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THE ECONOMIC LESSONS OF SOCIALISM

By 'Socialism' I mean the practical doctrine, that it is desirable to abolish private property completely or to a great extent, with a view to increasing the ordinary remuneration of labour, and thus increasing happiness by producing a greater equality of incomes. By Political Economy I mean the theory of the natural and right mode—or the natural and the right modes—of arranging the production, distribution and exchange of wealth in political or governed societies of human beings. My paper is concerned with the relations between the two.

The present unmistakable drift towards Socialism in Western Europe is a fact of great interest, and a reasonable source of alarm to some, and perhaps of hope to others, from the political and economic changes to which it tends. But I am not now concerned with it in this aspect;—in which probably most educated persons are now as well acquainted as they desire to be with the arguments on both sides. I propose to treat Socialism from a special point of view, somewhat less familiar.

Socialism as a political ideal is very ancient; but as a practical ideal for the modern state, it was born about the same time as modern political economy—Morellet's *Code de la Nature* was even a year or two earlier than Quesnay's *Tableau Économique*. And though it was for a generation quite dreamy and feeble—politically a negligible quantity—it became formidable before the end of the century in the conspiracy of Babeuf (1795); when the desire for 'égalité réelle,' 'égalité de fait'—instead of mere 'equality before the law'—became a demand and a menace. Since this time, for a hundred years, the life of Socialism has run side by side with that of Political Economy. It is obvious that two systems or modes of thought, so close in their subject-matter—for the aim of both, so far as Political Economy has a practical aim, is to establish the production and distribution of wealth on a right basis—can hardly have lived side by side for a century without exercising an important influence on each other. I propose to examine this influence from the point of view of

Political Economy : *i.e.* to inquire not what Socialism has learnt from Political Economy, but what Political Economy has learnt from Socialism. I take this point of view, partly because I am writing for Political Economists rather than for Socialists, partly because, of the two, Political Economy has the more manifest and palpable continuity of life and progressive development during the century in question, in spite of the differences of its schools. Socialism, on the other hand, appears to die out and be born again : its leading ideas are indeed few and comparatively simple, but they seem to undergo a kind of transmigration from system to system, rather than continuous development.

And this transmigration carries the ideas that are at the root of Socialism not only from sect to sect, but from country to country. In fact the century with which we are concerned divides itself naturally into two approximately equal parts : in the first half of which Socialism is mainly French or English ; while in the second half it is preponderantly German. I find that German writers—and some English writers who have learnt from them—are apt to distinguish the two periods differently : they call the Socialism of the first half of the century ‘unscientific’ and that of the second half ‘scientific.’ There is some justification for this ; but on the whole the antithesis appears to me misleading. It is a natural tendency of Teutons, justly proud of the primacy that they have attained in the pursuit of truth, to assume that even the fallacies and utopias produced by the Teutonic intellect are superior in quality to the similar products of other nationalities. I submit that the superiority is overrated, in the present case ; and that at any rate it does not amount to a distinction in kind. All modern Socialism has been based on *some* theory of the effects on the production of wealth that would follow from the total or partial abolition of private property, and none, I conceive, has been based on a *sound* theory. So far as I know, no positive contribution of importance has been made to Economic Science by any Socialist writer throughout the century : the lessons of Socialism to Economic Science have been mainly in the way of criticism—criticism partly direct and purposed, partly indirect and unintentional ; by drawing extravagant inferences from accepted economic premises it has suggested shortcomings in these premises by an undesigned *reductio ad absurdum*. In this latter way, especially, the instruction derived from the German Socialists has been obtained from fallacious reasoning of a more elaborate kind and showing a greater grasp of economic method. On the other hand, the earlier Socialism, though

indefinitely more fantastic and obviously 'cranky' than the later, seems to me also more original, in the best sense of the word: Saint-Simon, in particular—though it was perhaps not without reason that his disciple and collaborator, Auguste Comte, spoke of him as a 'demoralised mountebank' (*jongleur dépravé*)—has certainly more claim to be called a man of genius than Karl Marx. And the leading ideas with which the later Socialism operates are all found in the earlier, though in somewhat vaguer forms. That the liberty which seemed to the eighteenth century a completely satisfying ideal really leads, in industry and commerce, to anarchy and conflict and the 'exploitation' of the many by the few: that the problem for the nineteenth century is therefore social and industrial organisation, based upon a scientific study of society, and having for its end the amelioration moral, physical, and intellectual of the condition of the poor masses: that history, scientifically grasped, shows this end to be only attainable by a comprehensive association of labour, and by taking the instruments of industry—land and capital—out of private ownership and placing them under the control of associated labour,—so that every member of society, labouring according to his capacity, may receive the due reward of his labour, and no one may enjoy the 'impious privilege' of living on the labour of others,—all this was emphatically declared by Saint-Simon and his disciples. That, again, the industrial reorganisation of society has been rendered at once more imperative and more practicable by the great development of machinery, the gain of which now goes to the few at the expense of the many: that labour, being the source of all wealth, is the only true measure and standard of value, and that therefore a currency based on labour is the proper medium in the reorganised system of exchange which society needs,—these were cardinal points in Owen's preaching and practical efforts. Put these ideas together and compare them with doctrines of later German Socialism, which piques itself on being scientific, and acknowledges no connection with Saint-Simon or Owen: it will be found that there is after all little fundamentally new in the later scheme; only the older ideas have gained in precision, articulation, and coherence, by being brought into closer relation to the reasonings of Political Economy.

Let us begin, then, by considering the lessons learnt by Political Economy from the earlier Socialism, before we pass to the later. In order to make these clear, we must recall the original view of the nature and aims of Political Economy. It

was, as the meaning of the word suggests, a part of the Art of Public Finance: its object was to make the people as rich as possible, in order that the funds required by Government might be obtained as amply and as easily as possible. And these two objects, 'enriching the people' and 'enriching the sovereign,' are retained in Adam Smith's definition of the study; though by this time the first object has come to be conceived as independent of, and prior to, the second. 'Political Economy,' he says, 'proposes two distinct objects: first, to provide a plentiful revenue or subsistence for the people, or, more properly, to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public service.' But in the view of Adam Smith—as in that of the Physiocrats his predecessors—the first object was best attained by what he calls 'the obvious and simple system of natural liberty: ' the true answer to the question 'how to make the nation as rich as possible,' was 'by letting each member of it make himself rich in his own way'—only protecting him against invasion of property and breach of contract. In order to establish this conclusion, the new school of Political Economy had to trace the processes by which wealth was or would be produced, distributed, and exchanged, apart from governmental interference: and it is with this task that the greater part of Adam Smith's book is occupied.

Thus it came about that Political Economy, as taught by the disciples and successors of Adam Smith, was a body of doctrine consisting of two distinct parts; one part being an analysis of the process by which wealth was, or tended to be, produced, divided, and exchanged, apart from governmental interference; the other being a demonstration that this process led to the best attainable result. It is obvious that these two pieces of reasoning have no necessary logical connection; it is also to be observed that while in the former the subject of the distribution of wealth among different classes of producers tended to occupy an increasingly prominent place, the original aim of Political Economy so far dominated the latter as to leave the question of distribution rather in the background there. The original aim, as we saw, was to answer the question 'how to make the people as rich as possible,' not 'how to secure to individuals their proper share of wealth;'—the sovereign and his finance minister having naturally a keener interest in the former question. Hence, when the new school succeeded in obtaining acceptance for their new answer—'*laissez faire*'—to the old question, it

was primarily as a solution of the problem of National Production—not Distribution—that it was accepted. No doubt the more enthusiastic adherents of the new doctrine were prepared to prove that *laissez faire* led to the best possible results in distribution as well as in production; and that in an economic world properly let alone every individual would actually earn what he deserved. But I think that the leading English economists from Adam Smith downward kept clear of this extreme optimism; and in resisting governmental interference to raise wages were mostly content to argue that such interference, by hampering the *production* of wealth, would in the long run do more harm than good to the class that it was designed to benefit.

The first effect, then, of the collision with Socialism, and of the Socialistic criticism of the actual distribution of incomes, was to bring Political Economy to a clearer consciousness of the essential difference, from a scientific point of view, between the two parts of its teaching. It was thus led to treat the strictly scientific part—the analysis of the processes of social industry, considered as let alone by Government, and the ascertainment of their laws—as its primary business; and to maintain its traditional justification of the results of these processes in a more limited and guarded way. At any rate this change took place in English Political Economy, to which, for the sake of simplicity, I shall confine my attention in the present paper. It was admitted by Senior, as early as 1827, that a broad distinction had to be drawn between the ‘theoretical’ and the ‘practical branch of the science,’ and that the conclusions of the latter must be regarded as ‘more uncertain.’ Ultimately the difference between the two branches seemed to the same writer to be even more marked; and he confined the term ‘Science of Political Economy’ to the theoretical part, relegating the practical part to the Art of Government—an art, he is careful to point out, which aims at objects to which the possession of wealth is only a subordinate means. A similar view is taken by J. S. Mill, who—in express verbal contradiction of Adam Smith—declared that ‘Political Economy does *not* itself instruct how to make a nation rich’: it was also adopted by Cairnes, and became in short the accepted view of English economists. Along with this, among the practical problems to which the Science of Political Economy was now conceived as furnishing data, the problem of ameliorating distribution was more distinctly recognised as important. Thus Senior makes the noteworthy statement that ‘diffusion

of wealth,' such that 'all the necessaries and some of the conveniences of life may be secured to the labouring class, *alone entitles a people to be called rich.*'¹ J. S. Mill went much further: indeed in his case we have the remarkable phenomenon that the author of the book which became, for nearly a generation, by far the most popular and influential text-book of Political Economy in England, was actually—at any rate when he revised the third and later editions—completely Socialistic in his ideal of ultimate social improvement. 'I looked forward,' he tells us, in his *Autobiography*, 'to a time when the rule that they who do not work shall not eat will be applied not to paupers only, but impartially to all; and when the division of the produce of labour, instead of depending, in so great a degree as it now does, on the accident of birth, *will be made by concert on an acknowledged principle of justice.*'¹ Having this ideal, he 'regarded all existing institutions and social arrangements as merely provisional, and welcomed with the greatest pleasure and interest all Socialistic experiments by select individuals.' In short the study planted by Adam Smith and watered by Ricardo had, in the third quarter of the nineteenth century, imbibed a full measure of the spirit of Saint-Simon and Owen,—and that in England, the home of what the Germans call 'Manchesterthum.'

I do not mean to suggest that those who learnt Political Economy from Mill's book during this period went so far as their teacher in the adoption of Socialistic aims. This, no doubt, was far from being the case. Indeed—if I may judge from my own experience—I should say that we were as much surprised as the 'general reader' to learn from Mill's *Autobiography* that our master, the author of the much-admired treatise 'On Liberty,' had been all the while looking forward to a time when the division of the produce of labour should be 'made by concert.' But though Mill had concealed from us the extent of his Socialism, we were all, I think, conscious of having received from him a certain impulse in the Socialistic direction: we had at any rate ceased to regard the science of Political Economy as opposing a hard and fast barrier against the Socialistic conception of the ideal goal of economic progress.

In the region, then, of practical ideals and ultimate aims the lesson learnt from Socialism had been very important: still the main part of the analysis and reasoning which constituted what was now called the Science of Political Economy remained *prima facie* unaffected by the interpenetration of ideas that I have

¹ The italics are mine.

described. The old division of those who share the produce of industry into landlords, capitalists, and labourers, receiving respectively rent, profit, and wages, was substantially retained; and the improvements introduced by Senior and Mill into the definitions of rent, profit, and wages, and into the theory of the determination of their amounts, appeared to relate to points of subordinate importance. But on looking closer a marked change in tone, partly attributable to the influence of Socialism, is clearly discernible in Mill's treatment of the landlord. Adam Smith, indeed, had pointed out that the landlord's rent 'costs him neither labour nor care,' and is 'not at all proportional to what the landlord may have laid out on the improvement of the land:' and Ricardo, distinguishing rent proper, as the price paid for the use of the 'original and indestructible qualities of the soil,' from the interest on the capital laid out in agricultural improvements, had represented the former as inevitably growing continually larger with the 'natural advance of society'; and had thus fixed on the landlords the invidious character of a useless class levying an ever increasing tribute on the useful classes. But it was left for Mill to emphasise the claim of society to the 'unearned increment' of value thus continually generated by the industrial process; and though 'land-nationalisation' is not one of the practical measures definitely advocated by Mill in this treatise, it looms, if I may so say, on the horizon.

Still, the share of produce which falls to the landlord as such is, after all, small compared with that which falls to the owners and employers of capital; and here the economists of the early Victorian period, no less than their predecessors, maintained a view of the laws determining the capitalist's share which seemed to offer a firm barrier against Socialistic ideas. Senior and Mill recognised that a portion of the gross profit of the employer of capital must be regarded as remuneration for his labour, 'wages of superintendence'; but the main part of the capitalist's share—after allowing insurance for risk—was explained by Senior, and by Mill after him, to be 'remuneration for the abstinence' exercised by the capitalist in employing his wealth productively instead of consuming it. On this view, the Socialist contention, that labour, being the source of all wealth, ought to be remunerated with the whole of its produce, was met by a simple and apparently cogent argument:

'Labour requires capital to be productive, and capital is due to abstinence: unless the possessor of wealth is remunerated for abstaining, abstinence and therefore capital will cease or be much

diminished. Hence if associated labour were to refuse to remunerate capital it would—ultimately if not at once—diminish instead of increasing the individual labourer's share: for the loss of the aid afforded by capital to labour would diminish the total produce by an amount far exceeding the share now allotted to capital.'

This was, I think, the current argument of persons who had read Political Economy, in the third quarter of the century; and it may be found even later in organs of opinion whose age and dignity tend to keep them somewhat in the rear of the movement of thought.¹ But it involved, as I am about to show, an elementary confusion of ideas; and I believe that the clearing away of this confusion has been due to the collision of orthodox Political Economy with the later—the German—phase of Socialism, in which Marx is the most influential teacher. I do not mean to suggest that this elimination of confusion was due to the superior clearness of Marx's economic insight; on the contrary, Marx's elaborate argument to show that the labourers naturally and properly should divide up the whole produce of labour among themselves appears to me to involve a still more fundamental muddle—which the English reader, I think, need hardly spend time in examining, as the more able and influential among English Socialists are now careful to give it a wide berth. But here, as sometimes happens in controversy, the collision of two muddles ultimately brought the truth out clear and unmistakable; and the truth was substantially on the Socialists' side.

The fallacy in the argument above summarised was due to a confusion between the need of capital—in the form of instruments, &c.—as an aid to labour in production, and the demand of the private owners of capital, based on this need, for a share of the product. As things are, the labourer's share of consumable commodities is less than it would be if his labour could be equally effective without instruments, because he has to devote a part of it to the making of instruments; and it is further less than it would otherwise be, because he has to devote another part of it to the making of the commodities on which the owner of capital spends that part of his interest which he does not save. The two diminutions are separate and distinct, though the political economist, used to individualistic conditions, naturally thinks of them together; and it is only the former that depends on conditions of production which Socialism could not alter. A Socialistic state would have to exercise abstinence, but it would

¹ See *e.g.* the *Edinburgh Review*, July 1878, p. 174.

not have to be paid for exercising it ; the associated labourers would have to devote labour no less than now to the making of instruments : but—assuming the labour unchanged in quality and efficiency—they might divide what the private capitalist now consumes (so far as it is not remuneration for the skilled labour of the capitalist employer) without any further abstinence.

The clearing away of this fallacy seemed likely to affect rather seriously the individualist position in the controversy with Socialism. So much stress had been laid on the indispensability of the saving of the private owner of wealth and on the inexorable necessity of remunerating his abstinence with interest, that the admission that this latter necessity would not exist in a Socialistic State seemed at first serious. But need, controversial as well as physical, is the mother of discovery ; and in this case it served to open the eyes of economists to important shortcomings in the traditional view of the function of capital and the law of its increase. In Mill's chapter on the 'Law of the increase of capital,' attention is entirely concentrated on saving : we are told that 'since all capital is the product of saving, the increase of capital must depend on two things, the amount of the fund from which saving can be made, and the strength of the dispositions prompting to it : '—and these, in fact, are the only topics dealt with in the chapter to which I refer (I. xi.). Now no doubt if we ask how the mass of instruments aiding labour that England possesses—the factories and machines, ships, steam-engines, railroads and their rolling stock, &c.,—came to be accumulated, one part of the answer is that persons were found sufficiently supplied with wealth not required for immediate consumption to be able to pay for the production of these articles, and disposed to spend their money in this way in view of the prospective interest or profit. But this answer is obviously incomplete : it is through saving that capital is there to be employed, but it is through Invention that there is a field of employment for it : Watt and Stephenson are at least as important factors in the causation of our railway system as the good people who were willing to put their money in railways. Of course this aspect of the matter was not ignored by Mill : but it is certainly left too much in the background in his discussion of the laws of production ; and the fuller light thrown on it in more recent treatises is partly, I think, due to the influence exercised by the controversy with Socialism. It should be added that in considering invention as a part-cause of the increased efficiency which labour derives

from the aid of capital, we must not limit the notion to technical inventions; we must include all expedients for saving labour or augmenting its utility, not only by improved instruments but by improved processes, in the organisation of business and trade no less than in manufacture.

This leads me to another shortcoming in the older view of the capitalist's function, to which attention was directed by the controversial crisis above described,—the inadequate recognition by the older writers of the importance of business ability. A reader of Ricardo would be inclined to suppose that any owner of capital would be likely to earn average profits on his capital,—unless he suffered from a want of average intellect: and Mill's phrase above quoted—"wages of superintendence"—suggests that the skilled labour required from an employer of capital in business is on a par with that required from a superior clerk. And no doubt in certain businesses at certain quiet times this may be true: but where change is active—*i.e.*, in a continually increasing part of modern business—a much higher quality both of skill and energy is needed for success. And the higher profit which the skill and energy obtains is not merely got out of the unsuccessful competitors: it is, speaking broadly, obtained by an economic service to society: the successful man of business has through acumen, promptitude, and resource, commonly been able to provide a given utility to the consumer more economically than it would have been provided without his efforts.

This completer analysis of the process of accumulating and employing capital, bringing into prominence inventive and industrial skill, is, I conceive, the latest important lesson for which Political Economy has been in some measure indebted to the controversy with Socialism. Perhaps the next lesson of importance will come through experiment rather than reasoning. This leads me to my last remark.

My readers may think that, in what I have said, I have spoken too exclusively of the lessons learnt from reasoning, criticism, and controversy, and not said enough of experiment. I should have much liked to be able to say more of the instruction derived from Socialistic experiment. But the truth is that there is very little to say: the reason being that while the earlier Socialists were much disposed to experiment, their experiments were mostly such palpable failures that their only effect was to harden the orthodox economist in his prejudices as well as his sound conclusions. It is true that the success of the artisans' co-operative stores—and, in a much more limited degree, of attempts at co-

operative production—may be partly set to the account of Socialism; as, without the impulse given by Owen to the co-operative movement, the venture of the Rochdale Pioneers would probably never have been made. But the successes of these co-operative stores, though they have taught us something worth knowing, have not taught the lesson that Socialists have desired to teach: they have not demonstrated the great capitalist or great employer to be superfluous, but only that competition does not tend to the most economical supply of the services of the ordinarily humble and struggling retail tradesmen of the poor.

The tendency of the later school has been to discourage all voluntary essays in Socialism: on the pretext that no instructive experience can be gained except through the action of the state. From a scientific point of view this attitude is to be regretted, but I can quite understand that it is politic in those who aim at producing an immediate and far-reaching movement in a Socialistic direction: since a study of the broad results of previous experiments of the kind certainly does not tend to encourage such a movement. At any rate it seems at present that if we are to derive important economic instruction from Socialistic experimentation, the *corpus vile* will have to be a West-European nation. One nation will probably be found sufficient: and I trust that we shall all agree to yield the post of honour to Germany, in this branch of the pursuit of knowledge.

HENRY SIDGWICK