found that in the real state in which man is placed on earth, wealth and exchangeable value, though still by no means the same, are in many parts nearly connected.' (Malthus 1989 p.337-8). If the market price for a production was insufficient then 'such wealth will not be produced in future' (ibid p.341). It may have been temporary but nevertheless market price was, for Malthus, the path along which all accumulation passed. On this point Malthus was quite clear,

> '..the market prices of commodities are the immediate causes of all the great movements of society in the production of wealth, and these market prices always express clearly and unequivocally the exchangeable value of commodities *at the time and place* at which they are exchanged' (ibid p.342 my emphasis).

This view either excludes or must re-define the concept of natural price; for

Malthus natural price was determined according to the 'average relation of the demand to the supply' (ibid p.84). So where natural price for Ricardo had a systemic significance that influenced the movement of prices, for Malthus it was reduced to the status of an average, an outcome then of the movement of prices

The stress placed on market price by Malthus was a stress on the immediate present 'at [a] time and place' in which, therefore, a whole variety of influences had to be itemised and accounted for. The immediate present allowed demand a prominent place, but in removing privilege from any particular influence, it excluded the possibility of a system that could be relied on to follow a particular path. Accumulation always passed through a vulnerable transitory phase, the

> 'progress of society' said Malthus 'consists of irregular movements, and ... to omit the consideration of causes which for eight or ten years will have a great stimulus to production and population, or a great check to them, is to omit the causes of the wealth and poverty of nations...' (Ricardo 1951, VII p.122).

In Malthus's conception existing interests were crucial,'By inquiring into the immediate causes of the progress of wealth I clearly mean to inquire mainly into motives.' (Ricardo 1951, IX p.10). This was essential in order to grasp 'the necessary motive to the greatest continued production.' (Ricardo 1951, VII p.19). Rather than on general laws, the system in the immediate rested to a great extent on the subjective, on 'motives', for whom exchange value, the immediate form, was essential. By contrast, of course, a system apprehended as resting on general laws left the subjective as having an influence only through error that would be corrected in the course of adjustment.

While Ricardo agreed that demand could influence market prices, these were not the 'permanent state of things'; demand 'only produced temporary effects.' (Ricardo 1951, V p.212) It followed then in Ricardo's judgement that studies of quantity, i.e. the temporary, were 'vain and delusive' while studies of 'proportion' might lay down a 'tolerably correct [law]..' and were thus

subsumable under science.

Malthus asserted labour commanded as the measure of *realised* value and rejected Ricardo's method as an oversimplification (Malthus 1989 p.6). Ricardo on the other hand took labour embodied as the determinant which established an objective point of gravitation outside the intersubjective world of exchange. For Ricardo causes could be distinguished according to their temporary or permanent nature - the temporary invariably being those associated with particular interests. The distinction between natural and market price had analytical purpose under such a perspective. On natural price Ricardo could establish the science for a lawlike system with general conditions underlying particular moments. For Malthus and Ricardo the distinction between time periods also implied unresolvable differences in value theory and methodology that were inseparable from diverging positions on how the general interest was established out of partial interests. The latter appeared in both writers in the form of market prices but in each writer the significance attached to market price was wholly different and derived from their wider visions of political economic order, even when their argument was conducted in terms of economic categories. For Malthus the permanent was collapsed into the temporary. The general interest was aggregated from existing interests. With no underlying natural order the objective was a conservative one of preserving the political system as the means of establishing order. In his analysis of the post-war depression Malthus rejected the argument 'that the losses at present sustained by farmers are merely the natural and necessary consequences of overtrading, and they must bear them as all other merchants ...' (Malthus, 1986 Vol.7 p.153) on the grounds that these were no ordinary losses. First, they were occasioned, in part at least, by the end of hostilities which was a general phenomenon in itself; and secondly their scale lifted them out of the sectional category. 'Individual losses of course become national, according as they affect a greater mass of the national capital, and a greater number of individuals...' (ibid. p.154)

But Ricardo was adamant; Malthus, he answered,

> 'dwells with much stress on the losses of agricultural capital.... He laments the loss of that which by the course of events has become of no use to us, ...We might just as fairly have been told, when the steam engine, or Mr Arkwright's cotton machine was brought to perfection, that it would be wrong to adopt the use of them, because the value of the old clumsy machinery would be lost to us.' (Ricardo 1951, IV p.33 also, I pp 263-272).

The general interest could not be reached by a summation of the partial interests; the latter could only be concerned with money revenues rather than the total product in use values. Partial interests, he argued, could, since they were attached to money revenues, obstruct the general interest because of the 'unwillingness that every man feels to sell his goods at a reduced price...' (Ricardo 1951, VII p.67) Partial interests had to relate to the system by acquiring knowledge of its workings and not in terms of seeking protection. Where Malthus wanted to ensure the position, or 'motives', of existing interests, Ricardo argued that 'it became the legislature ... not to look at the partial loss which would be endured by a few, who could not cultivate their land profitably, at a diminished remunerative price, but to the general interests of the nation..' (Ricardo 1951, V 49-50). While progress threatened particular groups, '..by increasing production, though you may occasion partial loss, you increase the general happiness.' (Ricardo 1951, I p.181).

Reform

The short run and long run in Malthus and Ricardo corresponded to two different versions of the relation between the general interest and the particular interest. To go from one to the other was not to shift analysis from one time period to another but was to go from one conception of political order to another mutually exclusive one. For Ricardo the long run was founded on the permanent state of things; it was underpinned with natural laws and hence could stand as a system of order to replace the artificial system of aristocracy and monarchy. The reforms necessary to achieve his system would be those that gave full rein to all

interests without lopsided influence being exercised by any particular interest; this implied also that no temporary interest could prevail at the expense of the general progress of wealth.

The necessary reforms were extension of the franchise and secret ballots. Extension of the franchise was vital because 'of all the classes in the community the people only are interested in being well governed..' (ibid p.498) and with fair representation 'ministers [could not] ... pursue a career... diametrically opposite to the general opinion of the country..' (ibid p.470). Ricardo's support for a universal franchise was consistent with his belief in self-interest as the compelling force of society. The people could be trusted for their good sense because it was in their interest. Citing Athens and Rome, he rejected the view that enfranchising the people would lead to political disturbance.(ibid p.289 also p.284).

Ricardo's defence of the people and reform opposed the prevailing mood of reaction - the notorious Six Acts - provoked by the French Revolution and amplified by countrywide disturbances. Ricardo confronted these practical issues directly. Trower complained that there was a 'senseless and mischievous spirit now abroad' which 'seems to threaten danger to all.' (Ricardo 1951, VII p.33). Ricardo replied that the 'outrages' were understandable given the stagnation of trade but that they did not constitute a threat; the people, he argued, 'are both improved in morals and knowledge, and therefore...are less outrageous under these unavoidable reverses than they formerly used to be.' (ibid p.49). The knowledge he had in mind was a concrete grasp of political economy, 'I am in hopes too that as they increase in knowledge they will more clearly perceive that the destruction of property aggravates and never relieves their difficulties.' (ibid p.49 also Ricardo 1951, VIII p.129)

For conservatives like Malthus and Trower reform was dangerous because it enfranchised the people who were a force not to be reckoned with. They did not

simply read events in France directly onto English conditions but rather argued the greater threat to be in Britain because of its advanced development. Trower defended the 'mixed constitution' in which the monarchy, the aristocracy and the people balanced each other, but warned that

> 'the balance of the Constitution, ...is most in danger from the popular part of the Constitution; from that force ...which if not regulated and restrained, must eventually destroy our Constitution.' (Ricardo 1951, VII p. 310, also Ricardo 1951, VIII p.15)

The people could only get stronger with 'the growth of wealth and the diffusion of knowledge', (ibid p.14) so reform had to be kept in check to prevent it maturing into 'a force, which when let loose would be incalculable in its objects, and irresistible in its effects.' (Ricardo 1951, VII p.310). Believing reform would raise hopes that could not be satisfied, Malthus shared this outlook, 'when [the people] found themselves ... entirely disappointed', he wrote, 'massacre would in my opinion go on till it was stopt by military despotism.' (Ricardo 1951, VIII p.107-8). He also thought the situation would be worse relative to France where 'the manufacturing population was comparatively small...' (ibid p.107-8).

Ricardo could withstand these criticisms, despite the force they were given by experiences in France, because he had a complete trust in political economy. The problem with France had not been reform but its lack. In Britain he could point to the 'independent spirit' that developed through a knowledge of political economy. He thought that the abolition of the Poor Laws, a leading issue of the day, was desirable because it would foster the independence on which the market and its democracy could be founded. For Malthus democracy would simply foster a disastrous movement to extend the poor laws. Ricardo, on the other hand, could think of no better and more practical way to teach the 'poor man to depend on his own exertions only' (Ricardo 1951, VII p.124-5) than a perfect system of political economy in which 'the labouring classes ... receive the recompense for their labour rather in the shape of wages than in bounty' (ibid p.124.) What better way was there, he asked in the *Principles*, to impress 'on the poor the value of

independence..'? (Ricardo 1951, I p.107). Through exclusive dependence on the wage the people would be in direct contact with accumulation as the source of demand for labour. The general aim was that the 'labouring classes [should] know how to regulate their own affairs, and understand and foresee the circumstances which are to procure them happiness..' (Ricardo 1951, IX p.261).

Abolition of the poor laws would perfect political economy by establishing, through the enterprise wage, the direct relation of the labouring classes to its laws. It was because wages were determined under a law of population rather than value that Ricardo could look to the working class for the security of the system. Ricardo believed that it was the exclusion of the labouring classes from property that gave them an interest in its overall security rather than in one aspect of it. On the other hand direct owners who related to the system via money revenues from particular properties remained caught in their partial views until the system could prevent the legislative predominance of any one interest. Wage-owners were dependent on accumulation *as a whole* as the source of demand for labour. To re-divide property equally would 'annihilate half the productive industry of the country, and ... be more fatal to the poor labourer than to the rich capitalist himself' (Ricardo 1951, V p.500-1). So, even though he stipulated that in reform 'the rights of property should be held sacred' (ibid. p.500), Ricardo saw no danger in extending the franchise to the workers; indeed they would be the guarantors for the system as a whole since their interest was in the maximum accumulation.

Although Ricardo had shown that wages and profits were inversely related, he did not draw the conclusion of an inescapable conflict of interests. The inverse relation held in terms of value content but, even where the value share rose for profit, the wage could still rise in terms of the use-values procured with it. This was crucial since it was accumulation, hence an increased capacity to produce use-values, that was at issue and not just distribution at any one time. In the

Principles he argued that if

> '..the wages of the labourer should be found to have fallen, it will not the less be a real fall, because they might furnish him with a greater quantity of cheap commodities than his former wages.' (Ricardo 1951, I p.50)

In his *Notes on Malthus* he spelt this position out more fully; it was never his wish, he wrote,

> 'to see ..profits increased at the expense of the labouring class...What we should desire is to increase the quantity of commodities without increasing their value... if labour falls from 2/- to 1/8d per day, the labourer may be better off, as with 1/8d he may get more than he got with 2/- before. The rate of profits will be increased ...but it will not be at the expense of the labouring class, - it will follow only from the increased productiveness of labour.' (Ricardo 1951, II p.373).

Given this relation between reductions in value and increases in use-values the interests of the worker and capitalist could be reconciled in accumulation since the increasing demand for labour would ensure that the use-value wage would grow[10].

Although Ricardo accepted some of the fears his correspondents had about a universal franchise, he believed temporary restrictions would be sufficient to meet these. And, once again, it was a growing knowledge of political economy that he relied on. Even incomplete reform would demonstrate benefits that could increase 'the knowledge and intelligence of the public' so that it would be safe to 'extend the right of voting for Members of Parliament to every class of the people.' (Ricardo 1951, V p.502-3). Property owners were prevented by their partial interests from applying general rules but the interest of the people was the general immediately and their knowledge of this interest would grow with the greater freedom accorded them. Democracy then could ultimately be relied on, indeed was necessary, because 'Of all the classes in the community the people

[10]Of course later in his life Ricardo's investigation of machinery questioned this confident conclusion, although Ricardo himself did not question that workers would still have to support accumulation since machinery would always be introduced somewhere. Even so the machinery question was not fully integrated into the rest of his vision of social order.

only are interested in being well-governed; on this point there can be no dispute or mistake.' (ibid p.4)

The gulf between Ricardo and his opponents was clearest in their views regarding the threat to order posed by the 'multitude'. After the Peterloo massacre Trower supported the legislative reaction arguing to Ricardo that meetings of 'countless multitudes' should be regulated, 'Why not limit meetings for political purposes to parishes, and thus diminish the danger by breaking down the masses?' (Ricardo 1951, V p.111). He opposed what he called 'Owenism' in similar terms, because it would convert

> 'the whole country into a great Manufactory ... Surely, with a view to the health, happiness and morality of the poor, the great object is not to collect them into large masses ...but to break them down into small, unconnected societies... Not to collect them into great Towns, but to scatter them over the face of the country in small villages, and detached cottages.' (Ricardo 1951, VII p.42-3).

this would allow

> 'every Gentleman resident in the country... an opportunity of ... exerting that influence among them, the feeling and the expressing of which cannot fail to produce the happiest effects.' (Ricardo 1951, VIII p.42-3).

Clearly, for Trower the prospect of disorder was so striking in his mind that he could not contemplate the full achievement of Ricardo's natural system without a sense of trepidation for the future; a more direct, visible, form of mediation, the 'Gentleman', was required if order was to be preserved.

When Ricardo opposed the Seditious Meeting Prevention Bill, he took an opposite position, arguing for large meetings as a means of 'showing such a front to ministers as would afford a hope that bad measures would be abandoned.'(Ricardo 1951, V p.28). Ricardo asked, 'What security for freedom should we have if no meeting, larger than a parish meeting, was legal?' (Ricardo 1951, VIII p.133). Far from being a problem, 'the fear of insurrection, and of the people combining to make a general effort are the great checks on all

governments..' (ibid p.133). Ricardo put the view that it was only the 'fear which the government and the aristocracy have of an insurrection of the people, ...[that] keeps them within the bounds which now appear to arrest them' (Ricardo 1951, V p.497). For conservatives like Malthus and Trower the independence of the people posed a threat to order and the multitude had to be held under the 'Gentleman': for Ricardo independence was the keystone of stability since it was contact with the laws of political economy which were the only true guarantee of order. This independence had to be secured through reform. The multitude would pose no systemic threat; they did not have to be scattered under the dominion of the Gentleman since they were independent before the laws of political economy.

The real threat to order that Ricardo was concerned with was one that arose from a lack of reform that would mean incomplete capitalist development. As he said to Mill, 'The only prospect we have of putting aside the struggle... between the rich and the other classes, is for the rich to yield what is justly due..' (Ricardo 1951, IX p. 42.). What was just was the relinquishing of legislative privilege that interfered with universal right. He upheld Place's estimation of the grievances of the labouring classes as being, '... oppressive laws - such as combination laws, corn laws, restraints on commerce and many others..' (ibid p. 61). Writing on Ireland, a country he noted as lacking capital development, he extrapolated the view that

> 'most of the difficulties of Government proceed from an unwillingness to make timely concessions to the people. Reform is the most efficacious preventative of Revolution, and may in my opinion be at all times safely conceded ... I think the disaffected would lose all power after the concession of Reform. Reform may be granted too late, but it can never be too soon, if the people are sufficiently well informed to know the value of it.' (Ricardo 1951, VIII p. 49-50 also Ricardo 1951, VII p.381).

The failure of capitalist development with partial interests, money riches, flourishing in legislative channels contrary to wealth was the cause not the prevention of revolution.

We have shown that Ricardo had a vision of political order in which his economics and politics were interdependent. This vision can be seen to be realistically based both in terms of its presentation of a plausible alternative to a society of aristocratic privilege but also because he made an assessment of the position of the working classes in this order. Ricardo's confidence in the future, his vision of political economy, rested on the exposition of underlying laws whose validity was ultimately derived from an alliance between political economy and the labouring classes, as independent workers, that confirmed the objectivity of those laws. His was a practical, realistic, vision for a full transition to a market society consistent with social order. If his vision is no longer valid to-day it is clearly not because he lacked a vision but rather because the assumptions on which he constructed it have themselves changed. This would account for the disrepute in which, subsequently, he has been often held. We can approach an explanation of the Keynesian Revolution by examining how economic thought evolved in response to changes in its initial assumptions. In other words we can examine the social bases that would force theoretical development in economic thought as it set out to preserve the economic as an essential aspect of political order.

2. Preliminary Remarks on the Movement away from Ricardo

In the following chapters we will be following the changes in political economy that came after David Ricardo. The purpose is to indicate some themes by which we can outline a development of political economy from Ricardo to Keynes. We can show through a selection of thinkers how perceptions of the problems faced by political economy changed. It may appear that we are pursuing just an history of ideas but here the argument is that it is something more. We are dealing with a history that is both concept and circumstance. It is only a history of ideas in as much as the ideas had to adapt to new or changing circumstances.(see Bateman 1994). There is no pure progress of ideas but nor can we account for their history merely by showing their relevance to particular periods as if ideas from different periods could not reasonably be compared. The continuity in the history lies in the object under study. It does not change arbitrarily anymore than the ideas that arise from it do. The ideas arise from and respond to particular circumstances which in turn change.

We have already established that Ricardo's thought was both practical and principled; it was a contribution to statecraft relevant to the special problems of establishing the role of the State when the sphere of private decision making was expanding. Ricardo did not ignore the circumstances necessary for his framework to be applicable. He assessed these in correspondence with his critics; he argued that with the development of the working classes there was also a development of their knowledge of political economy. Political economy then was objective and lawlike; more important the working classes increasingly related to it as such. The central figure in this relation was the independent worker. It was this worker who would relate to political economy through knowledge and the wage. The wage would be the sole means of support; the knowledge would be of the conditions that would maximise this wage by raising the demand for Labour. The worker

while free of paternalistic control was not free of political economy itself but was capable of coming to knowledge of it and so determining his appropriate behaviour. The worker's independence was not just an individual relation to the wage but also the private responsibility to act on the knowledge of political economy. Independence, then, had a moral dimension that Ricardo argued had developed alongside of, indeed as an essential part of, the development of political economy. For Ricardo political economy constituted a whole system for social order and not just a field of speculation into value, distribution and accumulation. While the theory might stand or fall on the adequacy of its treatment of value and distribution, the factor that would ultimately determine its viability was its adequacy as the basis of a new social order. This should not be interpreted as arguing that the debate could be decided apart from the theoretical issues of value, distribution and accumulation. More interesting would be to ask why at this time debate over the form of social order should have taken the form it did over theoretical issues such as value.

Independence of the worker was the necessary condition for political economy while also being its desirable outcome. It was inherent to the process of development from the rule of the gentry to the natural laws, the self-regulation, of political economy. This transformation in political order was inevitably accompanied by the threat of disorder since the foundation of one order, in relations of dependence, was being eroded. The new order, precisely because of the end to visible dependence, required a theoretical development. The nature of this new order founded on the operation of private interests required abstraction if any sense of stability was to be discovered within what was, from the old view, little more than a chaos of selves. While Ricardo's critics were correct to focus on his abstraction, they were wrong in perceiving it as impractical; the abstraction was not ignorance of the 'facts' but was the grasp of their underlying order. Abstraction was necessary if the alternative to the visible hand of the aristocrat was to be convincing.

Ricardo was not interested in science for its own sake. In his interesting work on Ricardo *Interpreting Ricardo* Terry Peach has explained Ricardo's attachment to the search for a perfect invariable measure of value as due to 'dubious "natural science" analogies' (Peach 1993 p.30). This though underestimates the importance to Ricardo of his search for the invariable measure because it underestimates the significance of natural science to Ricardo's thought. To understand this significance we need to grant that a narrow economic view of Ricardo's objective is insufficient to account for his interest in political economy. Peach's argument in his book is that 'Ricardo's "primary objective" ...was to establish that progressively diminishing agricultural returns must ("permanently") depress general profitability..' (Peach 1993 p.8). A portrayal of Ricardo's economics is not adequate to representing him as he really was. It does not as Peach would intend free him from the cross of representing his interpreters views, i.e. acting as proto-general equilibriumist to the general equilibriumist because, while Peach may free Ricardo from particular anachronistic interpretations, he thereby strengthens the more general import from contemporary academic departments that Ricardo was only an abstract economist. The point here is that, in as much as Ricardo was an economist, it was in the service of outlining the viability of, as well as institutional requirements of, what was a quite extraordinary development in social order. If we are as Peach would like, to leave Ricardo 'within his own surroundings' (Peach 1993 p.303) then we should not carry with us assumptions that have become well-bedded down because of the achievement of political economy within social order, when Ricardo's task was to establish this achievement.

In the matter of the treatment of Ricardo's relation to natural science the contemporary view of Ricardo is misleading because it allows an impression that Ricardo pursued a 'dubious' analogy, that he was 'influenced by the prevailing scientific discourse' and so denying to his relation to natural science any more significance than the accidental one of the environment in which his thought was

shaped. In fact the development of natural science could be seen as part of a wide social development in which the rule of status was replaced by the rule of contract, in which order whether social or natural was undergoing a revolution in its conception. Natural science was central to Ricardo's exposition of political economy because a world founded on contract and private interest required underlying order just as a universe no longer centred on earth required a conception of its underlying order. The point is not then whether Ricardo learnt from particular scientific theories as Mirowski(1989) has claimed but rather whether he set out to demonstrate that natural law in the sense of a particular relation of subjectivity to objectivity was applicable to a vision of social order. It was no accident that Ricardo who sought an order for the world of contract should have had as his opponent Malthus, who regarded the aristocracy as the centre of political order and, consistent with this, regarded political economy, in opposition to Ricardo, as a *moral* science.

Ricardo's search for an invariable measure of value was consistent with his objective of securing the social alternative to the aristocracy. We can appreciate the importance of the pursuit of the invariable standard for Ricardo by turning to Peach's own illustration of the importance of this measure in the study of nature. He quotes from an article contemporary to Ricardo (*Edinburgh Review*, Kater 1818 see Peach 1993 p.226) where it was argued that "'without reference to some natural object that continues always of the same dimensions', systems of weights and measures give rise to 'perplexity', ambiguous language', 'endless frauds', and, more generally, a 'perishable character ... to all our knowledge concerning the magnitude and weight of bodies, and the impossibility, by a description in words, of giving to posterity any precise information on these subjects'". (see Peach 1993 p.226). If we were to rearrange this quote in terms of political economy as the centre of the emerging social order we may gain some insight into the significance to Ricardo of discovering the invariable measure. For Ricardo the order required some point of reference, i.e. point of gravitation

outside the temporary, accidental, movements of exchange; any retreat from such a position would allow the relativity of value. In a situation where political economy needed to establish itself against the rule of aristocratic privilege, a rule that nevertheless represented order, relativity amounted to an admission of dependence on the old order and, hence, possibly the still-birth of political economy.

We have seen that Ricardo was not merely pursuing disinterested speculations in economic thought. Each aspect of his thought identified by critics as a weakness can be understood as central to the task of demonstrating an alternative to aristocratic privilege. This system had to be in its very nature demonstrated as self-regulating. This meant that while it was not subject to direction, it was subject to underlying laws. Ricardo's interest in the 'permanent' was not merely a whimsical choice of time period analysis and nor was it a blind importation of a Newtonian analogy, but rather it was determined by his objective of discovering an order underlying the operation of self-interest. It was necessary to demonstrate that the system had underlying laws of its own, otherwise it wasn't a system at all. This is the significance of Ricardo's interest in the 'permanent' as a category distinct from the 'temporary' and it explains the importance of his method of abstraction to which the elaboration of the labour embodied theory of value was essential.

If the interaction of private interests had no point of gravitation, if the invisible hand was a hand of chaos, if there was no 'permanent' then Ricardo's system would have fallen not as economics but as political economy. Ricardo did assess the social conditions for his theoretical framework to be feasible. Once we have accepted this it has consequences for how we regard the history of economic thought. If we are to chase the intellectual development from Ricardo onwards we need analyse not a wrong turning that is eventually corrected, as Jevons and Keynes believed, but a process of change in conditions that rendered Ricardo's

theoretical framework, and the social order that it envisaged, as impractical. We have seen that disputes between Ricardo and many of his opponents pivoted on their differing estimations of the relation of the working class to political economy. What we will trace in the next chapters is how the theoretical framework evolved as estimates of the position, and potential, of the working class differed.

As we have already seen, even at the beginning of the nineteenth century the question of the social power and destination of the working class played an important role in the development of theory and consequent policy recommendations. In this chapter we will not attempt an exhaustive history; it must necessarily be selective. This has meant that the thesis makes a significant jump from Ricardo to the 1880s. A closer attention to value theory itself as the central theme might have made such a jump problematic involving as it does the skipping of both Samuel Bailey and the Ricardian socialists. However the focus here is on the emergence of unemployment as a concept and while the detail of value theory is certainly not irrelevant we can by-pass it for the purposes of this thesis. Indeed if the thesis is to be made at all we must concentrate on the period at the end of the century during which we find the origins of the welfare state; it was especially in this period that Ricardian orthodoxy in its broadest sense as the defence of social system first came under sustained criticism from those concerned about the continuation of the market system.

By the 1880s disruptions in trade, the developing competition from Germany and the U.S.A., threatened more workers with insecurity. There was a growing interest in the form of society that was expressed in support for Henry George's *Progress and Poverty* (1881) and the land question, the presence of the Marxist orientated SDF as well as a number of socialist groupings or clubs. The spread of socialist ideas or sympathies from the beginning of the 1880s encouraged a reassessment of class relations. This reassessment will form the

principal subject matter of the remainder of this chapter.

The period between the 1870s to 1880s is usually identified as the starting point of the welfare state. The point is not whether intervention had existed before, it clearly had, but rather whether there was a changing orientation that would eventually result in the full welfare state. The common point made about this period is that during it poverty was discovered. Fraser (1984) gives an account of this discovery, including Mearns's *Bitter Cry Of Outcast London* (1883) and Booth's *The Life and Labour of the People in London* (1889) as crucial moments.

Poverty had of course been referred to often before. Yet in an important sense for late-Victorian Britain there was a genuine discovery. Its novelty and interest lay in the fact that it contradicted the prevailing orthodoxies, in particular it contradicted the notion that it was in the power of the individual to do something about it. The important link that was made, as in Mearns (1883), was of poverty as the determinant of the character of the individual. In Ricardo, as in the Poor Law Report of 1834, poverty was the opportunity for the worker to act morally. It was equally a condition of independence allowing free action and so moral development. Independence from any means of support, hence self-reliance, was the necessary condition for moral development. However in the debate that emerged during the 1870s and 1880s the conception of poverty was of a simple empirical lack that would lead to the demoralisation of the worker. Rather than an independence allowing free action, this poverty was now conceived as the dependence of the worker on the system as whole, as the impossibility, or improbability, of the worker attaining moral character compatible with political economy. This improbability gave a special significance to the accompanying discoveries that poverty, as it had now come to be understood, was more widespread than it had previously been thought, that it encompassed those in work and that it was more persistent in its duration than expected. These aspects

combined gave significant cause for the developing movement of socialism to be taken seriously. Poverty now defined in terms of a condition that denied the efficacy of individual action was obviously ripe to be interpreted as the justification of collective action and hence the destruction of liberal order.

The discovery of poverty was not then simply the discovery of a fact as standard accounts would have it but was rather a modification in how poverty was regarded, a modification of the context, indeed circumstances, social and intellectual, within which it was apprehended. If we could summarise the development it would be as a movement from a theoretical conception of poverty to an empirical conception but one in which this empirical content gained significance because of its potential as the basis for a developing social movement. It was not that distress had been ignored in the past and nor was it that the classical economists were peculiarly unfeeling towards the labouring classes; rather the context and from this the theoretical framework in which their feelings were expressed constrained their estimations of what could be done. As we have seen, in Ricardo the hope for the working classes lay in accumulation. Amongst the classical economists there were many examples of sympathy expressed for the conditions of the working classes; one of these in a letter from James Mill to Ricardo in August 1816 exemplifies the limits in which this sympathy was contained,

> 'There must now be of necessity a very deficient crop, and very high prices - and these with an unexampled scarcity of work will produce a degree of misery, the thought of which makes the flesh creep on one's bones - one third of the people must die - it would be a blessing to take them into the streets and highways, and cut their throats as we do with pigs.' (Ricardo 1951, VII p.62).

This dramatises the relation of the working classes to political economy but is not misleading; Mill's conclusion followed from the necessity for subsuming needs to the progress of accumulation, a necessity that had the force of a natural law. The force of this law would come to be questioned when, so to speak, the issue was raised of exactly which throats should, or would, be cut.

The focus of our examination of the changes in the liberal order will be a group of reformers and theorists from the period at the end of the 19th century. In particular much of the attention will fall on the 1880s; this is unavoidable since so much of significance appeared in this decade. In her *Unemployment and Politics* (1972) Jose Harris starts with the 1880s because as she says, 'During the 1880s unemployment was recognized by politicians and administrators for the first time for nearly half a century as one of the most harmful consequences of trade depression and as a chronic social problem among certain sections of the working class.'(Harris 1972 p.7). This study must cover similar ground to that of Harris but differs in its stress on the change in political economy and therefore a more focused attention on particular thinkers rather than on the political events.

Our purpose, first of all, is to illustrate the change in political economy that occurred in the late nineteenth century. Secondly, we can illustrate through these thinkers that an important motivation for these changes was the changing circumstance of the working class. This was not simply the fact of poverty but rather its entanglement in the raising of a social question. Thirdly, we can illustrate that the concerns that challenged political economy were also concerns about the likely social direction of the working class. A change in political economy was required in order to influence this direction. Fourthly, we can examine the nature of the changes required for the evolving social intervention. Crucially this would involve changes in the relation of state and economy and these changes themselves, because of their implications, set up fresh challenges, especially the practical theoretical task of establishing what should or should not be regarded as essential, so unchangeable, aspects of the system.

An important element throughout this examination is that we are examining reform not as a direct result of working class demands but rather as a response to the potential that the process of class formation, the emergence of a collective worker as historical subject, would go beyond what would be acceptable to

respectable opinion. The movement of reform we are examining was then conservative but, responding imaginatively to new circumstances, it could not be dogmatic about precisely what had to be conserved. Much of the debate between different thinkers had to tackle the problem of having to change without bringing down the social fabric. Although essentially conservative it necessarily appeared as radical because nothing less would have suited and from the debate arising out of the need to preserve the balance between these two sides theoretical development occurred.

The evidence we will examine comprises an intellectual history although a complete history cannot be attempted here. We can include thinkers recognised as important in the development of social policy, while also examining some who have been neglected. Undoubtedly someone will find fault with the choice, but for brevity's sake some choice is necessary. A full history would also include the legislative history but this again cannot be the immediate task. The concern here is with ideas in as much as they are involved with the wider issues in the conduct of statecraft; the special concern is with the ideas of economists but this must be interpreted generously to develop a wider picture, for example it is important to the themes developed here that some thinkers, like Benjamin Kidd, express reservations about what they regard as the limits of the existing 'economics'. We are concerned with the development in the broadest sense of political economy and not simply a history of the development of ideas that is internal to economics. An important element of the thesis is that the pure internal history of ideas cannot account for the history of the subject. We take seriously the claim that economics is a social science.

In order to set this up we can start with a writer who illustrates the issues that arose from the new debate over poverty. This anonymous writer appeared in the Tory journal *Quarterly Review* (no. 312 Oct. 1883). The occasion of the article was the publication of Hyndman's *England for All* and of the SDF

manifesto *Socialism Made Plain*. He started by outlining the crucial role for political economy in relation to social questions. 'What Theology was to the religious struggles of the Reformation, and the yet religious disquiet that has prevailed during the present century, Political Economy is to the analogous social disquiet, which during the same period has been spreading itself all through Europe; which, now in one place, now in another, is continually filling the air with dim rumours of revolution...' (anon. *Quarterly Review* 1883 p.353). He sums up the situation by arguing that 'To say we are surrounded by a spirit of social revolution is as much a commonplace as to say that we are surrounded by a spirit of scepticism.' (ibid p.354) The writer's premise was that the recent developments could not be reduced to previous episodes in class struggle. He conceded that in the past there had been greater intensity as with Chartism. However this could not persuade him to drop his 'anxious attention'. There existed, now, an even greater threat than before. 'What constitutes the danger of social discontent today is not its intensity but its basis. It represents not the presence of an exceptional suffering but the growth of a 'speculative conviction.'(ibid p.356) The novelty of the threat arose from a developing consciousness such that the working class had become 'familiar with the idea that a social revolution would be desirable...' In this climate political economy should not be ignored; the socialists 'know that for a man to say that he cares nothing for political economy is about as sane as for a man to say that he cares nothing for arithmetic.' (ibid p.355). Indeed for this writer the position of political economy was pivotal to the resolution of far wider issues than those internal to the discipline itself; the writer recognised the incendiary potential of the new ideas '..the only dynamite that really threatens society is the "moral dynamite" of a new economic science.' (ibid p.355)

Corresponding to the development of consciousness the writer observed a crisis in political economy. The working class eagerly seek 'scientific grounds' that the revolution is 'practicable'. This gives them a close interest in the

questions of political economy, so that for the leaders of the Socialist movement 'thought ... has apparently been the origin of their fanaticism....'(ibid p.355). The crucial element has been that these leaders of the socialist movement have, before attacking the rich, examined the origin of riches and 'before attempting to excite a rebellious feeling amongst the poor, they have with equal care examined into the causes of poverty' (ibid. p.355) So as the 'apologists of social revolution' they 'stand or fall not on passion but on proof.' (ibid 355). The role of political economy, in this circumstance, is to do something more than dismiss the new theories. This was already being done by the middle and upper classes 'but we must doubt they would be able to indicate why and where they are false.' (ibid p.354). The task of political economy is to show that they are false, 'founded on scientific falsehoods.' (ibid p.354)

Unfortunately, the importance of political economy for intervening in these social questions remained largely unrecognised. It was still perceived as only of interest to tradespeople and politicians. Worse, an alternative strategy of reforms had been developed by men such as Joseph Chamberlain. The latter had built on his experience of municipal reforms to help *The Radical Programme*. For our anonymous writer this represented a dangerous strategy. '..when Birmingham capitalists denounce landlords as robbers' then the 'far more logical Socialists denounce Birmingham capitalists.' The danger then of these reforming measures was that they propagated the idea that the rich were 'plunderers of the poor' and this would make it more likely that 'explicit theories of revolution, which have already had such fatal effect upon the continent might be fraught with effect hardly less fatal here...'(ibid p.358)

For Chamberlain and his circle change was necessary in order to prevent change. One might say that to preserve the citadel the outworks could be given over. Chamberlain audaciously claimed that for the rich 'The enjoyment of wealth and leisure is not a crime..' but he added that there was also responsibility and

'By accepting this responsibility the rich may still protect themselves against the dangers that threaten them...'(*Fortnightly Review* Dec 1 1883 p.762). Despite the difference in views Chamberlain and the previous writer did agree on the threat; where they disagreed was in the policy to be followed. The first looked for scientific refutation; Chamberlain wanted to remove the causes. He argued for acceptance of responsibility by the rich, responsibility not for the existence of poverty but for assisting the poor. This would not be done by charity but by the enlargement of state intervention. The central area for such intervention was identified by *The Radical Programme*, and Chamberlain, as housing. Chamberlain saw this as providing the basis for a real alternative to revolution.

The strand of reform that Chamberlain was part of would be identified as social imperialist. It envisaged reforms as central to the wider policy in world economy, of creating an empire as a single trading block. An important input into this strand was the issue of fair trade. This had arisen as a response to the problems faced by British capitalists from foreign protectionism. The debate over fair trade was always conceived within the context of a debate concerning the general strategy to labour. This eventually reached prominence in the 1903 Fiscal controversy and the forming by Chamberlain of the Tariff Reform League. It was principally through such organisations that world economy was recognised as an external discipline on British internal relations.

Imperial policy and reform were inseparable responses. In the 1880s the Fair Trade movement presented its policy as the means by which employment could be guaranteed for the workers. In February 1886 they organised a march of workers to Trafalgar Square to demand fair trade. After an intervention by the Marxist Social Democratic Federation (SDF) this march took on a life of its own, ridding itself also of SDF leadership it became one of the most ferocious riots the city had seen. This riot would be the catalyst for an acceleration in the formulation of policies of social intervention in the working class. As an

immediate response Chamberlain, by then in government, issued the Local Government circular that local authorities should be able to provide what were essentially public works schemes. This circular has been identified in modern accounts as a crucial development in modern policy to unemployment. Harris (1972) advises a more cautious estimation of the significance of this circular pointing out that local authorities had already in several cases tried some form of counter-cyclical public works. Nevertheless whatever the previous history we may still take this circular as a signpost to the future. Bentley Gilbert (1966) in his standard work on the origins of the welfare state argues that the circular marked the first 'acceptance by the government of the principle that unemployment was a problem of society, not the result of want of virtue or of laziness in an individual.' (Gilbert 1966 p.38).

The circular would not have been issued if the question of public works and hence the implication of state responsibility had not been raised in response to the disorder threatened by the West End riot. The importance of the riot of 1886 may be overestimated if we ignore its continuity within a previous history of concern over a social question. We have seen the concern about poverty had already been raised. However we should not also then underestimate the significance of this riot. If there had been a concern about poverty, its relation to work and the impermanence of work it was raised by the riot into a generalised concern across all society concerning the relation of poverty and unemployment to social order. Bentley B. Gilbert distinguished this riot and the others that had occurred in provincial cities and towns as having '..nothing in common with the franchise and Chartist demonstrations of the 1830s and 40s and of 1866... Now the attack was on the established order itself, directed not at individuals but at property. To satisfy the poor, the rich could do nothing but give-up their

wealth.'[11] (Gilbert 1966 p.24). Since the latter was not on offer some alternative would need to be devised if the choice was not to be so disastrously polarised. That alternative would need to address the causes of discontent not argue against them.

[11]see also '..the winter of 1885-6 brought hard times and unemployment to a peak. The distress caused an outbreak of violence among the poor which altered for ever the relations between the two worlds of the British nation. In the Trafalgar Square riot of Feb 8th 1886, the old humanitarianism died in a spasm of terror.' (Gilbert 1966 p.32).

3. Samuel Barnett, Arnold Toynbee and the Emergence of Poverty as Eloquent Agitator.

> '..in the final catastrophe the malady of the body passes over into the malady of the mind. Economic privation proceeds by easy stages, and so long as men suffer it patiently the outside world cares very little. Physical efficiency and resistance to disease slowly diminish, but life proceeds somehow, until the limit of human endurance is reached at last and counsels of despair and madness stir the sufferers from the lethargy which precedes the crisis. Then man shakes himself, and the bonds of custom are loosed. The power of ideas is sovereign, and he listens to whatever instruction of hope, illusion, or revenge is carried to him on the air.... But winter approaches. Men will have nothing to look forward to or to nourish hopes on. There will be little fuel to moderate the rigours of the season or to comfort the starved bodies of the town-dwellers.
>
> But who can say how much is endurable, or in what direction men will seek at last to escape from their misfortunes? ' (Keynes (1919) p.233-5)

In the closing decades of the nineteenth century the shift from classical to neo-classical thinking in Britain was accompanied by the sweeping movement of reform which kept pace with - even attempted to outpace - the alteration of the working class from the passive premise of wealth into an active subject of economics. In this section we trace the development of reform through the work of its leading exponents. We shall concentrate especially on the important contribution centred around Toynbee Hall in the East End of London. To start this we shall in this chapter examine the work of Canon and Mrs Barnett and to do this adequately will require also an examination of the work of Arnold Toynbee whose name was given, in recognition of his inspiration, to the first mission set up in the East End by Samuel Barnett.

Samuel and Mrs Barnett arrived in the East End in 1872 when he took up the post of vicar of St. Judes. From the start it was clear to them both that in ministering to their flock in this part of London they were administrating poverty.

Barnett's bishop had warned that his impending parish was 'the worst ... in the dioceses, inhabited mainly by a criminal population, and which has, I fear, been much corrupted by doles' (Briggs and Macartney 1984 p.3). Samuel Barnett's appointment was sponsored by the social reformer Octavia Hill; he was selected because of his concern with social reform. The Barnetts arrived with the zeal of reformers but not reform in the sense we would understand today; they saw reform in the conventional sense of their day. They were armed with the political economy of Ricardo, as Samuel Barnett said, 'The study of political economy and some familiarity with the condition of the poor had shown us the harm of doles given in the shape either of charity or of out-relief.' (Barnett. S.A. 1895 p.241). Reform in practice meant the exercise of the responsibilities of a guardian of the poor law which he was charged with overseeing. This meant the strict application of the principles of the 1834 Poor Law. Barnett was a supporter of, and would be a active participant in, the Charity Organisation Society (COS) whose social policy could be described as Ricardian in so far as it favoured the creation of independent labourers and held a firm belief in laissez-faire. The ideal of the COS was for each worker to be able to stand without support from the state. Too often, in the view of the COS, the practice of the poor law had tended to undermine the independent labourer. In particular, where relief was given too freely or where it involved outdoor relief, a culture of dependence evolved that recreated the problems of the old poor law.

In contrast to the outlook of the twentieth century where reform was identified with the abolition of the Poor Laws, Barnett and the COS took these laws as their standpoint and set out to achieve the original intentions of the Amendment Act of 1834. In getting rid of bad practice they believed an end could be put to dependency and pauperism and the wage established as the universal source of self-respect and independence. This, it should be noted, would not mean the end of poverty however, in saying that, we should be careful to distinguish our modern understanding of poverty from how it was perceived within classical

political economy. In the Poor Law Report it was stated that poverty was the 'state of one who in order to obtain a mere subsistence, is forced to have recourse to labour' (*The Poor Law Report of 1834*, London 1974 p.334.) Barnett and the COS did not believe this state was one that could or should be abolished. Indeed the purpose of the Poor Law was to preserve poverty by limiting relief to those unable to work who accepted the disciplines of the poor law in preference to complete destitution. Poverty was the only foundation on which the laws of political economy could operate properly; it put the workers into a direct relation with the laws of political economy as objective, and so effectively natural, laws. This was the position of the COS which Barnett adopted when he began his career as a social reformer.

Given the importance attached to the individual worker as a person responsible for the conditions he lived in, great reliance was placed on individual casework. Individuals were assessed, under the auspices of the COS, as to their particular circumstances, especially their moral character, to determine whether they were genuinely needy, without fault of their own; it was important to establish that any charitable assistance would not corrupt their capacity for self-reliance.

When he became a poor law guardian Barnett was assiduous in his application of the Ricardian orthodoxy. His importance to this thesis is that having begun from such a position he then became a leading figure in the movement of that broke away from the COS. His path took him to eventual support of the New Liberal reforms of 1906-11. His history encapsulates the wider history in which a significant cultural change in the treatment of the poor would lead in turn to a change in political economy.

In his own time Barnett was noted for his flexibility and open-mindedness although the opponents whom he had left behind did not regard his ability to

change in a good light. C.S.Loch, president of the COS, responded to Barnett's criticism of the COS in 1895, by saying that,

> 'With Mr Barnett progress is a series of reactions. He must be in harmony with the current philanthropic opinion of the moment or perhaps just a few seconds ahead of it.... He sails close to the philanthropic winds .. having changed once or more than once he may yet change again.' (Briggs and Macartney 1984 p.37).

In contrast, by those sympathetic to him Barnett's capacity for change was presented in a different light,

> 'The intensity of his sense of what was right and just never made him intolerant or self-assertive and when criticism exposed weakness in his plans, or methods, and when he felt that the old plans and methods had served their purpose, he was always ready, as he said, to lead a revolution against himself.' (Toynbee Hall *Annual Report*, 1913, p. 21).

Indeed it could be argued that in a period marked by great social, political, legislative change, without this ability to change Barnett could not have earned his obituary notices in the *Nation* which described him as 'the most representative Liberal of his time.[12]' (*Nation*, 21 June 1913, p.443.) Certainly Barnett himself understood the changes he went through as far from arbitrary, having a firm basis in social changes, '..the relation of workmen to society has changed, and things are new.' Barnett said in 1899, 'There is nothing harder for us old pilots than to give up the old methods, but I am sure it must be done.' (From *Letter to Frank Barnett* Oct 1889 in Briggs and Macartney 1984 p.38).

While events in the East End undoubtedly influenced the change in his position, he was also influenced by some intellectual developments, especially those in Oxford, for which T.H.Green was to some extent responsible, but which more directly influenced Barnett through the circle of people around Arnold Toynbee. Barnett visited Oxford and met there not just Arnold Toynbee but also Alfred Milner who would become both a friend and collaborator. Milner had

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[12]Gilbert makes the claim that the Fabian principle of conditional relief was less influential on the legislation of new Liberalism than 'Barnett's practicable Socialism' (B.B.Gilbert 1966 p.45.)

himself started at Oxford at the same time as Toynbee. Another undergraduate friend of Milner's at this time was Cecil Rhodes. It was the vision that Barnett had formed, influenced by this group, especially the thought and practice of Toynbee himself that inspired Barnett to the setting up of Toynbee Hall in the East End. This mission, named in memory of Arnold Toynbee, was formed to bridge the gap between the universities and the mass of the population. It would become the most important focus for the movement of reform that lead to the New Liberal programme at the start of the 20th century and later to the 1945 reforms that set up the welfare state. Many future civil servants, commentators and politicians who shaped the reforms of the twentieth century had learnt what was needed whilst they were residents at, or closely associated with, Toynbee Hall. Before we look at its founder we shall examine the thought of the man whom Barnett considered worthy of being remembered through the choice of the mission's name.

Toynbee

Arnold Toynbee arrived at Oxford in the spring of 1873 and remained an undergraduate up to 1878. From 1878 until his death in 1883 he was a lecturer at that University. Although he died early he exerted an important influence over the new reform movement especially through his personal and intellectual influence on many important reformers of the day. His only work was *Lectures on the Industrial Revolution of the 18th century in England* (1884), but even this was a collection of lectures rather than a completed work. In a later edition of this work there is a memoir of Toynbee by Alfred (later Lord) Milner, 'my husband's closest friend' (C.M.Toynbee, Prefatory Note, in Toynbee 1927 p.viii). This memoir had originally been delivered as a lecture at Toynbee Hall.

Milner described Toynbee as throwing himself,

> 'with true civic enthusiasm, into the cause of social and religious reform. He was a Poor Law Guardian, a co-operator, a church Reformer. He followed with intense interest and practical sympathy the development of Friendly Societies and

> Trades Unions. He was in the thick of every movement to improve the external conditions of the life of the people - better houses, open spaces, free libraries, all the now familiar objects of municipal socialism, which were then still in their first struggle for public recognition.'(Milner in Toynbee, A. 1927 ibid p.xi).

Toynbee's circle of friends at Oxford were, according to Milner, concerned with their duties as citizens and this entailed an 'enthusiasm for social equality, which led them to aim at bridging the gulf between the educated and the wage-earning class.' (ibid p.xvi -xvii). The influences that Milner recorded as predominating in Toynbee's life were especially those of Jowett, T.H. Green and R.L.Nettleship. Of these it was especially T.H.Green 'to whom Toynbee looked up as a guide and master..'(ibid p.xviii).

Toynbee, as Milner described him, had begun in a religious frame of mind but, by the time he began lecturing, it was on political economy he chose to speak. Milner placed this development in a wide social context,

> 'About this time, at the end of the seventies, there were signs on all hands of a great though gradual, social upheaval -new claims on the part of the toiling multitude, a new sense of responsibility on the part of the well-to-do. Toynbee's sympathy was always with the aspirations of the working class.' (ibid p.xxi).

Within this 'social upheaval' political economy had a particular part to play,

> 'What was needed was guidance, and guidance could only come from those who had studied the laws governing the production and distribution of wealth, and knew how, and how far, the blind forces of competition and self-interest might be utilised by corporate action for the common good. It was from this point of view that [Toynbee] approached the study of Political Economy. For the sake of religion he had become a social reformer; for the sake of social reform he became an economist.' (ibid p.xxi)

Toynbee, said Milner, was someone convinced of the 'necessity of social reorganisation'. The Industrial Revolution had left 'the... great civilised countries of the West in a state of profound disorder.' Society was incapable of righting itself,

> 'The central doctrine of Individualism, the doctrine as [Toynbee] tersely put it, that "man's self-love is God's

> providence", was in his judgement simply untrue. *The pursuit of individual self interest would never evolve order out of existing chaos....*' (ibid p.xxvii emphasis added).

Milner's memoir is useful in giving us a brief outline of Toynbee's context but also, incidentally, gives us an insight into how a fellow reformer understood Toynbee's significance; his understanding of the relation of particular interests to the general interest is of special significance for this thesis.

Milner was not alone in seeing Toynbee as the inspiration of the reformers. If we are to understand Barnett we must understand this intellectual context in which he developed and how the new movement of reform related to Political Economy. Toynbee, from whom Barnett claimed so much, had conducted in his work a reasoned attack on the old political economy that he identified especially with Ricardo.

While Toynbee was a critic of Ricardo, he was not quite as condemnatory of him as he was of the contemporary relevance of Ricardo's work. Toynbee even defended Ricardo's deductive method, the usual target for attack, but nevertheless saw the problem as 'a neglect on the part of those employing it to examine closely their assumptions and to bring their conclusions to the test of fact..' (Toynbee 1927 p.3). The point was not to ignore the method but rather to understand through it the 'hypothetical laws' as rough conclusions that gave a 'point of view from which to observe and indicate the existence of strong overmastering tendencies.' (ibid p.3). Any law, or any science in political economy, had to be looked at in the light of the period in which it appeared. For Toynbee the 'Historical Method' was valid since it allowed us to 'see economic laws and precepts are relative' (ibid p.5.) Compte and Mill gained his approval for having seen this. There could not, for Toynbee, be any universal law, 'The proper limits of Government interference are relative to the nature of each particular state and the stage of its civilisation.' (ibid p.6) The task was to discover for 'our own case' where the limits lay, since it was clear that 'administration bids fair to claim

a large share of our attention in the future.' (ibid p.6). There had been considerable changes since Adam Smith's day,

> 'There were dark patches even in his age, but we now approach a darker period, - a period as disastrous and as terrible as any through which a nation ever passed; disastrous and terrible, because, side by side, with a great increase of wealth was seen an enormous increase of pauperism; and production on a vast scale, the result of free competition, led to a rapid alienation of classes and to the degradation of a large body of producers.' (ibid p.64).

The problem was that the old system assumed that the struggle for existence was a law of nature so that interference was wrong. But civilisation was itself 'interference with this brute struggle...We intend to modify the violence of the fight, and to prevent the weak being trampled under foot.'(ibid p.66). As Toynbee put it, competition was fine in production but not in distribution, 'This kind of competition has to be checked; there is no historical instance of its having lasted long without being modified either by combination or legislation or both.' (ibid. p.66).

The opponents of political economy, such as Carlyle, had been defeated despite the force put behind their claim that 'Political Economy had destroyed the moral and political relations of men, and dissolved the social union.' (ibid p.163). While Toynbee was sympathetic to this view he recognised its limitations. He applied the historical method and judged the significance of theory in terms of its circumstances and, in this instance, the historical method was,

> 'here on the side of the old economists against their assailants. For it shows us how the "cash-nexus", which the latter denounced so vehemently, is essential to the independence of the labourer. And that independence is a necessary condition of the new and higher form of social union, which is based on the voluntary association of free men.'(ibid p.163).

The crucial point was not that the old political economy was wrong but that it should be judged in a relative framework in which its laws were neither true nor false and so lost 'their character as eternal laws' (ibid p.163). They were to be judged according to their age. In particular, where the old economists had been

concerned with maximising production, now the concern had to be shifted, 'A more equitable distribution of wealth is... demanded and required.' (ibid p.163). For the reformers of the late nineteenth century, the significance of Ricardo's attachment to laissez-faire was the support it gave,

> 'the middle classes. Throughout his treatise there ran the idea of natural law, which seemed to carry with it a sort of justification of the existing constitution of society as inevitable. Hence his doctrines have proved the readiest weapons wherewith to combat legislative interference or modify existing institutions.' (ibid p.113).

We have already seen that Ricardo's work was in opposition to the prevailing opinion of its time and that, far from preserving the existing political system, it was designed to turn it over, although within the limits of private property. However, by Toynbee's time Ricardian arguments, because of their success, had become tools of reaction. Toynbee himself went further than most commentators when he recognised that Ricardo was against 'the old system of tyranny in the interests of the strong' (ibid. p.67). But the opposition had changed: it was no longer the conservative thought of the aristocracy against which political economy had to set itself but the socialist theory of the working class as in *Das Kapital* and H.George's *Poverty and Progress*. For the middle classes Ricardo's book had become 'their most terrible menace' (ibid p.109-10). The Socialists accepted Ricardo's conclusions although they were 'gloomy and depressing' but they did not accept his 'natural law'; they believed that by 'altering the social conditions which he assumed to be unalterable, Ricardo's conclusions [could] be escaped.' (ibid p.113). Ricardo's thought had represented escape from aristocratic paternalism through laissez-faire but then later had become, also through laissez-faire, a fatalistic defence of harsh conditions. The content of Ricardo's thought was changed by changes in its social function.

Toynbee himself tended to a partial defence of Ricardo on the basis that ideas should be judged in terms of their appropriateness to their times. In this light Ricardo represented a particular period in the 'Industrial Revolution' but what Ricardo represented could not last under new circumstances, without disas-

trous effects. Ricardo's political economy represented a period in which legal-social relations were changing; this was the move away from the tyranny to which Ricardo was opposed. Following Maine in *Ancient Law*, Toynbee spoke of a movement from status to contract but he observed an important qualification[13],

> 'It is true there is a movement from status to contract; yet if we look closely, we find that the state has over and over again had to interfere to restrict the power of individuals in which this movement results. The real course of development has been first from status to contract, then from contract to a new kind of status determined by the law, -or, in other words, from unregulated to regulated contract.' (ibid p.5).

The regulated contract implied interference of civilisation in the 'brute struggle' of competition. The immediate aim of reform would be to 'modify the violence of the fight, and to prevent the weak being trampled under foot.' (ibid p.66). More generally, this practical aim was essential to a wider purpose, that of ensuring through new administrative measures the reproduction of society.

In the difference between unregulated and regulated contract lay the gap between the old political economy and Toynbee. Ricardo's position may have been understandable, in the end it was not forgivable. Through Ricardo, Toynbee argued, Political Economy had become separated from history and this separation had become the norm with, 'modern textbooks...due to Ricardo, whose mind was entirely unhistorical.' (ibid p.2) This absence of history was an absence of connection with the facts, and so there was an incomplete merely deductive political economy, that had its time but was not general enough to adapt to new conditions. It had, Toynbee argued, helped to establish economic method but its effects were deleterious when applied one-sidedly, 'Ricardo's brilliant deductions destroyed observation.' (ibid p.146) Whatever the benefits of this method they were insufficient on their own to sustain political economy,

> 'after 1846 the mission of the deductive method was fulfilled.

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[13]This distinction between status and contract was also used in Spencer's book *The Man Versus The State* 1883. Toynbee's comments should be looked at in this light as answering Spencer's opposition to the trend of increased state intervention.

> Up to that time economists had seen in the removal of restrictions the solution of every social difficulty. After that time they had no remedy to offer for the difficulties that yet remained. Political Economy, ...became barren. And it was worse than barren. Instead of a healer of differences it became a sower of discord. Instead of an instrument of social union it became an instrument of social division. It might go on its way unshaken by denunciation when tearing down the last remnants of obsolete restrictions imposed in the interest of a class; it could not remain unshaken by such denunciation when opposing the imposition of new restrictions in the interest of the whole people.' (ibid p.147)

In detail, it can be difficult to discern the real differences between Ricardo and Toynbee on several important issues. When Toynbee came to outline the possibilities for improvement, his reasons approach those of Ricardo i.e. free trade increasing the demand for Labour, factory legislation, co-operative societies and trade unions (that, contrary to usual opinion, Ricardo supported). The trade unions, for Toynbee, had played a particularly important role; they had since 1860 'distinctly improved the relations between the two classes' (ibid p.132). But this would not have been so far from Ricardo's own view of the possibilities arising from the abolition of the Combination Laws, since trade unions could prevent employers taking excessive advantage of workers. But despite these similarities there is a sentiment in Toynbee, an emphasis, that is absent in Ricardo. This emphasis would lead to systematic administrative intervention to uphold the operation of the market. In Ricardo reform was clearly towards the achievement of the laws of political economy to allow the full development of capital. Now his work was asked different questions in the name of a different kind of reform. Once again, as in Ricardo's day there was as Toynbee called it a 'social upheaval' and as a result,

> 'Economists have to answer the question whether it is possible for the mass of the working classes to raise themselves under the present conditions of competition and private property. Ricardo and Henry George have answered, No....' (ibid p.120).

Ricardo was, of course, himself concerned with this question but his answer, of reducing restraints for a freely operating market, was now the obstacle to the kind

of administrative measures envisaged by reformers such as Toynbee. Where Ricardo had emphasised accumulation, not just as an end but as the means to social coherence, now distribution was the concern because of its direct impact on social order. In Ricardo distribution was considered in its effects on accumulation from which came the general interest defined in terms of the production of wealth. Now it was distribution itself which had to be considered the pivotal issue. The viability of the system had to be judged on its own account rather than as the alternative to paternalism and had to be judged in terms of the new social force of the working class; this latter consideration had forced a reorientation towards the distribution of wealth and incomes; the question that was raised was whether all really did benefit from the system's continuation. The question was no longer one of whether the production of wealth was being held back but rather who was getting it and, more important still, who had been excluded. Ricardo's thought appeared to justify a system that consigned a vast section to poverty, where this poverty was understood in distributional terms as a systematic exclusion from the benefits of society. It was this that provoked many to judge Ricardo as hardhearted and it was against this that Toynbee, in particular, was reacting.

Toynbee signified a change in orientation rather than a completed programme of specific policies; the change though was significant enough to endear him to his supporters. They would take on what he had started and many would, like Barnett, take with them Toynbee's own startling judgement that, 'The bitter argument between economists and human beings has ended in the conversion of the economists.' (ibid p.137). Toynbee's followers, so often themselves involved with practical matters in relation to the poor and matters of state, and therefore often finding themselves having to question the orthodoxy, would also have been heartened by his optimistic observation that the professors had dignified what had already happened with the stamp of academic approval,

> 'as an insult to the simple natural piety of human affections,
> the Political Economy of Ricardo is at last rejected as an

> intellectual imposture. The obstinate, blind repulsion of the labourer is approved by the professor.' (ibid p.137).

While the theoretical problem was the one-sided reliance on the deductive method and hence the separation of theory from experience the source of this problem was 'the obstinate, blind repulsion of the labourer'. Social developments forced theoretical development and a search for new avenues of reform,

> 'It was the labour question, unsolved by that removal of restrictions which was all Deductive Political Economy had to offer, that revived the method of observation. *Political Economy was transformed by the working classes*[14].' (ibid p.147 *emphasis added*).

The facts had always been thrown against the political economy of Ricardo but the 'facts', subject to history, and to social pressures, were not always the same; it was in Toynbee's day, 'The pressing desire to find a solution of problems which the abstract science treated as practically insoluble, [that] drew the attention of economists to neglected facts.' (ibid p.147). The collision between 'political economists' and the feelings of the people' that was the evident source of this 'pressing need' lay not in the 'doctrine of free exchange of goods' but 'the doctrine of free exchange of labour.' (ibid p.153) This doctrine had become, 'the principal weapon against the methods by which the labourers have sought to improve their condition.' (ibid p.154). With this development of the labour question the assertion of 'the abstract science of Economics' (ibid p.148) had turned Ricardo from 'prop' to 'menace' of the middle classes. The lesson from this was that a new science of political economy was needed, one that would no longer be a menace; we shall trace this need as it struggled for completion through the works of the reformers and thinkers we have selected here, until it takes us to Keynes himself.

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[14]Another way of putting this would be to say that the working class injected consciousness into political economy from the outside.

Barnett

In 1883 Toynbee died. His death was itself a significant event; it brought into public focus a whole world of thought concerned with problems of poverty and reform (Briggs and Macartney 1984 p.1). In the same year *The Bitter Cry of OutCast London* by Mearns was published. With its descriptions of the harshness of life for the poor of London, this book had a dramatic effect on public opinion. Its themes were continued by W.T.Stead the editor of *The Pall Mall Gazette* as the focus for a campaign for reforms. This was also the year of the article in the *Quarterly Review* (discussed above), and also the article by Lord Salisbury in the *National Review* on working-class housing, both of these related issues of poverty to the rise of a working class movement. It was also in this year that Barnett went to Oxford and addressed a meeting in the rooms of Sidney Ball on *'Settlements of University Men in Great Towns,'*. He explained that the purpose of such settlements was to encourage the University men to a greater knowledge of the real conditions of the poor, especially in London's East End. The problem was that,

> 'those who care for the poor see that the best things are missed... no theory of progress, no proof that many individuals among the poor have become rich, will make them satisfied with the doctrine of laissez-faire' (text in *Nineteenth Century* 1884 also collected in *Practicable Socialism* 1st series 1895 Canon S.A. Barnett p.167.)

The aim was different from previous efforts of charity because of its broader social remit,

> 'Inasmuch, though, as poverty - poverty in its true sense, including poverty of the knowledge of God and man - is largely due to the division of classes, a University Settlement does provide a remedy which goes deeper than that provided by popular philanthropy.' (ibid p.173)

While the rich and poor were divided they could make 'common the stock of knowledge'. The aim of the settlers should be the establishment of a

> 'community where the best is most common where there is no more hunger and misery, because there is no more ignorance and since - a community in which the poor have all that gives value to wealth, in which beauty, knowledge, and righteousness are nationalised.' (ibid p.174).

In another essay of the same year the echo, or rather subtle

transformation, of the message of the socialists was shown to be no coincidence. In this essay whose title, *Practicable Socialism,* encapsulated his project and adorned his collected essays, he set out to assess the proposals of the socialists. He argued against them that for socialists to press their proposals would 'distract attention from what is possible'. All that the 'well-meaning socialist' could do was to 'hinder reform by drawing a fair fancy across the line of men's imagination.' In his view it was clear that 'the new must be a development of the old.' The 'practicable' was to be an important qualification of socialist's aspirations (see Barnett 1895 p.243) but the socialism it allowed would still be a challenge to the orthodoxy of the COS.

As early as 1884 Barnett had begun an open process of questioning the positions of the COS. His purpose was to advocate reform as a more positive legislative process rather than to defend the perfection of the existing regime of political economy as embedded in the New Poor Law. He began by assessing what was the core of the COS position, 'Every human being, surely, ought to be able to make a free choice for good or evil.' (Barnett 1895, (paper read to COS 1884) p.208). Barnett agreed with this in principle but questioned whether conditions truly allowed free choice, 'are not', he asked, 'temptations strong enough in themselves without being buttressed by conditions?' (ibid p.208). The COS position might be the ideal but it could not be achieved,

> 'It should be a matter of man's free will alone that determines which life he lives. Social conditions, over which as an individual he has no power, now too often determine it for him..' (ibid p.208).[15]

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[15] As Dean (1991) has argued from the period of the debate about the condition of the people in the 1830s and 1840s there was realisation of the link going from poverty to degradation. This lead to investigation into what Dean calls the 'the condition of the labouring population' (Dean 1991 p.199). This had lead to the formation of many statistical societies (ibid p.201). However this was not conceived of as an attack on political economy especially as labour was still conceived as the means to subsistence on which society rested. There was a shift in the focus of attention with studies that showed that the type of labour could be linked to degradation and this proved to be the kind of analysis that would shape later thought as with the shift in concern of Chadwick from the sanitary conditions of individual households to their place in the sewerage of towns (Dean 1991 p.208.) Although this literature is indeed ambiguous Dean still argues that, ' The "condition

The necessary changes were obstructed by the COS. It was in an ideal position to deal with the issues that pressed for resolution; it was the,

> 'watchman set on the hill, who by his very constitution has special facilities for giving an answer -and a wise one- to these questions. He has exceptional opportunities for knowing both the classes in which social reform is most needed {i.e. rich/poor}...' (ibid p.210).

Despite this advantage the COS had persevered in its old ideas and so become an obstacle to the kind of reforms that were required. Barnett drew attention to one reform in particular that was neglected but that he felt would be of benefit in improving conditions. This was reform of 'the system of casual labour at the docks -a system which keeps thousands of half-fed men hanging each morning about the gates..' (ibid p.214) Here Barnett identified the issue, casualisation, that would become the leading one in the subsequent investigation of, and intervention in, the labour market. When proposing reform in this area Barnett was mindful not just of his differences with the socialists but also the COS. Indeed it followed from his position that the inactivity of the COS practically condoned the very forces it was itself opposed to.

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of the labouring population literature is not subversive of the aims of classical political economy ...despite the fact that it makes problematic the new urban-industrial organisation of labour...Its focus on the conditions of labour offered a critique of political economy in so far as labour could no longer be regarded as an unmitigated solution to the distresses of the poor and could itself be the source of those distresses. However, this critique was not one which sought to argue for the overcoming of wage-labour or for the transcendence of poverty, but for a mode of state administration which could support, reinforce, and maintain both wage-labour and a lifestyle organised around a domestic sphere of familial responsibility and dependency.' (Dean 1991 p.208). What Dean observes is two phases in what he calls liberal governance. The first is 'pre-social' here the concern is the separation of pauperism from labour, the creation of the independent labourer. However following this liberal governance 'needs to pose a social question' (Dean 1991 p.209). In this shift as Dean argues 'pauperism inhabits the entire terrain of the labouring population. It is no longer simply a cause but a symbol in which is condensed all the symptoms of demoralisation. The conditions which produce pauperism, and coincident disease, crime, and political threat, are those under which wage-labourers must subsist' (ibid p.209.). This new phase was not however a direct attack on the New Poor Law as such. Rather as Dean presents it, despite a important shift in view-point, it was still in some ways a buttress to the New Poor Law and certainly was not contemplating any conscious challenge to the essential principle of classical political economy, the unification of the wage. Yet of course there was change with a potential for even greater change but it remained contained, appearing as it did as issues concerning public health even where this issue was rarely contained within its supposed limits. As the great sanitary reformer argued it the new urban conditions brought about the 'co-incidence of pestilence and moral disorder' (quoted Dean 1991 p.209.)

His concern about and attention paid to the socialists were of a quite different order than Ricardo had ever required. Even so, Barnett approached the issue with a degree of equanimity; indeed Briggs and Macartney could argue that 'Barnett was influenced more by hope than by fear' (Briggs and Macartney 1984 p.7). Even this though was a matter of proportion absent in Ricardo. Whatever the degree of fear, the hope was that there could be a real alternative to both the extreme laissez-faire view and of course to the extremes suggested by the socialists. The hope was cradled by the fear. The presence of fear would intrude more on some occasions than others. After the West End Riot of 1886 fear had dominated London. It resonated with a number of other issues in the eighties to produce an extreme wave of political speculation and debate. After the 1886 riot Barnett wrote an article, *Distress in East London.* (Barnett 1886, *Nineteenth Century* vol XX) in which he spoke of,

> 'The Sounds of the storm .... a murmuring among those who have not enough... The social question is rising for solution ... the danger is lest it be settled by passion and not by reason.'(Barnett 1886 p.678.)

The essential problem was the poverty of the poor. On this hinged the resolution of the social question. Failure to deal with it would eventually result in a situation where the 'deep concerns of leaders and teachers' would be 'put aside as cobwebs.' This social impulse necessarily brought 'the condition of the people' to the fore.

To deal with the situation as he saw it Barnett made a series of proposals. Firstly he bemoaned the lack of serious students,

> 'who reverently and patiently make observations on social conditions, accumulate facts and watch cause and effect. Scientific method has won the great victories of the day, and scientific method is supreme everywhere except in those human affairs that most concern humanity.'(ibid. p.678-9).

He advocated the scientific study of the facts from which he believed would come that 'body of doctrine' which Toynbee had demanded to deal with social legislation and with questions concerning Poor Law, education, and emigration

(ibid. 679). Two men in particular who took up his suggestion were Charles Booth and William Beveridge both of whom we shall be dealing with in subsequent chapters. Both Booth, and then William Beveridge were closely associated with Toynbee Hall when they conducted their studies of London. Barnett's second proposal began from the identification of the principal cause of poverty as casualisation especially among unskilled workers of whom the dockers were the prime example. Barnett suggested that much would be gained if '..by some encouragement these could be induced to form a union.'(ibid. p.690) One implication of such a policy would be the need to extend administrative categories with the concept unemployment. Thirdly, Barnett proposed that the administrators should be better organised. There should be less reliance on personal judgement and a clearer more consistent, more rational, line on when relief would and would not be given. Fourthly, he proposed that administration would be strengthened by including the working class, 'the qualification for a seat on the board of guardians might be removed and the position open to working men.' (ibid. p.690)

In the following years Barnett moved still further from the orthodox COS position. After the 1886 riot the issue of unemployment continued up to the 1887 Trafalgar Square 'Bloody Sunday' when the police cleared the square of the camped out unemployed, killing one person in the process. This demonstration of harsh neglect of the problem roused Barnett to respond with, *'A Scheme for the Unemployed'* (*Nineteenth Century* vol XXIV 1888). Here he argued that 'A degraded class creates an oppressive class, and the end is a revolution which means "the death of the first-born"' (ibid. p.754). The situation required policy; it was inadequate to put responsibility on to the unemployed themselves,

> 'The unemployed may be driven by the police out of the thoroughfares, they may have no place in poor-law returns, but their existence cannot de denied, and if their ignorance and their sense of injustice are allowed to increase, they may some day appear, to overturn ... the very foundation of our trade and greatness (ibid p.754, see also Davidson 1985 p.56).

In commenting on this period Davidson points out that the unemployed issue was especially potent because the same people who organised it were invariably as active in the New Unionism. (Davidson 1985 p.56). This misunderstands the nature of the threat and certainly appears to ignore how reformers such as Barnett understood their task. Barnett and those with him at Toynbee Hall saw the danger as arising from the failure to implement unions and to adapt administration to deal with the unemployed. Not only was Barnett in close contact with the organisers of New Unionism but many residents at Toynbee Hall became actively involved not just in support of unions but in running the necessary strikes.

In 1888 the Matchgirls' strike hit the headlines. Whatever the undoubted merits of the workers' case against the employers, this strike nevertheless was indicative of the direction in which the reformers were moving. After the 1886 riot W.T Stead, editor of *The Pall Mall Gazette* had started with Annie Besant[16] a paper called *The Link* that was intended as a means of reaching the working class, of joining them to the reformers and so preventing a more disastrous social development. The strike started when three of the matchgirls were sacked for having spoken to Annie Besant about conditions in the factory. Once it had started an independent enquiry was set up at Toynbee Hall by three of the graduate residents. They wrote a series of influential letters to *The Times* (12, 14, 17 July 1988) on the issue, in which they supported the Matchgirls' case (Briggs and Macartney 1984 p.46.). The concern about poverty and trade unions was deeply felt amongst these reformers although the nature of the concern was possibly different from that of the activists; in the case of the former the understanding that this was the means to preserving the system was predominant.

In the year after the Matchgirls' Strike, 1889, the Docker's strike began. Since the issue at stake was the very existence of a union at all it was not sur-

[16]Annie Besant was a resident of the very respectable Harvey Road, Cambridge.

prising that Barnett wrote that 'My feelings are with the men' (ibid p.47). Unions were already his favoured solution to the problems posed by casualisation; unions would not only regularise work but also class relations. This strike saw perhaps the most remarkable direct collaboration between reformers, especially those associated with Toynbee Hall, and the working class. Indeed Ben Tillett, one of the Dockers' leaders, had already attended Toynbee Hall where lectures on Napoleon's tactics by Cosmo Lang (future Archbishop of Canterbury) were said by Tillett to have affected his leadership of the strike. More significant was the practical and moral support that flowed from Toynbee Hall to the dockers. During the strike Barnett was in regular communication with Tom Mann one of the strike leaders. On one of Mann's visits to Toynbee Hall Barnett is said to have discussed with Mann the implications of the union being won. In ending casualisation there would inevitably be a group of workers who would be excluded from work. The state would require new administrative categories.

By 1895 Barnett had broken decisively from the orthodoxy of the COS. He again criticised the COS but went further than ever when he identified the causes of poverty as unemployment and old age. More significantly he argued that individual actions had proved unable to take proper precautions against these eventualities and they therefore required exactly the kind of state intervention that the COS believed would sap the moral fibre of the working class. Barnett's solutions, while in keeping with the most advanced thinking of his age, appear sometimes curious today. For unemployment he advocated the setting up of training farms; this policy, in keeping with the contemporary interest in labour colonies as a means of mopping up surplus labour, would eventually be tried with some small success. What was significant was not the chosen policy but rather the acceptance of a group of workers for whom some specific administrative measure was required in the absence of market provided work. For old age he had made an important step to the welfare state in proposing old age pensions. He even dared to ask, 'Is thrift always so virtuous?' (Briggs and Macartney 1984 p.37).

Not surprisingly in the light of such questions, C.S. Loch of the COS, regarded Barnett as one of the chief opponents to the social policy of the COS. Barnett, however, considered that the social situation had become more serious than the COS were capable of dealing with. He described the period of the 1890s as 'the time of labour-war' (Barnett 1895 p.205). Significantly, in this period he felt that public opinion rather than employers backed by force or law, had become the decisive influence both in the setting of wages and over the length of the working day (Barnett 1895 p.205).

In this time of 'labour-war' he considered that education would have a crucial role to play. In 1902 he wrote to his brother that he could detect 'under the dark surface of working-class opinion ..forces [that were] to rule the future' (Briggs and Macartney 1984 p.38). What was crucial was the direction these forces took. War arose, said Barnett, from misunderstanding; the churches could help guide and educate people away from such misunderstanding. The university settlements would have a central role in guiding and or enabling the development of education initiatives. At Toynbee Hall education was the most prominent of the activities organised. Even before the founding of Toynbee Hall Barnett had organised classes in rooms near the church; in 1880-1 Alfred Milner gave lectures there on state socialism and Barnett himself taught art appreciation[17] which he hoped would raise the spirits of the working classes from their degrading conditions. With the formation of Toynbee Hall it was possible to run a full programme of lectures covering a wide range of subjects. In addition there was the more formal University Extension programme which Barnett also supported at Toynbee Hall. The hope was that a university would be created in the East End open to all but, nevertheless, akin to Oxford. The first residents' house at Toynbee was called Balliol House. In 1903, when the extension movement was languishing, the mission to reach the working classes was taken up by the 'Asso-

[17]These classes would eventually lead to the forming of a fund to provide a place where art could be seen. This resulted in the Whitechapel Art Gallery.

ciation to Promote the Higher Education of Working Men'. This was started by Albert Mansbridge, a former Extension student at Toynbee Hall, and was assisted from the beginning by Barnett and other residents at Toynbee Hall where its founding meeting was held. Later in 1905 its name was changed to the Workers Education Association (WEA). The aim of this organisation was as Mansbridge said to 'unite in one body, without conscious difference, men of all experiences - the peer's son rejoices in the fellowship of the miner's son, and the casual labourer in the friendship of the don.' (Briggs and Macartney 1984 p.77). This aim was clearly in keeping with the founding purpose of Toynbee Hall.

The role marked out for education was typical of the spirit of reform at Toynbee Hall where the possibility of a unity between the classes was a cardinal belief. Education had two sides; the Hall was not only intended for the betterment of the working classes, it was also the means by which those of more genteel origins would learn of the problems of their times. When William Beveridge was at Toynbee Hall, doing his formative work on unemployment, he argued during a lecture at the LSE that the Settlement should be a 'school of post-graduate education in humanity' (Briggs and Macartney 1984 p.70); an essential element of this education was the scientific study of the actual conditions that the working classes had to endure.

By 1905 Barnett had substituted the universities for the COS as the watchtowers of society and if they were to fulfil this function it was essential that they did not remain isolated; they needed knowledge of the working class,

> 'If these universities, with their wealth of knowledge, felt at the same time the pressure of the problems which mean suffering to the workmen, they would be watchtowers from which watchmen would discern the signs of the times, those movements on the horizon now as small as a man's hand but soon to cover the sky.' (Barnett 1915 p.123).

If the universities could follow Barnett's advice they would be able to show the meaning of the unrest 'which all over the world is giving cause for disquietude

to those in authority..' (ibid p.123). They could then have a special relation to the working classes,

> 'If they were in touch with the industrial classes, they would adapt their teaching to the needs and understandings of men, struggling to secure their position in a changing industrial system, and better acquainted with facts than with theories about facts.' (ibid p.123)

Education could have a significant impact on those who were 'struggling'; through it the facts, the experience of the working class and the source of the struggle itself, would be given shape by the theories produced at the universities; this in turn would have a social function that was essential if, as Barnett claimed, the future lay with the working class,

> 'A Democratized University would be constrained to give forth principles which underlie social progress, to show the nation what is alterable and unalterable in the structure of society' (ibid p.123).

University settlements, such as Toynbee Hall, would be vital to the achievement of the new social role for universities because they could bring together the university men with the working classes.

While the working classes had 'the future in their hands' they were unfortunately 'often blind and unreasoning ..inclined to think food the chief good, selfishness the one motive of action, and force the only remedy .. Industry without knowledge is often brutality.' (ibid p.124-5) Workmen had much on their side, energy, honesty and fellow feeling, 'but as a class they have not knowledge of human beings' (ibid p.125). It was important to raise the people, 'They must be made something more than instruments of production, they must be made capable of enjoying the higher things.'(ibid p.126). This project for improvement had a great deal hanging on it; Barnett was concerned that without this active intervention of the universities the future direction of the working class could be disastrous for the nation,

> 'The working class movement which is so full of promise for the nation seems to me likely to fail unless it be inspired by the human knowledge which the Universities represent.

> Without the universities the working class movement will fail.'
> (ibid p.126)

The universities and the working class had to 'co-operate for social reform'. (ibid p.126). Universities had to adapt to the 'coming days of labour ascendancy' (ibid p.126). This meant it had to be possible that 'workmen might be brought up to graduate in colleges..' (ibid p.126). Such changes would be part of the bringing together of university men and the working classes and this would prepare 'the way for the understanding which underlies co-operation. If misunderstanding is war, understanding is peace.'(ibid p.127)

While the theme of understanding and education continued through his work, there were important changes from his perception in 1886 of the 'signs of the coming storm' to the more definitive judgement in 1905 of 'unrest' and 'labour ascendancy'. Social reform had become ever more urgent as time went on and Barnett himself believed that the process would continue, predicting that,

> 'Social reform will soon be the all-absorbing interest as the modern realisation of the claims of human nature and the growing power of the people, will not tolerate many of the present conditions of industrial life.' (ibid p.129)

It was characteristic that Barnett should then have added that 'The well-being of the future depends on the methods by which reform proceeds.' (ibid p.129). Even so, despite his warnings, Barnett's hope for co-operation in reform and the benefits of education were increasingly threatened in his mind by events at the start of the 20th century. Some of the changes were much as he had argued for: the successes of the Labour Party in 1906 were in tune with his support for working class representation on Guardian Boards and support for the extension of local government responsibilities as a means of extending working class involvement in self-government. On the other hand what did concern him was the development of unprecedented levels of labour unrest and in a 1911 article in the *Toynbee Record* he asked whether England was on the 'brink of a revolution infinitely more profound and disturbing than the French Revolution?' (Briggs and Macartney 1984 p.81). Barnett worried that 'Strikes accompanied by violence

hinder more than they help' (Briggs and Macartney 1984 p.81). His hope lay in the reforms that had been initiated by the New Liberals such as the National Insurance Act of 1911, a topic that aroused much discussion at Toynbee Hall[18].

The labour unrest of the period 1911-14 would because of its duration and intensity as well as its being so clearly a movement of consciousness, force many reformers to reconsider their views. This was especially true for Barnett whose hopes for peace depended to such a great extent on the supposed benefits of education. One incident in particular illustrates how the labour unrest impinged directly on Barnett's hopes for the role of education in fostering peace. This was the formation of the marxist Central Labour College in opposition to an attempt to pass the control of Ruskin College into the hands of Oxford University..

In 1907 a Joint Committee of Oxford University and the Worker's Education Association (WEA), the latter having been formed at Toynbee Hall, had set out to take over control of Ruskin College which, up to this time, had been autonomous from the university, specialising in the training and education of working class activists. The committee was part of a campaign to control the college. Its first proposals included the endowment of lectureships at the college in applied economics and political science (Craik 1964 p.48) as well as the setting up of a diploma in political science and economics for second year students. In addition a sub-committee proposed that the teaching subjects of the existing principal should no longer be sociology and logic but temperance and literature. (Craik, W.W. 1964 p.48). This latter proposal was scotched when the students heard about it and all, with one exception, threatened to leave the college should such a change be made. The significance of the proposal was obvious enough to the students since it would mean the replacement of the study of social questions

[18]The lectures at Toynbee Hall on the insurance system were given by L.T.Hobhouse, himself a New Liberal, and later to be the first professor of sociology at the LSE.

in which the study of Karl Marx had a part, to the narrower and ideologically weighted study of the relation between drink and working class conditions. Behind this proposed curriculum change lay the proposition that the working classes should improve not by their own social movement but by moral improvement. It was not so surprising that it was resisted by the working class activists who had anyway organised their own studies of Marxism.

The WEA which as we have seen was behind these proposals for Ruskin College had already for some years encouraged the teaching of economics using as the standard author Alfred Marshall. When two lecturers were appointed to Ruskin to cover the subject of political economy their lectures were made compulsory after objections from students. This in itself was no problem since the method of assessment at Ruskin was still in the form of monthly essays set by their tutors. More serious for the students was the introduction in 1908 of 'Revision Papers' a new form of test that tied the college closer to the university and to its ideals of appropriate studies. The case for the test was explained in a document put out by the Joint Committee *Oxford and Working Class Education* which advocated that two representatives of the University, 'appointed for the purpose by the Committee of Economics' should be involved in granting certificates to the students as a sign that they had satisfied the 'requirements of the University that [they have] received a good general education, and [are] qualified to pursue the study of Economics' (quoted Craik, W.W. 1964 p.55). In its report, the Joint Committee explained,

> 'This demand that the universities shall serve all classes derives much additional significance from changes which are taking place in the constitution of English Society and in the distribution of political power. The most conspicuous symptoms of such changes to which we refer, have been the growth of Labour representation in the House of Commons and on Municipal bodies, the great increase in the membership of political associations ... the increasing interest taken by trade unions ... the growing demand for a widening in the sphere of social organisation. As to the advantages and disadvantages of these developments we, of course, express no opinion. But their effect has certainly been to foster a ferment of ideas in classes where formerly it did not exist, and to make it impera-

> tive that they should obtain the knowledge necessary to enable them to show foresight in their choice of political means. ...We are of the opinion that as a result of these changes all educational authorities and the University above all others, are confronted with problems to which they are bound to give continuous and serious attention.' (Craik, W.W. 1964 pp.55-6)[19]

Against these various efforts by the university and WEA to integrate Ruskin, the students in 1908 formed the Plebs League, 'to bring about a definite and more satisfactory connection between Ruskin College and the Labour Movement' (in Craik, W.W. 1964 p.62). When the Principal, Denis Hird, who had opposed the closer alignment of Ruskin with the University, was pressed by the university to resign, the students came out on strike in favour of his reinstatement. The strike ended without the result desired by the strikers but this was not the end of the matter as those organised around the Plebs League went on to establish the Central Labour College[20] (Craik, W.W. 1964 p.78) in which the study of Marx and anarcho-syndicalism played a significant part.

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[19]Craik also refers to a book by Lord Curzon *Principles and Methods of University Reform* in which the purpose was explained as being to foster the growth of a labour elite. 'We must strive to attract the best for they will be the leaders of the upward movement ..and it is of great importance that their early training should be conducted on liberal rather than on utilitarian lines.' (in Craik p.56) Also see reference to article by C.S.Buxton in *Cornhill Magazine* August 1908 *'Ruskin College: An Educational Experiment'* (he was then vice-principal of Ruskin and one of Morant's specialized experts. Morant was himself a former resident of Toynbee Hall). Buxton refers to the working class as 'the tidal multitude and blind' and wrote the following, 'The necessary common bond is education in citizenship, and it is this which Ruskin College tries to give - conscious that it is only a new patch on an old garment, an idealist experiment *in faece Romuli*'(in Craik p.57) The Latin in italics was translated by students, with advice, as 'on the dregs of the people'. (Craik p.57) This may well be a polite translation. Craik comments on all this with a quote from Marx 'The more the ruling class succeeds in assimilating members of the ruled class the more formidable and dangerous its rule.'

[20]See *Plebs* June 1909 where it is reported that 2nd August will witness the '*Declaration of Working Class Independence in Education*, a declaration which will express the fact that the workers prefer to think for themselves outside the "indescribable glamour" of University life, free from the spell of a servile tradition and a slave philosophy, and to look at the facts as they see them from their own standpoint. Our answer to those who would swing the reactionary rod over the mental life of the working class, is only this: we neither want your crumbs nor your condescension, your guidance nor your glamour, your tuition nor your tradition. We have our own historical way to follow, our own salvation to achieve, and *by this sign shall we conquer.*' (*Plebs* June 1909 quoted in Craik 1964 p.81)

These events had a special significance for Barnett since his concerns, the role of education and the direction of the working class, were integral to them. In the aftermath Barnett assessed their wider significance in an article, *'A Race between Education and Ruin'* 1912 (in Barnett 1915). Barnett realised that the university had begun its task, one that he had himself advocated, but reflected that it had begun too late,

> '..and the success of their long-delayed start has only served to encourage the formation of the rival Central Labour College.... The College, in the name of education, appears to be using its forces to block the way to peace and goodwill which it is largely the object of education to keep open. It preaches a class war, treats every member of the middle classes as "suspect" and bitterly opposes the Worker's Education Association because its council includes University men. This college is said to supply the brains behind the labour revolt' (Barnett 1915 p.335).

Towards the end of his life Barnett attempted a brief but general assessment of '*Our Present Discontents*' (*Nineteenth Century and After*, Feb 1913). In it we see that Barnett's position had changed considerably from his early days, but that it had done so in response to social developments. The 'Labour Unrest' was still not over in 1913 and it dominated virtually all media. The significance of the unrest was evident to Barnett,

> 'Strikes and rumours of strikes are shaking the foundations of the wealth by which our Dreadnoughts are built and our great Empire secured - political apathy and indifference to the commonwealth mock fervid appeals for patriotic self-sacrifice - railing accusations are hurled by the rich that workmen loaf and drink, and by the tyranny of trades unions ruin trade; and the equally railing accusations are urged by workmen that the rich in their luxury are content to plunder the poor and live in callous indifference to the wrongs they see; and to crown all the other evidences of discontent, violent speeches and lawless conduct are weakening the old calm confidence in the stability of the social structure which has been built up by the elaborate care of many generations.' (in Barnett S.A., 1915 *Nineteenth Century and After* p.246-7).

This new situation provoked Barnett to ask 'What is the cause of the present discontent? What are the remedies?' (ibid p.247). He suggested that perhaps education itself was to blame simply because it had developed capacities and so

increased the possibility of, and capability for, discontent. He also suggested that perhaps the pace of the modern world or the new popular press were to blame but he thought none of these were of especial importance,

> 'All these causes may operate, but they would not, I think be dangerous, if it were not for the fact of poverty. Ideas, philosophies, and feelings have only stirred mankind when they have been able to appeal to the facts, and agitators would now agitate in vain if conditions did not agitate more eloquently.' (ibid p.247).

Barnett recognised the legitimacy of the extremes he opposed. Poverty was undergoing a significant shift in meaning; it had begun the century as the condition of independence to be distinguished from pauperism but it was now being confirmed not just as an empirical phenomenon, implying norms of consumption, but as the source of social change. Barnett was at the centre of these changes and expressed the new sensibility when he wrote that,

> 'Poverty ... is the root cause of the prevailing discontent, the door by which the enemy enters and the fortress from which he sends out suspicion and strife to compass the nation's ruin.' (ibid p.248).

Nor was this a poverty of the few, 'if all the destitute were removed, the poverty which is at the back of our present discontent would remain.' (ibid p.248-9). He could cite here the studies of C.Booth, S.Rowntree, and Chiozza Money that established how endemic poverty was and it was this that had such a political significance, 'It is the poverty of the great multitude of the working people and not the destitution of the very poor which is the force of the present discontent.' (ibid p.251) The principal want of this class, and this included those in steady work, was 'security from starvation' and because of this 'The welfare of the nation is nothing alongside that of their own class.' (ibid 254-5). In order to counteract this tendency a definite policy was required, 'Some conception of the nation as a whole is necessary to kindle interest in self-government..' (ibid p.254-5). Gifts would not work, nor charity, and 'repression will increase the danger' (ibid p.260) and even Barnett's own previous hope, 'education', was helpless for 'poverty still stands in the way of such a system of education..' (ibid p.256).

There had to be a broad change along the lines already started; laws must be enacted to shift distribution so that the poor would be richer and the rich poorer. The process had already started,

> 'Law has lately, by a system of insurance and pensions, given some security for illness, old age, and unemployment; it has in some trades fixed a minimum wage.' (ibid p.257)

Yet while this went some of the way he felt that,

> 'This principle might be extended. The consequent better organisation of labour and its improved capacity would secure larger wages for efficient workers and probably reduce the cost of production for the benefit of consumers, but doubtless the number of the unemployed would be increased. For these training or a refuge would have to be provided in farm colonies, industrial schools, or detention colonies, in accordance with the suggestion of the Poor Law commissioners.' (ibid p.257).

In Barnett's early days reform was the perfection of the New Poor Law and to this end he wanted the working classes to take on the governance of these laws as Guardians. He believed self-government would perfect the system because he had confidence in the laws of political economy as natural laws. He was close to Ricardo's own support for democracy. Barnett never lost his belief in self-government, but we have seen that the system that was to be governed had changed. An essential aspect of Barnett's solution was identical to Ricardo's i.e. higher productivity leading to higher wages. In other words the search for national efficiency was a search for a stable political economy against the threat of discontent. In Barnett, though, there was an open acknowledgement of the working class as posing the potential for a social alternative; policy, in the form of systematic administrative measures, had become a pressing imperative that was quite absent in Ricardo. The classical conception of poverty on which Ricardo's natural system was founded could no longer hold; Barnett had reasoned that there needed then to be a change in social policy but this in turn implied that social policy would develop away from the orthodoxy of economic theory. While Barnett made no contribution to economic theory as such he had ensured through his work that it in turn would have to be adapted if it was to continue to play a

role within the new social conditions.

4. Beatrice Webb, Charles Booth and Science as Social Investigation into the Fact of Poverty.

Given the conception of science central to Ricardo's system, founded on the relation of subject to objective laws, any change in the condition of this social relation would imply the need for change in what was considered appropriate social science. We can investigate how this change did occur by looking at Charles Booth who organised and wrote the many volumed *Life and Labour of the People of London* (Macmillan 1902-3); this work was a systematically organised empirical investigation into the conditions under which people lived and into the immediate causes of those conditions in terms of characteristics of the labour market. There is no doubting the importance of this work to the history of the welfare state and to the development of what is understood by social research. What tends to be ignored, both because Ricardo has been too easily dismissed and because Booth does not appear in the history of economic thought, is the significance of Booth's work as constituting a moment in the shift within the discipline of political economy; Booth started from the 'facts' in a way that challenged Ricardian political economy.

Booth's main object of study was the labour market and in particular how its operation affected poverty. This may seem today a simple enough development but it could only have occurred as part of a social development that rendered the Ricardian paradigm no longer viable as a model for social order. The two different notions of science, of Ricardo and Booth, rested on two different conceptions of poverty, which, in turn, were founded on contrasting estimates of the nature of the relation of the working classes to the system as a whole.

For Ricardo political economy was in essence a natural science in which certain laws were discovered and before which laws the agents of the economy

were inert in the sense that while they could choose to act as they saw fit they did so in the context of laws that they couldn't choose. The foundation of this relation between subject and the objective 'natural laws' was the independent labourer. Poverty was the condition of this labourer; it was the necessity to labour. It was, in a sense, moral freedom. This conception of poverty was inseparable from political economy as a science of objective, natural laws. In poverty the worker was independent facing the necessity to survive in a natural environment. Social order required that the worker was able to find some means of securing subsistence through work and did not act collectively. As long as this condition, the atomism of the subject, was satisfied the objective status of the laws of political economy would be unchallenged.

Once a serious social challenge was mounted to the status of laissez-faire then the interconnected notions of science and poverty would also change. The potential for social disorder, posed by the rise of a collective movement, undermined confidence in the assumption of the independent labourer and so challenged the relation of poverty and science that had formed the core of Ricardo's system. The movement was from a science founded on the discovery of natural laws, deduced from the initial assumptions, to a science understood as an empirical investigation of poverty as a measurable condition, related to socially established standards of consumption. Doubts concerning the viability of the assumption of the independent labourer was at the heart of this movement.

The facts were given a new significance by the rise of a potential social alternative; the facts that according to the Ricardian system were individualised or treated as constituting temporary phases in the adjustment of partial interests to the general interest had now become in themselves stopping off points for the social question. This changing orientation was necessary for the change of focus from the long-run, of lawlike conditions, to the short-run, with its concern for existing conditions.

We will demonstrate the changes by looking at the work of Charles Booth but to lead into this, and to illustrate further the historical movement, we shall look at one of his first collaborators in the survey, Beatrice Potter, later to be Beatrice Webb. Through Beatrice Webb we can trace the changes that lead to Booth and show as we do so the emergence of a new perspective of Political Economy arising from the old.

The new perspective regarded poverty as a consequence of the operation of human institutions that were susceptible to human intervention. This change is easily presented as one in which the real facts of poverty are discovered by the application of new systematic research methods. One reason we look at Beatrice Potter is that she does present this version of the change while at the same time we can demonstrate from her own life an alternative explanation based on social change rather than on an unambiguous application of a neutral science.

Beatrice Webb presented Booth's project as a neutral scientific exercise,

> 'Here the impulse came neither from politics nor from philanthropy, but from scientific curiosity; from the desire to apply the method of observation, reasoning and verification to the problem of poverty in the midst of riches.' (B.Webb *My Apprenticeship* p.186).

This seems simple enough until we consider the problem under question 'poverty in riches'. Why should this have been a problem? Could anybody claim it was significantly less of a problem in Ricardo's day? We can of course dismiss the whole issue in the usual manner by describing Ricardo as abstract, as disconnected from the facts, and as producing merely by deduction certain basic propositions of political economy. Indeed, this was the gist of Beatrice Potter's (Webb) dismissal of Ricardo in an early unpublished work on political economy. Unfortunately, this in no way explained why Ricardo was the premier political economist of his day and of course, as we have seen, anyway ignored his day to day practical concern with the problem of statecraft in a market society.

Under classical political economy poverty was related to riches but in a different way than suggested by the social question of 'poverty in the midst of riches'. Poverty was considered in the classical position as the source of labour out of which wealth was created. In his *Dissertation on the Poor Laws by a Well-wisher of Mankind* Joseph Townsend (Townsend 1971, first published 1787) had attacked the old poor laws saying that the poor, without the motivations that blessed the rich - pride, honour, and ambition, have 'only hunger which can spur and goad them on to labour; yet our laws have said they shall never hunger.' (Townsend 1971 p.23). Hunger was the natural stimulus to labour and as such was more effective than 'legal constraint' since the latter was 'accompanied by too much trouble, violence and noise; creates ill-will, and never can be productive of good and acceptable service' (ibid p.23). A similar view was also expressed later by Richard Colquhun,

> 'Without a large proportion of poverty there could be no riches in any country; since riches are the offspring of labour, while labour can only result from a state of poverty... poverty is therefore a most necessary and indispensable ingredient in society, without which nations and communities can not exist in a state of civilization.' (quoted in Coontz p.62).

This view underlay Ricardo's conception of the independent labourer. It was the task of classical political economy to establish the independence of the worker; this entailed the separation of the worker from the paternalist relation of the old poor law that had made 'dependent poverty so general' (Malthus 1872 p.304). The creation of the independent worker meant the creation of poverty as a dignified condition of self-reliance. This change necessarily implied a particular orientation to the facts. Poverty was not a measurable condition; it was the necessity to labour experienced as a natural force acting on the individual as a social atom, without recourse to social mediation.

By the time of Booth in the 1880s poverty was being considered in relation to its extent, in relation to how it affected people. Did it form anti-social behaviour? The social question posed as poverty in riches was now a question concerning the failure, or potential failure, of the social fabric and it was this that

gave the 'scientific' impulse to the study of poverty as a measurable phenomenon. The new conception was quite different from that held by Ricardo. We have seen that Ricardo and his friends were well aware of distress but regarded it as inescapable; when confronted by the extreme suffering of workers out of work James Mill had suggested to Ricardo that it would be 'a blessing to take them into the streets and highways, and cut their throats as we do with pigs.' (Ricardo 1951, vol VII p.62). The lesson of political economy had been that there was no alternative to hard-heartedness. Concern about poverty as an empirical condition was pointless in the classical position since it implied a recognition of need that would undermine the position of the individual for whom poverty was the freedom to take responsibility - independence.

Beatrice Webb

Beatrice Webb is an important illustration of the change from the classical position because she came from a social and cultural environment that was formed almost entirely by it. She described her mother as having repressed her own humanity out of deference to the teachings of political economy (Royden Harrison in ed. Carl Levy 1987 p.47). It was not just an interesting subject for study but a guide for the conduct of everyday life. When she herself became involved in dealings with the poor as a visitor (social worker) she would boast in private that she had hastened the death of a drug addict whom she considered a burden to his family (see ibid. p.52). This hardness was learnt living in a family imbued with the lessons of political economy.

Her grandfathers were both entrepreneurial, they were dissenters, and they were radicals. They had been against the corn laws but in favour of the poor law reform of 1832. Her father had lost one fortune and then made another becoming a railway magnate in Canada. Her earliest intellectual influence was a close family friend, Herbert Spencer, a renowned defender of the principles of laissez-faire against the spread of all forms of state socialism i.e. intervention. He took a considerable hand in her education, directing her to the use of her mind and to

study, as well as securing the strongest possible conception in her of the necessity and desirability of laissez-faire.

When Beatrice Webb first became actively involved in social issues it was as a visitor for the *Charity Organisation Society* (COS). This organisation had been formed to ensure the proper operation of the Poor Law, to ensure the conditions of political economy as a daily reality for the poor. It would subsequently be identified by Beatrice Webb as the organisational embodiment of the ideas that she reacted against in her journey to administrative socialism.

According to Beatrice Webb for those in the COS the 1834 Poor Law Amendment Act had resulted in 'a quick transformation of an idle and rebellious people into the industrious and docile population of the country-side..' (ibid p.173). It was, as she said, supported by the 'abstract economist' and was intimately part of the overall system of laissez-faire; the leaders of the COS believed 'modern capitalism was the best of all possible ways of organising industries and services' (ibid pp.177-8). The only problem from this viewpoint was interference that would prevent the maximum welfare achievable by the free market. Under the market system, said Beatrice Webb, the belief was that 'any family could, they assumed, maintain its "independence" from the cradle to the grave, if only its members were reasonably industrious, thrifty, honest, sober and dutiful.' (ibid p.178). On the other side the COS believed that to alter the

> 'economic environment of the manual working class so as to lessen the severity of the "natural" struggle for existence must they imagined, inevitably undermine these essential elements of personal character, and would, in the vast majority of cases, make the state of affairs worse than before, if not for the individual, at any rate for the class and the race.' (ibid p.178)

According to this view, summarised by Beatrice Webb, the concept of poverty at the heart of COS thought was also the centre of a whole system of morality and administrative practice. In the COS the stress was on the prevention of doles that undermined the character of the worker, inducing dependence, hence robbing the worker of the means of self-improvement. The focus was on the individual as the agent of improvement, to which end charity should be properly organised so as

to avoid corruption. In this stage of reform the issues appeared to be self-evident to anyone with social concern,

> 'Their hypothesis seemed to be borne out alike by personal observation, the teaching of history and the deductions of the Political Economists. There was the patent fact, crystal clear to intelligent workers among the poor, that casually and arbitrarily administered doles undermined, in the average sensual man, the desire to work; cultivated, in recipients and would-be recipients, deceitfulness, servility and greed; and worst of all, attracted to the dole-giving district the unemployed, under-employed and unemployable from the adjacent country. Thus were formed, in the slums of great cities, stagnant pools of deteriorated men and women, incapable of steady work, demoralising their children and all new-comers, and perpetually dragging down each other into ever lower depths of mendicancy, sickness and vice.' (Beatrice Webb *My Apprenticeship* pp.172-3).

The central issue here was the formation, and preservation, of the independent labourer.

The most significant event in the dissolution of the old view was, according to Beatrice Webb, in 1886, the break of the Barnetts from the COS. This event 'sent a thrill through the philanthropic world of London.' (ibid p. 178) and marked a significant moment in what she called the 'discovery of poverty' because they had previously been such central figures in the COS. Their leaving of it indicated a stage in the development of policy that had a general social significance. It marked a wider change taking place within the orientation of respectable society to what was considered appropriate social policy; especially significant was that poverty had come to be regarded as a failure of the system.

Beatrice Webb's account explained this change as arising in the first place from a subjective change that had lead to the questioning of 'abstract' political economy and hence to a demand for state intervention. In her view 'The origin of the ferment is to be discovered in a new consciousness of sin among men of intellect and men of property..' (ibid p.154). To illustrate this she referred to Samuel Barnett,

> '"The sense of sin has been the starting point of progress" was, during these years, the oft-repeated saying of Samuel Barnett, rector of St. Jude's, Whitechapel, and founder of Toynbee Hall.'(ibid p.155).

Beatrice Webb then went on to specify that this consciousness was not 'of personal sin' but rather 'The consciousness of sin was a collective or class consciousness' (ibid p.155).

There was something far more important than a consciousness of sin. Her language already suggests this since a consciousness of sin must also by its nature be a consciousness of retribution and, of course, since, as she states, it was a class consciousness, we are faced by the prospect of retribution on a class, a distinctly social process. However while her language does, with unpicking, suggest this it also covers it up. We need to go one step further and use Beatrice Webb herself to undermine her own emphasis.

In presenting the importance of this consciousness of sin she pointed out that it was not the working classes that were demanding these changes. As we shall see she was partly right in this, but not entirely. Her view was that,

> 'The working class revolt against the misery and humiliation brought about by the Industrial Revolution -a revolt, in spasmodic violence, aping revolution- had had its fling in the 'twenties and 'thirties and its apotheosis in the Chartist Movement of the 'forties.' (ibid p.154).

However when we examine her narrative we find that there were important changes in basic categories that Beatrice Webb herself explained as resulting from changes in the working class. The key change, we shall see, was in the understanding of the concept labour; this change suggested a development amongst the propertied classes that could not so easily be assigned to an abstract 'consciousness of sin'.

Her early family life, as she reported it, had not included the 'World of Labour'. Yet labour itself was mentioned often, especially by her father, but was mentioned, as she said, in terms of water. In company reports a typical judgement

was 'Water plentiful and labour docile.' (ibid p.36) Yet it appeared that water and labour were interchangeable without any drastic change in meaning. Indeed the docility of labour appeared as a curiously aqueous attribute. There was the judgement that '"To raise artificially the wage of labour is like forcing water up hill: when the pressure is removed the wage, like the water, falls down hill"'(ibid p.36). Such statements formed the early Beatrice Potter's view of that world of labour, a view, as she put it, with a 'queer physico-mechanical twist' (ibid p.36). This conception was of course in keeping with the objectivity in the political economy of Ricardo. In this case, though, his estimation of the position and subjective movement of that class had been degraded, under the practical considerations of the entrepreneur, into a vision of water.

As she variously pointed out throughout the account of her upbringing, political economy was not just some separated topic for study but rather formed the daily culture of her family. Nor was this a curiosity confined to her family as can be observed in the extent of the family and its connections with other similarly class constituted families. The result of this early approach, her first teething in political economy, as the culture in which she lived, was that she conceived of the working classes as a repeating mass,

> 'labour was an abstraction, which seemed to denote an arithmetically calculable mass of human beings, each individual a repetition of the other, very much in the same way that the capital of my father's companies consisted, I imagined, of gold sovereigns identical with all other gold sovereigns in form, weight and colour, and also in value, except "when the capital is watered" explained my father. Again this mysterious allusion to water! Was it because it was the most monotonous and most easily manipulated of the elements? I enquired.'(ibid p.36-7)

The vision of the working class as water was connected to another characteristic of the family,

> 'As life unfolded itself I became aware that I belonged to a class of persons who habitually gave orders, but who seldom, if ever, executed the orders of other people.' (ibid p.37).

Here was the reverse side to 'labour as an abstraction'. It was a view of labour

that was peculiarly pronounced in Beatrice Potter's family, the reason for this she explained was her father's work as president of the 'Grand Trunk Railway of Canada'. In this position

> 'speeding over the vast spaces of a continent that was steadily filling up with immigrants of all races, white and yellow, brown and black, the conception of the manual workers as so many "Robots" was natural, perhaps inevitable.' (ibid p.150).

The combined conception of the giving of orders and of labour as abstract, as water, was compatible with the notion of poverty in which the working class appeared as the independent labourer.

The confidence in workers as so many 'robots' was challenged, according to Beatrice Webb, as labour struggles developed in Great Britain. Trade Unions developed power, and more workers became members of the House of Commons. Under these conditions,

> 'the term "Labour" had come to mean no abstraction at all, but a multitude of restless, self-assertive, and loss-creating fellow-citizens, who could no longer be ignored,...'.

It was characteristic of her social position that she then added, 'and therefore had to be studied' (ibid p.150). So, by her own account, there was a development in the fundamental category of political economy, labour, that was simultaneously cultural and familial, and that imposed the necessity for a critical view of 'abstract' political economy. And she didn't even need to change her social position. The 'discovery' of poverty followed from development in the subjective character of labour; here was the potential agent of retribution that gave backbone to the class consciousness of sin.

We have seen that debate over the validity of political economy had included an assessment of the potential of social change following the French Revolution. The objectivity of the laws of political economy in this case rested on a special relation of the working classes to those 'laws'; in other words the dependence of the working class on an accumulation derived demand for labour with an absence of any social alternative was enough to establish the laws of

political economy as objective. Where the working class had begun to develop a political presence it was, irrespective of specific ideologies, founded not on the independent labourer but on a collective presence that threatened the command over what, previously, had been as amenable as water.

For Beatrice Webb the particular influence that took her along the path followed by her class was the work of the Barnett's with whom she came into contact once she began work amongst the poor. There is though some suggestion (see R.Harrison in C.Levy 1987 ed.) that her story was more personal in that a romantic interest in Joseph Chamberlain had provoked her to a critical examination of the work of Herbert Spencer. Chamberlain had already by 1883 taken up reform as we have seen in a previous section. It seems though that it was especially the Barnetts that influenced the particular direction she would take as she left the ground of laissez-faire. The controversy between the COS and the 'empirical socialism of Samuel and Henrietta Barnett' gave her,

> 'a deepening conviction that the facts collected by philanthropists ... were too doubtful and restricted to lead to proven conclusion as to the meaning of poverty in the midst of riches.' (Webb nd. p.185).

This concern to investigate the facts eventually took her into collaboration with Charles Booth.

Charles Booth

Poverty had become as Beatrice Webb described it 'The Field of Controversy'. Booth's immediate motivation to take up the issue was his desire to refute the various claims, made in 1880s London, concerning the extent of poverty. In particular he wished to counter the claims of a survey conducted by the marxist SDF and published in the *Pall Mall Gazette* (1885). It had claimed that some 25% of workers lived in poverty; this was a figure Booth regarded with great scepticism. Booth was further motivated by the riot of February 1886, in which again the SDF had a part, and which set off a national debate concerning the problem of those out-of-work in the context of a polemic concerning an

alternative society.

Booth's aim and indeed expectation was to disprove the SDF through a systematic collection of facts. In taking up this project he had accepted the new content of the word poverty as implying a condition of inadequacy rather than the classical position of adequacy. To begin his investigation he had to define poverty, but the nature of his investigation necessarily meant that the definition was empirical in the sense of defining a level of subsistence. The figure he set on was '18s. to 21s per week for a moderate family' (*Charles Booth's London*, Penguin 1971 p.54) any figure above this would be above the 'line of poverty'.

Booth's first concern was not 'fault' but 'simply with the numbers who, from whatever cause, do live under conditions of poverty..' (ibid p.55). By its nature his survey would be concerned not with this, or that, particular case, even though he used them as illustrations, but rather with the population as whole. He would conduct a systematic survey of the population of London. In the end (1902-3) it filled seventeen volumes of which four were devoted to *Poverty*, five to *Industry* meaning the nature of the labour market, seven to *Religious Influences*, meaning the cultural formation of the working classes, and a last volume including conclusions and remedies.

The initial findings on poverty confounded Booth's expectations since he discovered not just that the SDF were wrong in their estimates but that rather than overestimating the phenomenon they had underestimated it. His figure for those in poverty in East London was 35% and for London as a whole the figure was also higher than the SDF's at just above 30%. Since he had set out with the belief that the SDF figures were too high his discoveries were a jolt to his composure in regard to the social system.

More serious than the extent of poverty was the discovery that the causes

of poverty could not be put down to individual fault, 'It cannot but be admitted that the industrial conditions under which we live lead to poverty, or at least that poverty follows in their train.' (ibid p.396). Of those living below the poverty line Booth estimated that the cause in 85% of cases was 'employment' meaning either its lack its irregularity or its low wages. Of these though it was the first two that had the greatest influence, 'The poverty that is due to low wages is, in London, less in volume as well as less acute than that which is consequent on some form of lack of work.' (ibid. p.402.).

The discovery that poverty was a phenomenon of the labour market, itself a product of it, challenged the classical view. It deposed 'character' from the central locus of concern given it by the COS and strengthened the challenge to that organisation's influence. His research demonstrated that individual effort was unable to secure reasonable conditions of life and so there existed the material conditions for a socialist, collectivist movement.

Booth's estimation of the problem faced illustrates the interrelation of the developments in the conceptions of poverty and political economy. In his paper *Condition and Occupations of the People of the Tower Hamlets, 1886-87* he pointed out that it was the sense of 'helplessness that tries every one'. This of course as we have seen could as well have been said by James Mill to David Ricardo. It would have fitted the conception of laws that made up their political economy and which led to Mill's frightful suggestion. Now though, in 1887, this helplessness connected to poverty had for Booth a different import,

> 'From the helpless feelings spring socialistic theories, passionate suggestions of ignorance, setting at naught the nature of man and neglecting all the fundamental facts of human existence' (from *Condition and Occupations of the People of the Tower Hamlets, 1886-7* Charles Booth 1887 p.7 quoted Webb nd. p.192)

Within this formulation one can detect that same change away from the conception of labour as water that Beatrice Webb had observed.

As with Beatrice Webb, Charles Booth felt there had to be a dissolution of political economy. He felt change was necessary,

> 'To relieve this sense of helplessness, the problems of human life must be better stated. The *a priori* reasoning of political economy, orthodox and unorthodox alike, fails from want of reality. At its base are a series of assumptions very imperfectly connected with the observed facts of life. We need to begin with a true picture of the modern industrial organism, the interchange of service, the exercise of faculty, the demands and satisfaction of desire. It is the possibility of such a picture as this that I wish to suggest, and it is as a contribution to it that I have written this paper.' (Booth in Webb nd. p.192.)[21].

Poverty had become an empirical phenomenon to be investigated under the 'observed facts of life'; this constituted a challenge to the nature of science as envisaged by Ricardo. The facts were not straightforward; they arrived enveloped in social context, the rise of a working class alternative. Booth had started to investigate a social phenomenon in which needs were not to be, as in the classical conception, uniquely tied to labour as the means of gaining subsistence. Instead the lurking shadow behind the social phenomenon was the linking of unsatisfied needs to social transformation.

Booth defended the existing social relation, defending the rich but envisaged the continuation of their social role, 'more usefully and profitably, and above all more happily, under a state of things which would secure the final divorce of poverty from labour' (*Charles Booth's London* p.392). Here was an important shift from the classical position. Where the COS advocated the taking of each case on its merits Booth confronted the social conditions for collective

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[21]Beatrice Webb expressed similar views in a paper, finished in 1886, that she considered important enough to publish as an appendix to *My Apprenticeship*. She advocated the dropping of any notion of a 'science of Political Economy' (Webb nd.p.374). This would imply an end to the 'abstract, or purely deductive method, without the possibility of precise verification of its inferences, which Ricardo's authority imposed on successive generations of British economists.' (ibid. p.374). From this dropping of an 'abstract science' there would follow the investigation of 'social institutions themselves, as they exist or have existed, not any assumed "laws", unchanging and ubiquitous, comparable with the law of gravity, any failure of correspondence with the facts being dismissed as friction' (ibid. p.375). Webb's statement here is itself an attempt to universalise that ignores the social conditions of Ricardo's work.

organisation; the new situation required administrative measures to remedy poverty which in turn implied a reorientation of all the conditions of labour including its motivation.

Although Booth's effort to disprove the claims of the SDF was not realised, this did not imply any acceptance of their conclusions regarding social change. Booth remained as firm a supporter of laissez-faire after his survey as he had been before. Nevertheless he had to alter substantially his view of the administrative prerequisites required for laissez-faire. Central to the viable operation of laissez-faire there had to be the free individual, the independent labourer, capable of determining his own fate. While Booth's researches did lead him to advocate reforms, their purpose was to secure the system against the collectivist threat and to enhance, not diminish, competition. The independent labourer remained the paramount objective in the service of which administrative measures had to evolve.

The transformation in the social significance of poverty took place against the backdrop of the threat but was conducted and guided by those who sought to subvert that threat. Booth's response to his findings was to advocate a form of 'limited socialism' or 'State Socialism'. He conceived of it as the necessary alternative to the collective threat, as a defence of the system. One of his suggested reforms, for Old Age pensions, demonstrates this. He advocated a universal pension at 70 for anyone who had not, up to that point, availed themselves of the poor law, except on occasion of illness. While opponents attacked his suggestion as one that would diminish independence, Booth defended it on the grounds that since it was conditional on having kept clear of relief it would be an encouragement to independence.(*Charles Booth's London* p.408). In addition there would be not just the incentive but also the possibility of saving for old age since it would in the main only be needed from age 60 or 65 to 70 and anyway would be an addition to any funds at seventy.

Booth's more general scheme involved intervention in the different classes that made up the working classes. He had classified the working classes according to a stratification he labelled A,B,. up to F with G and H being middle classes. From A to F there were the distinctions from the dangerous classes, A through grades of unskilled workers to the skilled, regular workers in trade unions and co-operatives. This appears to be a rigid demarcation but Booth recognised an inner unity. Each class tended to merge into the ones around it and more significantly each felt the threat of the fall to a lower class so that 'The position of the class may be secure ... but that of the individual is precarious.' (ibid p.383). Here Booth stressed poverty as a fate. He suggested several ways by which the individual in class D may fall into C or even further. Work could become irregular, or trade may shrink so that,

> 'Some must be thrown out of work. The lot falls partly according to merit and partly according to chance, but whatever the merit or the lack of it, the same number will be thrown out of work. Thus we see that the "common lot of humanity", even though not much amiss in itself, is cursed by insecurity against which it is not easy for any prudence to guard..' (ibid. p.383)

Booth offered a scheme of intervention into this stratification of the class that would improve the conditions for all sections and so secure an appropriate social and political consciousness for the class as a whole. Since class A had effectively dropped out through criminal activity Booth regarded the effective base of the structure as class B, unskilled and irregular workers. 'The competition of B drags down C and D and that of C and D hangs heavily upon E.' (ibid. p.383.) Booth's aim then was to devise policy that would shore up the structure and reduce the inherent, and unifying, anxiety of falling down the ladder. He intended that this should be achieved through the extension of administrative measures. Class B would be removed from the invisible hand into the visible administration of labour colonies. In these camps there would be strict regulation of hours, of behaviour etc. 'There would be no competition with the outside world. It would be merely that the state, having these people on its hands, obtained whatever value it could get out of their work.' (ibid p.388) Accounting could then determine whether a

family made too much loss in which case it could be split up into the poorhouse and prison system. In this way the 'whole system ...would provide ..motives in favour of prudence and a sufficient pressure to stimulate industry.'(ibid p.389.).

Booth described his plan as being an extension of the poor law but he then asked what was the poor law but 'a limited form of socialism' (ibid p.387). This was not the only example,

> 'Socialistic also to a great extent are our Board schools, hospitals, and charitable institutions, where the conditions of relief are not the services which the applicant can render in return, but the services of which he stands in need.' (ibid p.387).

While these were socialistic, it was not Booth's intention to put off those who wanted to protect the market society. His intention was quite the opposite; by indicating how the system already lived with socialistic measures he hoped to ease their minds into a more complete and effective form,

> 'My idea is to make the dual system, Socialism in the arms of Individualism, under which we already live more efficient by extending somewhat the sphere of the former and making the division of function more distinct. Our Individualism fails because our Socialism is incomplete.' (ibid p.387-8).

The purpose was to protect the market system by securing the administrative conditions for an effective individualism; it was the breakdown -without intervention- of the individualist system that led to unwanted invasions of 'Socialistic innovations' (ibid p.388) but if the State should, as he suggested, interfere with a 'small fraction of the population' by removing class B, then it would be possible 'to dispense with any Socialistic interference in the lives of all the rest.' (ibid p.388)

With this system in place the situation of classes C,D, would improve. This would run parallel to policies for industrial reorganisation that would allow greater wages in return for giving greater 'utilities' in work. The existing situation could be avoided, one in which struggle was directed to what was perceived as a fixed sum. This had resulted in strikes against wage decreases or 'giving as little

as possible in exchange for wages paid...known as the ca'canny policy'.(ibid p.389). This divisive attitude meant lower wages for lower quality work; greater effort, producing greater utilities would enable greater wages and so 'If wages are to be raised.. it is essential that the wage earner should consider first the interests of the employer.' (ibid. p.400).

The benefit of Booth's plan would, he believed, be the securing of a social stability through the securing of improving standards of living. This did not follow a crude notion of simply removing the threat of the lowest classes. He made no simple one-to-one relationship between deprivation and Revolution. It was rather the underlying uncertainty, anxiety, even disgust at general conditions of poverty that generated the problem in all the classes. Removing class B did not remove the revolutionary threat as such. It was an intervention in all the classes considered as a whole. It reduced the dragging down effects of competition for all of them. This was essential since it was in the higher classes E and F that Booth saw the 'springs of Socialism and Revolution'(ibid p.33). However with his socialistic intervention the stabilising role of these classes would be enhanced. Classes C and D would both benefit from more work and pay and so be able,

> 'to join hands with the social policy of classes E and F. Trade Unions and co-operatives would be able to build from the bottom, instead of floating, as now, on the top of their world.'(ibid p.389.)

The social role of these organisations would then be enhanced by the extension of direct administrative intervention.

Booth did not stop at just recommending administrative intervention. Poverty resulted from the 'industrial conditions under which we live' (ibid p.396). As part of this there were low wages and also want of work. The former required improvement in the kinds of work so allowing wages to rise with increased contribution. The second cause concerns us now. It was the poverty arising from want of work that Booth identified as the most important and this pushed him into more fundamental speculations that anticipated subsequent developments. If the

individual did not determine the aggregate numbers out of work then it was scarcely surprising that Booth should shift the focus not just from the individual to administrative measures but go further to a consideration of a more central role for the state in relation to social welfare,

> 'To be able and willing to work, and yet to be unable to obtain work, seems a hard fate, and singularly unnecessary in a world where the welfare of all might surely be capable of increase in some degree by the work of each.'(ibid p.403).

Necessarily Booth came to consider the role of the state in regard to the 'lack of work', and this was only a development of the state's social position, 'For questions of public health and education are already fully recognised as being within the province of the State..' (ibid p.403).

Booth then assessed the feasibility of a direct state intervention in employment and in doing so, not surprisingly, he exercised the usual arguments that would flow with greater force in the 1930's,

> 'The doubt that faces us is whether it is possible for the state by special action to start or stimulate work in one direction, without checking it, or taking away some other stimulus, in some other direction.' (ibid p.403).

He argued that to sort this problem out required some theory of the factors effecting the aggregate volume of employment.

Booth knew that any suitable theory of employment would have to consider the relation of enterprise to the numbers seeking employment. So the question first was what determined the extent of enterprise? He identified the following factors 1) the pressure of capital seeking investment 2) the presence of unemployed cheap labour, 3) consumer demand, 4) the hope of gain or spirit of adventure. (ibid pp.403-4). Given these factors then,

> 'The question ...is - Can the central action of the State or the interference of local government either increase the total volume of enterprise or beneficially regulate its flow?'(ibid p.404).

This question, it hardly needs saying, would of course come to exercise the mind of Keynes.

Once he had established the question Booth went on to investigate the identified the limits on state action. These corresponded to the factors affecting enterprise above. They were, 1) state action must adversely affect 'the sources of private enterprise. It will withdraw capital and so decrease the pressure exercised by the amount seeking investment' (ibid p.404); 2) it will raise the price of labour; 3) it will satisfy needs that would have sought other means; 4) in competing with private enterprise it will reduce profit and dampen the spirit of adventure. This latter could be a serious problem 'if we suffer a permanent loss of spontaneity'.(ibid p.404). Yet Booth still saw some possibility for action given no immediate competition with private enterprise and,

> 'Within the limits of moderation there could be no serious objection to the absorbtion of labour and capital in this way. Nether capital nor labour are fixed and rigid in amount or in efficiency. Their elasticity in response to demand is great. Moreover, it is rare for either to be fully employed at any one time.' (ibid p.404).

Without the sophistication of one versed in the intricacies of economic theory but perhaps because he was freed from such intellectual obstruction, Booth had anticipated some of the arguments both for and against a policy of demand management. His practical orientation lead him to a simple dismissal of arguments of crowding out that were similar to those Keynes would later employ concerning the illusion of some fixed stock of capital.

What we have, to some extent, done in this chapter is to uncover how objectivity does have its own subjective history. Clearly where a science's claim for objectivity rests on specific social conditions its status is subject to change as the social conditions change. The validity of the claim to science need not be questioned but the durability of this validity may be. The problem though is this, as the social process itself questions the established 'science' the defence of a new science must dismiss the previous as having always been limited. Today likes to posture as the universal. In this case the history of the science is inevitably being continually rewritten by its present owners, whomever they may be. This in itself is necessary where the science is in some sense proposing, of course under strict

limitations, a new condition of objectivity.

For our purposes the significance of Booth is that we can observe in his thought how, in response to the perception of a new problem, new concepts arose which in turn set practical and conceptual problems for policy. Once Booth conceived poverty as a fate befalling individuals, then it was a short step to identifying those who especially suffered, those 'unable to obtain work' and hence to the question of whether the state could influence employment. It was though another matter to elaborate the appropriate concepts for this new level of intervention and it should not be denied that this would demand a development in thought for political economy to adjust. Booth's innocence of 'economic heresies' allowed him to perpetrate them but prevented him from elaborating the appropriate intellectual framework that could challenge the orthodoxy. Booth himself recognised his limitations and his work ends with a plea that pointed to the need for a more complete theorist. Having made the journey of his great work,

> 'The dry bones that lie scattered over the long valley that we have traversed together lie before my reader. May some great soul, master of a subtler and nobler alchemy than mine, disentangle the confused issues, reconcile the apparent contradictions in aim, melt and commingle the various influences for good into one divine uniformity of effort, and to make these dry bones live, so that the streets of our Jerusalem may sing with joy.' (ibid p.437)

5. Benjamin Kidd and the Limits of Economics[22]

In this chapter we will examine how the issues raised by the reformers of the latter part of the 19th century could pose a problem for economic theory. One purpose will be to anticipate why a revolution of economic theory would be needed and also how it would have to relate to the development of social policy. We shall do this by examining the work of a thinker who has not been given a great deal of attention, Benjamin Kidd. Kidd brings out a number of themes that are relevant to this thesis. Firstly, the concept of poverty is central to his work, secondly he is concerned with the position of the individual in the social system, thirdly he is concerned with the rise of social opposition from the working class, fourthly he sets out what he takes to be the limits of economic science and lastly he calls for a new social science. While he may be described as a minor thinker he is one who illustrates the concerns of his period and so through him we can understand the problems faced by reform and theory. He did not himself solve those problems as he might have hoped.

Kidd is important to this thesis because he criticised Marshall for the social limits of his economics and so gave a concrete example of how economics was confronted with the social developments we have been considering. It is of some interest that Kidd's criticisms anticipated, in general terms, similar criticism made by Keynes of A.C.Pigou, Marshall's successor at Cambridge. We can observe through Kidd another moment in the process of breakdown of the Ricardian system. For Kidd, Marshall was a failed attempt to revitalize the social role of economics; the attempt had failed because the political was not adequately contained within the economic; working class aspirations were more firmly based than was taken account of by Marshall. When Keynes criticised

[22]This chapter was presented as a paper at the 'Sociology and the Limits of Economics' Conference, University of Liverpool, April 1995

Pigou it was because the latter's policy advice had departed from what was sanctioned by his theory; in this instance Pigou's perception of the political situation and the demands of social order was wider than could be recognised by his economics. We shall see that in the case of Kidd the criticism did not result in an adequate replacement for the existing economics despite the strengths of his criticisms but we can suggest that the force behind his criticism was analogous to the motivation for what would become *The General Theory.*

Benjamin Kidd usually appears as a theorist of imperialism but to his contemporaries it was his first book *Social Evolution* (1895) that made his name. Its subject matter was social policy and social order at home. Kidd's work gave focus to important themes in the debate over the 'social question'. *Social Evolution* rapidly became a bestseller and its author, hitherto without independent means, was able to retire from the civil service to pursue a career as a writer and propagandist. The book then continued in publication through successive editions until the 1920's. It was translated into eleven languages including Chinese. It drew comment from a great variety of sources. *The New York Times* described *Social Evolution* as having laid the foundations for a long-awaited science of society. A similar point was made by W.T.Stead in the *Review of Reviews* where he claimed that *Social Evolution* had provided the scientific basis for the social gospel that was expressed in the work of William Booth's Salvation Army[23]. The first issue of the *American Journal of Sociology* (AJS) contained an approving editorial which explained the purpose of the journal within a framework influenced by *Social Evolution.* It argued that Kidd had achieved a 'science of human society properly so-called'. It identified the growth in importance of human association and with this a growing 'undisciplined social self-

[23]W.T.Stead helped William Booth in the writing of *In Darkest England and The Way Out.* This book that brought together social reform at home with imperial aspirations allowed Stead to report to Milner that 'We have got the Salvation Army not only for social reform but also for imperial unity.' (cited in The Life of W.T.Stead by F.Whyte). Rhodes who supported the schemes set out in W.Booth's book offered Booth unlimited land in Rhodesia for land colonies.

consciousness' which threatened the social fabric. There was a growing population with increasing numbers who could read and who, along with those who could not, maintained a

> 'perpetual session, a lyceum of sociology. If a little learning is a dangerous thing, jeopardy from that source is today universal. The millions have fragmentary knowledge of societary relations, and they are trying to transmute that meagre knowledge into social doctrine and policy.' (Editorial AJS 1895 Vol I no 1 p.3)

This development of 'popular social philosophy' was accompanied also by a 'social gravitation or "movement"'(AJS 1895 p.5). There was, the editorial noted, a 'peculiar popular unrest' that corresponded to two postulates of the social philosophy, firstly, 'the relations of man to man are not what they should be' and secondly, 'something must be done directly, systematically and on a large scale to right the wrongs.' (AJS 1895 p.5). The task of professional sociologists was to 'substitute revised second thought for the hasty first thoughts composing the popular sociologies' (AJS p.6). Kidd was himself one of the founding members of the British Sociological Society.

Social Evolution (SE) stressed the need to reform social relations in order to preserve a progressive society against the threat of the working class. At the same time it raised problems about the direction of reform. In his account of Kidd D.P.Crook (1984) described Kidd's vision as an attempt to apply 'the most advanced Darwinian principles to society, to pioneer an holistic science of society based on biology..' (Crook 1984 p.1). It was such a whole science of society that Kidd from the first page of his book identified as missing. There was a 'complete absence of any clear indication... as to the direction in which the path of future progress lies.'(Kidd, *SE* p.1). More particularly the problem was the absence of such an indication 'in the name of science and authority' (ibid p.1). There had been generalisations to 'foster a conception of the unity underlying the laws operating amid the complex social phenomena of our time', but these had come from 'that school of social revolutionists of which Karl Marx is the most commanding figure' and not from the 'orthodox scientific school' (ibid p.2).

From the outset of his work Kidd showed he was concerned about the status of science and with the determination of the laws underlying society. He linked these concerns directly to the problems posed by revolutionary theory. Yet Kidd did not set out to refute Marx. He observed that despite support for the principles of Marx there remained a 'large section of the community, probably the largest..' who were not convinced, yet who did 'feel that some change is inevitable' (ibid. pp.4-5). In this group, the middle group of society, lay the 'decisive part in shaping the course of future events' but at the present time 'they simply sit still and wait.' What they lacked was a path to follow, 'They look in vain to science and authority for any hint as to duty. They are without a faith, for there is at the present time no science of human society' (ibid p.5.). Kidd was arguing a case that demanded something more than an intellectual refutation of Marx. Any strategy to counter revolutionary theory had to take account of the middle group, the undecided, and their belief in the necessity for some kind of social change.

Kidd did not believe that Marx's influence could be explained by his theories, however well organised they may have been. Kidd recognised that real and important changes in society were imminent, 'the more slowly ripening fruits of the industrial revolution .....arrest attention. Social forces new strange and altogether immeasurable have been released among us.' (SE p.7). The 'old bonds of society' were loosening and there was a 'great army of industrial workers throughout the world' and with this the 'air [was] full of new battle-cries, of the sound of the gathering and marshalling of new forces' (ibid pp. 7-8). Socialism, he argued, had entered a 'positive and practical stage' (ibid p.8). It was now 'a kind of religion' (ibid p.8) and the adherents of it looked at the developments in world economy and asked 'wherein is society the better.. if the Nemesis of poverty still sits like a hollowed-eyed spectre at the feast?'(ibid p.9) Demos, 'gradually emerging from the long silence of social and political serfdom'(ibid p.10) was a force that went beyond mere argument and it was poverty that had

provoked it beyond.

In Kidd's view the reforms already passed were inadequate; legislation had been enacted in favour of Demos but the extension of suffrage had not lessened the 'misery of the working classes.' As a result it could not be expected that 'those who have to bear and suffer will... be content to be equally patient should they discover themselves to be equally hopeless.'(ibid. p.11). The result of this would be a challenge to the basis of political economy, 'The new creed is already forging its weapons. The worker is beginning to discover that what he has lost as an individual, he has gained as a class..' (ibid p.11). The axiom that had been the foundation of Ricardo's political economy was here observed by Kidd to be in the process of dissolving itself. The independent worker for whom poverty was self-reliance and freedom in the political economy of Ricardo was now grasped by Kidd as ready to organise for the abolition of poverty. As a consequence of this movement and with the development of world economy, the old national lines of demarcation were disappearing, 'Society is being organised by classes into huge battalions the avowed object of which is the making of war on each other.' (ibid p 11.)

Marxism, according to Kidd, was the theoretical expression of this movement, 'All this has been described [by Karl Marx] with a knowledge of social phenomena and a grasp of principle to which many of its critics so far cannot lay claim.' (ibid p.11.) According to Marx, we learn that, with the increasing concentration of capital and then its extension across national boundaries, so 'the end of a natural process of transformation must come with the seizing of political control by the proletariat..' (ibid. pp 11-12). But although Kidd agreed with the gist of this argument he would not accept the ultimate conclusion. The outcome of the polarization between capital and working class still depended on the large middle group who lay between them and who were as yet undecided. The problem faced by society was that science had failed to

provide for this large middle group, 'any clear indication as to which side is right and which is wrong' (ibid p.13). Science was necessary in this situation of polarization because up to that point only Marx had provided a conception of the 'unity underlying the laws operating amid the complex phenomena of our time' (ibid p.2). The necessity for a development of science was linked directly to the need to intervene in social developments.

While religion, observed Kidd, had, to some degree, taken up the social question, it was hampered in this question by being tied to a battle with science. It had appeared that this struggle of science and religion would of necessity result in the demise of one of the antagonists, probably religion, but this did not have to be the final result. The 'social mind' said Kidd, had realised that 'religion has a definite function to perform in society, and that it is a factor of some kind in the social evolution which is in progress'. As to what function 'science has given us no indication.' (ibid p.17). A reconciliation between science and religion would be possible if science could demonstrate religion's function. This, Kidd argued, required an extension of the Darwinian science of natural evolution to society and this was the task he set about in *Social Evolution.*

Kidd agreed with those who placed Marx alongside Darwin. Certainly his influence was the equal of Darwin's. Marx's work was the 'first crude attempt to interpret the phenomena of human history in terms of the Struggle for Existence' (ibid pp. 350-1). And this had been sufficient to raise Marx above his critics. For all its imperfections Marx's work gave a view of 'natural law operating in human society in a larger sense than the economists have been trained to understand' (ibid. p.351) and this guaranteed its survival as a 'social force, almost unaffected by the criticism of those who endeavour to deal with it from within the narrow circle of the merely economic position.' (ibid p.351).

The condition of society, not theoretical arguments, rendered economics

increasingly redundant. According to Kidd, there was now a 'gradually spreading revolt against many of the conclusions of the school of political economy represented by Adam Smith, Ricardo, and Mill..'(ibid p.23). It was led by thinkers such as Leslie Stephens and also Alfred Marshall whose *Principles of Economics* Kidd recognised as a 'worthy attempt to place the science on a firmer foundation by bringing it into more vitalising contact with history, politics, ethics, and even religion.' (ibid p.24) Yet despite this effort Kidd concluded that,

> 'The departure.. is nevertheless, but the effort of a department of science to recover ground which it has lost largely through its own faults. It marks a somewhat belated attempt to explain social phenomena which political economists at first ignored ....rather than the development of a science with a firm grasp of the laws and causes which are producing these phenomena.'(ibid. p.24-5).

Even after Marshall's efforts Kidd judged that political economy had proved inadequate to the task of explaining the real forces that moulded the development of society. It had failed and the 'social phenomena seem to be continually moving beyond its theories into unknown territory, and we see the economists following after as best they can..'(ibid p.25).

From his Darwinian standpoint Kidd rejected the utilitarian argument that welfare was maximised by the unbridled operation of self-interest. Instead he argued that evolution necessarily implied the sacrifice of the individual of the species to the disciplines of competition. From this Kidd deduced that rather than an invisible hand which could be allowed free sway there was a 'law of retrogression' that would require state action. The success of evolution was, for Kidd, synonymous with progress; he assumed a normative trend in evolution, and one aspect of the progress would be the development of intelligence. This intelligence would transform the significance of poverty as it came to realise the conditions in which it had to live. Rather than the basis of competition from which progress had flowed poverty would become the condition that had to be abolished. This was, said Kidd, a process that had already started. Charles Booth's *Life and Labour of the People in London* had demonstrated that extensive

poverty of a kind that might provoke social change did exist and, Kidd argued, for the working class '..it seems hardly possible to escape the conclusion that they should in self-interest put an immediate end to existing social conditions.' (ibid. p.75). Workers would '..abolish competition within the community.'(ibid. p.76). However, this would abolish the necessary condition of progress i.e. the competitive spur to evolutionary improvement. From this line of argument it was clear, for Kidd, that progress had no rational sanction; it was in the interests of the masses to abolish it. The doctrines of socialism were far from being unbalanced instead '..they are the truthful unexaggerated teaching of sober reason.' (ibid p.77)

In order to show the disaster that would follow the Marxist prescription Kidd employed a Malthusian argument, taking it as proved that under normal conditions the growth of population would always ensure poverty. The necessary means of controlling competition would, ultimately, have to control the population. Restriction of population would reduce the pressure on individuals to survive. Clearly it was in the individual's self interest to create this situation. However for the collective this would be the path to degeneration. Progress required 'effort and sacrifice'. The individual preferring 'ease and comfort' would therefore, quite rationally, end progress; this was Kidd's Law of Retrogression.

Kidd identified the dissolution of the axiom that had supported classical political economy. Ricardo's independent worker identified here by Kidd in terms of Bentham's individual, was no longer viable as a foundation, in its place was a new collective phenomena, '..the capacity which man possesses of acting under [reason's] influence in social groups.' (Kidd 1895, p.227.) The social gain from progress (evolution) was not one from which the contemporary individual benefited since it came 'far beyond the limits of his own lifetime' and was therefore an end in which 'he has as an individual, absolutely no interest.'(ibid p.229). For Kidd since there could be no rational sanction for progress there had

to be an ultra-rational sanction; progress necessitated a negation of self-interest. This element of 'ultra-rational belief with which the life of every social system is ultimately united' (ibid p.232) provided the 'necessary sanction for effort and sacrifice, without which the conditions of progress cannot continue.' (ibid p.232). Since this ultra-rational sanction was religion, Kidd claimed to have produced a whole science on Darwinian principles in which science no longer opposed religion but endorsed it.

There was nothing religious in Kidd's advocacy of religion. He advocated it as part of a social programme to save progress. The programme would require something more than a set of ideas. Kidd had himself identified through his Law of Retrogression that the relation of needs to progress was crucial. For Ricardo the determining factor that allowed him to place the 'permanent' as an alternative to aristocratic control was his estimation that the working class in the form of the independent worker had an interest in accumulation hence also the long-run or progress. In Kidd this assumption was compromised; the independent worker had formed into a collective worker and had a rational interest in halting progress. Capital accumulation had to negotiate the short-run; this was not defined in the first instance as an economic time period, but was defined politically on the basis of the relation of interests to the general. Survival of the short-run required more than an intellectual exercise since the short-run had been impressed on political economy by material self-interest. Kidd recognised that Marx's influence had continued to grow 'despite the refutations it is continually receiving from the economists.' (ibid p. 237)

There would need to be real changes. Religion would have to be accompanied by reform. His analysis of the French Revolution emphasised the special importance of reform in sustaining an adequate political order. Of all the regimes in the eighteenth century the French had changed the least 'Elsewhere the transforming agent operated by degrees, and the result at any time, had been less

noticeable, here where the Fabric had actually held, it had all gone down suddenly and completely because the columns which had supported it were deeply affected by the disintegrating process.' (SE p.175). The greatest handicap of the ruling class had been its inability to become a 'rallying point'. It had been unable to produce a 'moralising cause' through which it could engage other groups in defence of the regime. Reform and the promise of betterment would, in the garb of religion, have provided the right cause. Kidd argued that the survival of the French regime had depended on the development of a middle ground and its failure in this regard was an inevitable result of failing to develop the appropriate rallying point. Instead the ruling class had kept to the old regime in its entirety and in detail; it was consequently weakened by this rigidity. By defending the *status quo* it had precipitated catastrophe.

State activity was the bedrock of Kidd's 'religious' alternative and he saw it as determining the course of political order,

> 'The development that will fill the history of the twentieth century will certainly be the changes in the relations of capital, labour, and the state... the change, vast and significant as it undoubtedly promises to be, will, nevertheless be one profoundly different both in character and results from that which Marx anticipated.' (SE p.220).

The negation of self interest through reform would confound the antagonism of the classes so that the 'materialistic evolution of Marx is left without its motive power.'(SE p.219) The reforms would be garbed in religion as the language of capital's self-negation.

There was though a deep ambiguity to Kidd's project in that he rejected the laissez-faire doctrine as one that was 'of a period beyond which we have progressed' (SE p.238). It was inevitable that for many commentators any replacement of laissez-faire would seem part of the disease since once laissez-faire was deemed dispensable the definition of what it was essential to preserve was not clear-cut.

Kidd believed that the process as he advocated it had already begun; already 'the occupying party' had 'agreed upon an orderly retreat; it is abandoning its outworks, surrendering its positions, evacuating its entrenchments one after the other and all along the line' (SE p.184). If we are to understand how Kidd supposed that his strategy should remain compatible with the survival of the system we need to see how he understood it as part of a project for the nationalisation of the working class. He saw the extension of the state's activity even over the rights of capital but he did not see this as abolishing capital. He claimed to be preserving competition as the central element. Competition would be enhanced by the state when it raised it to a higher level by securing 'equality of opportunity, as well as equality of political rights..' (SE. p.238)

The interference that Kidd envisaged could be far-reaching; it could even reach a position when the state assumed the rights of wealth and capital 'where it is clearly proved that their retention in private hands must unduly interfere with the rights and opportunities of the body of the people' (SE p.239). This illustrates the potential ambiguity of Kidd's project. The point though of this interference was not in anyway to create socialism which he rejected; it was 'to preserve or secure the advantages of competition rather than to suspend competition.' (SE p.239) It would take competition to a higher level 'to the very highest level of efficiency' because it would ensure that all individuals participated in the struggle 'on a footing of equality' and this would allow 'the widest possible opportunities for the development of every individual's faculties and personality.' (SE p.239).

To understand the enhanced efficiency of competition it is necessary to take account of a second aspect of competition in which Kidd's opposition to socialism was clear cut. The intention of socialism according to Kidd was to suspend 'personal rivalry and competition of life' and we have seen already that the formation of a class as an international force was the means to this suspension. Kidd's alternative was founded on the ideas of the historical school

especially Schmoller's *The Mercantile System and its Historical Significance*. The central proposition of Schmoller was that progress had been dependent not on individual action but rather on 'state-making' or 'nation-making'. The essential site of the economic struggle for existence was between groups not individuals (see L.C.Jones 1985 p.275-6) and in this view the end of laissez-faire was quite compatible with enhanced competition since the most important unit of competition was the nation. The enhancement of national competition would cut across the international tendency evident in the class movement to socialism.

The most important opponent of the protectionist line was Alfred Marshall whose principle concern was to defend the principles and benefits of free trade and competition. Marshall was of course aware of wider issues than formal analysis. Marshall had read Kidd's *Social Evolution* and wrote to Kidd saying he found it 'full of interest and supposition on every page,' and confessed that it was '..a long while since I was so much excited by a book' and that he had '..learnt from it and been stimulated by it on many different subjects and in many different ways' (quotes from C.L.Jones 1985 p.86).

While these two differed in their views they did so within a broad area of agreement. Marshall's *Aspects of Competition* had been a significant source for Kidd's own arguments. Even so, although he cited it approvingly, Kidd felt it to be limited since he believed the economic arguments it provided were too narrow to answer the wider social case that had been made by Marx and the socialists.

Although quite naturally he objected to the particular criticisms of his work Marshall did not disagree with the broad terms of Kidd's argument. Both supported competition but Marshall was prone to stress the harmful effects on it arising from interference, while Kidd emphasised the limits of economics and the need for nation-making.

In his 1890 essay *Aspects of Competition* Marshall outlined the criticisms of 'unbridled' competition that Kidd took up in his own work. However Kidd appeared to have a more optimistic view of bureaucracy than Marshall, as we have seen he was even prepared to take over the 'rights of capital'. On the other hand Marshall who was also critical of capital remained within the economic perspective and so retained a strong view of the benefits of the operation of the market. Marshall saw the dangers of the 'irresponsible and licentious use of wealth' (in Pigou ed. 1931 p.291). Yet he also perceived a problem not just that socialism would 'choke the springs of vigour' but also a more general problem

> 'I am convinced that, so soon as collectivist control had spread so far as to narrow considerably the field left for free enterprise, the pressure of bureaucratic methods would impair not only the springs of material wealth, but also many of the higher qualities of human nature, the strengthening of which should be the chief aim of social endeavour.' (*Economic Possibilities of Economic Chivalry* (1907) in Pigou ed. 1931 p.334).

Marshall may have been suspicious of the direction of reform but he did not oppose reform as such. In fact his positive interest in reform came before his interest in economics and he even described himself as being a socialist before he ever became an economist. It was in pursuit of reform that he turned to economics; in *Economic Possibilities of Economic Chivalry*(1907) he reported that 'it was my desire to know what was practicable in social reform by State and other agencies which lead me to read Adam Smith and Mill, Marx and Lassalle, forty years ago.' (Pigou ed. 1931 p.334). The key word was practicable; it defined Marshall's particular viewpoint and located his concern as the reconciliation of reform with the efficient operation of the market. It also indicated the role he expected economics to play in the process of reform. Once we have understood this role we can discern its limitations from Kidd's viewpoint.

Marshall recognised the crucial element of his period was the presence of the working class. In his 1885 lecture *The Present Position of Economics* he identified the malaise suffered by economics as originating from Ricardo and his

followers: 'They regarded man as a constant quality...' and this view was detrimental when they came to 'the relations between the different industrial classes.' Their view,

> '..led them to regard labour simply as a commodity without throwing themselves into the point of view of the workmen, without allowing for his human passions .. his class jealousies and class adhesiveness.' (Pigou ed. 1931. p.155.)

Marshall's economics, confronted by this malaise and armed with his diagnosis, was formed from the impulse to reconcile those 'class jealousies' with capitalist progress. Marshall's starting point, the assumption from which his economics was built, was not Ricardo's 'commodity' the independent worker.

Starting from class adhesiveness it could be deduced that the reconciliation of class jealousy and progress would require reform but of course reform had to be practicable otherwise rather than the salvation of the system it would be its destruction. Caution on this point would give Marshall's economics its strength while, exactly because it was a focus, and so too narrow, it also allowed the broader criticism made by Kidd. The focus did allow an analytical framework, a calculus of the practicable (hence simultaneously limitation), that would be compatible with the continued growth of the 'National Dividend'. This may have been a narrow gauge on which to run future progress but it was at least a gauge.

However narrow it may have appeared, Marshall still saw an important role for economics in the relation of the classes. It had to take up a more active role than hitherto. We can see this in his address to a *Committee on Social Education* established by the *Charity Organisation Society*. In this address, *'Economic Teaching at the Universities in Relation to Public Well-Being'* Marshall asked his audience to consider 'What is the national interest in the supply of trained economists?' (*Charity Organisation Review vol 13 NS* Jan-Jun 1903 p.34). This general query regarding the usefulness and position of economics in society was given urgency, said Marshall, by the development of world economy, the expansion of international relations and increase in size of establishments; the

result of these developments was to intensify 'social problems and the human aspects of economics generally, especially labour problems' (ibid. p.35.).

Marshall regarded the 'present age' as one 'full of hope but also of anxiety.' While there were strong social and economic forces capable of bringing good they were 'uncertain in their operation'. An important example of future uncertainty lay in the 'rapid growth of the power and inclination of the working classes to use political and semi-political machinery for the regulation of industry.' This power could give great benefit with the right guidance, but it could equally cause great injury, 'if guided by unscrupulous and ambitious men.' (ibid p.37-8).

In this context of an uncertain future, hope or anxiety, there would be a special *social* function for the economist. There would have to be 'a larger number of sympathetic students, who have studied working class problems in a scientific spirit' and when they are older and more mature 'they will be qualified to go to the root of the urgent social issues of their day, and to lay bare the ultimate as well as the immediate results of plausible proposals for social reform.' (ibid p.37-8). The Universities had an important role with 'generous thoughts' and 'social training' they would 'help one social class to look at things from the point of view of another social class.' (ibid p.40). Indeed, claimed Marshall, experience in America and in England had shown,

> 'that the young man who had studied both sides of labour questions in the frank and impartial atmosphere of a great University is often able to throw himself into the point of view of the working man and to act as interpreter between them and persons of his own class with larger experience than his own.' (ibid p.40) To which he added that, '..this is of special importance now that power has passed into the hands of the working classes' (ibid p.40)

Marshall explained the significance of economics as deriving from a social context that he regarded in broadly similar terms to Kidd, characterised by potential if not probable rupture. In this context the economists would be pivotal, holding a

position between the classes, ready to translate working class aspirations into 'practicable' programmes. This set up economics as a science in a quite different way than envisaged by Ricardo, in that while it would be objective lying between the classes, it was no longer objective in the sense of elucidating natural and inviolate laws. Even if Marshall had not fully rid himself of the latter conception he had undermined it when he criticised the classicals for assuming the working class as a constant as if a 'commodity' and had outlined a new role for economics that took account of a subjective element in the social field, the class jealousies of the working class. The political would be subsumed within the economic through the new role that would be filled by a new character in the drama of social order - the economist.

However, while he did have a scheme for the social, with the economic appearing to dissolve polarity, Marshall had not satisfied the demands that Kidd felt a new social science should have taken account of. For Kidd the arguments in defence of the market and in defence of limited reforms could not delay the influence of Marx. It was the self-interest of the working classes, especially in the abolition of poverty, that stood behind the success of Marx. It was as Kidd recognised a 'materialist evolution.' Marshall had himself recognised the problem of poverty and like most reformers of the late nineteenth century regarded it differently from the classicals. Of the Residuum, i.e. poor usually out of work, Marshall said, 'No doubt their physical, mental, and moral ill-health is partly due to other causes than poverty: but this is their chief cause.' (Marshall 1920 p.2). So poverty was not for Marshall the moralizing necessity to labour but was a condition that demoralised (ibid. p.3). This was central to his support of some interventionist reforms of the market. We shall see however in his view of reform and its relation to poverty and the residuum that there was a potential gap in his scheme. We shall use this to specify Kidd's more general complaint about the inadequacy of economics. The problem was that for the class struggle to be domesticated then reforms addressed to the problem of poverty would have to

ensure that the potentially autonomous political was still subsumed within an economic sphere. If, though, reforms were inadequate and allowed poverty to remain as the starting point for the break-up of the political and economic then the social order would not in the long-run be viable.

Along with other reformers, of his time, Marshall believed that poverty was essentially an outcome of the conditions in the labour market. From this it followed there would need to be an analysis of surplus labour or unemployment. Through unemployment poverty could be analysed. Marshall's observations on the London labour market demonstrate how his theory lead to specific administrative proposals. There was a superfluity of labour in London and 'misery drives [them] to work for lower wages than the same work gets in the country.' (Marshall in Pigou ed 1966 p.144-5). He suggested that a large number of the poor should be removed to specially set up farm colonies in the countryside. These workers did not need to live in London since the needs they supplied were not specific to London. Such industries only survived in London, where other costs were higher, because their workers, 'scattered' were most 'at the mercy of the unscrupulous employer.' (ibid. p.145). Moving these workers to 'a colony in some place well beyond the range of London smoke' (ibid p.149) would remove their competition (in the supply of labour) and allow the demand for workers, truly needed in London, to raise wages. (ibid p.148).

Marshall's administrative proposal for the London labour market were essentially the kind he considered practicable within his science. As with C.Booth his proposals tended to involve some form of administrative intervention in the structure of the labour market. Typically they favoured the stratagem of the administered labour colony as the means of separating the weaker, perhaps more dissolute, part of the labour market from the respectable in order to enhance the position of the latter. Whatever the ameliorative effect of such administrative proposals they were by their nature liable to appear as part of a piecemeal

process.

The problem for Marshall's economics was in the definition of what was practicable; it contained an ambiguity that we need to illustrate. The point of the term was that it sought to reconcile reform and the market to prevent the springs of vigour from choking. Looked at in terms of the operation of the market this may have been clear but there was another aspect since the practicable was conceived as part of a middle ground between the two different classes. In the latter guise it was the alternative to a movement to socialism in which the priority was the preservation of political order. The ambiguity lay in the potential conflict between the economic requirements of the market and the political requirements of order. To what extent could or should a technical economic judgement be overridden by the wider political judgement? Inappropriate reform would choke the springs of vigour but so also could full blown 'ironbound socialism' arising in response to inadequate reform. To ask what was practicable could at times be compared to asking 'how long is a piece of string.?' There was nothing *intrinsic* to Marshall's economics that tied the practicable into the social question. This was especially clear in the case of poverty.

Consider an instance of Marshall's policy advice. In February 1886 a demonstration over fair trade turned first into a demonstration on unemployment then a riot that shocked respectable society. In the aftermath Marshall wrote a letter to *The Times* headed *Political Economy and Outdoor Relief* (*The Times* 15 Feb p.13) in which he questioned the extent to which political economy could condemn outdoor relief. He conceded that outdoor relief would encourage those who did not wish to work but then went on to condemn an excessively hard policy. The grounds for this condemnation were not however economic. He reported from his own experience of 'Socialist lectures' at which the 'amused smile' of the working man at oratorical excess disappeared at the mention of the cruelty of cutting off outdoor relief and then, 'every face flashes and every eye

gleams.'(ibid p.13). It is significant in itself that Marshall was attending such lectures and observing the responses of the 'bona fide working men'. And from his letter it was clear that in this instance the practicable referred to the problems of order. He went on to warn his readers that,

> 'The question whether we are to have order or tumult will be decided not by the well-to-do and not by the residuum, but by the honest working man. A policy which tends to enlist his sympathy with those who are no friends of order is either a great duty or a great blunder.' (ibid p.13).

The conception of a potential middle ground was a central element in Kidd's analysis and it was also important for Marshall but was not integrated into his economic analysis. Marshall supported outdoor relief but only under circumstances that would prevent it becoming a substitute for market directed work. In particular he advised that,

> 'The pay should be enough to afford the necessaries of life, but so far below the ordinary wages of unskilled labour in ordinary trades that people will not be contented to take it for long, but will always be on the look out for work elsewhere.' (ibid. p.13).

His proposed limitations on outdoor relief highlight the problems his view of reform inevitably contained. Some measures of reform would decide the issue between 'order and tumult', however reform had to be consistent with the market economy and this opened up potential conflict between 'duty and blunder'. He had suggested that the task was to secure the honest working man and yet all he offered was a policy based on wages 'so far below the ordinary wages of unskilled labour'. If the practicable was to secure order then to what extent would it have to trespass on duty to avoid blunder?

Kidd had identified the ultimate source of the influence of Marxism as poverty and it was not just Marshall who had identified this poverty as a phenomenon of work itself. There was, for many, no clear division between being in or out of work. This was part of the organisation of work itself. To what extent could interference in the market to eliminate poverty be successful when that poverty was produced by the market itself? Kidd of course advocated reforms but

more importantly he advocated a religion tied to 'nation-making' that would sanction sacrifice by the individual for the general interest in progress. His vision was of a whole system in which the individuals would have their part. This broader view enabled him to take a view of the limit of economics as an inadequate alternative to the threat posed by Marxism. According to Kidd's diagnosis poverty persisted outside 'narrow economics' since it remained the fount from which the threat to the system was sustained; it was the source for the tendency of the political to break away from the disciplines of the economic. Since poverty had ramifications outside economics, the movement that sprang from it required, said Kidd, an ultra-rational sanction if it were to be contained. Reform might be necessary but not sufficient without the enveloping religious sanction.

The limitation of Kidd's system was that it lacked adequate means of determining the line between the outworks and the core. If we look at this from the viewpoint of Marshall we have the same problem but with a different emphasis. For Marshall it appeared that reform must not encroach on the core, the 'springs of vigour' but it would appear that the core had no end. Kidd may have been explicit about the need for a system built around the question of social order but his system remained as limited as Marshall's economics. In stressing what he felt were the requirements of order (progress) Kidd ultimately left the conflict between the political and the economic untouched. His rejection of economics was *ad limine*. He did not inhabit the economics that he rejected but rather knew its limitations from the outside. Ultimately this is why Kidd remained a secondary thinker. In knowing the limit of economics he also had to accept them and in doing so had to accept the separation of the economic and the political. Kidd's advocacy of religion as re-establishing the relation of individual and general through 'sacrifice' may have identified the requirement for a general system but it had not done so in terms of a clearly worked out economic system and without the latter it could not specify the limit of reform in practice. The

concept of 'sacrifice' recognised the requirement that poverty should be internalised to the system, as it was for Ricardo, but it did not achieve this internalisation; it offered an alternative to economics rather than a development of economic thought.

While Marshall's thought was more rigorous it still had a serious gap in that poverty was caught in two frameworks, discernable in the ambiguity of the term practicable. What should hold precedence, the stipulations of supply and demand or the stipulations arising from the demands of social order? Marshall himself may have favoured the role of limitation but there was nothing intrinsic to his analysis by which the broader political concern could be contained. His economics was only a determination of limits. In short it did not as Kidd objected provide a new system at the social level. If reform could be lead by this question of social order it was still potentially without end. Or from the other viewpoint reform for social order could be destroyed by economic argument hence leading to chaos. Although poverty was important to Marshall's thought it was not intrinsic to how he conceived the economic. This point will be clearer when we compare him to Ricardo.

Marshall, Kidd and Ricardo

We can compare the mutual limitations of Marshall and Kidd to the complete vision of Ricardo. For Ricardo poverty was the centre not just of the economic operation of the market but also of its political order. Poverty was opportunity for the worker; it was freedom from paternal control and so allowed the moralization of the worker and hence the production of the independent worker. This in turn was the basis of a political order in which the worker's interests in continued progress, allowed expression through democracy, would prevent the obstruction of progress that was always liable from the partial interests of those in receipt of property income. Poverty as the condition of the independent worker was at once the basis of the economic and of political order.

Through poverty the political was contained in the economic, constrained by contact with natural laws.

For both Marshall and Kidd poverty appeared as a condition of loss for the worker, as a condition of dependence, out of individual control and hence the starting point of a collective, alternative, social project. In this new circumstance Ricardo's containment of the political within the scope of the natural economic broke down. The new situation that both Kidd and Marshall attempted to deal with was one in which the future was uncertain as the political and economic broke apart. The term 'practicable' used by Marshall and other reformers appeared to contain the political in the economic again while allowing reforms. Yet there was nothing in the term that dealt theoretically with the class relation. Each side remained a threat to the integrity of the other. Determining the possible, as Marshall planned for economics, was also implicitly a recognition that the political had become independent. While this may have been a feasible relation at the time Marshall considered it, Kidd had pointed to the deeper problems to come that this economics would not contain. The desired relation of the political to the economic implied by the 'practicable' may have been one of subordination but this was still more in hope than in theory. While Kidd had not been able to provide a real alternative to Marshall he had at the least indicated that economics as a system of social order needed to come to terms with a new social force that had removed the future from its scope, a force whose potential threatened to fill the future with different designs.

From here to Keynes

In order to end this chapter I will anticipate later arguments by briefly suggesting how Keynes may be seen as dealing with the problems faced by Kidd and Marshall. Keynes preserved Marshall in the sense that he recognised the importance of economics. It was not enough simply to offer an alternative to economics as Kidd appeared to suggest. On the other hand Keynes did recognise

the demand for a broader more social systematisation as Kidd had identified. The need then was not for an alternative to, but rather for an expansion of, economics.

An important starting point for Kidd was his Law of Retrogression. The solution to this was to find a rallying middle ground based on a social policy that would reinvent the required relation of the individual to 'progress'. This sacrifice would be sanctioned within a religion. The relation identified in this Law of Retrogression was a relation between short-run and long-run but this was something more than merely two different time frames. The political element, the threat of autonomous political development, meant that the short-run could no longer be regarded as being safely subsumed within the laws that constituted the long-run but rather had to be dealt with in its own right, requiring the development of policy to replace the influence of natural laws. Kidd's message could perhaps be paraphrased as 'in the long-run we are all dead'.

For Keynes the short-run was unemployment and from it sprang the dangerous polarization that threatened catastrophe. Like Kidd, Keynes identified a need for a middle ground. And like Kidd he also saw a need to give up on the outworks to save the system as a whole. He recognised the limitations of the existing economics in providing that ground. As he pointed out in the GT the advice of the economists was with one exception, Robbins, out of step with their theory. Significantly, it was Marshall's follower Pigou who epitomised this gap between, on one side, policy advice based on an assessment of the wider circumstances as we saw with Marshall above, and, on the other side, a rigorous economic theory from which the policy advice did not follow. Keynes did not dismiss pragmatism but rather viewed it as something of a salvation,

> 'it is not unlikely that English principles of compromise will mitigate the evils of the situation by leading statesmen and administrators to temper the worst consequences of the errors of the teaching in which they have been brought up by doing things which are quite inconsistent with their own principles' (CW vol XIII p. 492)

By its nature, however, pragmatism was not sanctioned by theory. While

pragmatism clearly recognised a priority over what could be sanctioned by economic theory, in its existing form, it was nevertheless limited since in practice this priority could be fragile in the face of demands for the orthodoxy. Economics continued to exercise an influence even where it was discredited by the departures of policy advice. The 1931 crisis, when orthodox budget concerns clashed with social policy epitomised the eventually disastrous influence of an economics constructed from individualism. We shall deal with this more substantively later.

For now it is sufficient to note that in Keynes's development of economics unemployment was internal to the theoretical (hence policy) system; he intended that this would be the *theoretical* middle ground that would dissolve the potentially catastrophic polarization between the extremes of radicalism and orthodoxy. The concept of unemployment was central since it contained poverty, and non-poverty, in itself. Through this the state had the means to contain the potential for an autonomous political sphere within the disciplines of the economic. An economics that made unemployment internal depoliticised poverty; needs that had appeared to require a radical departure from the economic realm could now be contained within it again. In this sense Keynes not only supported measures for the middle way but provided its science, indeed the science that Kidd had seen as an alternative to Marx. Keynes himself was conscious of this in that, like Kidd, he believed that an alternative to Marx required more than a refutation of Marx; it required a real and systematic alternative to the Ricardian system. In an echo of Kidd's Law of Retrogression Keynes observed that

> 'Marxism is a highly plausible inference from the Ricardian economics, that capitalistic individualism cannot possibly work in practice ... if Ricardian economics were to fall, an essential prop to the intellectual foundations of Marxism would fall with it.' (CW vol XIII p.488).

To Bernard Shaw he boasted that as a result of the work he was doing on *The General Theory* '...the Ricardian foundations of Marxism will be knocked away.' (CW vol XIII p.493.)

Keynes's work can be seen to answer the case made by Kidd in that it provided a science of the short-run for the middle ground through a theoretical re-subsumption of poverty within the concept unemployment, within the economic sphere. This subsumption could re-create the political foundations of the system and so allow the neo-classical system to come back into its own. In this sense Keynes also completed the work of Marshall by developing it to allow a full dissolution of the political within the economic. Before we come to treat Keynes in detail we will first examine attempts to include unemployment within the economic after Marshall and prior to Keynes's own work. This we will do through an examination of W.H.Beveridge.

6. Beveridge and the Application of Science to the Social Problem of Unemployment.

In previous chapters we saw that the Charity Organisation Society was the departure point for a process of reform that eventually led to the welfare state. We traced this process through Canon Barnett and Toynbee Hall. We will now consider the next stage in which the social problems recognised at Toynbee Hall became integrated into a framework of economic theory from which followed consistent policy proposals. William Beveridge brought the social problems identified at Toynbee Hall within the scope of economic theory; for this reason Beveridge is an important figure for investigation. With the publication in 1942 of *Full Employment in A Free Society* Beveridge's reputation as the leading social theorist of his day as well as being one of the founding influences on the welfare state was consolidated. In this definitive work Beveridge set out to integrate social and economic policy by devising a social policy to which Keynes's *General Theory* provided the structural edifice.

Previous to his proposals for the fully developed welfare state Beveridge had been the advocate of state insurance and labour exchanges, two proposals that had been successful in shaping the Liberal reforms of 1906-11. Beveridge's policy proposals were developed from his earlier work at Toynbee Hall and in administration on the Central Unemployed Body for London and then developed theoretically in his *Unemployment: a problem of industry* (1909). This work, even after Keynes, has remained influential in its identification of different types of unemployment and its relation of them to characteristics of the economy as a whole and of the labour market in particular.

From the start of his career in social reform Beveridge declared his

determination to uphold science in relation to social issues, 'I wish to go to [Toynbee Hall] because I view [social] problems in a scientific way - a hindrance to the future prosperity of the State.' (in Briggs and Macartney 1984). His claim to science appeared to be a denial of the relevance of social developments; in his autobiography he referred to a lecture he had given in 1938 in which he explicitly rejected the notion put forward by Harold Laski that insurance was a ransom to buy off the social revolution,

> '..some of my friends of the Left tell me that progress comes only through frightening the governing classes- they say that [insurance] came so. This does not accord with my memory of how this revolution in particular happened.' (Beveridge 1953. p.264).

Instead he pointed to the fact that the great reforms had come from the power of science, in the administrators, in the Royal Commission of 1906-9, and that he found it difficult to see the ransom motive anywhere. This is crude for it supposes that science could have no part in the response of the governing classes to the rise of a working class. It supposes that the only response of the governing classes could be haphazard ransoms rather than reasoned reorganisation of the social system. It would make more sense to argue that a strategy to assimilate the threat of class formation would necessarily require something more than reactive ransoms. We have already established that those who preceded Beveridge at Toynbee Hall had seen their project as one not just to overturn the political economy of Ricardo but also to construct a viable political economy; they required a new science. Beveridge who had taken up the call for an empirical social science took for granted the history that had lead to his demand for facts, an history that was inseparable from the working class - a point made quite clear by Toynbee in his attack on orthodox political economy - and that therefore formed the hidden assumption of Beveridge's science[24].

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[24]In his 'Charles Booth and Labour Colonies, 1889-1905' *Economic History Review,* 21 (1968) John Brown takes up the issue of hidden assumptions in the early social scientists and argues that 'The main weakness .. of Charles Booth, and of the Webbs and Beveridge who tried to emulate his example, is that their belief in a scientific approach to policy made them unaware of the preconceptions which they brought to their social investigations and which influenced the results they obtained'(J.Brown 1968 p.350). His article sets out to explain the 'neglected moral

An important implication of the claim to science was that a neutral body of knowledge was being discovered and then employed in the construction of policy. This was congruent with a central feature of Beveridge's work, his stress on the role of the expert administrator for whom the body of science was essential. This stress appears at first glance to distance Beveridge from Toynbee Hall; he was critical of some of the activities at the hall remarking that he was as distrustful of, 'the saving power of culture and of missions and of isolated good feelings as a surgeon who distrusts 'Christian Science''. (in Briggs and Macartney 1984 p.61). This could be interpreted as a clear contrast between Beveridge, as surgeon, and Barnett, who had propagated the power of culture, as the Christian Scientist. Beveridge dismissed the notion that, 'small doses of culture and amiability' could remedy 'colossal evils' (ibid. p.61) and instead advocated that Toynbee Hall and kindred institutions should be 'centres for the development of authoritative opinion on the problems of city life.' (ibid. p.61)

It was, nevertheless, Barnett who had appointed Beveridge as sub-warden at Toynbee Hall and who had then made him editor of the *Toynbee Record*. Barnett, as we have seen, was influenced by Arnold Toynbee's attack on the political economy of Ricardo as being ignorant of facts. One of the early attempts to collect facts about working class existence in the East End had been Henrietta Barnett's investigation of family wages and Barnett himself, in 1903, declared that,

> 'Society needs facts and not sensational stories, facts as to children's underfed and ill-fed bodies, facts as to the workmen's use of their leisure, facts as to infant mortality, as to the necessity for casual employment, as to the damage to homes from women's trades. Society, in a word, needs the knowledge necessary for scientific treatment by philanthropists and public bodies.' (Barnett *Toynbee Hall Annual Report* 1903

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assumptions'. While he demonstrates that value judgements based on concerns about character survived, Brown still accepts uncritically that the study of the facts of poverty was, if shorn of these value judgements, truly scientific and in doing so misses the crucial social history in which the conception of what was scientific was changed as various thinkers attempted to come to terms with new circumstances.

p.8 in Briggs and Macartney 1984 p.62)

For Barnett the need for facts was related to the development of 'scientific treatment' and, just as for Beveridge, he understood this as necessary for a new role for the state, 'The East End demands well thought-out schemes of relief and of government.'(ibid. p.8). For Barnett, Beveridge's work, with its emphasis on an empirical social science and on the role of the expert, was a continuation of the work of Toynbee Hall.

The stress on facts and evidence was crucial to Beveridge's claim to science but it was also crucial to the social changes focused on Toynbee Hall. The stress on facts was not just factual; it was rather a necessary stage in the dissolution of Ricardian political economy in general and the Charity Organisation Society view in particular and as such had an important social significance. Where the Ricardian view had outlined the natural laws of the system it had treated periods of adjustment as temporary and so the 'facts' within this period were also temporary. To have started from these facts would have imparted to them a greater significance than they merited and been detrimental to the general interest. In this classical system the circumstance of the worker was a result of individual decisions taken in the context of the natural laws. It was then character that determined circumstance. When Barnett, and reformers associated with Toynbee Hall, stressed the importance of 'facts' they were accepting a new social significance for facts that were previously treated as temporary or simply the consequence of moral turpitude.

The stress on 'facts' was an integral stage necessary in the evolution of the view that circumstance determined character and hence the change in the concept of poverty and the role of the state. The issue then is not whether Beveridge was scientific nor even whether he could claim his science to be neutral but rather what was the social context in which he expected a neutral science to function and what was its function? The social context had changed from Ricardo's day when

specific assumptions about the social material held, enabling an objective natural science. This change in the role and position of science followed recognition of a social potential arising from the process of class formation.

Another element in Beveridge's scientific work was that it left behind the approach of the COS in which the individual was the focus for case-work. At Toynbee Hall there had been an important shift in the approach to the relation of individual and society. The shift allowed the view that character was itself a result of conditions. This required investigation of, and explanation of, the social in order to grasp the actual conditions. In this sense scientific referred to the move from individual stories to both social research and theory concerning conditions beyond the control of those individuals. This was science not in the sense of discovering natural laws but in the sense of discovering regularities within particular events.

For Beveridge the stress on evidence was essential because through it the suppositions of political economy could be questioned. Beveridge described his decision to go to Toynbee Hall as the 'best choice of occupation I could have made' since it gave him a 'special knowledge' that was the basis of all his future work and indeed advancement in his career (Beveridge 1953 p.20). Toynbee Hall was Beveridge's entry point to the world of evidence firstly because of the contacts it gave him with other reformers and their contacts in the East End but also because it was the means by which he became involved himself in administrative functions. His administrative experience especially on funds set up for the unemployed was the basis of much of what he learnt about the problem of unemployment.

In 1903 at the suggestion of Canon Barnett a Mansion House Fund was revived to deal with the problems of 'distress' that were evident in London. Beveridge had an important role on the Committee although he was not to stay

long, nevertheless he would later claim that his experience in conducting interviews for the fund was formative of his later thought,

> 'I was set to learn about the main economic problem of those days, not from books, but by interviewing unemployed applicants for relief, taking up references from former employers, selecting the men to be helped, and organising the relief work' (Beveridge 1953 p.23).

It was from his knowledge gained of many particular cases that Beveridge was able to confirm the reversal of what had been the orthodox conception of the relation between character and circumstance. He reported in *The Problem of the Unemployed* (1906), that unemployment was real and that this was proved by the

> 'documentary and other evidence accumulated in the administration of the Mansion House Fund 1903-4 and the London Unemployed Fund 1904-5, showing that considerable numbers of men, individually certified by their employers to have been competent workmen in the near past, were unable for long periods in the last three years to obtain employment.' (Beveridge 1906 p.324).

The significance of unemployment being real was that it could not be put down to accident, to particular firms going bust nor to 'personal character alone, i.e ..complete unwillingness or unfitness for work.' (ibid. p.324). This reversal of the orthodox perspective lead him to a new inquiry that would have been impossible within the bounds of philanthropy; it was in this period that he began to ask himself persistently, 'what had gone wrong with economic laws in East London?' (Beveridge 1953 p.24).

Through the work of Beveridge, thought on social policy was able to complete the movement from the explanatory power of character to the explanatory power of circumstance, 'the inquiry must be one as to unemployment rather than the unemployed.' (Beveridge 1909 p.3) This then lead to an empirical investigation of the actual operation of the economy and to a classification of the causes of unemployment, 'Classification of men according to their unemployment is, strictly speaking, an impossibility. The only course of action is to classify the causes of unemployment themselves.' (ibid p.3) Classification secured a sound basis for consistent policy proposals. This was what Beveridge defended as

science. It was the outcome of a shift from a moral investigation of the personal, 'Unemployment is not to be explained away as the idleness of the unemployable' (ibid p.12) to an empirical investigation of a specifically economic phenomenon, 'the inquiry must be essentially an economic one.' (ibid p.3)

Once he had started on an economic investigation, to look at the operation of economic laws, Beveridge had to examine the forces of supply and demand, 'The evil to be analysed is, in technical language, that of maladjustment between the forces of supply and the demand for labour.' (ibid. p.3) This implied the need for an examination of equilibrium. Unlike modern approaches Beveridge, perhaps freed from the curious focusing engendered by chalk diagrams, argued that disequilibrium of supply and demand in labour was not surprising nor out of the ordinary. The demand and supply were of quite different origins, the supply was related to the population and this was not only 'a fairly fixed quantity' (ibid p.4) but the actual quantity was fixed by 'the habits and actions of millions of disconnected households a generation back.' (ibid p.4). On the other hand demand was made up of the aggregate of demands in the present and this, 'fluctuates with the fortunes and the calculations of the host of rival employers.' (ibid p.4). From this he drew a simple conclusion, 'Discrepancy between two things so distinct in immediate origin is obviously possible. The problem has merely to be stated in order to shatter the simple faith that at all times any man who really wants work can obtain it. *There is nothing in the existing industrial order to secure this miraculously perfect adjustment.*' (ibid p.4 my emphasis).

Although Beveridge described his investigation as one into the imperfections of the market it should be clear from the previous quote that he considered the scale of the problem as far greater than 'imperfections' would suggest today. Beveridge accepted that forces of equilibrium did exist and that they 'tend in the long run to adjust supply and demand in regard to labour as in regard to all other commodities.' (ibid p.4). Consistent with this he also rejected

any possibility of a general over-production arguing that it is 'strictly speaking an impossibility. The satisfaction of one need is followed by the immediate growth of another..' (ibid p.5). However Beveridge saw imperfections not as obstructions to the proper operation of the market but as failures of the market itself.

The adjustment process that Beveridge referred to was 'long-run' and he was able to make the case that a general failure in this regard did not occur. Industry had not lost, he argued, its elasticity, competition for work will also expand the work available. He rejected technological unemployment as a long-run trend on the ground that wages were tending to rise and this suggested a rising demand for labour notwithstanding intervening fluctuations. So Beveridge could conclude that

> 'There is no general want of adjustment between the natural increase of the people and the expansion of industry, between the rate of supply of fresh labour and the normal growth of the demand for it.' (ibid p.12.)

Since he rejected this general long-run problem his investigation into causes had to focus on the possibility of imperfections, 'There are specific imperfections of adjustment which are the economic causes of unemployment.' (ibid p.12). It was the timings of the respective processes of adjustment that were important. The causes of unemployment became important matters for investigation when adjustment was not instantaneous or indeed if it was not quick enough to be of any practical benefit. The longer the process concerned then the greater the likelihood of another intervening factor to put off further the adjustment. Although it was imperfections that he investigated, their effects added up to a general condition, 'The forces which constantly tend to adjust demand and supply work only in the long run. There are forces as constantly tending to disturb or prevent adjustment...' and crucially these counter forces often had, 'a run long enough to determine the fate of individuals.' (ibid p.14.). The imperfections were effectively general in their effect because they undermined the independence of the labourer. The investigation then was of a short-run, an actually existing situation, and although this was not yet specified as in Keynes it was defined in terms of the

inability of individuals to meet their needs within the system. In this regard the imperfections were not frictions of the market in the sense of its proper operation being prevented but were rather intrinsic to the commodity market in question.

The market required administration and only by classifying the causes of unemployment could a rational policy of administration be devised. Such a classification would clarify in what ways administration could, and could not act, and what kind of administration would be suitable. Beveridge isolated three main causes of unemployment to which could be added seasonal variations and personal factors. Of the latter two we shall not say much, seasonal variations said Beveridge were not a question of 'unemployment but of wages' and personal factors were admitted but the point of the exercise was to define the great number of cases that did not fall into this category.

The three main causes of unemployment he set out to investigate were 1. Cyclical fluctuations 2. Loss and Lack of Industrial Quality 3. The Reserve of Labour. We shall consider each of these briefly.

Cyclical fluctuations presented the greatest challenge to Beveridge's analysis because it evaded a clear definition of its cause. There was no problem in identifying its nature,

> 'This fluctuation of industrial activity has clearly nothing to do with the wishes or characteristics of the men employed. It is not within the control of individual employers. It is not limited to particular trades. It represents alternate expansion and contraction in the general demand for labour and is only one aspect of a still more general ebb and flow dominating the economic life of the nation.'(ibid p.41.)

The more intractable problem was to determine an explanation of this fluctuation. Beveridge examined three explanations that he rejected as inadequate. The first of these was the volume of metal currency that acted in turn on prices; he rejected this on the grounds that metal currency had a diminished part in general exchange. The second was the misdirection of productive activity. This though

was inadequate since it could not explain such a general and regular occurrence. The third type of explanation was that associated with J.A.Hobson, that is to say a want of demand for products. There was a great inequality in the distribution of incomes and wealth; for the rich this meant excess income that went on savings that in turn went on investment for productive activity. The goods so produced though could not be bought because of low incomes of the poor, i.e. for the same reason that the excess productive activity was set in motion in the first place. Beveridge rejected this on the grounds that a.) It gave as a cause that which was the cause of economic growth and b.) it did not explain the generality of the over-production, why should excess capital glut all industries alike? It should go into prosperous industries.

The need was for an explanation based on an element common to all industries. Beveridge identified competition as the common element, here the fact of individual decision making inherent to competition would lead to overproduction. When there was a rise in demand it would be,

> 'felt and met not by one producer but by many, and not by many each providing a definite share in agreement with the rest, but by many each acting independently and dominated by the desire to do as much business as possible.... Inevitably therefore all producers together tend to overshoot the demand and to glut the market for a time. This is a result not of wild speculation nor of miscalculation of the total demand; it must be a normal incident wherever competition has a place at all.'(ibid p.59).

While he put this view forward, Beveridge was not so clearly convinced that it adequately accounted for the phenomenon. He concluded this section by making the point that no one theory had been proved. However whatever the explanation it was evident that such fluctuations were inevitable to the system. Their effects were disastrous. He compared the cycle to the rim of a wheel so that at the top of its course, with employment full, all can hold on, 'even the weakest' but as the wheel turns,

> 'the pull on all holding to the wheel becomes ever greater; the stronger, losing little or no employment, or by membership of an expensive trade union get through somehow; the weaker, before or after the very lowest

point drop off.'(in Briggs and Macartney 1984 p.68)

The problem though was that once they had dropped the wheel continued in its motion but now the weakest were further disadvantaged even though trade revived,

> 'they, degenerating through idleness and poverty, lost in the great trough of the non-industrial classes are in no position to profit thereby; their place another... takes' (ibid p.68).

There was an important distinction to be made between 'industrial forces' that decide 'a certain number of workpeople shall be idle'(Beveridge 1906 p.325) and 'personal considerations' that decide 'which individual workpeople shall be thrown out' (ibid p.325). The aggregate and its composition were separable in the first instance but then with the degeneration caused by idleness the mass of unemployables, of casual workers at dock gates, and exploitation of the family's children, all grow, 'Cyclical fluctuation of trade may have economic justification. Its course is strewn with individual disasters.' (Beveridge 1909 p.67)

The next type of unemployment identified by Beveridge was that arising from the 'loss and lack of industrial quality'. This was partly made up of structural unemployment consequent on changes in locality of centres of industry or changes in manufacturing processes. The result of such changes was that established means of livelihood were destroyed. However, despite this effect Beveridge downplayed the importance of this cause of unemployment: firstly changes in industrial structure he said were 'more gradual than is allowed for by popular imagination' (Beveridge 1909 p.114), secondly, he stressed that it was not the initial cause that was important but rather why the worker remained unemployed, 'The cause of a man's being unemployed is not that which led him to lose his first job but that which prevents him from getting another job now.' (ibid p. 114). This distinction between the cause of displacement and the cause of continuing unemployment lead Beveridge to a more general problem than unavoidable structural changes, the maladjustment of supply and demand. This maladjustment arose from the lack of industrial quality, that is to say the absence

of skills and abilities appropriate to the existing demands for labour. This was a serious problem since it could persist even in times of rising trade. It could persist also despite the normal processes of adjustment between supply and demand since this adjustment operated with frictions and delays. There would be some workers who made up 'long-continued unemployment' that was quite consistent with equilibrium processes because these workers were 'not suited for any work with which they can get into touch.' (ibid 115-6) The causes of this maladjustment were losses of industrial quality arising from changes in the character of demand, advancing age, and deficiencies of training. These causes were independent of individual character.

There was another cause of unemployment, the third major classification of unemployment, that was arguably more destructive than the other two because it recruited from the previous two causes and then confined them in ruinous conditions that destroyed any hope for improvement. This third cause arose from the existence of the reserve of labour, or the mass of irregular casual workers. Part of this was what today we would call frictional unemployment 'the leakage of time lost between jobs' and this applied to all trades even at the busiest times. The greater problem arose from the reserve of labour consequent on variations in the demand for labour. This demand created 'a standing reserve of labour, always available though only occasionally employed.' (Beveridge 1906 p.325) Although the phenomenon was evidence of an excess of supply over demand for labour, Beveridge distinguished this reserve from a surplus of labour (ibid. p.325). The casual labourers in the reserve were attached to particular industries and the labourer was 'not individually superfluous, since he is occasionally called on.' (Beveridge 1909 p.77). The problem though was that these workers 'get enough work just to keep them where they are, though it may not be enough to provide a reasonable subsistence.' (ibid p.77) Their patterns of work were irregular, but not by choice but by the circumstance of the industry, and so, rather than strictly being unemployed, they were 'really chronically under-employed.' (Beveridge

1906 p.325). Many workers who had been made unemployed for other reasons found their way into this casual labour force and once there became unsuitable for anything else and hardly distinguishable from the loafer,

> 'The man displaced from his former position by changes of industrial structure or by advancing years finds in casual employment a resource from immediate want - of a kind that paves the way to chronic poverty. The youth ill-trained, the man displaced from his former position through personal fault or inefficiency and the sturdy loafer find in casual employment a livelihood- of a kind that perpetuates and accentuates their various weaknesses.'(Beveridge 1909 p.146)

Casual labour undermined all that was desired of the ideal independent labourer. It set up conditions of life that were too difficult, too unreliable for good character to be of any use,

> 'Men who find their chance of employment not reasonably increased by good behaviour naturally become slack. They work badly; they take the chance of lying in bed now and again, since work is always uncertain but will not be made more uncertain to-morrow by the fact that it has not been sought to-day.'(ibid. p.108)[25]

The pattern of work made it difficult to save so while thrift was a virtue it couldn't be achieved since wages varied wildly from week to week,

> 'How is household expenditure to be regulated on an income which in successive weeks varies as follows: 22s 8d, 40s. 4d., 28s, 22s. 10d., 11s 3d., 7s 3d, nil, nil, 42s. 9d., 4s.?' (ibid. p.108).

Beveridge could argue that character was formed by circumstance, '..casual employment by demoralising men largely increases its own evils.'(ibid p.108) and, 'Irregular work and earnings make for irregular habits..' (Beveridge 1906 p.326). He stressed again and again that character could not be pinned down as the cause of unemployment. Recruits to the casual market need not have ended there as a result of deficiencies of character; even where character could be seen as a selective factor this only affected the composition of the casual market not the aggregate which was determined by the nature of the demand for labour. It would be the weaker, less suitable workers, who would be the first to suffer in

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[25]also, '..conditions of employment in which a man stands to gain or lose so little by his good or bad behaviour make for irresponsibility, laziness, insubordination.' (Beveridge 1906 p.326)

times of reversal of trade and exactly those who would then be the last, if at all, to benefit from the revival; they would not easily escape casual work. The significant causal direction was from casualisation to character and this affected any worker whatever the initial reason they might have entered this market.

If character could not be relied on as the basis for the operation of adjustment then unemployment was a reality that required the development of policy. Beveridge's principal policy proposal was for Labour Exchanges in advocacy of which he proselytized ceaselessly. They would concentrate demand where it was needed, reduce the requirement for an haphazard reserve of labour and so leave no space in which the sturdy loafer could find room for manoeuvre. Policy should reduce the level of unemployment since the latter was, as he said, a 'waste of productive power'. It would be easy to leave the matter there but there was more to this than a 'positive' estimation of policy. Beveridge's concern was more fundamental than percentages of unemployment could suggest, and the success of policy could not be monitored merely by a quantitative measurement of unemployment. Undoubtedly the numbers were important but only as long as they really indicated whether or not the laws of political economy were operating. When Beveridge started his enquiry he asked what had gone wrong with the laws of political economy; it was not their existence that concerned him but rather the manner and conditions of their operation. His aim was to ensure that the laws did operate.

In judging the failure of political economy in terms of whether character really was determinative of the individual's fate Beveridge was assessing the viability of the independent labourer as the foundation of political economy. The concern was far wider than what we would recognise under 'economics'. When he introduced the problem in his 1909 book Beveridge appealed to his readers by stating that, 'The problem of unemployment lies, in a very special sense, at the root of most other social problems.' (Beveridge 1909 p.1). The relation of

unemployment to social problems was intimate because, said Beveridge,

> 'Society is built on labour; it lays upon its members responsibilities which in the vast majority of cases can be met only from the reward of labour; it imprisons for beggary and brands for pauperism; its ideal unit is the household of man, wife and children maintained by the earnings of the first alone.'(ibid p.1).

Unemployment was tied to a conception of society founded on the independent labourer. If that society were to be viable then character would be the determining factor in the fate of the individual but this then required adequate conditions. Moral behaviour could only survive if it was rewarded; so work, the basis of independence, needed to be available. Character, as a basis of the market society, required specific conditions if it were to be achieved, 'Reasonable security of employment for the bread-winner is the basis of all private duties and all sound social action.' (ibid. p.1)

Beveridge must be distinguished from Ricardo on the basis of his empiricism, his short-run concern as well as the concept of unemployment but these differences stemmed from the deeper continuity between the two. Beveridge did not question that the premise of political economy was the independent labourer but did dispute whether the ideal was achieved in practice. In particular, while Ricardo had confidently trusted in the creation of the free labourer, through the abolition of the poor laws, Beveridge found that the market itself was actually an obstacle to the achievement of its own basis. The market supposed free choices leading to appropriate fates but he had uncovered a reversal of this by looking at market processes that were of long enough duration to determine, as he said, 'the fate of the individual'.

If the fulfilment of the individual free worker's duties required the ready availability of work at wages that averaged at a level where independence was possible then administrative measures were essential. In this sense Beveridge continued in the tradition of Ricardo. The independent worker remained central; he was the basis of the political economy and yet he was also a result that had to

be achieved by that political economy. Ricardo had looked for the creation of the independent worker in the teeth of the old poor laws and aristocratic paternalism; he regarded any interventionist measure in this context as backsliding into aristocratic control. Beveridge came after the new poor laws and after a victory for laissez-faire; however qualified it was in reality he could still take it for granted as having been achieved. He also came after the recognition of an alternative social project, a recognition that had set up the conditions for his own project.

Beveridge attempted to devise a consistent overall policy for the state and not for particular circumstances in particular localities. In this light he may be seen as being neutral; he set out to achieve conditions for society. He investigated facts to see the real extent of personal responsibility that was possible. He also aimed at a more efficient use of resources through minimising on waste, the 'leakage of labour power'. There are identifiably scientific features about Beveridge's work - in its generality, empirical orientation, and neutrality. The shift to an economic inquiry completed the shift from the approach of the COS just as it was also a shift to a scientific analysis of a social problem.

We can accept Beveridge's claim to science without difficulty but we also need to qualify it. Science suggests a wholly neutral and value-free exercise. In some sense this held, in that he devised rules that were to be applied across all society and that he set out the science of the proposed rational administration of the labour market. We have also seen though that Beveridge placed labour as the basis of all 'private duties and social actions'. This was axiomatic for his work. Furthermore labour was conceived of by him in terms of the independent labourer acting within the market. He started from specific social objectives and values that carried with them his conception of the proper social system.

His administrative policy was devised to ensure the 'organised fluidity of

labour.' The fluidity would result from the intervention itself. In the 1906 paper he argued that the burden of searching for work should be shifted away from the worker. This is what the labour exchange would do, it would help towards the de-casualising of labour by organising supply and demand; he counted this organisation of the search for work as the '..the most important industrial reform already within the range of practical politics.' (Beveridge 1906 p.330). Administrative reform then would intervene to enable the worker to fulfil his primary *moral* duty.

Even if we accept the scientific status of Beveridge's work we can also argue that Ricardo was scientific, but in a different sense. It is true that we could play one off against the other as if somehow only one of them had the definitively *scientific* science. Is it really true that one of them is right and the other wrong? Or, perhaps they are each entirely incompatible approaches to science in political economy? Here, we have already stressed the continuity between Ricardo and Beveridge. This should not in fact be too surprising a view but there is a difficulty in reconciling two approaches to science in political economy.

Their differences relate to two different contexts, giving two different tasks for political economy. For Ricardo, political economy had to establish a system with its own laws; the task was to establish that laws of political economy did exist when this was what was in question. Ricardo's science, involving abstraction, was appropriate to this task. For Beveridge, the task was different in that political economy was established but was now confronted by a new perspective. The problem had become one of the efficiency of political economy when the disposition of classical political economy to discard surplus population was no longer possible. It is a significant insight into Beveridge's project that his question was not what the laws of political economy were but rather 'what had gone wrong with economic laws in East London?' Policy would achieve the efficient operation of those laws. He explained his science as leading to policy

measures that would promote the conditions best suited to make the economic laws operate and this revealed an important relation that his science held to society, 'It is a policy of making reality correspond with the assumptions of economic theory.'(Beveridge 1909 p.237). The problem was not in the science of economics but in reality itself and policy would set about confronting that problem.

For Beveridge the realisation of the assumptions of economic theory would be the realisation of the model of supply and demand for labour,

> ' Assuming the demand for labour to be single and the supply perfectly fluid, it is not hard to show that unemployment must always be in process of disappearance - that demand and supply are constantly tending to an equilibrium. The ideal for practical reform, therefore, must be to concentrate demand and to give the right fluidity to the supply.' (Beveridge 1909 p.237).

Labour exchanges would be crucial to realising this vision but even these would be insufficient. Other administrative measures would be required. We have seen already that the problem with the existing operation of supply and demand was the creation of the demoralized, casual worker. The remedy of this situation required the establishment of the independent worker. This was the fundamental assumption of economic theory that reality had contradicted and it was this assumption above all others that had to be achieved. In his 1906 essay this point, and its implications, are expressed quite clearly,

> 'The line between independence and dependence, between the efficient and the unemployable, has to be made clearer and broader. Every place in free industry, carrying with it the rights of citizenship -civil liberty, political power, fatherhood, conduct of one's own life and government of a family- should be so to speak, a "whole" place involving substantially full employment and average earnings up to a definite minimum.' (Beveridge 1906 p.327).

The achievement of this condition through state intervention would in turn imply a further set of policy implications for the state, implications that followed from the achieved free market. Once the moral condition was achieved, so political

economy would come into its own again with its laws fully operating; this meant that Beveridge could draw another conclusion for policy,

> 'Those men who through general defects are unable to fill such a "whole" place in industry, are to be recognised as "unemployable". They must become the acknowledged dependents of the state, removed from free industry and maintained adequately in public institutions, but with the complete and permanent loss of all citizen rights - including not only the franchise but civil freedom and fatherhood..' (ibid p.327)

The logic of this position towards the dependent "unemployable" was taken further by Beveridge and generalized to all workers who after the various reforms could still not find work,

> 'To those, moreover, if any, who may be born personally efficient, but in excess of the number for whom the country can provide, a clear choice will be offered: loss of independence by entering a public institution, emigration, or immediate starvation.' (ibid p.327).

While starvation remained the ultimate 'natural sanction' it had under Beveridge become one administrative outcome to be considered.

In both cases, Ricardo and Beveridge, their science had involved the shaping of reality to the assumptions of the science, in this sense both were theorists of the state rather than just economists and both had definite visions for the social order and for the role of the economic within it. Where they differed was in how each understood the extent of state action required. For Ricardo, all that was necessary was to clear away interference in the economy so that economic agents would be exposed to the underlying natural condition; for Beveridge intervention was necessary to ensure an adequate distinction between the dependent and independent labourer, in this framework starvation remained but it was a distant option.

7. Beveridge: The Fate of National Insurance and The Further Development of the Concept Unemployment.

In this section we will be concentrating particularly on insurance. In examining insurance we trace the form of the wage as it developed after Ricardo and then leading up to Keynes. Ricardo's ideal form of wage was the unified wage that entailed full individual responsibility and hence the freedom for moral development. This unified wage would tie the fate of the worker directly to accumulation; it would establish the independent worker whose interest was in the fullest development of the natural, self-regulating sphere, so the political would be subsumed within the economic. Workers would vote for the end to restrictions on capital.

The aim of political economy was to achieve an actual political economy in which the independent labourer really did confront the market as an objective phenomenon, consisting of what were effectively natural laws. Contact with the natural laws was understood in the concept of poverty and it was given institutional expression in the form of the unified wage. Once this contact was established the worker, now independent, was subject to what we have called government by economy. The political would be subsumed within a naturalised sphere; the worker, subject to natural laws, could not have scope for autonomy. Political economy, in theorising the worker as relating to the system through the wage, was a distinctive element in the constitution of the state and as such its presuppositions in theory would require a corresponding living content. The foundation of the political economy both as theory and as social form was a particular relation between subject and objectivity epitomised in the figure of the independent labourer. The new poor law of 1834 set out to secure the required relation between subjectivity and objectivity; it aimed to secure the independent

labourer by making a sharp administrative distinction between poverty, the freedom of the labourer, and pauperism, the state of dependency and loss of freedom. Although not exactly what Ricardo would have wished for, this legislation was not a radical departure from the ideal of the independent worker that he had envisaged.

The desired relation would not be achieved merely by legislation; the poor law was concerned with the establishment of a whole moral world constructed around the figure of the independent labourer. Individual responsibility was the key to this moral world and would be expressed in regular work, sobriety, thrift. This moral world required the formation of the labourer as a social atom, seen positively as independence. The objectivity of political economy, both theoretically and practically, depended on this social atomism. Atomism, appearing as the independent labourer, was a category of political economy as theory whilst also requiring a living content for it to be established as a viable social form.

Political economy had to impose itself as a social form. This meant that it not only had a content of categories but also a living content and this implied then that if there was development in the living content there could also be development in the categories of political economy. The development though would have to be consistent with preserving what was considered the core. Beveridge was a good example of somebody attempting to deal with the problem of change and continuity; he took on a concept of involuntary unemployment that would have been irrelevant to Ricardo's vision but nevertheless Beveridge was just as concerned to secure the independent labourer. Beveridge was a defender of laissez-faire yet he also believed that the state had to be active to secure the conditions necessary for the efficient functioning of and so the survival of laissez-faire.

We have seen that Beveridge's work involved a formalization within economic theory of the problems raised by the social question from the 1870s onwards. These changes can be summarised in terms of changes in the concept of poverty; where before it had been the seat of the naturalism of Ricardo's political economy, poverty had become, by the 1870s, a concept of lack in which the threat of a social alternative could be focused as a problem for policy. In classical political economy poverty was the sphere of moral action; the individual was free within only natural constraints to determine his fate. But by the late 19th century the concept had become predominantly understood as an empirical condition which rather than being freedom for moral development was instead understood as formative of demoralised character. In this latter case then the essential premise of classical political economy, its supposed living content, was contradicted; the individual, it seemed, could not be responsible and was not independent. Political economy began to adapt to this new orientation but it did so at first through social reformers and researchers such as Barnett and Charles Booth. A real dependence of the individual was recognised and explained through the analysis of casualisation within the labour market. Poverty then was a result of the market and since it was now interpreted as determining the fate of individuals it was also recognised as the starting point for a collective persona; if the assumption of classical political economy did not hold then the material basis for the development of a social alternative existed. The 'discovery' of poverty was tied up with the threat of a potential for socialism. The point was not though to accept that conditions for the independent labourer were inadequate but rather to seek out conditions that were adequate so to preserve the basis of the system. This required a real process of thought as well as experiment and for the period we have examined, from Barnett onwards, Beveridge was a culmination both theoretically and in terms of his practical model.

Beveridge's work did not reinterpret poverty; he took the reinterpretation for granted. What Beveridge did do was to formalise the new concerns within his

scientific analysis. It was particularly through Beveridge that the concerns of the social reformers, concerns about political economy in practice, became absorbed within a recognisable orthodox economic framework. Through Beveridge unemployment, identified as the chief cause of poverty, had become the subject of a supply and demand analysis without losing its origins in the practical problems of social policy. Beveridge's proposed reforms set out to achieve the individual independent worker. Implicitly his reforms had a political agenda in that his aim was to achieve the natural self-regulating system and so the re-subsumption of the political.

While Beveridge's reforms set out to secure conditions for the independent worker he did not believe that the eradication of unemployment was possible. Labour exchanges and reorganisation of the labour market could reduce unemployment but not abolish it. There were still, for example, cycles of activity whether seasonal or of the economy as a whole. To back up the labour exchanges Beveridge proposed an insurance scheme to cover periods out of work and reconcile the existence of unemployment with individual responsibility. While this was not an easy task, insurance had the makings of an elegant solution.

The insurance scheme was linked, conceptually, to Ricardo's version of the unified wage. Ricardo had advocated the abolition of the poor law but he still recognised that periods out of work were possible, even likely. To cover these he had encouraged Trustee Savings Banks as institutions to collect and administer worker's savings. The savings would become available to workers as need arose. This scheme recognised the need for spreading wages over periods out of work or between periods of different levels of need, i.e. single to family, but it did so while still recognising the primacy of the free relationship of the worker through the unified enterprise wage. In as much as the introduction of savings banks attempted to reconcile a social need in the reproduction of workers with the freedom of those workers in their natural condition this scheme anticipated later

extensions of administration into the wage.

Beveridge's insurance system was designed to fulfil a similar function to Ricardo's Savings Banks in that it sought to preserve the independence of the labourer despite periods out of work. In return for contributions workers would be entitled to benefits. There were however differences between the two schemes and the significance of these grew as Beveridge's system evolved under the pressure of events. Ricardo's system was not an insurance system but involved rather straightforward savings and was therefore fully compatible with the unified wage and the objectivity of political economy. This system required or assumed workers who were capable of savings adequate for periods out of work. We have seen in the previous chapter that Beveridge had concluded that such a basis did not exist, many workers were incapable of savings. While his labour exchanges would help many of them to regular wages he also accepted that this would not always be possible and that in addition the economy as a whole would be subject to fluctuation. Instead of savings Beveridge advised the system of insurance. It would need to be state run and to involve compulsory contributions.

Before we go further we need to explain insurance as applied to unemployment and to indicate some of its implications. Insurance works by socialising risk. We estimate for a large population the proportion likely to succumb to an event (unemployment). This then gives us the general probability but does not tell us the particular incidence of that event. We know the probability for any person is say 0.15 but for any 100 people we don't know which 15 people will be involved. This disparity between what is known for a population and what is known for particular individuals is the first element of insurance. The next is that individuals must be prepared to trade an uncertain future for a certain loss irrespective of the outcome. In effect the people agree to share out the risk prior to knowing its particular incidence. What is known at the collective level then becomes known at the individual level by covering the consequences of arbitrary

incidence. An insurance system for wage earners takes a population of wage-earners and socialises their wage which will then be administered to ensure, give or take the usual adjustments for differences in skills etc, equal shares of the collective wage. The central system for administering the wage can be the trade union or friendly society. The whole wage does not go through the central system since it is only departures from the mean, or standard of consumption, that need to be covered and so the wage need only be administered through adjustments in contributions and benefits.

Beveridge was a supporter of voluntary action but this was not a dogma. His early involvement in issues relating to reform had persuaded him of the necessity for state action if the purpose of reforms was not to be undermined. The insurance system had to cover casual workers not encompassed by voluntary schemes if it was to deal with the problem of unemployment related poverty. The full extension of insurance implied a state run scheme and this in turn implied not just compulsory contributions but the inclusion of previously existing voluntary schemes. In addition calculation of the collective wage, working out contributions and benefits, would necessarily involve calculation of the expected level of unemployment. State run insurance made the aggregate level of unemployment a practical administrative category.

While the insurance system could appear to solve one set of problems it would also set up new problems. Firstly, if a worker had a claim on the fund he could no longer be treated strictly as an independent worker; he was now entitled to a share in a wage that was treated collectively. In formal insurance terms this raised a problem of moral hazard that proved important to the development of the administration of unemployment insurance. A second problem was that, given a state scheme, a political element was built into its operation while its intention was to provide conditions for a self-sufficient economic sphere. The presence of the political element in the scheme meant that decisions concerning social order

or expediency could overrule the requirements of a viable economic scheme. Again administrative measures would be designed to overcome this possibility. However the viability of any insurance system depended on the level of unemployment that in turn depended on the movement of the economy as a whole. If this figure rose beyond the expected level then this would threaten not just the actuarial soundness of the scheme but also its political soundness. This in turn we shall see would lead to compromises with the insurance principle that would require further administrative intrusion.

In the case of unemployment insurance, administrative measures to combat what is formally moral hazard, understood in this context as 'malingering', were concerned to preserve the independent labourer. Insurance works on the basis of an implied collective wage and this poses a problem for the treatment of the worker whose independence is posited in terms of their relation to the system through the individual wage. The problem is to determine how workers can establish rights to the collective wage without undermining their independence. To reconcile the two sides requires administration. One simple measure that preserves the incentive structure is to allow the wage smoothing to be asymmetric, the wage out of work being less than the wage in. Another measure is to establish rules regarding benefit that are strictly dependent on contributions. Also the authorities can set up tests to establish whether genuine need exists and whether applicants are out of work rather than on job holiday. All these measures would be used in various forms in insurance legislation. The system had to be administered in such a way as to preserve the independent labourer.

The central safeguard for the insurance scheme as set out in the 1911 was the contribution to benefit ratio. The actual operation of the market had been demonstrated as not being conducive to the independence of the worker. The contribution to benefit ratio set out to achieve individual responsibility whilst also covering periods out of work. This reform of the wage would, if successful, re-

subsume the political to the economic by ensuring that needs were again related to accumulation rather than being the occasion for collective struggle.

We can grasp Beveridge's project as aiming to secure Ricardo's political economy under conditions totally different from those that Ricardo took as given. In Beveridge, unlike Ricardo, the state took over functions previously performed by individuals.[26] For this to be achieved there had to be a political process. The purpose of the political process would be to gain acceptance for the scheme which through the administrative ratio would then subsume the political. However, as we shall see, while the ratio might have appeared to have achieved the naturalisation of the economy the political would still remain within the administrative process as an element of discretion for a government that felt it had to respond to problems of social order.

The insurance system, as first set up under the 1911 Act, appeared to be actuarially sound in that the relation of contribution to benefits took account of an expected level of unemployment. Nevertheless it was set up with a contribution to the fund from the Treasury, funded from general taxation. A voluntary scheme would not have been possible since the scheme had to cover casual workers who were not previously covered. The desired collective provision necessarily required a Treasury contribution.

We can use the details of the original scheme to illustrate the differences of Beveridge's scheme from the ideal set out by Ricardo. The contributions envisaged were 2½d per worker, 2½d from employers. This element, although made up formally from different sources, was still part of the wage and came to 5d per week. In addition there was the levy from the Treasury that came to 12/3d

[26]We should note though that Ricardo was not against the state's role in principle but was concerned with the general interest and where this dictated the need for state intervention he supported this as was the case with his support for nationalisation of the bank of England.

per week per insured worker. The latter was the political element and was not derived directly from the enterprise.

Individual responsibility can be looked at in terms of contributions and in relation to savings. The first point is that while a ratio of contributions to benefits appeared to preserve an element of individual responsibility it nevertheless also transgressed it. The ideal was for workers to save, taking individual responsibility for future eventualities. In this scheme however the contributions were compulsory, this broke the link to individual saving as a moral virtue. Another departure from moral virtue arose in the relationship of contributions to benefits; the individual position was subsumed in the collective since the actuarial balance of savings and payments was worked out over all the participants to the scheme. So while collectively they could be regarded as savings they were treated individually as contributions. That there should be a link to individual savings was considered important enough for the early legislation of 1911 and 1920 to stipulate that workers would receive a refund from the scheme, of their unused funds, once they reached sixty. This would emphasise individual responsibility but it was scrapped in 1924.

For the individual worker contributions would be unlikely to balance with benefits. The nature of the scheme implied that some workers could pay more than they took out, while others would receive more than they had payed in. The weekly contribution for each worker was 5d; we can include also the contribution from the treasury to make 62/3d per worker per week. The ratio the scheme started with was five weeks contributions to one week benefit at 7s. This meant that for a contribution of 2s 91/3d the worker was entitled to 7s. The proper balance between contributions and benefits depended on the aggregate of those out of work as a proportion of the total contributing workforce.

Treating the wage collectively, to be divided between workers raised a

problem in the treatment of the individual worker. Critics of the insurance system, and indeed its supporters, raised the spectre of abuse (i.e. moral hazard). The scheme had to have controls but in the absence of the natural system these controls had to take the form of administrative rules and so administrative officers. A system that was set up to secure the basis of private duties was also a system that entailed the development of social administration for all the working class. The initial administrative rules were simple enough; there were limits to the size of benefits and to entitlements set by the ratio of contributions to benefits. In addition there was the upper limit that in any one year no more than fifteen weeks of benefits could be claimed, 'Armed with this double weapon of a maximum limit to benefit and a minimum contribution, the operation of the scheme itself will automatically exclude the loafer.' (Llewelyn-Smith, Permanent Secretary at the Board of Trade, see Deacon 1976 p.11) When he defended the scheme, Churchill made a similar point. '.. a workman who will malinger in unemployment insurance .. is only drawing out his benefit at a period when he does not want it instead of keeping it for a period when he will really be unemployed. If he malingers he malingers against himself.' (Churchill in Deacon 1976 p.11). In addition the original intention was that benefits would not in themselves be adequate to live on, so preserving the incentive to make individual savings.

These various measures were expected to overcome the dangers posed by a collective provision. The continued integrity of the scheme depended on two closely related aspects. The scheme had to be politically acceptable and, for any kind of balance to be preserved at the collective level, the proportion of those included in the scheme who were out of work had to be contained within definite limits. In both these cases the level of unemployment was crucial. Rising unemployment would either threaten the actuarial basis of the scheme, upsetting the calculations on which the contribution to benefit ratio was worked out, or as unemployment affected significant numbers of unemployed not entitled to benefits so the political acceptability of the scheme would be compromised. Either way,

the level of unemployment, the macroeconomic aggregate, would become integral to the viability of the scheme.

Ultimately, the fate of the system depended on broad political factors. It had to provide adequate coverage for a substantial part of, if not all of, the working class. With the changes in the economy after the first world war, when unemployment would affect large sections of the organised working class, this issue would become especially relevant and would place the actuarial basis of the scheme in conflict with the achievement of the scheme's political aims. The 1911 act was part of a policy programme recognised by its progenitors as essential to securing an appropriate relation with the working class. H.W.Massingham introduced W.Churchill's speeches in defence of the Liberal programme as holding up the 'good old banner of social progress, which we erect against reactionist and revolutionist alike.' (introduction to *Liberalism and the Social Problem* W.Churchill. p.xviii) The central element said Massingham was that along with a defence of free trade it was necessary to change the role of the state in its responsibilities to the labour market. The new liberalism, argued Massingham, 'assumes that the state must take in hand the problems of industrial insecurity and unemployment, and must solve them.' (ibid p.xviii). Churchill himself in correspondence with Asquith, described the policy as 'a big slice of Bismarkianism' by which he meant the containment of socialism by reform rather than suppression (Churchill to Asquith Dec 29 1908 quoted in B.B. Gilbert 1966 p.251). The German system of insurance had been the inspiration for many reformers. Harold Spender, one of the leading New Liberals, had accompanied Lloyd George on a visit to Germany and wrote afterwards that,

> 'It is not enough for the social thinker in this country to meet the socialist with a negative. The English progressive will be wise if, in this at any rate, he takes a leaf from the book of Bismark who dealt the heaviest blow against German socialism not by his laws of oppression... but by that great system of state insurance which now safeguards the German workman at almost every point of his industrial career.' (H.A.Spender *Contemporary Review XCV* 1909 quoted in B.B.Gilbert 1966 p.257).

As a caution against an overemphasis on this social political motive for the new programme G.Peden (1985) has argued that to group the reforms in this period under the heading of 'social control' should not 'lead one to suppose that one has arrived at a complete explanation of events.' (Peden 1985 p.19) It would also be necessary to look at the debate between free traders and reformers; he goes on to explain this point, 'Edwardian politics were shaped by the division between free trade and protection as well as by the division between Capital and Labour.' (ibid. p.19). Superficially the point he makes is true enough and he is not anyway rejecting the importance but rather the primacy of the dispute between capital and labour. Even so, while different issues did appear with different sets of opponents, it should also be grasped that participants in the dispute between protection and free trade considered their dispute as part of the debate as to how to respond to labour.

All sides linked tariff reform to social policy including its opponents, such as Massingham (see above). Benjamin Kidd, author of *Social Evolution*, described as the bible of social imperialism, was an active supporter of the tariff campaign which he saw as integral to the construction of a social alternative to Marxism. Indeed Chamberlain, W.T.Stead, and other social imperialists supporting tariffs regarded social policy as fundamental. The economic historian W.J.Ashley, another student of the German situation, argued that an insurance system was dependent on tariffs and that reform and tariffs went side-by-side,

> 'This is a great comfort to those of us who are Social Reformers first and Imperialists afterwards; those of us who, in the present crisis of our national fortunes, are such ardent Imperialists that we are ready to risk even the real dangers of tariffs, and to do this just because we are Social Reformers.' (*British Economists and the Empire* ed. John Cunningham Wood 1983 p.189).

As Cunningham Wood goes on to say, Ashley, a member of the Compatriots Club, would have been in meetings regularly not just with Chamberlain but also Milner and J.L.Garvin; these three were as ardent social reformers as they were tariff reformers.

For final corroboration that the separation of these two disputes is not feasible we can return to Peden's own summary of the disputes,

> 'The difference between the Liberals and the Conservatives was essentially about how to pay for social policy (and defence policy): whether by direct taxation or by tariffs. But the Liberal conception of a limited degree of state welfare was one which Conservatives could and did share. It had been the Conservative leader, Balfour, who said that social legislation was not socialist legislation but its most effective antidote.' (Peden 1985 p.34).

So Peden finally presents the debate over tariffs and free trade as ultimately one not even about the extent of social policy but how to pay for it; it was the social question that predominated in the minds of contemporaries.

However while the social question predominated this did not mean that any legislation or policy measures could be introduced to prevent the threatened social alternative. The issue at the heart of the social question was not just a one-sided prevention but also the defence of the existing system. Prevention then was necessarily a much debated issue requiring intelligent theoretical consideration to ensure that legislation and policy were adequate to a complex task. There were no diagrams stored away in some top draw. it was critical to determine, for example, what was essential to the system and what could be changed. Only when this division was made, and this could never be done with certainty, could it be possible to know the degree of freedom available and the necessary discipline to be observed. The insurance system had seemed to be a system that took account of the necessary discipline in that it recognised the importance of the independent labourer while also taking account of the collective threat posed by the development of the working class. It was then quite appropriate that it would be the social question that would predominate in the breakdown of the core of this new social policy, the insurance system.

The Breakdown of the Insurance System.

We have seen that the insurance system had been introduced with a

contribution from the Treasury. This had been necessary to ensure the viability of the scheme. However when the scheme came under more serious political pressure this Treasury contribution became the means by which the scheme adjusted itself to the political needs of the moment, especially in response to the problems posed by growing and then persistent unemployment. Adapting the Treasury contribution avoided immediate confrontation but did so only by transforming the form of the problem. Recognition of need outside actuarially established principles set problems for the administration of the independent labourer. It also eventually posed a double problem for the orthodox view of the budget, firstly in terms of whether it balanced but, secondly, and more fundamentally it would confront this orthodoxy with a significant shift of the budget from being a matter of party political choice, regarding expenditure and hence taxation, to being a function of the economic cycle as a whole and therefore at the centre of issues of order that were beyond party differences. These transformations of the problem instituted new phases of confrontation over administration, with opposition to the means test, and also over the budget itself as orthodoxy's assertion of the principles of sound finance lead to the political crisis of 1931.

The first significant break in the system came in 1919 with the Out-of-Work donation that was suggested in 1914 for ex-servicemen but when brought in was extended to include munitions workers. The rates were generous at 29s. a week for men, 24s. a week for women and included extra allowances for dependents. As a response to the unemployment that arose from the problems of adjustment after the war, the scheme had been extended 'under the threat posed by discharged soldiers.' (see Deacon 1976 p.13).

The policy was an *ad hoc* extension of the insurance system to meet political circumstances. It was not intended as a long-term policy and indeed its violation of the principle of the ratio of contributions to benefits, was regarded as acceptable only because of the special circumstances at the end of the war.

However it was also a response to a political threat raised by the problems of adjustment and this threat had its roots further back than the particular circumstances of the War, in the maturation of the labour movement and would last beyond the immediate adjustment to peace.

In order to retrieve the insurance system after the donation, a committee was set up to investigate insurance in May 1919. It included Beveridge and Sir Alfred Watson. The purpose was to restore actuarial soundness and hence remove the element of political discretion. It decided that the scheme should be extended to provide the coverage that had been originally hoped for. The committee's proposals provided the basis for the 1920 Act; it included all manual workers and all non-manual workers on less than £250 p.a. (with some exceptions, see Deacon 1976 p.14). Its extension across all manual workers as well as some non-manual workers meant that the donation could be definitely ended. The 1920 Act was intended as the definitive piece of insurance legislation with sufficient coverage to avoid the need for *ad hoc* extension.

The political viability of the 1920 Act was inseparable from its actuarial viability. If unemployment remained within definite limits then a large proportion of workers could be covered by the scheme and the political could be contained within the operation of the economic. The benefits any worker was entitled to were not directly related to the wage but they were still tied in a strict proportion to the contributions derived from that wage. There was a limit in the scheme and though it was not truly as automatic as a natural system of individual responsibility, it did at least replicate the automatic in practice.

The independence of the worker appeared to be reconciled with the recognition that the worker had needs outside work. The actual level of unemployment would be crucial in preserving this compatibility; so long as unemployment did not rise beyond the targeted average the fund as whole could

be sustained. The 1920 Act was an advance on its predecessor in having been based on greatly improved statistical knowledge[27]and this had helped its creators in devising a more comprehensive scheme.

In principle the 1920 Act would be able to secure the original intention explained by Churchill to Llewellyn Smith in the course of their framing of the 1911 legislation,

> 'We seek to substitute for the pressures of the forces of nature, operating by chance on individuals, the pressures of the laws of insurance, operating through averages with modifying and mitigating effects in individual cases.' (Churchill quoted in Gilbert 1966 p.273.)

Under the Ricardian system the political was subsumed in a concept of poverty that isolated the worker before the laws of nature, now there were the laws of insurance, more certain in their operation, that preserved the independent labourer by scientific administration.

Both the actuarial soundness and the political viability of the scheme depended on the level of unemployment. The act had hardly been passed before the levels of unemployment began to rise dramatically. It began in November 1920 at 3.7%.

Then shot up;

January	1921	8.2%
March	1921	11.3%
June	1921	18.6%

Worse than the rise of the general figure was the concentration of unemployment, as localised industries were hit hard. In Deacon's estimate, 'Throughout the 1920's nine counties with less than half the insured population provided 70% of the unemployed.' (Deacon 1976 p.15). This concentration had a greater political

[27]This had been one of the important constraints on devising a universal scheme for the 1911 Act and had shown the necessity for an improvement in the collection and interpretation of statistical knowledge.

impact than the average since it meant that whole communities were affected by bleak prospects for work but they had not been able to build up a record of contributions.

The rise in unemployment had not been anticipated by anyone involved in the legislation. It is necessary then before we go further to consider the view that the problem of unemployment after WWI such a different phenomenon from the one Beveridge had believed he was dealing with that any notion of continuity between the two problems should be discarded. The insurance scheme devised by Beveridge had its origins in reforms designed to deal with casual unemployment especially in London but in 1921 those affected by the rise in unemployment were part of well established sections of the working class with traditions of organisation.

Tomlinson (1981) uses the difference between the pre-war and post war unemployment to argue that it would be inappropriate to assume that there was a continuity in the problem of unemployment. Instead Tomlinson argues that 'unemployment as an object of policy is constructed out of diverse elements in diverse conjunctures, never simply as a result of the 'fact' of unemployment.' (Tomlinson 1981 p.13). The difference between the pre-war and post-war problems was not just a matter of quantitative increase; statistical comparison would be misleading since it supposes a comparison of like phenomena,

> 'Underlying such comparisons is the notion that there is a common problem 'unemployment' the magnitude of which varies over time. But the unemployment problem for policy makers of the inter-war period is different in kind and not just degree from the unemployment problem before the First World War.' (Tomlinson 1981 p.14)

As he says the problem pre-war was that of casualisation whilst in the inter-war period it was unemployment concentrated in staple industries amongst core workers.

In an argument made against Stedman Jones and his book *Outcast*

London, but having significance for this thesis, Tomlinson argues that 'all conceptions of "problems" can be seen as having particular conditions of existence (and effects) and these can be analysed as such, without reference to whether or not they represent truth.' (ibid p.17-18). While this may avoid a history or interpretation that posits a superior knowledge and so confines the past to inadequacy it does tend to obscure consistency through change. We have, according to Tomlinson, problems with 'particular conditions of existence'. As he says in his introduction he wants to stress 'the contingent and changing nature of the "problems" which exist for economic policy.' (ibid p.3). The aim of his approach is to avoid any general theory, especially those, based on grand ideas or on explanations spun solely around vested interests, that exclude the details of history in abstract broad sweeps.

Tomlinson may have detected real weaknesses in previous neo-classical, Keynesian or Marxist approaches to policy that have tended to over generalise but his emphasis on particular circumstances also proves inadequate. He is right to emphasise the distinction in problems between the pre-war and post-war problems. This should not though blind us to the continuities. While the problem in London was one of casualisation it was a problem that took on a general political significance just because it was in London. The reformers involved were themselves central, and believed themselves so, to the development of national policy. Lessons learnt in London found their way into legislation, such as for insurance, that was applied across the whole country. In addition, although certainly the problem of unemployment was different in the two periods, there was also an important similarity in that the concept was a focus for understanding the failures of the existing political economy. In this respect the change after the war, when unemployment hit previously regular workers, served to emphasise the political problem as it had been grasped before the war. The legislation devised before the war became pivotal to policy after the war.

Particular circumstances do exist but there are also consistent themes that run through different periods. One theme we have picked out has been the need to form or preserve conditions for the independent labourer. It is in this central figure that we can identify a continuity obscured by Tomlinson's approach. In this figure the problems of poverty and casualisation are joined since it was concern about the viability of the independent labourer that brought about changes in the perception of poverty as a condition. The belief that the labour market should be reformed arose because it was felt that this would establish adequate conditions for the independent labourer. This remained the problem after WWI even though it was undoubtedly of a different order, with the political problem posed by the potential of the collective worker being even greater.

Whatever the variations and developments in circumstance it is possible once we have identified the theme to avoid crude generalisations that ignore particularities by examining how the theme we have isolated was expressed in each new period. We can then also avoid the stress on particularity and contingency that would deny any continuity and leave us a history that has no history to it.

Through our selected theme we can present a coherent history of economic categories. Such a history must pass through particular episodes and particular thinkers and must also be shown to respond to developing circumstances not in terms of some preordained and established abstract plan but rather with uncertainty and renewed exploration of possibility and limit. The theme of independent labourer runs through from Ricardo to the debates of the 1880s to Beveridge. While it is certainly true that the unemployment problem changes in its composition and political implications from pre-war to the interwar period the theme of the independent labourer remains consistent to both periods.

We have seen that prior to WWI the perception of a threat to the

social order had driven the movement to develop policy. After WWI this perception remained but it was now of a more immediate threat with the Russian Revolution as a tangible example of the feared potential for some social alternative. In as much as the problem of unemployment had become more generalised after the war it imposed an additional strain on the operation of the insurance system which with the added political threat would lead to the breakdown of the insurance system.

The impact of the 1921 rise in unemployment was especially great because of the political situation in which it had taken place. The period 1919-21 was perceived at the time as one in which revolution seemed on the brink. The threat had been fed first by events in Russia and then Germany but also by pre-war and then post-war sentiment in Britain. In government Lloyd George set up the anti-Bolshevik Committee. The cabinet received weekly reports 'Report on Revolutionary Organisation in the United Kingdom.'

Unemployment was perceived as a significant contribution to the threat of revolution. The Minister of Labour, T.J.Macnamara, warned in 15 Sept 1921 that

> '..whilst 15/- unemployment Benefit was only a part of the means of subsistence for a good many people last winter, *it will be their only income this winter*... hopelessly embarrassed though our finances may be, the situation is one which has got to be faced if grave disorder is to be avoided. The Communists have, I think, failed this time just as they failed in connection with the dispute in the Mining Industry. But the winter will give them an opportunity the like of which they have not yet had.' (Deacon 1976 p.16).

Also Lloyd George informed the Cabinet in October 1921 that,

> 'No Government could hope to face the opprobrium which would fall upon it if extreme measures had to be taken against starving men who had fought for their country and were driven to violent courses by the desperation of their position.' (ibid p.16)

In his studies of the development of social policy Bentley Gilbert has emphasised the importance of the revolutionary threat to the development of social policy in

this period, the demand faced by governments was not for charity but was an

> 'intractable demand for work or maintenance from society's most dangerous and volatile element, the unemployed adult male. Beside the threat of revolution, nothing else was important.' (B.B.Gilbert 1970 p.viii).

Wal Hannington in his classic *Unemployed Struggles 1919-1936* (1936) shows that while active campaigners may have been a minority their impact was far wider; the campaign was always directed at pointing out the significance of the struggle for all workers. This is related to another point that Gilbert could have brought out; the threat posed by these activists was that they had been organized workers, Hannington was a skilled engineer and ex-shop steward. The unemployed struggle of the interwar years was always joined to the core of the working class.

It should not be too controversial to agree with Gilbert that policy towards the unemployed would be significantly influenced by the judgement that to preserve order concessions in the operation of the insurance were necessary. Once unemployment affected previously established and organised workers and affected them in large numbers then the aggregate of unemployment took on a pressing political significance. Compromises of the economic sphere could only mean in this particular context compromises with the conditions of the independent labourer. As the natural, at least automatic, basis of the scheme broke down so it required a more active administrative intervention to preserve the moral world of the independent labourer. The concessions would have to be accompanied with coercion.

In 1921 in response to the rising unemployment 'temporary amendments' were made to the operation of the insurance system; the Unemployment Insurance Act of March 1921 introduced uncovenanted benefit by which workers were entitled to benefit without contributions. This was first introduced for two 'special periods' ending in June 1922 but it lasted for the next ten years. Gilbert is right to point to the rising state contribution to the Unemployment Insurance Fund that resulted from these concessions. It is also true, as

Deacon(1977) argues, that these were not clear-cut concessions. As concessions advanced so did administration, 'at the same time as benefits were becoming more generous, administrative changes were reducing the impact of those concessions.' (A. Deacon 1977 p.10). Along with changes in benefits there were significant increases of administrative intervention in the daily lives of workers, there were Means Tests and 'genuinely seeking work' clauses introduced by legislation. Both these measures were intended to preserve what previously had been enshrined in the 'laws of insurance.'

Deacon's concern is not just to demonstrate the significance of administrative changes but also to ask why the focus of the labour movement at the time was on the Means Test rather than on the 'genuinely seeking work' clause. This is of course an important question given the effectively arbitrary administration of the 'genuinely seeking work' clause. His conclusion is, partly, that the Labour Party which extended 'tightening up' legislation had seen it as necessary for a defence of more generous benefits. In 1924 the Labour minister who introduced higher benefits whilst also abolishing the means test, felt that,

> 'Improvements in the scheme had to be accompanied by measures designed to reassure the opposition and the public that no money would be wasted on the "undeserving".' (Deacon 1977 p.22).

In fact as Deacon points out there was more to it than this. Much of the Labour Party shared the views of the opposition in seeing a need to combat malingering. Deacon quotes from Clynes speaking to the House of Commons in March 1921,

> 'We must strengthen the regulations and there must be closer attention to the administration of the payment of benefit on lines which make it impossible to encourage idleness.' (quoted Deacon 1977 p.21).

This sentiment would have been quite comfortable within both the Conservative party and Whitehall. Clynes then carried on to advocate the inclusion of the labour movement itself in this administration,

> 'organised labour, I am certain, together with the employers, if both were called more in touch with the administration of the payment of benefit, could be of very great assistance in

> locating the shirker and in making it impossible to get money when work could have been got.' (Deacon 1977 p.21).

What Clynes advocated was the form of administration of the 'genuinely seeking work' clause that was introduced. Under the 1921 Act claimants for uncovenanted benefit had to prove that they were 'genuinely seeking whole-time employment but unable to obtain such employment' (clause 3(b) of Act quoted Deacon 1977 p.16.). These claimants had to prove their genuineness to Local Employment Committees based at employment exchanges, and made up of both employers and trade unionists. Not only was this clause ignored by most of the labour movement but part of it actively helped in its administration, an administration that Deacon described as 'a futile and brutal ritual, through which the unemployed "earned" their benefit and reassured Whitehall that the incentive to seek work, any work, was being maintained.' (Deacon 1977 p.20).

The Labour Government of 1924 even extended the clause for all applicants including those who had qualified for benefits. This piece of administration was used under the Conservative government, returned at the end of 1924, to further tighten up controls so that within three years nearly one million claims had been rejected solely on the grounds of having failed to 'genuinely seek work' (Deacon 1977 p.18-19).

Deacon is right to question the relation of the labour movement to this important piece of administration. What is more important is to explain the significance of this administration. Here Deacon also has much to say but he tends to trivialise the issue of malingering as being the result of exaggerated fears. The crucial element for Deacon was that the contributory basis of the original 1911 Act, 'embodied a careful balance between the conflicting aims of maintaining political stability on the one hand, and the pursuit of economy in public expenditure on the other.' (Deacon 1977 p.15). He describes the seeking work test as 'a sledgehammer used to crack a relatively small - and often exaggerated - nut.' (ibid p.28). In posing the issues in this way Deacon ignores the importance

of the independent labourer as the core of this legislation and must miss therefore the significance of Churchill's statement that they had replaced the 'laws of nature' with the 'laws of insurance'.

Deacon can point to the administration as a sledgehammer but cannot give an adequate theoretical account of it. To him it merely seems reactionary, which might explain his focus on the Labour Party, rather than as part of the social history of liberal political economy. The strictest administrative measures arose from the need to preserve the presuppositions of the market. Reform had instituted a state mediated division of the wage that preserved its enterprise side but now with an administered social side. This division posed a problem for the status of the independent worker because it instituted a social recognition of the need of the worker in place of the natural relation to work of classical poverty. The recognition of need had to be formal rather than establish a right to life; administration was necessary to contain the recognition since reform of the wage threatened the relation of the independent labourer to accumulation and hence threatened the integrity of the economic as a natural self-regulating entity.

At different times the relation of political and economic undergoes significant changes and the period after the first world war was one when containment of a political threat required drastic reform of the wage that was potentially as destructive as the threat it was designed to contain. It was administration that allowed a squaring of the circle in that while the automatic tests of the 1911 and 1920 Acts were superseded by uncovenanted benefit and so the end of the one-in-six rule the requirement of independence became embodied as an administrative rule in the 'genuinely seeking work test'. The recognition of need persisted as a formality rather than as a right.

The seeking work clause and the means test were necessary to stabilise the relation of political and economic. Political reasons had dictated the growth of

concessions but had not lessened in any way the necessity to preserve the independent labourer, the sphere of the economic. The reforms of the twenties and early thirties transformed problems rather than actually getting rid of them. The immediate political situation was changed by granting concessions but these undermined the relation of economic and political, i.e. uncovenanted benefits or transitional benefits after 1927, as well as having detrimental consequences for government finances. These concessions required additional administrative measures to protect the economic sphere and so preserve the appropriate relation of political and economic, whilst simultaneously keeping a cap on expenditure. The result was a new sphere for political opposition, firstly to the Means Test then later to the seeking work clause. As well as this any effort to curb expenditure in order to restore government finance would undermine the conditions that had brought about political stability. The problem had been transformed, gaining important political flexibility but it had not been dissolved.

A new Act in 1927 was introduced to clear up, once again, the insurance system. This removed distinctions between different benefits, standard and extended, that had arisen from previous attempts to stretch the legislation over the political situation. There would be one form of benefit but all claimants would have to prove they were 'genuinely seeking whole-time employment but unable to obtain such employment.'(in Deacon 1976 p.58). This same legislation had introduced a 30 in 2 rule that required applicants to have made 30 contributions in the last 2 years. However it had eased the introduction of this measure by delaying its introduction for a year. There was therefore a transitional benefit introduced to ease the political acceptance of the legislation. This transitional benefit was extended by the Baldwin government in April 1929 for a further year because of the numbers of people involved and the proximity of the election faced by the Baldwin government. It was then further extended as it was confronted by the rise in unemployment of the 1930's. Again a reform intended to restore some principle of the insurance system was broken on new circumstances that it had not

anticipated.

There was scarcely anytime that the insurance system operated strictly according to its principles. Beveridge himself noted this and described the period from 1918 to 1928 when the Act of 1927 came into force as the 'Ten-Year Chaos' during which no principle of the original scheme had been adhered to. He referred to the legislation in this period as 'hand to mouth'. (Beveridge 1930 p.277). The 1918 sub-committee of the Ministry of Reconstruction, chaired by Beveridge, had produced a report that argued that

> 'Unless a scheme of general insurance is devised and launched at the earliest possible date it may be impossible to avoid the disastrous chaos of unorganised and improvised methods of relieving distress.' (in Beveridge 1930 p.273)

The 1920 Act was intended as this general scheme but as Beveridge noted it 'sank at once beneath the flood of emergency relief.' (ibid p.275.) The same fate, befell the 1927 Act.

Beveridge gloomily interpreted these changes as part of a degeneration from contract to status. Insurance as originally envisaged entailed a contractual relation that was embodied in the ratio of benefits to contributions, Churchill's 'laws of insurance'. With the introductions of 'donation and extended benefit' unemployment insurance ceased to be contractual and had become instead a system of 'relief by status'. The 1927 Act had attempted a return to proper insurance principles but according to Beveridge this was only half the story, 'an unlimited benefit claimable as of right has replaced the old combination of standard and extended benefit, but is claimable, not for contributions paid, but by virtue of belonging to the insured classes' (ibid p.289). The result was that despite the reforms,

> 'Moving from contract to status, the insurance scheme of 1911 has become a general system of outdoor relief of the able bodied, administered by a national in place of a local authority, and financed mainly by a tax on employment.' (ibid. p.289).

What had driven the changes was the rise in unemployment. Political reasons

prevailed over the principles of insurance that were compatible with the operation of the economy especially as this related to the preservation of the independent labourer. One result, as Beveridge noted, was that by 31st March 1928 'a reserve of £22,000,000 taken over in November, 1920, from the limited scheme of 1911 and 1916 was changed into a debt of £25,000,000.' (ibid p.277) In addition the receipts to the fund were made up of nearly £85,000,000 or 27% from the Exchequer (ibid p.277). When the 1930 Act extended transitional provision to April 1932 there were further consequences for the budget, particularly since the cost of benefit under the transitional provisions, was thrown, 'directly on to the Exchequer.' (ibid p.281.). This direct responsibility of the Exchequer, not just as one contributor or covering the fund's debts, Beveridge was right to point to as a new departure but it also continued a trend in the breakdown of the contractual system. The state, with its role partially hidden by the form of the original legislation, had been forced into an acknowledgement of social responsibility.

Beveridge was particularly concerned about the breaking of the linkage between contributions and benefits; contributions were set by political considerations with significant effects for the whole scheme and the role of the state,

> 'It need hardly be added that there is nothing like an actuarial basis for the scheme as a whole. Benefits have been fixed at whatever seemed indispensable to prevent acute distress or meet political pledges; contributions have put as high as employers and work people would stand them; the resulting deficits have been met, partly by increasing directly the State contribution, partly by going more and more deeply into debt to the Exchequer, and raising the borrowing limit as soon as the limit is reached.' (ibid p.287).

Ultimately rather than simply raising the borrowing limit the government had shifted transitional benefit onto the Exchequer; it was the recognition of a *fait accompli* since the debt would be covered by the Exchequer anyway. The insurance system had changed substantially under pressure of events, 'unemployment insurance has become an insurance in which every attempt to adjust premiums to risks or conversely to relate the cover afforded to the premiums paid, has been abandoned' (ibid p.292). All that effectively remained

of the previous system were the compulsory contributions but these, Beveridge concluded, 'have a fiscal significance alone.' (ibid p. 292).

For Beveridge the effect of the decay of the system was potentially profound, as a move to status implied. Beveridge dismissed individual malingering as a threat since this could be dealt with through administrative measures, particularly through a proper use of labour exchanges. The danger was deeper in the effect that the corruption of principles would have on 'Governments, employers, and trade unions so that they take less thought for the prevention of unemployment.' (ibid. p.294) The focus was shifted on to the level of unemployment as a whole rather than individual cases, Beveridge worried that 'the fear of causing unemployment may vanish from the minds of trade union negotiators and open the way to excessive rigidity of wages and so to the creation of unemployment.' (ibid p.294).

The problems with insurance had not arisen from bad administration rather bad administration had been forced by the problems faced by the system. Whatever Beveridge may have hoped about the operation of his system the exceptions to it were unavoidable. Keeping the insurance system operating strictly according to principles when unemployment reached something close to 20% may have saved the insurance system from chaos but this would have been a fool's errand if the result was social chaos. Social policy driven as it was by concerns about the viability of political order had come to focus on the concept of unemployment as an aggregate quantity, a proportion of the total labour force rather than an individual phenomenon. This seemingly subtle but significant shift in meaning may have been implicit in the concept from the beginning; nevertheless it was the problems associated with achieving an adequate social policy through contractual insurance that eventually forced the existence of unemployment as a practical aggregate, related to actuarial principles, and in turn this would lead to the need to develop a new more fundamental diagnosis.

As Beveridge left the concept in 1930 unemployment was the focus of a complex of inseparable problems; action on any one part of this complex inevitably had consequences for the other elements. Orthodox theory took an atomistic view of the budgetary problem but did not include in its theory the implications of this view for political order. Action based on the orthodoxy would have consequences that were not theorised. Keynes argued that the inadequacy of orthodoxy would threaten rupture by forcing the social question into the extremes of orthodoxy versus revolution from which social order would not be retrieved. The 1931 crisis was an example of the assertion of orthodoxy and although it never reached a division into extremes it certainly promised that by breaking the moderate left-wing party. Underlying the crisis of 1931 was the fundamental problem of the form of the wage. Insurance had attempted to reform it but this reform had been demonstrated to be dependent on the aggregate level of unemployment. The insurance system had broken down leaving the wage divided but explained only under expediency. It was not until after *The General Theory* that Beveridge, able to include the level of unemployment as a state determined variable, could conceive of the universal insurance scheme that had evaded him in the twenties and thirties. *The General Theory* would complete the history of social policy by theorising the aggregate level of unemployment.

8. The Political Economy of Economic Theory in The Keynesian Revolution.

The General Theory was dismissed by Hayek as a 'tract for our times'(F.A.Hayek in ed. Sudha R. Shenoy 1972, pp 103-4, also see P. Clarke 1988 pp.231-2). This dismissal was provoked, in part, by Hayek's experience of reviewing the *Treatise*, a task he had just completed, with the second part due to be published, when Keynes informed him that he had changed his ideas. One can have sympathy with Hayek's reluctance to review *The General Theory* but his personal experience is not enough to establish a true estimation of *The General Theory*. Hayek's view has become one aspect of *The General Theory*'s varied reputation. It has been posed quite forcibly by Harry Johnson in terms of a question, was Keynes 'an opportunist and operator' for whom theory,

> 'was applied when it was useful in supporting a proposal that might win current political acceptance, and dropped along with the proposal when the immediate purpose had been served or had failed?' (Johnson in Clarke 1988 p.231).

For anyone who has made at least a casual examination of Keynes's development in which policy concerns can be seen to predominate, Johnson's appraisal would have to be taken seriously. Keynes himself may not have objected to an accusation of opportunism; from an unpublished note his biographer Skidelsky recovered, we find Keynes quite uncompromising on this point in 1925/6,

> 'It is fatal for a capitalist government to have principles. It must be opportunist in the best sense of the word, living by accommodation and good sense. If any monarchical plutocratic or other analogous form of government has principles it will fail.' (Skidelsky, R. 1992 p.224).

Should we accept Keynes's warning at face value it would justify Hayek's refusal to criticise *The General Theory* and would make any serious investigation of it today unworthwhile, since its intrinsic theoretical merits would be lacking.

The contrary position has been held by Clarke when he argued that, while the *Treatise* could be,

> 'explained along 'externalist' lines, by invoking the political context in which it was conceived, the composition of the *General Theory* must in essentials be understood in 'internalist' terms. It was the outcome of a process of intellectual discovery rather than of political invention. Keynes's own lack of party affiliations needs to be emphasised.' (Clarke, P. 1988 p.230)

According to this *The General Theory* marked a theoretical development which cannot be dismissed. It was, as Keynes himself pointed out, addressed to his 'fellow economists' and was also, as many have pointed out, free of detailed policy proposals. While this and the previous critical view seem quite opposed they do both tell us something of Keynes. Each view is as much right as it is wrong. Both views, if not qualified, are misleadingly incomplete.

It is somewhat naive to point out that during composition of *The General Theory* Keynes was outside party affiliations. Absence of affiliation in no way supposes an absence of political concern. His vision had always been broader than the narrow scope of parties, his *Economic Consequences of the Peace* demonstrated that, and while he did identify with the Liberals he was concerned with the conditions and operation of the system as a whole. Keynes was an opportunist in the sense that he would not stick to a theory at the cost of political catastrophe; he was in his terms an opportunist of the 'best sort'. For Keynes, the political context required a theoretical development; for opportunism to be effective theoretical development would be necessary. As we shall see in this section, without a new theory there would be a clash of extremes provoked by the assertion of orthodox principle. Policy development required theoretical grounding not just for particular theories but to preserve policy itself. Keynes had realised that a genuine theoretical development was necessary if liberal political order was to be preserved. This was not a party matter but one encompassing all the parties.

We can explore this view by starting on his critique of the limits of orthodox theory. Keynes attacked orthodox theory as inadequate on grounds broader than economics itself. The problem was not the internal logic of orthodox

theory but rather its limits for the given social world. Its failure was a broad failure to encompass the logic of the society it was meant to apply to. It was this limit, and the consequently damaging influence of economics, that would eventually require a development in economic theory.

Keynes identified the prevailing theory with the classical school, although as is well enough known by now, Keynes's definition of the classical school was by his own admission wider than might usually be accepted. He included in it not just Ricardo but 'the followers of Ricardo ....including J.S.Mill, Marshall, Edgeworth and Prof. Pigou.' (GT p.3 n1). Despite this inclusivity, it was specifically Ricardo whom Keynes singled out as the source of error. Ricardo's victory in the dispute with Malthus was identified as a wrong turn for economic thought that Keynes claimed to be correcting.

Although he identified Ricardo as the prime mover it was Pigou's theory of unemployment that he specifically identified as expressing the theory he had to dispatch. On this he had no choice since as he said '[Pigou's] is the only attempt to write down the classical theory of unemployment precisely.' (GT p.279). In fact, Ricardo had not written down a theory of unemployment because he neither had one nor needed one. There could be workers out of work but they were either part of a temporary adjustment necessary to accumulation or they were surplus. A surplus was not unemployment. When Pigou worked out his theory of unemployment he had taken on the preceding history compacted within the concept. In doing so he also took for granted another concept that was absent in Ricardo that of full employment.

Whatever the ambiguities surrounding the construction of the classical school, the development of economic theory had yet to take account of the developments of social policy, traced in previous chapters; in this sense the orthodoxy remained Ricardian with an inherent tendency to laissez-faire

conclusions. Even so economic theory had taken on the belief in full employment when given the free operation of the forces of supply and demand. To this extent Keynes was justified in taking up the classical school in the way he did and we shall be employing his usage. In taking up the classical postulates Keynes claimed to be making good his promise of writing a *general* theory. 'The object of such a title is to contrast the character of my arguments and conclusions with the classical school.' (GT. p.3.) He aimed to reveal the classical school as a narrow special case founded on assumptions that 'happen not to be those of the economic society in which we actually live.' (GT p.3.) The problem was not the superstructure which had 'logical consistency' but rather the 'lack of clearness and generality in the premises.' (GT p.v.). For the moment we do not need to clarify the precise inadequacies identified by Keynes but we can draw attention to Keynes's most general criticism of the classical school as being separated from the 'facts.' The consequence of this for the classical school was that the results are 'disastrous if we apply it to the facts of experience.' (GT p.3.)

Although Keynes lumped Ricardo together with Marshall and Pigou he also distinguished them in a manner that was important for his overall project. Ricardo represented an important turning point in political economy. Keynes contrasted, for example, the 'fragments of practical wisdom' found in the Mercantilists with the 'unrealistic abstractions of Ricardo' (GT p.340). He then identified the latter as not just forgetting the former but also 'obliterating them' (GT p.340). A similar point was made in relation to the Ricardo/Malthus controversy, the outcome of which was that 'Ricardo conquered England as completely as the Holy Inquisition conquered Spain.' (GT p.32). It followed that the 'puzzle of Effective Demand ... vanished from economic literature' and so the professional economists neglected the 'drag on prosperity' arising from an 'insufficiency of effective demand'; instead they 'teach that all is for the best in the best of all possible worlds provided we let well alone.' (GT p.33) As in relation to the Mercantilists the contrast was with practical wisdom in relation to which economists were

'Candides'.

Economics as a whole was discredited. It contrasted as innocence with the facts of experience, as abstraction it was compared unfavourably with commonsense (GT p. 350). Where professional economists were unmoved by the lack of correspondence between the results of theory and the facts of experience, the

> 'ordinary man has not failed to observe, with the result of his growing unwillingness to accord to economists that measure of respect which he gives to other groups of scientists whose theoretical results are confirmed by observation when they are applied to the facts.'(GT p.33)

Ricardo, picked out as the turning point in political economy, was also distinguished from his followers according to how they related to experience. In this Ricardo's followers appear to be less his followers than Keynes's use of the classical school suggested. The nature of the crisis for economics was tied up with the response of economists themselves to the 'facts of experience'. They did not follow Ricardo slavishly but, instead, were part of a tradition from which Ricardo was excluded. This tradition was identified by Keynes in *Essays in Biography* as a specifically English tradition; it accepted commonsense as the necessary corrective to the excesses of theory. Ricardo however gave in to the excesses of theoretical construction.

When Keynes discussed Ricardo's theory of interest he characterised Ricardo as offering us the

> 'the supreme intellectual achievement, unattainable by weaker spirits, of adopting a hypothetical world remote from experience as though it were the world of experience and then living in it consistently.' (GT p.192.)

However for Ricardo's followers 'commonsense cannot help breaking in with injury to their logical consistency.' (GT p.192). So, while later writers had not departed from the Ricardian doctrine they were 'sufficiently uncomfortable about it to seek refuge in haziness.' (GT. p.190)

While orthodox economists still appeared to persevere within the 'citadel', consistency and logic were under attack. They may have been theoretically imbued with Say's Law, with models of 'real' exchange, the neutrality of money etc., but they could not keep these positions consistently, '...for their thought today is too much permeated with the contrary tendency too obviously inconsistent with their former view.'(GT p.20).

The significance of this contrary tendency was drawn out in a note Keynes appended to this statement; he isolated Robbins as almost alone since 'he ..continues to maintain a consistent scheme of thought, his practical recommendations belonging to the same system as his theory..' (GT note p.20) This highlighted an important aspect of the general crisis within economics, one that could only add further to the discredit of the discipline, although confirming the commonsense of the economists themselves. Pigou, whom Keynes had identified as the first to write down the classical theory of unemployment, was on practical issues as Keynesian as Keynes. In 1932 it was Pigou who drafted a letter to *The Times* (17 October 1932) signed by several economists, including Keynes, and that advocated public expenditure in depression. The letter argued that savings did not automatically translate into investment since the latter was blocked by 'lack of confidence'. Worse still, savings exacerbated the situation since they merely reduced confidence in those industries that were directly or indirectly related to the production of consumption goods. In a reply to Austrian criticism, from LSE economists e.g Hayek and Robbins, that public only crowds out private spending, the response was that where there was unemployment there were no surplus funds conserved for future investment, where there was unemployment 'they simply do not come into existence.' (CW XXI p.140) In this case crowding out was meaningless and any 'reply which, ignoring the conclusive evidence of unemployment statistics, tacitly assumes that this reduction to idleness is impossible, misses the whole point of our contention.'(CW XXI p.140).

Despite what may be seen as an approach in the direction of *The General Theory* Pigou never made the decisive theoretical break. When Keynes reviewed Pigou's *Socialism versus Capitalism* (1937) he picked out the discrepancy evident between Pigou's economic theory and the social policy he supported,

> 'As in the case of Dennis [Robertson] when it comes to practice, there is really extremely little between us. Why do they insist on maintaining theories from which their own practical conclusions cannot possibly follow?' (CW XIV p.259)

Indeed for Keynes an economist for whom policy advice followed from theory was the exception rather than the rule.

Since for many economists their practical conclusions were often close to Keynes's, it might be supposed that *The General Theory* was scarcely necessary. Yet, obviously, Keynes considered that it was. One reason was that theoretical divergences between economists had 'almost destroyed the practical influence of economic theory'(GT p.vi). We need to clarify what Keynes meant by 'practical influence'.

It might be that Keynes was confused since in the same *General Theory* Keynes portrayed the influence of economic theory as very strong, at least in a negative manner. In an economy where the interest rate was tied to the balance of payments

> '..there is no orthodox means open to the authorities for countering unemployment at home except by struggling for an export surplus and an import of the monetary metal at the expense of their neighbours.' (GT p.348-9).

This would set country against country since it made domestic prosperity (ie. countering unemployment) 'dependent on competitive pursuit of markets.' As wealth progressed the propensity to consume declined, just as the inducement to invest also fell, in which case the struggle between countries became ever more internecine. Some countries attempted to escape through policies with an

> 'autonomous rate of interest, unimpeded by international preoccupations and of a national investment programme

> directed to an optimum level of domestic employment.' (GT p.349)

However such attempts had been arrested due to the disastrous influence of orthodox economists 'whose commonsense has been insufficient to check their faulty logic' (GT p.349) They halted the 'blind struggle of escape' by persuading these countries that recovery lay in the 'restoration of their former shackles.' (GT p.349).

Keynes went on to emphasise the contrast between commonsense and orthodox theory when he referred to Bonar Law's 'mingled rage and perplexity in the face of economists because they are denying what was obvious. He was deeply troubled for an explanation.' (GT p.350). It was the orthodoxy that triumphed, its achievement being to 'exorcise the obvious' and to 'overcome the beliefs of the common man.' When we take these examples with Keynes's dicta on the influence of ideas, whether right or wrong, 'the world is ruled by little else', we need an explanation for what he meant by the decline in the practical influence of economics. If ideas remained so potent in what sense had they lost their influence?

The potency of the orthodoxy arose not from intrinsic merits, its internal logical consistency, but from the blindness of the struggle to escape. It acted as a negative power preventing the achievement of the optimum level of employment. Classical theory could represent how it would like the economy to behave but 'to assume that it actually does so is to assume our difficulties away.' (GT p.34). It was exactly because of its negative potency limiting the development of policy that its practical influence was undermined. It did not achieve what commonsense would determine and so was held in disrespect by the ordinary man. Economics left the 'facts of experience' dangerously unattended and this had social implications far wider than were encompassed by an economics that merely 'assumed our difficulties away'. Its assumptions were too far adrift from a reality constructed as much by discontent as by any empirical investigation. Economics

had lost its practical influence because it had become an inadequate social theory. In other words the theoretical logic of economics could not be considered apart from its social logic. Blindness to this latter point doomed economics.

The threat to the system, the motivating force behind the blind struggle to escape was the existence of unemployment. Along with the inequitable distribution of wealth and income these were the '...outstanding faults of the economic system in which we live...' (GT p.372) Of the two, for Keynes, unemployment was judged as the fundamental problem. It was obvious that 'the world will not much longer tolerate the unemployment which is ...associated .. with present-day capitalistic individualism..' (GT p.381)

While policy proposals, such as those advanced by Pigou, did deal with actual problems they were not as practical as they appeared. They were not backed by sound theory and given this absence could not be adequately defended from orthodox attack. While this was orthodoxy's negative power it could not be called a practical influence since,

> 'The party of Catastrophe - Jacobins, Communists, Bolshevists, whatever you choose to call them.....can only flourish in an atmosphere of social oppression or as a reaction against the Rule of Die-Hard.'(CW IX p.299)

Disaster loomed in this clash and orthodoxy could only set up the clash, not resolve it. When Keynes supported Roosevelt's New Deal he added that failure would leave the field between 'orthodoxy' and 'revolution' (CW XXI p.289. letter to Roosevelt).

If the dispute really were between orthodoxy and revolution if then, '...we know the whole truth already, we shall not succeed indefinitely in avoiding a clash of human passions seeking an escape from the intolerable.' (CW XIII p.492) This context, this potential clash of passions was the arena in which economics had proved itself to be inadequate. It was a context that had been a consistent element of Keynes's thought from some of his earliest writings. The theme of

potential revolution appeared in his student essay on Burke when he suggested that Burke had not been able to distinguish the citadel from the outworks[28]; it also appeared in the *Tract on Monetary Reform* (CW IV pp 56-7) when he criticised the 'absolutists of contract[29]' as the 'parents of revolution'. This view also formed a theme of his *Economic Consequences of the Peace* as well as of his essay *The End of Laissez-Faire*, while the *Treatise* had attempted to provide for a flexibility in policy that would avoid the dogmas that lead to extremes. Keynes consistently sought to develop economic thought in the context of the polarisation that could be provoked by orthodoxy.

In the absence of an adequate theory all that could be relied on to avoid the clash of human passions would be 'English principles of compromise.' The 'leading statesmen and administrators' will

> 'temper the worst consequences of the errors of the teaching in which they have been brought up by doing things which are quite inconsistent with their own principles, in practice neither orthodox nor heretic..' (CW XIII p.492).

The pragmatic divergence of social and economic policy from economic theory could put off disaster, but the pragmatism was not in the end practical if it was not theoretically secured against the clash of extremes. Keynes's earlier espousal of opportunism makes sense when it is seen as the alternative to a dangerous assertion of orthodox principles; in this context, as explained by Keynes, opportunism and the development of theoretical principles were inseparable. At different times in the writing of *The General Theory* he both described his work as revolutionizing economic theory (ibid p.492) and as 'returning to an age-long tradition of commonsense.' (ibid p.552). Keynes made it clear that the return to

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[28]see Skidelsky in ed. Hamouda and Smithin 1988

[29]This phrase may make more sense if we link it to the movement discussed in Toynbee's book concerning the development from status to contract and then, away from laissez-faire, to modified contract/status. In such a view the absolutists of contract would have stood for the preservation of the unified wage against the encroachment of welfare reforms. Toynbee's *Industrial Revolution* was one of the books that Keynes reported as having read thoroughly as an undergraduate at Cambridge.(Peter D.Groenewegen 1988 p.667).

commonsense was also a theoretical development that had to be clearly opposed to the classical school. Without a theoretical break Keynes was worried that economists such as Harrod would, 'appear to accept my constructive part and to find some accommodation between this and deeply cherished views which would in fact only be possible if my constructive part has been partially misunderstood.'[30] (ibid p.548). The classical theory would then only be resurrected and the challenge to the orthodox conduct of policy would be undermined. Commonsense required a theoretical break.

Keynes was no fatalist; he did not accept the polarisation implied in the choice of 'orthodoxy v. revolution', 'I have a better hope'(CW XIII p.492). He anticipated the situation accepted by neither left nor right where 'we can be saved by the solution of an intellectual problem, *and in no other way.'* (CW XIII p.492). In his review of Trotsky's *Where is Britain Going?* (*Trotsky on England* in Keynes 1930 pp.84-91) he dismissed the revolutionary position because it assumed the problems of the transformation of society were solved, 'that a plan exists, and that nothing remains except to put it into operation.' (ibid p.90) Keynes dismissed the notion that there was some plan; Trotsky was so concerned with means, 'he forgets to tell us what it is all for.' (ibid p.90) All that Trotsky could offer was Force that went nowhere, when the real problem was that, 'We lack more than usual a coherent scheme of progress, a tangible ideal.' (ibid p.91) and he concluded that 'The next move is with the head, and fists must wait.'

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[30]We can briefly explain the potential break in theory. Harrod, in discussing the theory that led to *The General Theory*, had accepted Keynes's point, regarding the indeterminacy of the supply and demand for savings when income is variable, but he had then gone on to assume, as Keynes said, that Keynes's theory, by taking account of variations of income, had repaired the omission 'and', said Keynes, 'we are then left with the rate of interest determining at what point... the schedule of the propensity to save cuts the schedule of the marginal efficiencies.' (CW XIII p.549) This theory invigorated the classical theory whereas Keynes's theory of the interest rate was purely monetary, 'the rate of interest is the price which brings the demand for liquidity into equilibrium with the amount of liquidity available.' (ibid p.550) The latter implied a complete break from classical theory since it implied no quantity theory, the real effects of money, as well as savings not being the virtue that had been supposed. The theoretical difference was profound because Keynes's development undermined the supposition that the play of self interest lead to the public interest.

(Keynes 1930 p.91).

At the conclusion of *The End of Laissez-Faire* Keynes made a similar point regarding the importance of ideas and persuasion, and here pointed to the detrimental consequences of polarisation on the reformers,

> 'The next step forward must come, not from political agitation or premature experiments, but from thought. We need by an effort of the mind to elucidate our own feelings. At present our sympathy and our judgement are liable to be on different sides, which is a painful and paralysing state of mind. In the field of action reformers will not be successful until they can steadily pursue a clear and definite object with their intellects and their feelings in tune.' (CW IX p.294)

The division referred to here was also a division of theory from practical proposals, or the separation of intuition and commonsense from logical consistency and it referred to a potential unity that was not only absent in both economists and politicians but also, until thought could get to work, was also absent in society. This unity was a central feature of what Keynes meant when he referred to economics as a moral science.

The unity proposed by Keynes had important implications. When Keynes was asked to support the proposals of the *Next Five Years Group* he did so only guardedly. They had failed to deal with issues adequately. What was needed was a 'new underlying economic theory and philosophy of the state' so as to avoid 'extremism during the next slump or two.' (CW XXI p.354-5) In this light the pragmatism of the *Next Five Years Group* while suggesting what Keynes admitted were 'excellent' proposals was, ultimately, not as practical as they imagined simply because it failed to offer the 'fundamental diagnosis' that people were after and that had the 'power to persuade people.'

Persuasion was central to Keynes's economics since it was developed in the context of orthodoxy v. revolution, a polarisation that provided a quite different context from that which had sustained the natural science vision of

Ricardo. When the latter debated with his correspondents about the foundation of his system he could defend it on the grounds that the independent labourer was coming into being with a growing knowledge of political economy. The basis of political economy as a set of objective natural laws existed within the social material. If now, for Keynes's period, people were expectant of the 'fundamental diagnosis' then the basis for Ricardo's social order had been undermined. Instead of an individual subjectivity atomised before the laws of political economy, like an object in absolute space, there was now a subjectivity that had to be recognised by political economy as a *social* force, 'in the final catastrophe the malady of the body passes over into the malady of the mind..' (CW II p. 233) Pragmatism, or commonsense had recognised this through the development of social policy but had done so without the sanction of political economy (even if with the connivance of political economists). Despite its practitioners, the theory had still not taken on this social force within its own development. Whatever pragmatic compromises might have been possible they were, in their nature, bereft of theory and, as such, depended on a suspension of belief that, ultimately, promised a catastrophic reassertion of orthodoxy. Economics, in continuing to treat the subject as the ideal of natural science, had lost all practical influence in the establishment of political order.

By recognising the necessity of the 'power to persuade' Keynes had indicated that the context he dealt with was subjectivised in a manner quite alien to Ricardo's conception of a subject coming to knowledge of objective laws. Keynes explicitly rejected that alternative when he rebuked Harrod for not making sufficient effort to repel 'attempts... to turn [economics] into a pseudo-natural science.' (CW XIV p.296) The essential element that ruled out such a possibility was that 'unlike the typical natural science, the material to which it is applied is, in many respects, not homogeneous through time.' (ibid p.296). Ricardo's vision of a natural science did imply that the system was homogeneous through time, although this homogeneity was also compatible with the 'necessity for partial

losses'. There were adjustments and change between channels of trade, indeed the accumulation of wealth necessitated change, but there were also the permanent laws of the system and natural prices[31] to which market prices gravitated. Ricardo could have endorsed Keynes's view, as explained to Harrod, that, 'The object of a model is to segregate the semi-permanent or relatively constant factors from those which are transitory or fluctuating..'. Ricardo would have put the distinction more emphatically as he did indeed to Malthus when he went on to argue that science was only possible for an analysis of the permanent. In Keynes while recognising the importance of making the distinction, the object of analysis had changed, in the quote above he continued to Harrod that the purpose was, 'to develop a logical way of thinking about the [transitory]..' (CW XIV p.296-7).

The different views of Ricardo and Keynes on political economy exclude each other and yet they are also mutually consistent. This is clear in the importance given to subjectivity in their respective systems. For Ricardo subjectivity had no significant systemic effect in the sense that it could not alter the objective laws but rather had to act in accordance with them. His focus was on the permanent to which he contrasted a temporary in which subjective interests appeared as market prices adjusting, in fact *gravitating*, to the natural price. According to the logic of such a view if one was to start from the temporary as one's sphere for analysis then subjectivity would become central since the force of natural laws would be excluded; Keynes's position can be derived almost as a systematisation of everything excluded from Ricardo's political economy. In the development of his view to Harrod, Keynes continued by emphasising

> 'the point about economics being a moral science. I mentioned before that it deals with introspection and with values. I might have added that it deals with motives, expectations, psychological uncertainties.'(ibid p.300)

Ricardo on the other hand in his dispute with Malthus had dismissed motives as

[31]Of course any analysis of value theory would quickly come to question the determinacy of Ricardo's natural prices. The labour embodied theory would soon find critics on its own grounds but this has not been the theme of this thesis.

irrelevant since they occupied the temporary. Whilst subjectivity was capable of divergence from adjustment this was explicable in terms of the 'obstinacy with which men persevere in their old employments' or because 'men err in their production' (Ricardo 1951 vol VIII pp.277-8). Subjectivity could have no fundamental or lasting effect on the shape of the future unless particular interests could seize political control of prices.

Time, for Ricardo, was bound in natural laws because partial interests gravitated to the permanent state of things. There was a time of adjustment, time between channels of trade but this was not time as change that disrupted the basis for knowledge of the future. Economic modelling could be, for Ricardo, of the objective laws hence of systemic, permanent, even if abstract, features. Against such a view Keynes reiterated to Harrod that 'One has to be constantly on guard against treating the material as constant and homogeneous.' And the factor that made this important was that in the material under consideration,

> 'It is as though the fall of the apple to the ground depended on the apple's motives, on whether it is worth while falling to the ground, and whether the ground wanted the apple to fall, and on mistaken calculations on the part of the apple as to how far it was from the centre of the earth.' (CW XIV p.300).

Here the role of motives has become all important. Keynes's rejection of the natural science version of political economy was also the assertion of the importance of the transitory and from that of the subjective itself. In fact the social logic goes the other way; it was the importance of the subjective, as a determinate social force, that led to the centrality of the transitory, the short-run and hence to rejection of the natural science. The formation of a social subjectivity, the collective worker, made historical time, the actual process of adjustment, significant for analysis; what had previously been treated as contingent now threatened to engulf the whole system in its consequences.

Rather than a future bound in to the present by natural laws there was the potential clash between orthodoxy and revolution. This did not mean, as Keynes

argued, that Ricardo had been wrong to assert a natural science, however Keynes was right to the extent that the assertion of a natural science without appropriate social conditions would make the short-run a graveyard and not a period of adjustment. Once the short-run had become the focus then persuasion became central. Since, as Keynes had argued, the latter required more than commonsense policy, theoretical development was necessary. Keynes had to grasp a world in which, as he said, the apple did not want to fall.

Political order for Keynes had to be established from existing interests, or motives. The constitution of the general interest would require deliberate policy to achieve objectives that would secure unity rather than polarisation. Existing economic theory was an obstacle to this project that could not be lightly dismissed; it was as Keynes described it the 'citadel'. There had been a history of heretics trying to shape an alternative theory but they had had no impact. For a real alternative the citadel itself had to be taken, the flaw in the consistent theory had to be discovered.

The theory Keynes recognised as necessary would provide the basis for a sound alternative to the self-adjusting school. Such a shift would obviously involve a significant alteration in the policy framework; as Keynes described it there would be a shift from a 'wages policy to a planning policy'. This entailed a change from automatic adjustment to deliberate control and while this may have been necessary to secure the short-run it required some form of limitation if revolution were genuinely to be avoided. Keynes may have advocated planning but this was not intended in the sense that many socialists had in mind. The new theory would replace automatic adjustment with the expert. This would complete the transformation of the science away from pseudo-natural science to a moral science. This did not imply that the new science would be any less objective but that the nature of the objectivity would be changed by the modification of the role of economics. The morality consisted in the unity of commonsense or intuition or

feelings with theory. This theory would be a realm of the expert, the economist, able to outline advice and policy programmes that could account for the different groups in society.

So long as Keynes's proposals involved some degree of planning they could be interpreted by many as a variant, or even the realisation, of socialism. While in some quarters this would be an advantage it was also clear that this was not Keynes's intention. His complaint about the Conservative Party was that it,

> 'ought to be concerning itself with evolving a version of individualistic capitalism adapted to the progressive change of circumstances. The difficulty is that the capitalist leaders in the City and in Parliament are incapable of distinguishing novel measures for safeguarding capitalism from what they call Bolshevism.' (CW IX p.299)

The fear of the direction of reform had obstructed the task of evolving individualistic capitalism. Even so when Keynes came to comment on Hayek's *Road to Serfdom* he claimed agreement with most of the points raised in it, '...it is a grand book. We all have the greatest reason to be grateful to you for saying so well what needs so much to be said.' (Wattel 1985 p.35). This was consistent with some of the comments that he had made regarding socialism and communism prior to *The General Theory*. However Keynes also carefully distinguished his view from Hayek's when he argued that his conclusion would be in favour not of less but more planning. This would not be a threat, he tried to reassure Hayek, since,

> '..the planning would take place in a community in which as many people as possible, both leaders and followers, wholly share your own moral position. Moderate planning will be safe if those carrying it out are rightly orientated in their own minds and hearts to the moral issue.' (ibid p.35)

Planning was never understood by Keynes as popular planning.

The objective position of natural laws would be replaced by the objectivity of the expert. Keynes himself said that the economic problem 'should be a matter for specialists-like dentistry' and that the ideal was for economists to be

considered 'on a level with dentists' (CW IX p.332). When Keynes wrote to MacDonald on the setting up of the Economic Advisory Council he said 'it would mark a transition in our conception of the functions of the State' and in particular it would be a recognition of,

> 'the enormous part to be played in this by the scientific spirit as distinct from the sterility of the purely party attitude, which is never more out of place than in relation to complex matters of fact and interpretation involving technical difficulty.' (Keynes in Howson & Winch 1977 p.21)

The position of expert would take its place within a particular institutional and political framework.

Keynes's sympathy, as Clarke points out, was with an educated elite. This point was made most emphatically by Keynes in his *A Short View of Russia* where he rejected 'Red Russia' pleading,

> 'How can I adopt a creed which, preferring the mud to the fish, exalts the boorish proletariat above the bourgeois and the intelligentsia who, with whatever faults, are the quality in life and surely carry the seeds of all human advancement?' (CW IX p.258)

This relative disposition of two classes with the charmed position in it of the intellectuals was fundamental to Keynes's political vision.

In a 1927 review of H.G.Wells' *Clissold* Keynes used the themes developed by Wells to make some of his own points; he warned against conservatism,

> 'our environment moves too much faster than we do... Unless we hustle, the traffic will run us down. Conservatism is no better than suicide..... We stand still at our peril. Time flies.' (CW IX p.316.)

The essence then was change but this did not necessarily mean for the better simply that 'we cannot stay where we are..' The question was, given this change, why should it not be for the better? And then, of course, how would it be for the better? Keynes took up Wells's assessment of the prospects in *Clissold*. There was the rejection of socialism and then the assessment of alternatives. The future

would be an outcome of the relation between Brahma, the creative force and Siva, the destructive force. Siva represented those who had feelings but lacked ideas. The epitome of Siva was the Labour Movement; it was full of sentiment but this also meant it was a force of destruction. Siva was, for Wells, epitomised by the business man. The relation between these two forces would be decisive for future progress. Keynes quoted from *Clissold* to emphasise the point,

> 'The extreme danger of the world is, in Clissold's words lest, "before the creative Brahma can get to work, Siva, in other words the passionate destructiveness of labour awakening to its now needless limitations and privations, may make Brahma's task impossible."' (CW IX p.319).

To this Keynes added, before any criticism, that 'We all feel this, I think.' The problem identified by Keynes was that the businessmen remained limited, they 'flutter about the world seeking for something to which they can attach their abundant libido.' (ibid p.320) It was the universities that Keynes believed could become 'temples of Brahma which even Siva will respect' (ibid p.320); they could develop the creed that Keynes identified as missing from the businessmen. An organizing ideal was central to the determination of the future. It appeared as we saw in Keynes's review of Trotsky.

Keynes's perception of the threat of revolution also included its solution since the revolution while certainly inspired by feelings would end up as mere destruction. Revolution was one-sided in that it was founded on sentiments that may, as Wells had said, be provoked by 'needless limitations and privations', but it lacked thought. Since it lacked the advantages of thought this force would be destructive only; it would merely destroy what it hated.

In an address to the Liberal Summer School of 1925 Keynes developed the implications of the separation of thought and feeling for an analysis of the political situation. He began by pointing out that, 'in the future...questions about the economic framework of society will be far and away the most important of political issues.' (CW IX p.295). The future, of course, was a yet still to be

determined; Keynes asserted to his fellow liberals that, 'the right solution will involve intellectual and scientific elements which must be above the heads of the vast mass of more or less illiterate voters.' (ibid p.295) Democracy posed a threat to the system because of the dependence of the parties on this 'mass of ill-understanding voters' and in this situation much depended on the degree of democracy within the party machine. In this regard the advantage lay with the Conservative Party since the 'inner ring of the party can almost dictate the details and technique of policy.' (ibid p.295) On the other hand the problem with the Labour Party was it had excessive democratic control with the result that, 'I do not believe that the intellectual elements will ever exercise adequate control..' (ibid. p.296). It was this rather than the fact that the Labour Party was a class party that was the cause of 'the real repulsion which [kept Keynes] .... from Labour..'(ibid p.295)

Despite this repulsion, Keynes still believed that the Labour Party was the 'best instrument of future progress' (ibid p.297); however its role in this progress was problematic because there was still the excessive control exercised 'by those who do not know *at all* what they are talking about.' The only alternative to this was the left wing of the party, the 'Party of Catastrophe', that despised existing institutions, 'This party can only flourish in an atmosphere of social oppression or as a reaction against the Rule of Die-Hard.' (CW IX p.299) The weakness of the Labour Party was that it always depended 'for electoral success on making some slight appeal to the widespread passions and jealousies which find their full development in the Party of Catastrophe.' (CW IX p.300)

In his 1926 essay *Liberalism and Labour* Keynes explained the dangers of the choice in politics being restricted to Labour and Conservatives. Such a choice would hinder the forces of progress because many of its friends while opposed to the reaction of the Conservative Party were also opposed to the Labour Party. There were forces in the Labour Party to work with, the socialists, but there were

also dangerous forces, the trade unionists and the communists and 'we cannot march with them [Labour] until we know along what path, and towards what goal they mean to move.' Here the progressive liberal had the advantage because he did not have to play lipservice to the various creeds in the Labour Party not to 'trade unionist tyrannies, to the beauties of the class war or to doctrinaire State Socialism..' (CW IX pp. 309-10.) This gave the constructive intellectual in the Liberal Party a freedom denied his natural allies in the Labour Party. Although the Liberal Party would not be a great party machine like the other two, 'it may play, nevertheless, the predominant part in moulding the future.' It would not though be alone in this since, 'Great changes will not be carried out except with the active aid of labour.'

Keynes envisaged a special alliance of liberalism with labour, not an electoral pact but a division of tasks that would solve the political problem of mankind, that of achieving the combination of, 'economic efficiency, social justice and individual liberty.' Each of these required special qualities, the first, 'technical knowledge' , the second, 'an unselfish and enthusiastic spirit, which loves the ordinary man..' and the third required 'appreciation of the excellencies of variety and independence' (CW IX p.311). It would be the Liberal Party that would provide the first and third qualities and it would be the Labour Party, or as Keynes said, 'the great party of the proletariat' that would provide the second. The division of thought and feeling then could be positive appearing as a division of tasks between political parties which in turn was one between an elite of intellectuals, Brahma, and on the other the proletariat, Siva. This division would find a unity of purpose in the combination of efficiency, social justice and individual liberty. In such a unity the economic theory would be compatible with social policy, or theory with commonsense and political order with the needs of the proletariat.

Through the acceptance of this division of labour the common project,

hence unity, could be established. The needs of the working class would be recognised yet they would also be contained within the restraints of theory and the expert. Theory itself would of course also have to change to deal with the fundamental problems that created 'intolerable conditions'. In developing economic theory Keynes completed Marshall's plea for economics as the science lying between the classes. He also provided the expert knowledge that would allow planning without the 'Party of Catastrophe'. The experts would be in universities, as both Barnett and Marshall had also advocated, and in such organisations as the *Economic Advisory Council* or the *Committee on Economic Information*, and they would have their place in the heart of the actual conduct of policy. In keeping with the division of tasks he had proposed between theory and feelings the experts would themselves be insulated from the bustle of everyday politics. The institutional setting for his ideal already existed,

> 'So far from wishing to diminish the authority of the Bank of England I regard that great institution as a heaven-sent gift, ideally suited to be the instrument of the reforms I advocate. We have here a semi-independent corporation within the state, with immense prestige and historical tradition, not in fact working for private profit, with no interest whatever except the public good, yet detached from the wayward influence of politics.. The Bank of England is a type of that socialism of the future which is in accord with the British instincts of government..' (CW XIX p.347)

The 1931 crisis demonstrated the relevance of the problems identified by Keynes. It was not just that the Liberal Party by then had no reasonable hope of power but more significantly the divisions in the Labour Party had come to a head. The dispute was between, on one side, economic orthodoxy, championed by MacDonald and Snowden, and, on the other, social policy, supported with some backbone from the trade unions by the majority of the party. Orthodoxy required that there be a balanced budget with sound finances and this now came into conflict with the pragmatic social policy that produced over the years a system of support for those out of work. Orthodoxy regarded the reduction of unemployment expenditure as essential to sound finance and so the

future prosperity of the economy. The 1931 crisis was a crisis in the movement of reform that had begun in the London of the 1870s and that we have traced through Toynbee Hall. The significance of the crisis was that it threatened the complete immobilisation of the reform movement and therefore of a project that had set out to secure social stability. It was the concrete form of the opposition of economic orthodoxy to reform and hence of the weakness of reform if theory itself did not develop.

Pragmatism was shown up by this crisis to be impractical. It left the Labour Party dangerously divided without the means for establishing a resolution. In the absence of an adequate economic theory the party had been thrown by orthodoxy and it had left them, said Keynes, commenting on the crisis, '..ineffective for the practical purposes of government.' (W.A.Robson ed. 1971 p.89). Worse still, this had happened exactly at the time when the situation had produced '..an overwhelming and universal demand for a practical solution.' (ibid. p.89). There was little choice left since, '..in the modern world it has to be one thing or the other. Either the revolutionary motif must prevail or the practical motif.' (ibid p.90). Here, for Keynes, was the dilemma of modern socialism; on one side socialism was ardent for economic soundness but thereby enfeebled against its opposition (especially against Die-Hard reaction) and on the other side there was a readiness for unsoundness 'to stir up the embers of class war.' (ibid p.90). The solution to this dilemma was to emancipate the Labour Party as to what was economically sound and that emancipation required above all a development of economic theory. Such a theory would, in developing what was sound, allow the socialists to become practical and so provide the alternative to revolution. Practicality would be able to meet the needs of the moment, 'a temporary concentration on the practical.' (ibid p.92). Theory, for Keynes, had a vital role to play in the relation between the classes. It had to take account of the problems posed by the new social subjectivity and as such it would be an intervention in a theory of socialist transformation,

> 'I should like to define the socialist programme as aiming at political power, with a view to doing in the first instance what is economically sound, in order that, later on, the community may become rich enough to afford what is economically unsound.' (ibid p.88).

In this project the priority was to solve the problem of unemployment and with this to solve 'once and for all the problems of poverty.' (ibid p.80). This priority required the preeminence of the expert, the economists, who should in dealing with the economic problem come to be thought of as specialists, 'If economists could manage to get themselves thought of as humble, competent people, on a level with dentists, that would be splendid!.' (CW IX p.332). Keynes's hope for the future status of the economists depended on the acceptance of their expertise, hence on their ability to determine the framework in which policy discussion could go forward.

Irrespective of whether he was aware of it or not, Keynes had demanded completion of the movement of reform that we have traced here. He could hardly have avoided the history we have examined here, whether he knew it in detail or not, since its consequences had formed his environment. When he accepted the centrality of the concept of unemployment, especially in relation to the dangers of social polarisation he had taken on the compacted result of that history. He confronted the same, if somewhat more developed, problems and did so through the same social categories. In fact Keynes clearly did have at least a partial understanding of himself as part of a continuation of the preceding history. The economic theory he sought would seek the end of laissez-faire as it had been understood in favour of 'controlling and directing economic forces in the interests of social justice and social stability.' (CW IX p.305) While such a task would be full of difficulties he believed that, 'the true destiny of New Liberalism is to seek their solution.' (ibid p.305)

The debate as to whether or not Keynes was a New Liberal has been largely irrelevant. As O'Donnell argues no unequivocal answer can be given (see

O'Donnell 1991 p.20 also Clarke 1978 p.132. Clarke 1983 p.175-7, Clarke 1988 p.80, Freeden 1986 p.154-73 also Cranston 1978 p.101-15). Much anyway would depend on how one defined New Liberalism and that of course raises the question of whether any definition of New Liberalism could reasonably exclude Keynes. We can go round in circles. The point I make here is that, irrespective of how his philosophical background may have differed from other New Liberals, Keynes's own project presupposed the developments of earlier New Liberalism. The reformers we have considered here have focused in particular on the problems of the poor, poverty, the nature of the labour market and hence unemployment. The central change we have observed, one that we can argue as taking place within liberalism, is from the classical conception of poverty as a moral freedom with the necessity to work, to poverty as a determining condition. We have also tried to draw out that this change, while driving new reforms, was also driving the development of theory. The modern conception of poverty required a new general economic theory that would be compatible with social policy and administrative developments that had been forced by the new social subject.

Unemployment crystallized these changes because it stood at the intersection of economic theory and social policy as well as between the market and administration. It was central because it encapsulated the fate of the independent labourer that was the object of all these apparently different fields. The assumption of the independent labourer was the foundation of the political economy of David Ricardo and hence of the interlinking of economic theory with administration and social policy. Unemployment arose from the discovery, that was both social and empirical, that the foundation of the independent worker was not viable and required new administrative measures for it to be so.

If the state could ensure steady 'full' employment this would remove the constraint on the free individual. Keynes's work may have been theoretically distinct from his opponent Hayek but it was not so opposed to Hayek's vision as

the latter believed. Both claimed to be the true development of liberalism and each started from the individual but where Hayek took aggregates as artificial constructions imposed over the free interaction of individuals, Keynes recognised unemployment as an obstacle to the free individual and so in this sense at least continued the development of liberalism that had become identified as New Liberalism. The essential concern of the Barnetts, Charles Booth, Beveridge and the many other thinkers and activists involved in this process was with the preservation of the independent worker. Barnett did not break from the *COS* because he opposed the ideal of the independent labourer but rather because the ideal was not realised, or rather had become compromised. All these thinkers agreed with Hayek that the individuals and the aggregates were separated but they had reached this conclusion before the kind of welfare measures opposed by Hayek, and for them the separation implied a limitation of the individual within the market not within administrative structures. Administration as we have shown in previous chapters was evolved in order to secure the conditions of the independent labourer. The aggregate became an administrative category through insurance and then its percentage level became a real phenomenon affecting the budgetary position and fiscal matters. Full employment necessarily became a very practical matter for state concern.

Full employment would secure the position of the individual, it would achieve the independent labourer that was the presupposition of the laissez-faire system,

> 'if our central controls succeed in establishing an aggregate volume of output corresponding to full employment as nearly as is practicable, the classical theory comes into its own again from this point onwards.' (GT p.378).

Keynes went on to argue that once output as a whole was established outside the,

> 'classical scheme of thought, then there is no objection to be raised against the classical analysis of the manner in which private self-interest will determine what in particular is produced, in what proportions the factors of production will be combined to produce it, and how the final product will be distributed between them.' (GT p.378-9).

The Keynesian system, while a revolution in economic thought, was a revolution necessary for the preservation of the orthodoxy. It would create the conditions for the orthodoxy and so preserve the distinct economic sphere in which the fate of the individual would be solely a result of his own moral choices. This sphere would be cradled in administrative measures but then the limit of the economic had always been defined by state administration. Keynes differed from his predecessors in seeing the free action of individual interests as being essentially incapable of reaching the general interest. Where he did not differ was in his conception of the economic sphere once it was established; in *The General Theory* he agreed with Gesell,

> 'that the result of filling in the gaps in the classical theory is not to dispose of the "Manchester System", but to indicate the nature of the environment which the free play of economic forces requires if it is realise the full potentialities of production.' (GT p.379).

While both Keynes and Hayek recognised a threat to the system, it was Keynes who recognised the necessity for a new development of economic theory since 'people were unusually expectant of a more fundamental diagnosis..'(GT p.383) This judgement replaced the assumption on which the Ricardian system had depended, the security of the independent labourer coming to knowledge of political economy, but it only did so in order to re-establish that assumption.

When Keynes wrote to G.B.Shaw, in 1935, he claimed that his new theory would knock away the 'Ricardian foundations of Marxism' and would 'revolutionise the way we think about economic problems.'(CW XIII p.493) This point was elaborated in his radio talk 'Poverty in Plenty'. Here the orthodoxy v. revolution was presented as the clash of the self-adjusting school and Marxism. He emphasised the weakness of the former school since its

> 'essential elements ..are fervently accepted by Marxists. Indeed, Marxism is a highly plausible inference from the Ricardian economics that capitalistic individualism cannot work in practice. So much so, that, if Ricardian economics were to fall, an essential prop to the intellectual foundations of Marxism would fall with it.' (CW XIII p.488)

The General Theory could remove the foundations of Marxism through a theory that allowed a reasoned 'enlargement of the functions of government' that might appear as an 'encroachment on individualism' but,

> 'I defend it on the contrary as the only practicable means of avoiding the destruction of existing economic forms in their entirety and as the condition of the successful functioning of individual initiative.' (GT p.380).

At the heart of *The General Theory* was a recognition of the potential for working class subjectivity, a potential over which the existing economics had lost its practical influence. In holding fast to its positions the old regime was fostering the very conditions in which this subjectivity would become revolutionary. It had failed to take account of the development of subjectivity as a social force; it had persisted with a long-run view that assumed that subjectivity was atomised, bound in natural laws and therefore, without essential change, outside historical time. Keynes in taking the social subject as an historical reality began from the short-run in which the future was necessarily a matter of policy rather than being bound in natural laws. With his new focus he could accept that 'capitalistic individualism cannot work in practice' but could also through policy achieve the missing environment adequate to the achievement of the individual. In achieving this, theory would abolish the fissiparous opposition between orthodoxy and revolution. Once pragmatism becomes necessary rather than transitional it must become theoretical. Keynes would develop the theoretical culmination of a history of well rehearsed concerns about social subjectivity, poverty and the labour market that had included Barnett, Booth and Beveridge.

We have examined the political economy of economic theory. We saw that Keynes in taking account of the social and political environment of his period had concluded that it was not sufficient to devise new policies, a revolution in theory was a practical requirement. The necessity for a new theory had arisen outside the province of economic theory itself, as an external rather than internal inconsistency; social development had made the existing economics redundant, even detrimental, to the establishment of political order.

Keynes could preserve the essential core of economic theory as it had been established by David Ricardo; he preserved the status of economics as a science. However he did not preserve it in the form that had been bequeathed by Ricardo. For the latter political economy had been a natural science with objective laws comparable to Newton's system. For Keynes economics was not a natural science but a moral one that involved some form of directive activity and hence the determination of objectives. The function that had been achieved through 'natural laws' would be achieved through the role of the expert. In both cases the subjective presence of the proletariat would be limited; under the first it existed in individualised forms, as the independent labourer, under the second, with the recognition of a collective force, there would be a form of recognition of its needs in social justice but this formal presence would be subordinated, remaining atomised through the division of tasks that had appointed expertise, Brahma, as the organising ideal above the hearty but, unfortunately, incomplete Siva.

9. The General Theory as Conclusion

We have established in the previous chapter that Keynes was concerned with problems of social order and that he regarded a new economic theory as essential to any viable reconstruction of that order. To complete the thesis we need to demonstrate how the problem of order as understood by Keynes appeared through economic categories as *The General Theory*.

If a new economic theory was to achieve what Keynes hoped for, it would have to enable reform of the key relationships in society. Reform could not appear as a directly political act since the problem, identified by Keynes, was the failure of the orthodox economic system to contain the political. It followed that the task was to reformulate what had been considered as the proper economic sphere, including the scope of discretion allowed to government, in order to remove the chronic pressure to autonomous political action that had threatened a calamitous break-up of orthodoxy. The reformulation would require a development of economic categories that could again contain needs. Unemployment was the key since the concept had itself evolved out of the potential split between the economic and political spheres but it had done so in the context of the development of strategies to contain that split. The concept was a compressed summation of the problems raised by reformers throughout the last part of the nineteenth and early part of the twentieth centuries. The viability of the independent labourer as a basis for the system, both as an economic agent and as a democratic citizen, had been questioned and there was instead the perception of a threat posed by a social alternative. Unemployment signified the failure of the existing system to achieve its own presuppositions but in doing so it also identified the task that needed to be undertaken if the system were to re-establish its foundations. Through its influence over the framing of problems faced by policy, unemployment was critical of orthodoxy but conservative of the system as a

whole. Keynes assessed the mechanisms and theory of the orthodoxy in terms of its performance in regard to employment and in this way he began the process of re-establishing the central position of economics within political order and so re-establishing political order itself.

The orthodox view of unemployment could present no alternative to a polarisation between itself and revolution. While orthodox theory had not been applied as Ricardo had hoped, its basic principles, summed up as laissez-faire and operating through the Gold Standard, had not been replaced by a systematic alternative. Whether the Gold Standard constituted an objective system, founded on principles with the status of natural laws, or was, instead, a brittle defence of the existing order, depended not on its narrow internal logic but on the relation that the independent labourer had with it. Only the independent labourer, as envisaged by Ricardo, could grant the system its objectivity. Once Ricardo's ideal was compromised the operation of the orthodox system appeared, increasingly, not as natural but rather as a rigid choice for one particular policy. In *The General Theory* Keynes argued that under the influence of the theory of laissez-faire,

> 'the City of London gradually devised the most dangerous technique for the maintenance of equilibrium which can possibly be imagined, namely, the technique of bank rate coupled with a rigid parity of the foreign exchanges. For this meant that the objective of maintaining a domestic rate of interest consistent with full employment was ruled out.' (GT p.339)[32]

Once the assumption of the independent labourer was compromised it became not just possible but necessary to evaluate the gold standard system in terms of its effectiveness as a policy for 'full employment' and so in terms of an aggregate rather than in terms of outcomes of individual behaviour. The evaluation could condemn the previous system but in rejecting it as a *policy* it allowed the

[32]Later in this section Keynes went on to argue that bankers in Britain were learning from their mistakes and so 'one can almost hope that in Great Britain the technique of bank rate will never be used again to protect the foreign balance in conditions in which it is likely to cause unemployment at home' (GT p.339).

development of new policies.

It was not just that the gold standard had to be evaluated as one potential policy. Key elements of the system had to be judged in terms of their contribution to social order. If the conduct of interest policy was examined from the standpoint of employment then, by implication, investment, and the movement of capital itself, came under scrutiny as well. In 1930 Keynes claimed that the issue of capital movement had been with him from the beginning, 'The consequences of the extreme freedom for foreign lending which we actually enjoy has troubled me ever since I first studied economics.'(CW XX p.9). Once one side of the circuit, the independent labourer, was compromised and so once the issue of employment had been raised, so the other side of the circuit, the free or natural movement of capital, was also compromised. Where Ricardo had trusted the independent labourer to ensure the fullest possible freedom for capital, Keynes was 'troubled'.

Even before *The General Theory* Keynes considered investment in the context of social order. In *The Economic Consequences of the Peace* (1919) Keynes had assessed the old society as lying on the foundations of a distribution that put,

> 'a great part of the increased income into the control of the class least likely to consume it. The new rich of the nineteenth century were not brought up to large expenditures, and preferred the power which investment gave them to the pleasures of immediate consumption.' (CW II p.16)

The savings of the rich became investment which in turn increased the level of income so that 'The duty of saving became nine-tenths of virtue and the growth of the cake the object of true religion.' (ibid. p.17). This religion depended on nobody actually consuming the cake, neither the 'labouring classes', nor the 'capitalist classes', the 'virtue of the cake was that it was never to be consumed neither by you nor by your children after you.' (ibid. p.18). However this state of affairs ended during the war, so that,

> 'the labouring classes may be no longer willing to forgo so largely, and the capitalist classes no longer confident of the

> future, may seek to enjoy more fully their liberties of consumption so long as they last, and thus precipitate the hour of their confiscation.' (ibid. p.19).

While this early work did not contain a sophisticated analysis of the relation of savings and investment nevertheless it indicated the importance these could hold for Keynes's conception of how the system worked.

In 1924 when he considered the question 'Does Unemployment need a Drastic Remedy?' Keynes queried the extent of foreign investment and suggested that 'It's high time to give it a bad name and call it "the flight of capital"'(CW XIX p.227). There were, he argued, investments to be made in England; it was not a 'finished job'. He proposed the diversion of foreign investments into 'state-encouraged constructive enterprises at home'. (CW XIX p. 223) The cost of foreign investment, he made clear, was unemployment at home and, for the sake of this, he was prepared to consider remedies that were anathema to free marketeers. The free movement of capital should not be considered a path to the general interest. We shall see that this critical concern would eventually be extended to his treatment of money, and the relation of liquidity preference to the overall level of activity on which employment and, hence stability, depended.

The formation of the collective worker, the potential of a social alternative, threw the viability of the independent worker into question and tied the issue of order to the concepts of unemployment/full employment. The reproduction of the worker had taken on a collective, administrative and political aspect which had not existed in Ricardo's time. The basis for Keynes's challenge was his recognition of the social potential posed by the collective worker; unemployment came to epitomise the social problem which economic theory needed to encompass if a secure relation of capital and labour was to be re-established. This relation required an analysis of forms of capital from the standpoint of political order and pointed to the need for new administrative structures. There would, for example, be restrictions on opportunities for

speculative flows and encouragement of investment through low interest rates with stable demand conditions, in addition to more direct state control of investment.

For the course of this middle way to be secured the flaw in the orthodox theory had to be made good. The political/social problems for which orthodox theory was inadequate had to be located as a theoretical flaw. In his 1934 talk *'Poverty in Plenty'* Keynes praised the heretics for their intuition in attacking the orthodox theory but then criticised them as ineffective since they could not attack the orthodoxy at the root, in its theoretical construction, so the 'citadel' was untouched; indeed many of the heretics even accepted the orthodox premises. The aim then was to attack the citadel not simply because its theoretical model was seen to conflict with what had been accepted by significant groups as the 'facts of experience' but because its logic and, by implication, its political significance, were faulty.

It was not enough to point to the fact of unemployment. Keynes admitted that he accepted a large part of the orthodox reasoning even though he professed himself determined to locate the fault which lead to the 'conclusions which .. seem to me to be inacceptable' (CW XIII p.489). He then went on, he was by this time well advanced in the production of *The General Theory*, to place the flaw in the 'orthodox reasoning which deals with the theory of what determines the level of effective demand and the volume of aggregate employment' (CW XIII p.489). He identified the specific source of the fault as the 'failure of the classical doctrine to develop a satisfactory theory of the rate of interest.' (CW XIII p. 489) This flaw in orthodox reasoning lead to an inadequate theory of aggregate employment. While not yet specifying theoretically the nature of the flaw, Keynes had identified the problem as lying within the capital-labour relation. Labour bore the primary brunt of changes in the level of employment while the degree of movement of capital depended to a great extent on the framework for regulation of the interest rate that, in turn, influenced the level of employment. In examining

the interest rate Keynes could examine theoretically a mechanism that had a substantial part to play in determining how the key social relations were to be conducted.

The problem with the orthodox theory of the interest rate lay in the relation it supposed between savings and investment. As income increased, argued Keynes, the individual would not just consume more but would also save more and so a 'less equally divided' income and increases in individual incomes would open the 'gap between total incomes and the total expenditure on consumption' (CW XIII p.490). He assumed the multiplier would fall as incomes increased, whether as a result of growth or of increased inequality. The problem was that the gap between expenditure on consumption and total income could not be greater than the amount of new capital it was considered worthwhile to produce. So unless this production of capital increased it would be impossible to increase incomes by increased saving. The orthodox school assumed that the 'interest rate adjusts itself more or less automatically, so as to encourage just the right amount of production of capital goods to keep our incomes at the maximum..' (CW XIII p.490) This was 'pure assumption' and 'there is no theoretical reason for believing it to be true.' (CW XIII p.490). It was therefore necessary to intervene and one thing in particular was important, 'to increase the output of capital goods by reducing the rate of interest and in other ways.' (CW XIII p.490)

Keynes's judgement of orthodoxy was made on the basis of a previous history of developments in social policy. Although he did not know the details of that history when he attacked orthodox management of monetary policy, he did so in terms that summed up the conclusions reached in that history; he argued against the operation of the Gold Standard in which the balancing of capital and current accounts was drawn out 'to the detriment of the working classes' and was carried out on the backs of a part of the working population 'who suffer the misery and deterioration of character that follows.' (CW XX p.97)

The Gold Standard operated through the adjustment of costs, hence through flexible wages. Discretion in the use of the interest rate was limited by the requirements of keeping parity; the interest rate could be altered to attract short term funds into sterling. The pressure of adjustment would then be felt on the real economy through rising unemployment; Keynes referred to the gold standard as a 'wages policy'. Since such a policy could only work through the imposition of unemployment, a point Keynes had stressed in *The Economic Consequences of Mr Churchill* (1925), it was one that ignored what had become one of the central issues for social order. When Governor Norman, of the Bank of England, appeared before the Macmillan Committee, Keynes interrogated him on the management of the Gold Standard and forced out of him the admission that the Bank of England aided adjustment processes by raising interest rates and deliberately depressing the economy (see CW XX p.185). Against such a policy, Keynes argued that rather than the rigid money policy requiring flexible wages it was better to have a flexible money policy which could secure appropriate levels of employment. In 1944 he argued against proposals for a new commodity standard since they would return to the previous rigidities when, 'the error of the gold-standard lay in submitting national wage policies to outside dictation' (CW XXVI p.33) The advantage of escape through a flexible international currency scheme, was that, 'countries would be allowed by the scheme, which is not the case with the gold standard, to pursue, if they choose, different wage policies and therefore, different price policies.' (ibid. p.32) Reconsiderations of the role of wages and of money were inseparable.

Wages: Orthodoxy versus Political Order.

The most obvious block to the development of economic theory lay in the orthodox view of the wage. The ideal of orthodoxy remained the unified enterprise wage with Beveridge's insurance scheme as a development that had attempted, through administration, to preserve its integrity. The economists on the *Economic Advisory Council* were pre-occupied with debates about the operation

of the insurance system, the position of wages and whether or not adjustment was possible. While this debate was superficially concerned with economic questions, the resolution of differences could only be settled through a consideration of the impact of any proposals on social order. At the centre of debate was the issue of the preferred form of the wage; necessarily, this was a debate about the position of the working class within the system.

Keynes's participation in this debate illustrates important aspects of the development of his thought. He may have been prepared to modify existing social policy but not to abolish it. His approach to wages was consistent with an acceptance of developments in social policy and hence of a *de facto* division of the wage between on one side the enterprise wage earned directly through the place of work and on the other side the wider social wage earned by workers collectively but with individual entitlements mediated through administrative channels. When he rejected wage flexibility[33] Keynes rejected orthodox economics, founded on the unified enterprise wage, as being inadequate for political order.

The orthodox approach of wage flexibility within the Gold Standard had implications for social policy. Flexibility implied that the worker would relate to the system entirely through the enterprise wage; this was of course Ricardo's ideal and had lead to the framing of the 1834 Poor Law Amendment Act. According to such a system, social policy would be constructed to achieve the ideal of the labourer whose needs would be met entirely through the enterprise wage. Here was the independent labourer in a state of nature, understood as poverty. Opposed

[33]In Keynes's thought we could say that unemployment causes the rigidity of wages. However the use of 'cause' is misleading about the nature of the process involved. Unemployment became a reality for Keynes because it was the issue around which the fate of the system hinged; it was both an economic category and the result of a political judgement. The political judgement regarded the long run envisaged by the marketeers as a road to destruction; from this it followed that the present working class, the short-run, was the predominant concern and from this rigidity followed as a *logical* consequence rather than being a starting point.

to the practice of the old poor law there would be a unified wage without social recognition of need. Of course, Ricardo's ideal was never attempted in its purity but the new poor law, of 1834, in setting out a sharp administrative and social division between poverty and pauperism had isolated the recognition of need and ostracised it as a one-sided dependence. The new poor law was built in the spirit of Ricardo, if not to his blueprint; the working class would relate to social order as independent workers subsumed in the enterprise wage. It was this ideal that Keynes rejected as unworkable.

Keynes argued that wage flexibility was a long-run policy the pursuit of which was a 'grand thing in its way -unless, like the operation of systems at Monte Carlo, one has not the resources to last through the short-run.' (Keynes in Howson and Winch 1977 p.57). Whatever Keynes might have felt about the theoretical results of wage reductions, he rejected their pursuit as a policy that could not be sustained. Keynes identified the policy as coming from a previous era,

> The idea of the Conservatives that you can for example, alter the value of money and then leave the consequential adjustments to be brought about by the forces of supply and demand, belongs to the days of fifty or a hundred years ago when trade unions were powerless, and when the economic juggernaut was allowed to crash along the highway of progress without obstruction and even with applause. (CW XIX p.439-40).

That was in 1925 after the reimposition of the Gold Standard at the pre-war rate. When the General Strike, which the return to Gold had precipitated, was defeated Keynes praised Baldwin for his restraint in not pressing for the maximum advantage in wage reductions, 'Mr Baldwin decided -quite rightly- that it would be socially and politically inexpedient to take advantage of the situation in this way.' (CW XIX p.763). The theme of political restraint in wage policy remained constant in Keynes's thought in the 1930's both in the *Treatise* (e.g. pp 183-4) and later *The General Theory*. In his memorandum to the *Committee of Economists of the Economic Advisory Council,* Keynes accepted that wage

reductions could reduce unemployment but nevertheless rejected the pursuit of wage flexibility,

> '..in so far as real wages have to be reduced, it is better, if possible, to raise prices than to reduce money wages... there is less social resistance to keeping money wages unchanged when cost of living rises *x* per cent, than to reducing money wages *x* per cent with prices unchanged.' (CW XIII p.186)

In his Chicago lectures of 1931 he argued in favour of the increase in prices,

> 'on the grounds of social stability and concord. Will not the social resistance to a drastic downward readjustment of salaries and wages be an ugly and a dangerous thing? ....I know that in my own country a really large cut of many wages, a cut at all of the same order of magnitude as the fall in whole sale prices is simply an impossibility. To attempt it would be to shake the social order to its foundation.' (CW XIII p.360)

At the Round Table discussions in Chicago Keynes made a further contribution to the subject, 'Are Wage Cuts a Remedy for Unemployment?' Here he linked the dangers of wage-cutting to their efficacy; if unemployment was a result of excessive saving (using *The Treatise* analysis) then wage cuts would ultimately be detrimental if the subsequent price falls were less than the wage decreases[34]. There would not only be an increase in monetary indebtedness but also a shift in purchasing power from the wage earner to the rentier class and this in turn would increase savings because the latter were more likely to save. Wage cutting would lead to a situation that required more wage cutting,

> '..and then you have to have further, further, and further cuts in wages. Thus there might be no equilibrium point until the burden was so intolerable that there would be a social cataclysm.' (CW XIII p.371)

It was not that Keynes unequivocally rejected the possibility of, or any efficacious effect arising from, wage cuts but rather that he questioned how certain any one could be about whether the benefits would actually arise or, if they did, when they would come. He was prepared to accept that wage cuts could have a favourable

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[34]Ironically, in the light of accusations that he was an inflationist, Keynes rejected this proposal of wage cuts on the grounds that they would ultimately be inflationary since rather than restoring equilibrium at previous prices there would eventually be required a 'genuine inflation... a condition where employers may make abnormal profit, before you can raise prices back again to the point from which they started' (CW XIII p.371).

affect on the psychology of the employer and his banker with the result that investment would increase. However this case would not be relevant once a slump became entrenched and a general over-capacity was evident. Also if such a policy were applied and was accomplished for the world as a whole, there could be no competitive advantage gained,

> '..we should be no further forward than if we had sought a return to equilibrium by the path of rising prices. If, under the pressure of compelling reason, we are to launch all our efforts on a crusade of unpopular public duty, let it be for larger results than this.' (CW XIII p.360).

These statements on wages come from a period before Keynes made the decisive breakthrough of *The General Theory*. They indicate the grounding of Keynes's economic thought in an evaluation of the political consequences of policies that could not avoid consideration of the effectiveness and timing of the processes involved. The question was not initially whether a wage policy could work in theory and nor was it merely a crude estimation of whether wages were flexible, rather the primary concern was whether, even if a wage policy could work, 'we' would be dead before it did so. Practical and theoretical considerations were joined.

The rejection of wage flexibility made the development of *The General Theory* imperative; the long-run could no longer be considered an adequate basis for the relation between partial interests and the general. Through his examination of wages, Keynes completed the negative task of demonstrating that the long-run, as ground for the operation of natural laws, no longer held. The short-run was central if the aspirations of the working class were still to be successfully subsumed within a distinct economic sphere.

Robbins v. Keynes.

The implications of Keynes's short-run view can be illustrated in a contrast to Lionel Robbins, another economist on the *Economic Advisory Council*. While Keynes dismissed wage flexibility he did not reject reductions in real wages.

Keynes advocated that real wage reductions should be approached indirectly; as we have seen he favoured price rises and import tariffs. The point of such policies was to secure wage reductions in real terms, as a proportion of national income, rather than changes in particular wages. Influenced by Hayek to take an Austrian view Robbins held that problems of adjustment arose from inappropriate structures of relative wages; rigid wages, rather than high wages, were the problem. Rigidity was a consequence of restrictive practices and 'abuses in the unemployment insurance scheme'; these tended to preserve the existing structure of wages and, for Robbins, this had a *causal* influence on unemployment. Rigidity was a block on the transmission, through the price system, of information, concerning disparities of profit, that would ensure an efficient allocation of resources. The system needed to be protected from the interference of those who were temporarily disadvantaged; Robbins argued that the report by the economists on the *Economic Advisory Council* should not bow to 'political expediency' but should stress the effect of unemployment insurance, 'via the rigidity of wage rates and the general support it gives to resistance of the forces of change..' (ibid p.62). Robbins's plea to avoid political expediency goes some way to explaining why Robbins was identified by Keynes as alone in developing his policy conclusions, especially in regard to social policy, from his economic theory. In identifying support for the existing insurance system as expediency, Robbins had also highlighted the same split between theory and policy that occupied Keynes, except that Robbins saw the answer in a return to laissez-faire rather than in a new theory suitable for the new policies.

These differences of view regarding the viability of the long-run and short-run entailed different policy orientations to the working class. Keynes's approach, as we have seen, favoured indirect wage reduction through price rises which would affect all wages; the object was to reduce the average wage. Although this policy would have some secondary effects on the structure of wages, it nevertheless took the existing structure as a given. On the other hand Robbins

who regarded changes in the structure of relative wages as the essential means to adjustment dismissed an average wage as a meaningless concept. It was impossible, said Robbins, to deduce anything from a 'hypothetical disparity from a fictitious average' (in Howson and Winch 1977 p.59).

Where the short-run view started from a given structure of wages it also implied a judgement regarding the political significance of the present working class whose institutions, culture, and expectations were attached to that structure. Since the long-run view emphasised the importance of flexibility in the relative wage structure it also necessarily downplayed the importance of the working class specific to that structure of wages and tended therefore to favour an insecurity (adaptability) that could feasibly instigate, unintentionally, or at least bolster a social movement to destroy the existing social conditions.

The debate between the short-run and long-run views appeared as an economic debate but it required a political judgement for any reasonable viewpoint to be held. Ultimately this judgement concerned the significance of the existing needs of the working class since only subsumption of these needs into a viable regime would secure politics within an economic order for accumulation. Robbins in rejecting political expediency was also reaffirming, in principle, Ricardo's vision of a working class whose needs were wholly subsumed by the enterprise wage. Obstacles, rigidities, to the operation of this system had to be removed. While he was even-handed in his estimation of the problems, identifying monopolies as a significant element of rigidity, his approach required some form of political showdown since it had to deal with social policy and existing trade union practices as rigidities that had, therefore, by implication, to be broken. Success in ensuring flexibility would have reasserted the objective laws governing independent workers and so re-established the economic sphere as a central element of political order. The problem was that while this was in keeping with economic theory, that theory had not necessarily come to terms with the new

requirements for political order.

Although this latter objective, however obscurely perceived, could explain Robbins's opposition to expediency there are reasons to doubt whether he had adequately worked out the full consequences of the course he proposed[35]. From his contribution to the *Economic Advisory Council* one gains the impression of the bright young man who has a 'good idea'; Keynes does everything feasible to include Robbins's opinions even where they differed from his own because he recognised the political importance of an agreed statement by the economists. Nevertheless, Robbins was consistent in expressing the 'Austrian' or Hayekian viewpoint and this led him to state an issue that was central to any political discussion of the role of the economic; it was necessary to decide,

> 'whether having organised our whole system of production on the price basis we are going to admit the principle that the prices of the various kinds of labour must never be allowed to fluctuate in the downward direction' (Robbins in Howson and Winch 1977 p.62).

According to the 'Austrian' view any concession in the short-run brought long-run disorder since it disrupted the information passed through price movements and ultimately introduced the collective control that would destroy the price system.

While the youthful Robbins appears to have seen this issue in terms of the assertion of an abstract principle, for Hayek there was a deeper political judgement that would sustain opposition throughout the 'Keynesian episode'. For

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[35]In his Autobiography Robbins questioned the analysis he put forward at this time on the grounds that it did not deal adequately with the deflationary forces that swept away 'all the elements of constancy in the situation which might have provided a framework for an explanation in my terms..' (Howson and Winch 1977 p.62). Since he assumed the issue was about relative prices he also assumed the problem was about matching the real economy to the distribution of demand rather than to its level so it was the level he regarded as a constancy. If this was so then it amounted to the treatment of unemployment as a temporary phenomenon within adjustment and so not a political issue in its own right. The implication that follows from this is that the 'constancy' that had been swept away was a working class that could be assumed as being integratable within the existing orthodox conception of the economic. Robbins, whether he knew it or not, had made assumptions regarding the viability of the orthodoxy as a system of government.

Hayek, as for Keynes, the choice between long-run and short-run was far from being a simple choice of economic time period; Hayek regarded concentration on the short-run as nothing less than 'a grave menace to our civilisation.' (Hayek 1941 p.409).

Like Keynes, Hayek assessed flexibility in terms of the relation between monetary policy and the price mechanism but, unlike Keynes, he argued that the conduct of monetary policy should be entirely subservient to the requirements of a flexible price system, it should, 'reduce as far as possible ... slack in the self-correcting forces of the price mechanism, and to make adaptation more prompt so as to reduce the necessity for a later, more violent, reaction.' (ibid. p.408). It was only through the price system that the allocation of resources could be realigned with the prevailing real factors. Money may have been a loose joint that could therefore have its effects on the operation of the price system but this was 'no justification for concentrating on that loose joint..'. Hayek granted that in 'the very short-run the scope of monetary policy is very wide indeed. But the problem is not so much what we *can* do, but what we *ought* to do in the short-run.' (ibid p.408). The choice for what money *can* do, according to Hayek, had come to predominate and it had done so through neglect of the real factors. There was a growing emphasis on the short-run which was the same as 'concentration on purely monetary factors' and Hayek regarded it as a betrayal of the main duty of the economist for whom it had been the 'duty and privilege..to study and to stress the long effects which are apt to be hidden to the untrained eye, and to leave the concern about the more immediate effects to the practical man..' (ibid. p.409). Economics had become scientific by going behind the superficial monetary mechanism 'to bring out the real forces that guide long-run development.' (ibid p.409) The contemporary tendencies of concentration on the short-run and, so, on monetary effects, he regarded as a return to the 'pre-scientific stage of economics, when the whole working of the price mechanism was not yet understood..'(ibid. p.409). Any policy that aimed at the 'maximum short-run effect of monetary

policy' ignored the long-run at its peril since, 'the indirect and slower effects of the short-run policy of the present shape the conditions, and limit the freedom, of the short-run policy of tomorrow and the day after.'(ibid. p.409)

Just as for Keynes, so for Hayek, the choice between short-run and long-run was fundamental for determining the proper scope of economic theory and policy. When Hayek rejected short-run political interference he also rejected the immediate needs of the working class in as much as they were embodied in a particular relative wage structure and the institutions attached to that structure. Instead he favoured a conception of the flexible and free individual, analogous to Ricardo's independent labourer.

Keynes's viewpoint took the existing working class as its starting point. The whole point of developing policy, as opposed to relying on a system of automatic adjustment, was that it gave scope to deal with the aspirations, or needs, of the working class. In the automatic or natural system all agents were expected to adjust to the requirements of the system. The premise of this system was the independent labourer and any organisational expressions of the working class or state administrative structures were subordinate to this premise. Keynes's view, that supposed the flexibility of state action, accepted trade unions as well as social policy. He was not complacent about these, but did not regard them as obstacles to the achievement of the general interest; they were rather factors that had to be taken into account. For Keynes, then, as we have seen wages were regarded as a problem to be dealt with through indirect means, such as the price level, rather than through direct confrontation. Wages, for Keynes, were not the starting point but were the outcome of policy,

> 'Real wages seem to me to come as a by-product of the remedies which we adopt to restore equilibrium. They come in at the end of the argument rather than at the beginning.' (CW XIII p.180)

Different policies could be assessed according to how they affected real wages but even this would still be no direct guide to employment since,

> 'Employment is not a function of real wages in the sense that a given degree of employment requires a determinate level of real wages, irrespective of how the employment is brought about.' (CW XIII p.180)

Wage reductions, even as a result of flexibility, could possibly reduce unemployment, but nevertheless the direct relation of wages to employment supposed by orthodox theory was rejected. For Keynes, the real wage was an aggregate conceived in relation to the economy as a whole. It was not determined by bargaining for money wages but rather by 'other forces of the economic system' (GT p.14) On the other hand bargaining over money wages was relevant to the 'distribution of the aggregate real wage between different labour groups' and this did not affect the 'average amount per unit of employment' (GT p.14). Unemployment was distinct from the labour supply and demand functions of orthodox theory. The level of employment was independent of individual decisions regarding employment and wages. While Robbins and the 'Austrians' sought to reaffirm the link of responsibility between individual decisions and the aggregate through policies that would reassert the independence of the labourer, Keynes sought to avoid direct confrontation preferring, as he put it, policies that would 'submerge the rocks in a rising sea.' (CW XIX p. 221).

Employment, the Budget and Investment.

Employment had become the criteria by which any policy would be assessed and full employment had become, for Keynes, the most important goal of policy. Rejection of the long-run as no longer politically feasible was, necessarily, also a rejection of the fixed monetary policy of the Gold Standard. As a form of economic governance the Gold Standard depended on a process of automatic adjustment whose status as natural had been compromised by the potential of the collective worker. In the operation of the standard the interest rate was subservient to the preservation of the parity with gold. In raising the interest rate, to attract funds into London and to engineer conditions that would force real adjustment, the Bank of England had in effect used monetary policy to determine the margin of profitability and hence the aggregate level of employment. In the

context of a debate in which the issue of unemployment was increasingly prominent, this orthodoxy was, in Keynes's view, indefensible; he demonstrated this through his interrogation of Sir Richard Hopkins at the Macmillan Commission. Keynes was able to lead Hopkins into consideration of the beneficial employment effects of investment as the interest rate was reduced to 4% then 3%. Hopkins conceded Keynes's point, but reluctantly since it undermined the orthodox framework within which interest rate policy was conducted.

Keynes favoured the encouragement of domestic investment to the extent of bypassing individual decisions about the profitability of certain schemes. Regulation of the interest rate would necessarily be a prime tool, but along with it there would be expenditure on public works that Keynes considered an essential aspect of any investment programme. For low interest rates and state directed investment to be sustained as deliberate policy measures there had to be theoretical development that could supplant the restrictive influence of the orthodoxy.

The orthodox system supposed money to be neutral, that changes in the quantity of money could only effect the level of prices as a whole. This was essential to a vision of a natural economy. If this system held, then discretionary regulation of the interest rate for employment was ruled out. The orthodox system also had implications for the proper conduct of the budget and public expenditure that not only ruled out Keynes's expenditure proposals but also restricted the provisions of a social policy.

We can examine how Keynes's perspective lead to a new conception of the budget. The budgetary position that developed in the 1930's was a result of the combination of the overall economic situation, the insurance system that had developed from 1911 and the exceptions and anomalies that had developed in order to preserve its political role especially in the period after the first world

war. The orthodox position was clear enough, that the budget should be balanced through controls on expenditure but this had serious implications for social policy. Resolution of one issue was impossible without taking account of the implications for the position to be taken on other issues.

The orthodox position was tied to the operation of the Gold Standard. This is finely illustrated by the onset of the 1931 crisis. A succession of events called into question the capacity of the British government to preserve the existing parity. There was a crisis of confidence as short term capital fled the pound. The judgement implied in the flight was that the government was unable to take the necessary (orthodox) budgetary measures to preserve parity. It was feared that the government would not secure its finances through the cuts in unemployment benefits suggested by the May Committee. The form of social policy and the regime for wages had become in 1931 political issues of the greatest importance. In the immediate resolution of the crisis the Labour Party split. MacDonald and Snowden joined the National Government in collaboration with the conservatives to impose the economies that the orthodox position required. The Labour Party had been shown up as unable to introduce the feasible alternative to secure the middle ground that Keynes believed was necessary. When mutinies broke out in the fleet, (the Invergordon Mutiny 1931), against the economies imposed on military pay, the Gold Standard was finally abandoned, although this was too late to save the Labour Party.

The tenacity of the orthodox view and its tendency to reassert itself at times of crisis can also be demonstrated through the arguments of a previous collaborator of Keynes's, Hubert Henderson. It was with Henderson that Keynes had defended Lloyd George's proposals for a programme of public works in the 1929 election campaign. However, by 1930, as the budgetary situation worsened Henderson moved away from Keynes's interventionist measures. He was especially concerned about the effects of unemployment pay and declining

revenues on the budgetary situation; these two factors combined, if no other action was taken, would inevitably require the raising of taxes. He regarded Keynes as irresponsible for not taking account of the budgetary position. He warned that Keynes was in danger, 'of going down in history as the man who persuaded the British people to ruin themselves by gambling on a greater illusion than any of those he had shattered' (CW XX pp.362). Henderson felt that Keynes's policies would ruin confidence in the conduct of policy. When the May Committee reported on the budgetary position and unemployment pay Henderson regarded it as harsh and yet advised that for reasons of confidence there should be 'considerable cuts in unemployment benefits' (Howson and Winch 1977 p.87). Whatever he may have believed in the past, Henderson had no alternative to the clash of orthodoxy v. revolution; here his pragmatism ultimately had to take account of confidence and this, without theoretical innovation, meant reversion to orthodoxy.

Keynes's reply to Henderson indicated how his determination to find a different path was forcing him into a more definite divergence from the views he had been educated in. Although he accepted the problems of unemployment expenditure and of budget deficits he went on to explain that,

> '..what chiefly divides us, I think, is what seems to me the lack of fundamental diagnosis in your present attitude. After all, the budgetary problem is largely a by-product of unemployment, whilst a decrease of taxation is scarcely to be hoped for. The main question is to diagnose unemployment.' (Howson and Winch 1977 p.68).

The significance of this reply was that it began from unemployment itself; unemployment was not an outcome of various individual decisions but a factor in its own right that determined the budgetary position. Unemployment therefore required 'fundamental diagnosis'; instead of attacking social policy as the cause of imbalance the vital issue was to diagnose the movement of aggregate income. Henderson, in keeping with the orthodoxy, was prepared to attack the social policy. Keynes taking the new perspective on the budget tended to support policies that could preserve social policy.

The budget problem and the position of the individual were linked in Keynes's mind as was demonstrated in his 1933 talk with Stamp for the BBC. The subject was unemployment and he asked Stamp whether or not it was 'getting realised pretty generally that one man's expenditure is another man's income? At any rate that seems to me to be the central truth, never to be forgotten.' (CW XXI p.145). The significance of this view was that it required some analysis of the demand effects of reductions in wages or even of unemployment expenditures on the overall level of income. If demand effects were taken into account then the theoretical view of the individual within the system had changed; pursuing the ideal of wage flexibility, premised on the concept of the independent labourer, could have immediate and unintended effects at the aggregate level, and so, argued Keynes, 'it is not the individual who is the sinner... That is why I stress so much the policy of public expenditures... the organised community ....must find wise ways of spending to start the ball rolling.' (ibid p.148) In Keynes's perspective, starting from unemployment as a 'fact of experience', budgetary decisions could not be compared to household calculation since individual decisions did not affect the overall level of income but for the 'organised community' this assumption no longer held; the perspective had been reversed by the logic that took income as itself the determinant factor, '..it is the burden of unemployment and the decline in the national income which are upsetting the Budget. Look after the unemployment, and the Budget will look after itself.'[36] (CW XXI p.150) Once Keynes had taken the theoretical step to investigate the movement of income he had begun to bridge the gulf that reformers had previously observed between the facts and political economy. Keynes could investigate the conditions in which character might be an outcome of social

[36]This was interpretable as meaning that a government might be able to spend its way to a balanced budget but even if, at any time, he did hold anything close to such a view it is not the view of *The General Theory*. The important point to note here is the difference between his new perspective on the budget from that of the orthodoxy. With further development of the analysis it would be possible to construct a combination of monetary policy, state-direction of investment along with some public spending which if it had a beneficial effect on the state of expectations could produce the increase of income from which the budget would be balanced.

conditions rather than the result of moral choices by the individual.

His proposals in the following years demonstrated the importance of the view of the budget that the new perspective had given him. In *The Means to Prosperity* (1933) he applied the multiplier to policy proposals and showed how far the interconnection of social and economic policy could be taken,

> 'We have reached a point where a considerable proportion of every further decline in the national income is visited on the Exchequer through the agency of the dole and the decline in the yield of taxes. It is natural, therefore that the benefit of measures to increase the national income should largely accrue to the Exchequer.' (CW vol IX p.347)

It is significant that Keynes took social policy as a datum for budgetary calculation and that from this followed the reversal of perspective on the causation of budgetary problems. Keynes's new perspective was implicit once the national insurance scheme had been devised on an actuarial basis that depended on the level of employment. If social policy was devised on an insurance basis it pointed to the need to control the aggregate level of employment or to face budgetary consequences that could put the social policy in jeopardy when it was most required. Keynes argued that, through the multiplier, an active public works campaign would actually assist the budget through savings on unemployment benefit and increases in tax revenue. There was, then, ultimately no dilemma between increasing employment and balancing the budget; indeed, he argued, 'There is no possibility of balancing the budget except by increasing the national income, which is much the same thing as increasing employment.' (ibid p.347).

In his essay *National Self-Sufficiency* (1933) he deplored the waste of resources that had gone into the dole when instead 'we could have made our cities the greatest works of man in the world' (CW XXI p.242). The limitation in the orthodox view was in regarding the Chancellor as 'the chairman of a sort of joint-stock company,' a conception that 'has to be discarded' (CW XXI p.243). Keynes argued that the accountant's test of profit had to be rejected and 'the decision as to what ...shall be produced within the nation and what shall be exchanged with

abroad, must stand high amongst the objects of policy.' (CW XXI p.243). The system of free enterprise was no longer compatible 'with the degree of material well-being to which our technical advancement entitles us' (CW XXI p.240). If orthodoxy continued 'embracing the free movement of capital and of loanable funds as well as of traded goods' it would 'condemn this country for a generation to come to a much lower degree of material prosperity than could be attained under a different system.' (CW XXI p.240-1). Given freedom from the orthodoxy which his theory offered it would be possible to 'make our own favourite experiments towards the ideal social republic of the future.' (CW XXI p.241).

The fallacy of composition

We can now specify the flaw in orthodox theory which Keynes identified. In recent Keynes scholarship Anna Carabelli especially has focused on this issue. She has argued that the distinctive nature of Keynes's thought lay in its organicism. Through this concept she draws out his methodological critique of classical economics,

> 'The traditional approach to Keynes's critique of the classical theory has been that of stressing its contents. Here I approach it from a different perspective, by trying to show the methodological ground..' (Carabelli 1991 in Bateman and Davis 1991).

Carabelli completes her task admirably. However, as in much of recent Keynesian scholarship, she presents Keynes's break one-sidedly as intellectual. She regards the flaw in the theory as merely intellectual, as if methodology had no historical basis. It is true that an intellectual breakthrough was necessary but it was preceded by a history of reformers and thinkers attempting to come to terms with changing social conditions. Keynes's breakthrough came when he moved from the recognition of a social flaw in the orthodox theory to its identification as a logical flaw. The orthodoxy had been questioned by the reformers as inadequate to the achievement of social order; founded on the premise of the independent labourer, and in opposition to the pre-market world of status, the orthodoxy had conceived the conditions adequate for this premise to be natural or objective. This came to

be recognised as a social flaw not because many individual workers were known to be incapable of the desired independence but rather because, under the threat of a social alternative, these workers had become facts that had to be accounted for. Natural or automatic adjustment, in which individual workers may be unavoidably expendable, had become inadequate because it did not allow sufficient flexibility for the state in constituting its own social conditions. If discretion was excluded, or too severely limited, then what had been natural became merely brittle in the polarisation with revolution. The perceived failure of the orthodoxy to achieve the ideal of the independent labourer was at the heart of the problem and it was this social flaw that made identification of a methodological flaw necessary. On the other hand it was also true that the social development was necessary before methodological innovation could have any relevance. Before we explain this we will specify the methodological flaw identified by Keynes in the orthodoxy and we will do this by considering Anna Carabelli's work.

Carabelli presents the tacit assumptions that Keynes identified as the basis of the classical system. These were three 'independencies from'; the analysis of the classical system was 'independent from' changes in (1) the value of money, (2) the value of output and unemployment and (3) the level of income. All of these came down to independence from the level of output or the assumption of constant income. (Carabelli 1991 p.113 GT pp 21-2). This assumption in taking for granted the social level also made a methodological decision that was identified by Keynes as the fallacy of composition since it took analysis that was true for the individual to be true for the community as a whole. It was this fallacy of composition that was identified by Keynes as the theoretical or methodological flaw in the classical system. For example because an individual's decision to save changed the proportion saved, without changing income, then according to the fallacy of composition this was true for the community so where society saved more, income would not be affected and savings must have become investment. Against this, Keynes argued that if all individuals decided to save more demand

would be reduced and hence so would the income out of which they were trying to save more. For 'the community as a whole, the amount of total income depends ... on the amount of total expenditure.' (CW XIII p.400). As a result, said Keynes, for this level of analysis, 'We are, therefore, on shifting sands..' (ibid. p.400). All that the community can do is save a greater proportion out of a falling income. The decision to save could not be taken as independent of the level of income at the community level since the income out of which savings came in turn depended on demand and so on decisions regarding consumption out of income.

The same fallacy applied in the case of wage reductions; where an individual could reduce his wage to get back into work this did not necessarily hold for the class of labourers. At the individual level the wage could be regarded as a cost for the firm and this could be taken to apply at the level of industry as a whole so that for a particular industry one could have a demand schedule for labour 'relating the quantity of employment to different levels of wages' (GT p.259). This assumed a number of factors to be constant for the schedule to be constructed; here the fallacy appeared since one assumption concerned the 'aggregate effective demand', and,

> 'it is invalid therefore, to transfer the argument to industry as a whole unless we also transfer our assumption that the aggregate effective demand is fixed. Yet this assumption reduces the argument to an *ignoratio elenchi*' (GT p.259).

At the social or aggregate level the wage was not only a cost for a firm but was also part of the circuit of demand. Wage reductions at the social level were as much reductions in demand as they were in costs. If this was so it was invalid to assume that a demand schedule for labour could be constructed on the assumption of a fixed income.

Workers could not price themselves at a full employment wage since they had no influence on the demand consequences of money-wage reductions. Even where entrepreneurs expected the reduction of money wages to increase

employment, Keynes argued that they were liable to be mistaken unless the marginal propensity to consume was unity, or if investment rose by enough to cover increased savings arising as a result of the increased output,

> 'For if entrepreneurs offer employment on a scale which if they could sell their output at the expected price, would provide the public with incomes out of which they would save more than the amount of current investment, entrepreneurs are bound to make a loss equal to the difference; and this will be the case absolutely irrespective of the level of money wages' (GT p.261-2).

Under such conditions it was not possible for workers as a whole to choose full employment; indeed attempts to make such a choice might have the opposite effect given the likelihood that wage reductions would lead to an instability of prices that could be 'so violent perhaps as to make business calculations futile..'(GT p.269)

The flaw, then, in the classical system was that it based its analysis of the aggregate level on conclusions that only applied on the individual level. The essential assumption made by the classical school was that the level of income was constant, in other words was independent of individual decisions. Such an assumption allowed analysis of the economy solely in terms of discrete individuals or rather in terms of the independent labourer who, since he was able to choose his fate, given his capabilities, was also the character of classical political economy. Since under such an analysis 'unemployment' would be the result of individual decisions there was full employment. Once the flaw was identified it was not simply a matter of adjusting the classical system. A new methodological position was required that could take account of the complexity that invalidated the assumed link between individual decisions and social results and undermined the independence necessary for there to be individual morality. Methodological innovation would necessarily have to lead to an adequate structure for the relation of the pursuit of individual self-interest to the general interest.

When Keynes began his analysis with the fact of unemployment he took

on an already developed orientation to the individual's fate as being determined by the actions of the system itself. Reformers had set out to establish this point as the prerequisite for any change in social policy. Poverty had in the course of this debate lost its quality of being a sphere of independence in which moral development was possible. We saw that this change in the conception of poverty set up a discordance between social policy and economic theory since developments in social policy had tended to the recognition that the individual was determined by circumstance but economic theory still held the assumption of individual responsibility. Discordance between the assumptions of theory and the practical orientation of social policy threatened the establishment of a political order. The crisis of 1931 demonstrated this when the orthodox view was reasserted against the developments of social policy. The viability of political order ultimately required social policy to be compatible with the existing framework of economic governance and while the reassertion of orthodoxy did in fact move in that direction, it was a notional reassertion since it did not take account of the reasons why the social policy had diverted from the orthodoxy in the first place. Keynes recognised the problem in the 1930's and his 'organic' perspective on the budget began the work of reconstructing an adequate economic framework.

Ricardo had relied on the independent labourer coming to know the laws of political economy. This knowledge was part of the formation of a social relation but it was also a theoretical relationship, a relation between subjectivity and the system that produced that system's objectivity. Ricardo's method was suitable so long as his assumptions about the social material, i.e. the independent labourer, were valid. He could elucidate the permanent state of things, and separate off the temporary, because, given the independent labourer, it was meaningful to investigate the system's objectivity. When we showed that Ricardo's method had depended on an assumption regarding the nature of the society, we also opened up the probability that the methodology of economics

would change with social/historical developments. Through the eyes of our reformers and political economists we have seen the emergence of a social subject, the collective worker. It was Keynes's achievement to have absorbed this into a theoretical framework through the fallacy of composition. The collective worker had forced a recognition of circumstance as determining character; the classical conception of poverty as the freedom of the labourer was replaced by the modern conception of limitation. Once this was understood as unemployment it followed that full employment was the condition necessary for the independent labourer. Keynes formalised the social problem of the viability of the independent labourer and hence of the establishment of political order in the fallacy of composition. His achievement was to have taken the social development and given it expression as a theoretical flaw from which the orthodoxy could be unravelled.

The development from which the fallacy of composition emerged as socially relevant was the dissolution of the system of political economy as a natural system. The status of its laws as natural could no longer be upheld once it was confronted by the collective worker. The separation of the individual and social levels, formalised in the fallacy of composition, was also expressed in the assertion of the importance of the short-run; this perspective took the immediate present as politically imperative rather than, as in Ricardo, asserting the necessity for 'partial losses'. Keynes could not have Ricardo's confidence in a future embedded into the present by natural laws because he could not trust the independent labourer to grant the system its objectivity. For Keynes, the future had escaped, even if, he hoped, it still lay within the range of policy; the necessity for policy as opposed to the natural system for the achievement of political order arose from the need to domesticate the future for the present order. At the centre of this need, in terms of diagnosis and policy, was money.

A Theory of Monetary Production

For the orthodoxy to assume that analysis could be conducted

independently from the level of output as the basis of its theoretical structure, it also had to make assumptions regarding the specific nature of the economy itself. If analysis really could be conducted independently of the level of output then it must also hold money to be neutral in its effects on the real economy. The assumptions by which money could be understood as neutral were, argued Keynes, the same as those for a real exchange economy; the

> 'conditions required for the "neutrality" of money, ...are, I suspect, precisely those which will insure that crises *do not occur*. If this is true, the real-exchange economics, on which most of us have been brought up... is a singularly blunt weapon for dealing with the problem of booms and depressions.' (CW XIII p. 411)

For an analysis of the real world, the facts of experience, a monetary theory of production, Keynes argued, was essential and it was this which he began as he left the *Treatise* position in the early 1930's leading up to *The General Theory*.

If the real exchange model of the economy held then it was possible to sustain the analogy between the individual and the community; just as one man's saving was therefore the production of something else (including a *choice* for leisure), so also for a real exchange economy[37] it followed that an act of saving was in itself the choice to produce something else. In real exchange the issue was ultimately about the choice in the use of time and what was no longer used in one way was obviously then used in another way. Full employment was a reasonable assumption founded on commonsense. In such an economy the fallacy of composition, at least as considered by Keynes, did not apply[38]; individual and social levels were indistinguishable.

The moment money is introduced a new phenomenon must be taken into

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[37]A real exchange economy is conceptual and in Keynes's terms is effectively a barter economy except that it has money.

[38]Even a brief encounter with anthropological work will confirm that even in the most 'simple' societies the relation between the individual and the social is far from straightforward but these were not what Keynes had in mind. As we have said the real exchange economy was conceptual.

account; the reason money is held to be so effective in facilitating exchange is that it is a store of value as well as a means of exchange. If it is to be a store it must not be a particular use-value for the holder but be convertible into any use-value, or, we could say that its use-value must be its universal exchangeability. It is this quality of universal exchangeability that enables it to be a means of exchange since it promises a seller escape from the immediate pressure to sell which had taken him to the market in the first place. This reduces individual risk and so hastens the spread of exchange by enabling development of production for exchange. There is however a problem, since the quality that allows money to be a means of exchange is *necessarily* the same as that which allows the holder of money to withdraw from exchange. This introduces the possibility of a person holding money for its own sake which, although rational for the individual, would, if generalised, mean, for the community, a breakdown of exchange - crisis[39].

The order in which Keynes's ideas developed towards the monetary theory of production and on to *The General Theory* followed a path similar to the larger history of which it was a part. We can briefly outline this development and as we do so illustrate how theoretical development coincided with social and political concerns. During the 1929 election Keynes was a supporter of Lloyd George's proposals for public works. In defence of these practical proposals for a political programme he began, with his collaborators, to investigate the possibility of secondary employment arising from the initial expenditures; this lead to Richard Kahn outlining the multiplier relationship. An essential element was the treatment of incomes within a circuit of demand in which consumption was treated as a function of income. Secondary employment was a function of the proportion of incomes that were consumed. The portion of income not consumed was by

[39]For more on the possibility of crisis in Keynes as well as its similarity to Marx see P.Kenway 'Marx, Keynes and the Possibility of Crisis' *Cambridge Journal of Economics* Vol. 4 1980.

definition savings, or withdrawal from expenditure. Once these relations between income and savings and consumption were established two further developments became possible. Firstly, changes in income could be grasped as the means by which savings were equilibrated with investment. Secondly, if the latter point held, the role of the interest rate in relating investment and savings no longer held so a new theory of the interest rate was required[40]. Space was opened for a monetary theory of the interest rate and it had been opened by what had been a practical concern with employment. We shall examine these points.

The 'multiplier' relation of savings to income, as the proportion withdrawn from expenditure, made possible a theoretical relation in which individual moral decisions, i.e. over savings, were no longer considered beneficial to the community level,

> 'The rise in the rate of interest might induce us to save more, *if* our incomes were unchanged. But if the higher rate of interest retards investment, our incomes will not, and cannot, be unchanged. They must necessarily fall until the declining capacity to save has sufficiently offset the stimulus to save given by the higher rate of interest. The more virtuous we are, the more determinedly thrifty, the more obstinately orthodox in our national and personal finance, the more our incomes will have to fall when interest rates or long-term expectation continues adverse.
> ... the actual rates of aggregate saving and spending do not depend on precaution, foresight, calculation, improvement, independence, enterprise, pride or avarice. Virtue and vice play no part.' (CW XIII p.449)

The community level required its own analysis quite distinct from the behaviourial characteristics of individuals. It was not possible to conjure social solutions from individual morality.

The other point that arose from the 'multiplier' relation was that a new theory of the interest rate was needed; while this came chronologically at the end it was more than a residual. Keynes had claimed that his recognition of the need

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[40]Keynes deals with this issue in more detail. (see GT pp.178-80)

for a theory of effective demand had only come after 'I had enunciated to myself the psychological law that, when income increases, the gap between income and consumption will increase, - a conclusion of vast importance to my own thinking..' (CW XIV p.85) The significance of the discovery, in this context, was that it raised the question of whether an increasing gap between income and consumption would be filled by the purchase of capital goods. This in turn raised the issue of how, or whether, savings were linked to investment. The orthodox theory assumed that the interest rate would ensure the equality of savings and investment at full employment. If however savings were not equilibrated with investment through the interest rate the possibility arose that investment did not necessarily fill the gap, since there would be no mechanism to ensure that an increase in savings would necessarily become an increase in investment to preserve full employment income.

Keynes's new theory treated the interest rate as a purely monetary phenomenon; he distinguished the money rate of interest from other own rates of interest as specially important. The money rate measured the percentage difference between a present (spot) sum of money traded for a future sum. The percentage was the reward for not holding money today i.e. how much money tomorrow would just induce you to give up a sum of money today was the measure of your demand for money.

The significance of the money rate of interest was that it played a peculiar part in setting the level of employment because 'it sets a standard to which the marginal efficiency of capital must attain if it is to be newly produced' (GT p.222). Production of any asset required that the marginal efficiency of capital (MEC) should be higher than the rate of interest. As production of the asset increased the marginal efficiency fell so there would be a point at which production of that good ceased. This would continue until 'there is *no* asset of which the marginal efficiency reaches the rate of interest, [when] the further

production of capital-assets will come to a standstill.' (GT p.228) Interest rates of goods, including assets, in terms of themselves, i.e. own interest rates, fell as more of a good was produced but in a market economy the decision over the purchase of an asset would be done in terms of *the* interest rate. The rate of interest in this case was that own-rate of interest which of all goods was the one to decline slowest as the stock of assets in general increased. It was the money rate of interest that declined slowest and so it became the standard by which the profitable productions of other products were eventually compared. The own rate of interest of money, because it fell the slowest, became *the* interest rate.

The money rate of interest declined less than other own rates because of its role as a store of value. The special utility of money derived from its exchange value (GT p.231) so a raise in its price increased its utility. The more money was required as a store of value so, all things being equal, the greater the money rate of interest. As a store of value the function of money was to enable agents to escape the pressure to sell, to withdraw from production and to hold value. The withdrawal would change the terms on which production could start. The interest rate was the gatekeeper for new investment and so a determinant of effective demand. The interest rate would equal the MEC but where in the classical system it was the MEC that determined the interest rate[41], for Keynes it was the interest rate that determined up to which point on the MEC schedule investment could take place.

Decisions in the monetary sphere, decisions about liquidity were also

[41] Although Keynes professed difficulty in reconstructing the classical theory of the interest rate, since he felt it was nowhere adequately or rigorously expressed, he could conclude that, with whatever variations subsequent thinkers may have had, Ricardo's theory was the basis of all of them. Ricardo's theory was of course a long-run theory that therefore abstracted entirely from money and located the interest rate as determined by real factors, i.e. by the 'rate of profit which can be made by the employment of capital, and which is totally independent of the quantity or of the value of money.' (Ricardo in Keynes, GT p.190). In short, for the classical system the interest rate was real, for Keynes the profit rate was monetary.

decisions about the movement of capital that raised the reward on capital by keeping capital scarce. The free movement of capital tended if unchecked to benefit the rentier at the cost of employment. This tendency had been heightened by the historical development of liquid markets in investment that allowed the separation of ownership and control (GT chap 12) and hence the development of speculation. In addition, this separation had occurred when, with rising incomes and rising capital stock, the proportion of saving in the economy grew and the return on capital fell[42]. Inevitably new investment would fall below that required to fill the savings gap at full employment.

For Keynes's analysis the free movement of capital, implying here the unchecked ability to make capital scarce, inevitably resulted in unemployment. Keynes had been able to transpose the relation of capital, as money, and labour, in production, into a technical field in which the ability to withdraw from production, with all its political implications compressed in the concept unemployment, could be subject to expert examination and then to policy.

The differences between Keynes and Ricardo can be illustrated in how each viewed uncertainty and this will also indicate how the relation to objectivity had changed. For Ricardo uncertainty was a relation of individuals to the laws of the system. Individuals would resist necessary partial losses that would arise from falls in the price of their goods. In such cases all that was required was greater information and knowledge of the system. There was no intrinsic problem of knowledge, but rather a transitional one as individuals had not come to an adequate knowledge of 'the permanent state of things'. For Keynes, by contrast, uncertainty took on a macroeconomic dimension absent in Ricardo. It was now tied up with the relation between capital and production since uncertainty about

[42] 'there has been a chronic tendency throughout human history for the propensity to save to be stronger than the inducement to invest.' (GT p.347). This meant that, 'The weakness of the inducement to invest has been at all times the key to the economic problem.' (ibid p.347).

the future, and hence about time in production, would increase the importance of money as a store of value. There would be a withdrawal from production which would increase the rate of interest and force movement back up the MEC schedule. Here, uncertainty about the future while focused on the direction of prices would necessarily also have a concern about the future of political order; it was this aspect that gave uncertainty such importance in Keynes's period since the possibility had arisen of a collapse of the system as a whole. The problem was not any longer to impart knowledge of the system's objective laws since it was now the system itself, as a permanent natural order, that was in question. For Keynes the problem was not one of developing knowledge of an existing set of laws but rather of elaborating a new theory as a new grasp on the social material for the re-invention of the basis of confidence. Until a new basis could be found orthodox fears predominated and the implication of this was that 'economic prosperity is excessively dependent on a political and social atmosphere which is congenial to the average business man.' (GT p.162) Where the atmosphere was not congenial the return required from production would be high and expectations low and this could encourage further movement towards what the orthodoxy most feared.

Keynes's theory allowed an explanation of systematic unemployment but it also implied that if the interest rate was a monetary phenomenon so it could to some degree be manipulated, by public authorities, to encourage movement down the marginal efficiency of capital schedule. Since the interest rate was detached from the real economy it opened the possibility of altering the terms for entry into production. Policy that only applied to the interest rate would be insufficient since it would not alter the underlying state of expectations by a significant amount, but in conjunction with his other policy proposals and crucially as the secure basis of a middle ground theory then expectations could themselves be secured. When coupled with a state directed investment and taxation it would be possible to take the system, assuming beneficial effects on expectations, to what could be

reasonably described as full employment[43]. Such a combination of policy measures would complete the history of reform we have followed in this thesis.

Keynes's proposals involved reform of the administrative conditions for capital. The motive to speculative holdings of money would be reduced and this would imply even greater effects, since as Keynes anticipated there would be the 'euthanasia of the rentier' by which he meant the removal of a form of capital that he saw benefiting from rent payments gained solely from the scarcity of capital and nothing else; this was the 'functionless investor', not the entrepreneur but one who benefited solely from the restriction on the supply of capital. Such investors had simply restricted the volume of investment through a 'cumulative oppressive power' but the interest gained rewarded 'no genuine sacrifice'. Instead Keynes could look forward to,

> 'an increase in the volume of capital until it ceases to be scarce, so that the functionless investor will no longer receive a bonus; and ... a scheme of direct taxation which allows the intelligence and determination and executive skill of the financier, the entrepreneur *et hoc genus omne*... to be harnessed to the service of the community on reasonable terms of reward.' (GT pp.376-7)

Where the classical school assumed that the interest rate was self-adjusting 'at a level best suited to the social advantage' (GT p.351) Keynes looked to controls that could ensure that investment really was harnessed to the community; this control implied the full employment level of investment.

In working out a theory of the level of employment Keynes achieved his aim of producing the *general* theory. Orthodoxy, starting from an assumption of a single level of income at full employment, was the *special* theory. However these two theories were not in opposition; as we have seen in the last chapter it was *The General Theory* that would bring the 'Manchester school into its own'

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[43]These policies were not only domestically beneficial but also internationally, 'It is the policy of an autonomous rate of interest, unimpeded by international preoccupations, and of a national investment programme directed to an optimum level of domestic employment which is twice blessed in the sense that it helps ourselves and our neighbours at the same time.' (GT p.349)

and it would do so through achieving full employment. Once this was achieved, the fallacy of composition no longer applied. If the state could secure the level of income, the individual analysis of individual decisions could indeed be applied to the social level, to the questions of allocation for which such an analysis was proper. It would also have achieved conditions in which the fate of the independent labourer really did depend on his own decisions. *The General Theory* was the real conclusion to a history of thought and policy that we have pursued from Ricardo onwards.

Conclusion?

Administration, as we have shown in previous chapters, evolved in order to secure the conditions of the independent labourer. The aggregate became an administrative category through insurance and then its percentage level became a real phenomenon affecting the budgetary position and fiscal matters. An insurance system required control over the level of income and this became a political issue through the budgetary crisis in 1931 that threatened a deepening split in political life. Full employment had necessarily become a practical matter for state concern; it was also the final piece in the completion of an effective insurance system.

Beveridge's proposals for universal insurance during World War Two depended on the ability to manipulate the level of employment. He recognised with Keynes that full employment would produce new conditions for the relation of capital and labour; in particular it could effect the determination of wages. Beveridge's proposals were met by opposition which he set out to answer. We have seen that our history of reform dealt with a move from classical to modern poverty, to the labour market, to a concept of unemployment, to full employment as the realisation of a utopian vision for the independent labourer. Beveridge's work was the completion of this vision in that it detailed the social policy administration that could rest on *The General Theory*. Opposition to his plans

argued that far from being a problem unemployment was actually functional, in *The Banker's Magazine* the case was put that,

> 'human nature being what it is, the workers of the future, capitalists and wage earners alike, will require the old spur of rewards and punishment (good profits and good wages, fears of losses and bankruptcy, and, yes, fears of unemployment and poverty) to ensure the necessary drive in this world of internal and international competition.' (in Beveridge 1944 p.194).

In a letter to *The Times* the point was put even more forcibly that,

> 'Unemployment is not a mere accidental blemish in a private enterprise economy. On the contrary, it is part of the essential mechanism of the system, and has a function to fulfil. The first function of unemployment ...is that it maintains the authority of master over man .. the absence of fear of unemployment might go farther and have a disruptive effect upon factory discipline.'(Beveridge 1944 p.195)

The movement of reform that we have followed through this thesis was questioned by this view. Full employment could not be the final realisation of the independent labourer since, according to this view, it would undermine the formation of this labourer. When Townsend attacked the old poor laws in 1787 he did so on the grounds that they removed incentive and that a more efficient motivation could be found than 'legal constraint' and that this was 'Hunger'. It was hunger that would provide the 'servants'. In the modern period the greatest need for 'servants', as this *Times* letter revealed, was in production itself, and here far from being a problem unemployment was the means of preserving the authority of master over man. Independence was from the beginning conceived as contact with natural laws, but with full employment this contact no longer applied and this could compromise the formation of the independent labourer if it removed the system of incentive that had brought him into being.

Beveridge recognised the problems raised by his critics but suggested the solution lay in a new relation in which negotiation would be central, 'In the new conditions of full employment wages ought to be determined by reason..' (Beveridge 1944 p.200). As he pointed out, negotiation would give an important role to the TUC. Keynes argued the same position, regarding a political wages

policy as preferable to the doubtful 'political wisdom of appearing,... to impose an external pressure [i.e. unemployment] on national standards and therefore on wage levels.'(CW XXVI p.39)

A negotiated wage policy also required a feature whose importance Keynes repeated, in different forms, throughout *The General Theory* - the control of capital movements. Breakdown of either control of capital or reasoning over wages or even both together, would signal the dissolution of the process of reform and policy development we have examined in this thesis. The dissolution has of course taken place. The implications of this dissolution are extremely serious and more than can be encompassed by a narrowly defined economics. The process of reform and the development of economic thought we have studied here was one in which political order had a decisive part. The issue is not just one of which economic policy is the best but which could secure political order through the grasp its categories could have on the social world. The dissolution of Keynesian economics would suggest that a viable political order for accumulation may no longer be possible[44]; in the words of one of Keynesianism's greatest critics, Robert. E. Lucas, '..Keynesianism mattered; it filled a very central ideological function.' (Hailstones ed. 1982 p.4) The message of Keynes, according to Lucas, was that, 'there existed a middle ground between these extremes of socialism and laissez-faire capitalism.' (ibid p.4). Now though Keynesian economics was 'dead',

'now this middle ground is gone - not because people don't

[44]At the moment all that is intended here is to demonstrate the wider issues involved in the devising of an adequate economics. We have shown that economics was a part of political order but this also implies that political order was necessary to an economic order; to distinguish the two by for example ignoring the political consequences of particular economic policy would be so narrow as to be meaningless. Without an adequate political order an economic order would be meaningless. This relation between the two sides has been well recognised in the past but nowhere as eloquently as by Thomas Hobbes, 'Whatsoever therefore is consequent to a time of Warre, where every man is Enemy to every man; the same is consequent to the time, wherein men live without other security, than what their own strength, and their own invention shall furnish then withall. In such condition, there is no place for Industry; because the fruit thereof is uncertain:..' (Hobbes T. (1651) p.186).

> like the middle ground anymore, but because its intellectual rationale has eroded to the point where it is no longer serviceable.' (ibid p.5)

This lead Lucas to ask,

> 'What happens now? ..... For social policy? Not so cheerful. The collapse means the end (for the time being, anyway) of consensus economics.... I expect public debate to grow increasingly more ideological, reverting to the pre-Keynesian lines of laissez-faire types versus socialist-fascist interventionist types' (ibid p.5)

Since Lucas wrote this, there has been a revival of interest in Keynesian economics and much of this has focused on his philosophical and political background. Nevertheless, despite these efforts to the contrary, the gist of Lucas's message remains; we may well have seen the last of consensus economics and we should be prepared to discover the radical conclusions that follow from that.

Lucas was a founding figure in the rational expectations revolution in economics, a revolution that, for many, finally consigned Keynesian economics to the grave. And yet Lucas was not one to have applauded this death; in fact as we have seen he lamented it and while he believed that 'something is going to have to take its place' (ibid p.4), it had clearly not arrived and this had important consequences for the position of economics, 'Crackpot proposals... get attention along with serious ones: there is no "establishment" with the influence to align the economics profession against such schemes.' (ibid p.5). If Lucas is right there is, at best, an interregnum in economics and therefore an interregnum in the performance of its social function, that will become increasingly evident in serious social consequences. Because they may appear sufficiently distant, inestimable, or, rather, impossible to deal with, we can ignore these consequences and chalk beautiful diagrams on sinking sands.

The General Theory appears as GT in text references.

Keynes's *Collected Writings* appear as CW with volume number. e.g. (CW XIV p. 80)

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