

## The Victorian World and the Underworld of Economics

Karl Marx pronounced his sentence of doom on capitalism in the *Manifesto* of 1848; the system was diagnosed as the victim of an incurable disease, and although no timetable was given, it was presumed to be close enough to its final death struggle for the next of kin—the Communists—to listen avidly for the last gasp that would signal their inheritance of power. Even before the appearance of *Capital* in 1867, the deathwatch had begun, and with each bout of speculative fever or each siege of industrial depression, the hopeful drew nearer to the deathbed and told each other that the moment of Final Revolution would now be soon at hand.

But the system did not die. True, many of the Marxist laws of motion were verified by the march of events: big business did grow bigger and recurrent depressions and unemployment did plague society. But along with these confirmations of the prognosis of doom, another highly important and portentously phrased Marxist symptom was remarkable by its absence: the “increasing misery” of the proletariat failed to increase.

Actually, there has been a long debate among Marxists as to what Marx meant by that phrase. If he meant only that more and more of the working class would experience the “misery” of becoming proletarians—wage workers—he was right, as we have seen. But if he meant that their physical misery would worsen, he was wrong.

Indeed, a Royal Commission convened to look into the slump of 1886 expressed particular satisfaction with the condition of the working classes. And this was not just the patronizing cant of class apologists. Conditions *were* better—perceptibly and significantly better. Looking back on the situation from the 1880s, Sir Robert Giffen wrote: “What we have to consider is that fifty years ago, the working man with wages on the average about half, or not much more than half what they are now, had at times to contend with a fluctuation in the price of bread which implied sheer starvation. Periodic starvation was, in fact, the condition of the masses of working men throughout the kingdom fifty years ago.” But by the time Giffen wrote, although prices had risen, wages had risen faster. *For the first time*, the English working-man was making enough to keep body and soul together—a sorry commentary on the past, but a hopeful augury for the future.

And not only had wages gone up, but the very source of surplus value had diminished: hours were far shorter. At the Jarrow Shipyards and the New Castle Chemical Works, for example, the work week had fallen from sixty-one to fifty-four hours, while even in the sweated textile mills, the stint was reduced to only fifty-seven hours. Indeed the mill owners complained that their wage costs had risen by better than 20 percent. But while progress was expensive, it paid intangible dividends. For as conditions ameliorated, the mutterings of 1848 died down. “You cannot get them to talk of politics so long as they are well employed,” testified a Staffordshire manufacturer on the attitude of his working force.

Even Marx and Engels had to recognize the trend. “The English proletariat is actually becoming more and more bourgeois,” mourned Engels in a letter to Marx, “so that the ultimate aim of this most bourgeois of all nations would appear to be the possession, *alongside* the bourgeois, of a bourgeois aristocracy and a bourgeois proletariat.”

Clearly, Marx was premature in his expectation of impending doom. For the faithful, of course, the disconcerting turn of events could be swallowed in the comforting knowledge that “inevitable” still meant inevitable, and that a matter of a generation or two came to little in the grand march of history. But for the non-Marxist surveyors of the scene, the great Victorian boom meant something else. The world more and more appeared full of hope and promise, and the forebodings of a dissenter like Karl Marx seemed merely the ravings of a discontented radical. Hence the intellectual bombshell that Marx had prepared went off in almost total silence; instead of a storm of abuse, Marx met the far more crushing ignominy of indifference.

For economics had ceased to be the proliferation of world views that, in the hands of now a philosopher, now a financial trader, now a revolutionary, seemed to illuminate the whole avenue down which society was marching. It became instead the special province of professors, whose investigations threw out pinpoint beams rather than the wide-searching beacons of the earlier economists.

There was a reason for this: as we have seen, Victorian England had caught the steady trade winds of late-nineteenth-century progress and optimism. Improvement was in the air, and so quite naturally there seemed less cause to ask disturbing questions about the nature of the voyage. Hence the Victorian boom gave rise to a roster of elucidators, men who would examine the workings of the system in great detail, but not men who would express doubt as to its basic merits or make troublesome prognostications as to its eventual fate. A new professordom took over the main life of economic thought. Its contributions were often important, yet not vital. For in the minds of men like Alfred Marshall, Stanley Jevons, John Bates Clark, and the proliferating faculties that surrounded them, there were no wolves in the economic world anymore, and therefore no life-and-death activities for economic theory to elucidate. The world was peopled entirely with agreeable, if imaginary, sheep.

The sheep were never more clearly delineated than in a little volume entitled *Mathematical Psychics*, which appeared in 1881, just two years before Marx died. It was not written by the greatest of academicians, but perhaps by the most revealing of them—a strange, shy professor named Francis Ysidro Edgeworth, a nephew of that Maria Edge-worth who had once played charades with Ricardo.

Edgeworth was undoubtedly a brilliant scholar. In his final examinations at Oxford, when he was asked a particularly abstruse question, he inquired of his examiners, “Shall I answer briefly, or at length?” and then proceeded to hold forth for half an hour, punctuating his reply with excursions into Greek while his examiners gaped.

But Edgeworth was not fascinated with economics because it justified or explained or condemned the world, or because it opened new vistas, bright or gloomy, into the future. This odd soul was fascinated because economics dealt with *quantities* and because anything that dealt with quantities could be translated into *mathematics!* The process of translation required the abandonment of that tension-fraught world of the earlier economists, but it yielded in return a world of such neat precision and lovely exactness that the loss seemed amply compensated.

To build up such a mathematical mirror of reality, the world obviously had to be simplified. Edgeworth’s simplification was this assumption: *every man is a pleasure machine*. Jeremy Bentham had originated the conception in the early nineteenth century under the beguiling title of the Felicific Calculus, a philosophical view of humanity as so many living profit-and-loss calculators, each busily arranging his life to maximize the pleasure of his psychic adding machine. To this general philosophy Edgeworth now added the precision of mathematics to produce a kind of Panglossian Best of All Possible Worlds.

Of all men to have adopted such a view of society, Edge-worth seems a most unlikely choice. He himself was as ill-constructed a pleasure machine as can be imagined. Neurotically shy, he tended to flee from the pleasures of human company to the privacy of his club; unhappy about the burden of material things, he received few of the pleasures that for most people flow from possessions. His rooms were bare, his library was the public one, and his stock of material wealth did not include crockery, or stationery, or even stamps. Perhaps his greatest source of pleasure was in the construction of his lovely imaginary economic Xanadu.

But regardless of his motives, Edgeworth's pleasure-machine assumption bore wonderful intellectual fruit. For if economics was defined to be the study of human pleasure-mechanisms competing for shares of society's stock of pleasure, then it could be shown—with all the irrefutability of the differential calculus—that in a world of perfect competition each pleasure machine would achieve the highest amount of pleasure that could be meted out by society.

In other words, if this was not yet *quite* the best of all possible worlds, it could be. Unfortunately, the world was not organized as a game of perfect competition; men did have the lamentable habit of sticking together in foolish disregard of the beneficent consequences of stubbornly following their self-interest; trade unions, for example, were in direct controversion to the principle of each for himself, and the undeniable fact of inequalities of wealth and position did make the starting position of the game something less than absolutely neutral.

But never mind, said Edgeworth. Nature has taken care of that too. While trade unions might gain in the short run through combination, it could be shown that in the long run they must lose—they were only a transient imperfection in the ideal scheme of things. And if high birth and great wealth seemed at first to prejudice the outcome of the economic game, that could be reconciled with mathematical psychics, too. For while all individuals were pleasure machines, some were *better* pleasure machines than others. Men, for example, were better equipped to run up their psychic bank accounts than women, and the delicate sensibilities of the “aristocracy of skill and talent” were more responsive to the pleasures of good living than the clodlike pleasure machines of the laboring classes. Hence, the calculus of human mathematics could still function advantageously; indeed it positively justified those divisions of sex and status which one saw about him in the living world.

But mathematical psychics did more than rationalize the tenets of conservatism. Edgeworth actually believed that his algebraic insight into human activity might yield helpful results in the world of flesh and blood. His analysis involved such terms as these:

$$\frac{d_2y}{dx^2} = \left(\frac{d\pi}{dx}\right)^2 \left(\frac{d_2\pi}{dy_2}\right) - 2 \frac{d\pi}{dx} \cdot \frac{d\pi}{dy} \left(\frac{d_2\pi}{dx dy}\right) + \dots$$

“Considerations so abstract,” wrote Edgeworth, “it would of course be ridiculous to fling upon the floodtide of practical politics. But they are not perhaps out of place when we remount to the little rills of sentiment and secret springs of motive where every course of action must be originated.”

“The little rills of sentiment,” indeed! What would Adam Smith have thought of this conversion of his pushy merchants, his greedy journeymen, and his multiplying laboring classes into so many categories of delicate pleasure-seekers? In fact, Henry Sidgwick, a contemporary of Edgeworth's and a disciple of J. S. Mill, angrily announced that he ate his dinner not because he had toted up the satisfactions to be gained therefrom, but because he was hungry. But there was no use protesting: the scheme of mathematical psychics was so neat, so beguiling, so bereft of troublesome human intransigences, and so happily unbesmirched with considerations of human striving and social

conflict, that its success was immediate.

Edgeworth's was not the only such attempt to dehumanize political economy. Even during Marx's lifetime a whole mathematical school of economics had grown up. In Germany an economist named von Thünen came up with a formula that yielded, he claimed, the precise just wage of labor:

$$\sqrt{a \cdot p}$$

Von Thünen liked it well enough to have it engraved on his tombstone; we do not know what the workingmen thought of it. In France a distinguished economist named Leon Walras proved that one could deduce by mathematics the exact prices that would just exactly clear the market; of course, in order to do this, one had to have the equation for every single economic good on the market and then the ability to solve a problem in which the number of equations would run into the hundreds of thousands—indeed, into the millions. But never mind the difficulties; theoretically the problem could be done. At the University of Manchester, a professor named W. Stanley Jevons wrote a treatise on political economy in which the struggle for existence was reduced to “a Calculus of Pleasure and Pain.” “My theory of Economics ... is purely mathematical in character,” wrote Jevons, and he turned out of his focus every aspect of economic life which was not reducible to the jigsaw precision of his scheme. Perhaps even more noteworthy, he planned to write (although he did not live to do so) a book called *Principles of Economics*: it is significant that political economy was now called economics, and its expositions were becoming texts.

It was not all foolishness, although too much of it was. Economics, after all, does concern the actions of aggregates of people, and human aggregates, like aggregates of atoms, do tend to display statistical regularities and laws of probability. Thus, as the professoriat turned its eyes to the exploration of the idea of *equilibrium*—the state toward which the market would tend as the result of the random collisions of individuals all seeking to maximize their utilities—it did in fact elucidate some tendencies of the social universe. The equations of Leon Walras are still used to depict the attributes of a social system at rest.

The question is, does a system “at rest” actually depict the realities—the fundamental realities—of the social universe? The earlier economists, from Smith through Mill and of course Marx, had a compelling image in their minds of a society that was by its nature *expansive*. True, its expansion might encounter barriers, or might run out of steam, or might develop into economic downturns, but the central force of the economic world was nonetheless inseparable from a political and psychological tendency toward growth.

It was this basic conception that was lacking in the new concentration on equilibrium as the most interesting, most revealing aspect of the system. Suddenly capitalism was no longer seen as an historic social vehicle under constant tension but as a static, rather historyless, mode of organization. The driving propulsion of the system—the propulsion that had fascinated all its prior investigators—was now overlooked, ignored, forgotten. Whatever aspects of a capitalist economy were illumined in the new perspective, its historic mission was not.

And so, as a counterpart to this pale world of equations, an underworld of economics flourished. There had always been such an underworld, a strange limbo of cranks and heretics, whose doctrines had failed to attain the stature of respectability. One such was the irrepressible Bernard Mandeville, who shocked the eighteenth century with a witty demonstration that virtue was vice and vice virtue. Mandeville merely pointed out that the profligate expenditure of the sinful rich gave work to the poor,

while the stingy rectitude of the virtuous penny pincher did not; hence, said Mandeville, private immorality may redound to the public welfare, whereas private uprightness may be a social burden. The sophisticated lesson of his *Fable of the Bees* was too much for the eighteenth century to swallow; Mandeville's book was convicted as a public nuisance by a grand jury in Middlesex in 1723, and Mandeville himself was roundly castigated by Adam Smith and everyone else.

But whereas the earlier eccentrics and charlatans were largely banished by the opinions of sturdy thinkers like Smith or Ricardo, now the underworld claimed its recruits for a different reason. There was simply no longer any room in the official world of economics for those who wanted to take the whole gamut of human behavior for their forum, and there was little tolerance in the stuffy world of Victorian correctness for those whose diagnosis of society left room for moral doubtings or seemed to indicate the need for radical reform.

And so the underworld took on new life. Marx went there because his doctrine was unpleasant. Malthus went there because his idea of "general gluts" was an arithmetical absurdity and because his doubts about the benefits of saving were totally at variance with the Victorian admiration for thrift. The Utopians went there because what they were talking about was arrant nonsense and wasn't "economics" anyway, and finally anyone went there whose doctrines failed to accord with the elegant world that the academicians erected in their classrooms and fondly believed existed outside them.

It was a far more interesting place, this underworld, than the serene realms above. It abounded with wonderful personalities, and in it sprouted a weird and luxuriant tangle of ideas. There was, for example, a man who has been almost forgotten in the march of economic ideas. He is Frederic Bastiat, an eccentric Frenchman, who lived from 1801 to 1850, and who in that short space of time and an even shorter space of literary life—six years—brought to bear on economics that most devastating of all weapons: ridicule. Look at this madhouse of a world, says Bastiat. It goes to enormous efforts to tunnel underneath a mountain in order to connect two countries. And then what does it do? Having labored mightily to facilitate the interchange of goods, it sets up customs guards on both sides of the mountain and makes it as difficult as possible for merchandise to travel through the tunnel!

Bastiat had a gift for pointing out absurdities; his little book *Economic Sophisms* is as close to humor as economics has ever come. When, for example, the Paris-Madrid railroad was being debated in the French Assembly, one M. Simiot argued that it should have a gap at Bordeaux, because a break in the line there would redound greatly to the wealth of the Bordeaux porters, commissionaires, hotelkeepers, bargemen, and the like, and thus, by enriching Bordeaux, would enrich France. Bastiat seized on the idea with avidity. Fine, he said, but let's not stop at Bordeaux alone. "If Bordeaux has a right to profit by a gap ... than Angoulême, Poitiers, Tours, Orléans ... should also demand gaps as being for the general interest... In this way we shall succeed in having a railway composed of successive gaps, and which may be denominated a *Negative Railway*."

Bastiat was a wit in the world of economics, but his private life was tragic. Born in Bayonne, he was orphaned at an early age and, worse yet, contracted tuberculosis. He studied at a university, and then tried business, but he had no head for commercial details. He turned to agriculture, but he fared equally badly there; like Tolstoi's well-meaning count, the more he interfered in the running of his family estate, the worse it did. He dreamed of heroism, but his military adventures had a Don Quixote twist: when the Bourbons were run out of France in 1830, Bastiat rounded up six hundred young men and led them to storm a royalist citadel, regardless of cost. Poor Bastiat—the fortress meekly hauled down its flag and invited everyone in for a feast instead.

It seemed that he was doomed to disappointment. But his enforced idleness turned his interests to

economics, and he began to read and discuss the topics of the day. A neighboring country gentleman urged him to put his ideas on paper, and Bastiat wrote an article on free trade and sent it in to a Parisian journal. His thoughts were original and his style wonderfully sharp. The article was printed, and overnight this mild scholar of the provinces was famous.

He came to Paris. “He had not had time to call in the assistance of a Parisian hatter and tailor,” writes M. de Molinari, “and with his long hair, his tiny hat, his ample frockcoat and his family umbrella, you would have been apt to mistake him for an honest peasant who came to town for the first time to see the metropolis.”

But the country scholar had a pen that bit. Every day he read the Paris papers in which the deputies and ministers of France argued for and defended their policies of selfishness and blind self-interest; then he would answer with a rejoinder that rocked Paris with laughter. For example, when the Chamber of Deputies in the 1840s legislated higher duties on all foreign goods in order to benefit French industry, Bastiat turned out this masterpiece of economic satire:

PETITION OF THE MANUFACTURERS OF CANDLES, WAXLIGHTS, LAMPS, CANDLESTICKS, STREET LAMPS, SNUFFERS, EXTINGUISHERS, AND OF THE PRODUCERS OF OIL, TALLOW, RESIN, ALCOHOL, AND GENERALLY EVERYTHING CONNECTED WITH LIGHTING

TO MESSIEURS THE MEMBERS OF THE CHAMBER OF DEPUTIES

GENTLEMEN,

... We are suffering from the intolerable competition of a foreign rival, placed, it would seem, in a condition so far superior to our own for the production of light, that he absolutely *inundates* our *national market* with it at a price fabulously reduced.... This rival ... is no other than the sun.

What we pray for, is, that it may please you to pass a law ordering the shutting up of all windows, skylights, dormer-windows, outside and inside shutters, curtains, blinds, bull’s-eyes; in a word of all openings, holes, chinks, and fissures.

... If you shut up as much as possible all access to natural light and create a demand for artificial light, which of our French manufacturers will not benefit by it?

... If more tallow is consumed, then there must be more oxen and sheep ... if more oil is consumed, then we shall have extended cultivation of the poppy, of the olive ... our heaths will be covered with resinous trees.

Make your choice, but be logical; for as long as you exclude, as you do, iron, corn, foreign fabrics, *in proportion* as their prices approximate to zero, what inconsistency it would be to admit the light of the sun, the price of which is already at *zero* during the entire day!

A more dramatic—if fantastic—defense of free trade has never been written. But it was not only against protective tariffs that Bastiat protested: this man laughed at every form of economic double-thinking. In 1848, when the Socialists began to propound their ideas for the salvation of society with more regard for passion than practicability, Bastiat turned against them the same weapons that he had

used against the *ancien régime*. “Everyone wants to live at the expense of the state,” he wrote. “They forget that the state lives at the expense of everyone.”

But his special target, his most hated “sophism,” was the rationalization of private greed under the pretentious cover of a protective tariff erected for the “national good.” How he loved to demolish the specious thinking that argued for barriers to trade under the guise of liberal economics! When the French ministry proposed to raise the duty on imported cloth to “protect” the French workingman, Bastiat replied with this delicious paradox:

“Pass a law to this effect,” wrote Bastiat to the Minister of Commerce. “No one shall henceforth be permitted to employ any beams or rafters but such as are produced and fashioned by blunt hatchets.... Whereas at present we give a hundred blows of the axe, we shall then give three hundred. The work which we now do in an hour will then require three hours. What a powerful encouragement will thus be given to labor! ... Whoever shall henceforth desire to have a roof to cover him must comply with our exactions, just as at present whoever desires clothes to his back must comply with yours.”

His criticisms, for all their penetrating mockery, met with little practical success. He went to England to meet the leaders of the free-trade movement there and returned to organize a free-trade association in Paris. It lasted only eighteen months—Bastiat was never any good as an organizer.

But 1848 was now at hand and Bastiat was elected to the National Assembly. By then the danger seemed to him the other extreme—that men would pay too much attention to the imperfections of the system and would blindly choose socialism in its stead. He began a book entitled *Economic Harmonies* in which he was to show that the apparent disorder of the world was a disorder of the surface only; that underneath, the impetus of a thousand different self-seeking agents became transmuted in the marketplace into a higher social good. But his health was now disastrously bad. He could barely breathe, and his face was livid with the ravages of his disease. He moved to Pisa, where he read in the papers of his own death and of the commonplace expressions of regret which accompanied it: regret at the passing of “the great economist,” the “illustrious author.” He wrote a friend: “Thank God I am not dead. I assure you I should breathe my last without pain and almost with joy if I were certain of leaving to the friends who love me, not poignant regrets, but a gentle, affectionate, somewhat melancholy remembrance of me.” He struggled to finish his book before he himself should be finished. But it was too late. In 1850 he passed away, whispering at the end something that the listening priest thought was “Truth, truth ....”

He is a very small figure in the economic constellation. He was enormously conservative but not influential, even among conservatives. His function, it seems, was to prick the pomposities of his time; but beneath the raillery and the wit lies the more disturbing question: does the system always make sense? Are there paradoxes where the public and private weals collide? Can we trust the automatic mechanism of private interest when it is perverted at every turn by the far from automatic mechanism of the political structure it erects?

The questions were never squarely faced in the Elysian fields above. The official world of economics took little notice of the paradoxes proposed by its jester. Instead it sailed serenely on toward the development of the quantitative niceties of a pleasure-seeking world, and the questions raised by Bastiat remained unanswered. Certainly mathematical psychics was hardly the tool with which to unlock the dilemma of the Negative Railway and the Blunt Hatchet; Stanley Jevons, who with Edgeworth was the great proponent of making economics a “science,” admitted, “About politics, I confess myself in a fog.” Unfortunately, he was not alone.

And so the underworld continued to prosper. In 1879 it gained an American recruit, a bearded, gentle, fiercely self-sure man, who said that “Political Economy... as currently taught *is* hopeless and despairing. But this [is] because she has been degraded and shackled; her truths dislocated; her harmonies ignored; the word she would utter gagged in her mouth, and her protest against wrong turned into an indorsement of injustice.” And that was not all. For this heretic maintained not only that economics had failed to see the answer to the riddle of poverty although it was clearly laid out before her eyes, but that with his remedy, a whole new world stood ready to unfold: “Words fail the thought! It is the Golden Age of which poets have sung and high-raised seers have told in metaphor! ... It is the culmination of Christianity—the city of God with its walls of jasper and its gates of pearl!”

The newcomer was Henry George. No wonder he was in the underworld, for his early career must certainly have seemed an uncouth preparation for serious thinking to the cloistered keepers of the true doctrine. Henry George had been everything in life: adventurer, gold prospector, worker, sailor, compositor, journalist, government bureaucrat, and lecturer. He had never even gone to college; at thirteen he had left school to ship out as foremast boy on the 586-ton *Hindoo* bound for Australia and Calcutta. At a time when his contemporaries were learning Latin, he had bought a pet monkey and watched a man fall from the rigging, and become a thin, intense, independent boy with a wanderlust. Back from the East, he tried a job in a printing firm in his hometown of Philadelphia, and then at nineteen, shipped out again, this time to California, with the thought of gold in mind.

Before he left, he rated himself on a phrenological chart:

|                               |          |
|-------------------------------|----------|
| Amativeness. . . . .          | large    |
| Philoprogenitiveness. . . . . | moderate |
| Adhesiveness. . . . .         | large    |
| Inhabitiveness. . . . .       | large    |
| Concentrativeness. . . . .    | small    |

and so on, with a rating of “full” on Alimentativeness, “small” on Acquisitiveness, “large” on Self-esteem, and “small” on Mirthfulness. It was not a bad estimate in some respects—although it is odd to see Caution rated “large,” for when George reached San Francisco in 1858 he skipped ashore, although he had signed on for a year, and headed for Victoria and gold. He found gold—but it was fool’s gold, and he decided the life at sea was the life for him after all. Instead—his bump of Concentrativeness being small—he became a typesetter in a San Francisco shop, then a weigher in a rice mill, then, in his own words, “a tramp.” Another trek to the gold fields was equally unrewarding, and he returned to San Francisco impoverished.

He met Annie Fox, and eloped with her; she was a seventeen-year-old innocent and he a handsome young lad with a Bill Cody mustache and pointed beard. The trusting young Miss Fox took with her a bulky package on her secret marriage flight; the young adventurer thought it might be jewels, but it turned out to be only the *Household Book of Poetry* and other volumes.

There followed years of the most wretched poverty. Henry George was an odd-job printer, and work was hard to come by and ill paid at best. When Annie had her second child, George wrote: “I walked along the street and made up my mind to get money from the first man whose appearance might indicate he had it to give. I stopped a man—a stranger—and told him I wanted \$5. He asked me what I wanted it for. I told him my wife was confined and that I had nothing to give her to eat. He gave me the money. If he had not, I think I was desperate enough to have killed him.”

Now—at age twenty-six—he began to write. He landed a job in the composing room of the San

Francisco *Times* and sent a piece upstairs to Noah Brooks, the editor. Brooks suspected that the boy had copied it, but when nothing resembling it appeared in any of the other newspapers for several days he printed it, and then went downstairs to look for George. He found him, a slight young man, rather undersized, standing on a board to raise himself to the height of his type case. George became a reporter.

Within a few years he left the *Times* to join the San Francisco *Post*, a crusading journal. George began to write about matters of more than routine interest: about the Chinese coolies and their indenture, and about the land grabbing of the railroads and the machinations of the local trusts. He wrote a long letter to J. S. Mill in France on the immigration question and was graced with a long affirmative reply. And in between his newly found political interests he had time for ventures in the best journalistic tradition: when the ship *Sunrise* came to town with a hushed-up story about a captain and mate who had hounded their crew until two men had leaped overboard to their death, George and the *Post* ferreted out the story and brought the officers to justice.

The newspaper was sold, and Henry George wangled himself a political sinecure—Inspector of Gas Meters. It was not that he wanted a life of leisure; rather, he had begun to read the great economists and his central interest was now clearly formed—already he was a kind of local authority. He needed time to study and to write and to deliver lectures to the working classes on the ideas of the great Mill.

When the University of California established a chair of political economy, he was widely considered as a strong candidate for the post. But to qualify he had to deliver a lecture before faculty and students, and George was rash enough to voice such sentiments as this: “The name of political economy has been constantly invoked against every effort of the working classes to increase their wages,” and then to compound the shock he added: “For the study of political economy, you need no special knowledge, no extensive library, no costly laboratory. You do not even need textbooks nor teachers, if you will but think for yourselves.”

That was the beginning and the end of his academic career. A more suitable candidate was found for the post, and George went back to pamphleteering and study. And then suddenly, “in daylight and in a city street, there came to me a thought, a vision, a call—give it what name you please.... It was that that impelled me to write *Progress and Poverty*, and that sustained me when else I should have failed. And when I had finished the last page, in the dead of night, when I was entirely alone, I flung myself on my knees and wept like a child.”

As might be expected, it was a book written from the heart, a cry of mingled protest and hope. And as might also be expected, it suffered from too much passion and too little professional circumspection. But what a contrast to the dull texts of the day—no wonder the guardians of economics could not seriously consider an argument that was couched in such a style as this:

Take now ... some hard-headed business man, who has no theories, but knows how to make money. Say to him: “Here is a little village; in ten years it will be a great city—in ten years the railroad will have taken the place of the stage coach, the electric light of the candle; it will abound with all the machinery and improvements that so enormously multiply the effective power of labor. Will, in ten years, interest be any higher?”

He will tell you, “No!”

“Will the wages of common labor be any higher ... ?”

He will tell you, “No, the wages of common labor will not be any higher....”

“What, then, will be higher?”

“Rent, the value of land. Go, get yourself a piece of ground, and hold possession.”

And if, under such circumstances, you take his advice, you need do nothing more. You may sit down and smoke your pipe; you may lie around like the *lazzaroni* of Naples or the *leperos* of Mexico; you may go up in a balloon or down a hole in the ground; and without doing one stroke of work, without adding one iota of wealth to the community, in ten years you will be rich! In the new city you may have a luxurious mansion, but among its public buildings will be an almshouse.

We need not spell out the whole emotionally charged argument; the crux of it lies in this passage. Henry George is outraged at the spectacle of men whose incomes—sometimes fabulous incomes—derive not from the services they have rendered the community, but merely from the fact that they have had the good fortune to hold advantageously situated soil.

Ricardo, of course, saw all this long before him. But at best, Ricardo had only claimed that the tendency of a growing society to enrich the holders of its land would redound to the misfortune of the capitalist. To Henry George, this was only the entering wedge. The injustice of rents not only robbed the capitalist of his honest profit but weighed on the shoulders of the workingman as well. More damaging yet, he found it to be the cause of those industrial “paroxysms,” as he called them, that from time to time shook society to its roots.

The argument was not too clearly delineated. Primarily it rested on the fact that since rent was assumed from the start to be a kind of social extortion, naturally it represented an unfair distribution of produce to landlords at the expense of workers and industrialists. And as for paroxysms—well, George was convinced that rent led inevitably to wild speculation in land values (as indeed it did on the West Coast) and just as inevitably to an eventual collapse which would bring the rest of the structure of prices tumbling down beside it.

Having discovered the true causes of poverty and the fundamental check to progress, it was simple for George to propose a remedy—a single massive tax. It would be a tax on land, a tax that would absorb all rents. And then, with the cancer removed from the body of society, the millenium could be allowed to come. The single tax would not only dispense with the need for all other kinds of taxes, but in abolishing rent it would “raise wages, increase the earnings of capital, extirpate pauperism, abolish poverty, give remunerative employment to whoever wishes it, afford free scope to human powers, purify government, and carry civilization to yet nobler heights.” It would be—there is no other word—the ultimate panacea.

It is an elusive thesis when we seek to evaluate it. Of course it is naive, and the equation of rent with sin could have occurred only to someone as messianic as George himself. Similarly, to put the blame for industrial depressions on land speculation is to blow up one small aspect of an expanding economy quite out of proportion to reality: land speculations can be troublesome, but severe depressions have taken place in countries where land values were anything but inflated.

So we need not linger here. But when we come to the central body of the thesis, we must pause. For while George’s mechanical diagnosis is superficial and faulty, his basic criticism of society is a moral and not a mechanistic one. Why, asks Henry George, should rent exist? Why should a man benefit merely from the fact of ownership, when he may render no services to the community in

exchange? We may justify the rewards of an industrialist by describing his profits as the prize for his foresight and ingenuity, but where is the foresight of a man whose grandfather owned a pasture on which, two generations later, society saw fit to erect a skyscraper?

The question is provocative, but it is not so easy to condemn the institution of rent out of hand. For landlords are not the only passive beneficiaries of the growth of society. The stockholder in an expanding company, the workman whose productivity is enhanced by technical progress, the consumer whose real income rises as the nation prospers, all these are also beneficiaries of communal advancement. The unearned gains that accrue to a well-situated landlord are enjoyed in different forms by all of us. The problem is not just that of land rents, but of all unearned income; and while this is certainly a serious problem, it cannot be adequately approached through land ownership alone.

And then the rent problem is not so drastic as it was viewed by Henry George. A small, but steady flow of rents goes to farmers, homeowners, modest citizens. And even in the monopolistic area of rental incomes—in the real-estate operations of a metropolis—a shifting and fluid market is in operation. Rents are not frozen in archaic feudal patterns, but constantly pass from hand to hand as land is bought and sold, appraised and reappraised. Suffice it to point out that rental income in the United States has shrunk from 6 percent of the national income in 1929 to less than 2 percent today.

But no matter whether the thesis held together logically or whether its moral condemnation was fully justified. The book struck a tremendously responsive chord. *Progress and Poverty* became a best-seller, and overnight Henry George was catapulted into national prominence. “I consider *Progress and Poverty* as the book of this half-century,” said the reviewer in the *San Francisco Argonaut*, and the *New York Tribune* claimed that it had “no equal since the publication of the *Wealth of Nations* by Adam Smith.” Even those publications like the *Examiner* and *Chronicle*, which called it “the most pernicious treatise on political economy that has been published for many a day,” only served to enhance its fame.

George went to England; he returned after a lecture tour an international figure. He was drafted to run for mayor of New York, and in a three-cornered race he beat Theodore Roosevelt and only narrowly lost to the Tammany candidate.

The single tax was a religion to him by now. He organized Land and Labor Clubs and lectured to enthusiastic audiences here and in Great Britain. A friend asked him, “Does this mean war? Can you, unless dealing with craven conditions among men, hope to take land away from its owners without war?” “I do not see,” said George, “that a musket need be fired. But if necessary, war be it, then. There was never a holier cause. No, never a holier cause!”

“Here was the gentlest and kindest of men,” comments his friend, James Russell Taylor, “who would shrink from a gun fired in anger, ready for universal war rather than that his gospel should not be accepted. It was the courage ... which makes one a majority.”

Needless to say, the whole doctrine was anathema to the world of respectable opinion. A Catholic priest who had associated himself with George in his mayoralty fight was temporarily excommunicated; the Pope himself addressed an encyclical to the land question; and when George sent him an elaborately printed and bound reply, it was ignored. “I will not insult my readers by discussing a project so steeped in infamy,” wrote General Francis A. Walker, a leading professional economist in the United States; but while officialdom looked at his book with shock or with amused contempt, the man himself struck home to his audience. *Progress and Poverty* sold more copies than all the economic texts previously published in the country; in England, his name became a household word. Not only that, but the import of his ideas—albeit usually in watered form—became part of the

heritage of men like Woodrow Wilson, John Dewey, Louis Brandeis. Indeed there is a devoted following of Henry George's still active today.

In 1897, old, unwell, but still indomitable, he permitted himself to be drafted for a second mayoralty race, knowing full well that the strain of the campaign might be too much for his failing heart. It was; he was called "marauder," "assailant of other people's right," "apostle of anarchy and destruction," and he did die, on the eve of the election. His funeral was attended by thousands. He was a religious man; let us hope that his soul went straight to heaven. As for his reputation—that went straight into the underworld of economics, and there he exists today; almost-Messiah, semi-crackpot, and disturbing questioner of the morality of our economic institutions.

But something else was going on in the underworld, something more important than Henry George's fulminations against rent and his ecstatic vision of a City of God to be built on the foundation of the single tax. A new and vigorous spirit was sweeping England and the Continent and even the United States, a spirit that manifested itself in the proliferation of such slogans as "The Anglo-Saxon race is infallibly destined to be the predominant force in the history and civilization of the world." The spirit was not confined to England: across the Channel, Victor Hugo declared, "France is needed by humanity"; in Russia the spokesman for absolutism, Konstantin Pobyedonostsev, proclaimed that Russia's freedom from the taint of Western decadence had given her the accolade of leadership for the East. In Germany the Kaiser was explaining how *der alte Gott* was on their side; and in the New World, Theodore Roosevelt was making himself the American spokesman for a similar philosophy.

The age of imperialism had begun, and the mapmakers were busy changing the colors that denoted ownership of the darker continents. Between 1870 and 1898 Britain added 4 million square miles and 88 million people to its empire; France gained nearly the same area of territory, with 40 million souls attached; Germany won a million miles and 16 million colonials; Belgium took 900,000 miles and 30 million people; even Portugal joined the race, with 800,000 miles of new lands and 9 million inhabitants.

In truth, three generations had changed the face of the earth. But more than that, they had witnessed an equally remarkable change in the attitude with which the West viewed that process of change. In the days of Adam Smith, it will be remembered, the Scots philosopher regarded with scorn the attempts of merchants to play the role of kings, and he urged the independence of the American Colonies. And Smith's contempt for colonies was widely shared: James Mill, the father of John Stuart Mill, called the colonies "a vast system of outdoor relief for the upper classes," and even Disraeli in 1852 had put himself on record as believing that "these wretched colonies are millstones around our necks."

But now all this had changed. Britain had acquired her empire, as it had frequently been remarked, in a fit of absent-mindedness, but absentmindedness was replaced by single-mindedness as the pace of imperialism accelerated. Lord Rosebery epitomized the sentiment of the day when he called the British Empire "the greatest secular agency for good the world has ever known." "Yes," said Mark Twain, watching a Jubilee procession for Queen Victoria which proudly displayed the pomp of England's possessions, "the English are mentioned in Scripture—'Blessed are the meek, for they shall inherit the earth.'"

By most people, the race for empire was approvingly regarded. In England, Kipling was its poet laureate, and the popular sentiment was that of the music-hall song:

We don't want to fight, but by jingo if we do,  
We've got the ships, we've got the men, we've got the money too!

Another, rather different nod of approval came from those who agreed with Sir Charles Crossthwaite that the real question between Britain and Siam was “who was to get the trade with them, and how we could make the most of them, so as to find fresh markets for our goods and also employment for those superfluous articles of the present day, our boys.”

And then, too, the process of empire building brought with it prosperity for the empire builders. No small part of the gain in working-class amenities which had so pleased the Committee on Depression was the result of sweated labor overseas: the colonies were now the proletariat's proletariat. No wonder imperialism was a popular policy.

Throughout all of this, the officialdom of economics stood to one side, watching the process of imperial growth with equanimity, and confining its remarks to the effect that new possessions might have on the course of trade. Again it was the critics of the underworld that focused attention on this new phenomenon of history. For, as they looked at the worldwide race for domination, they saw something very different from the mere exciting clash of politics or the inexplicable whims of personalities in power.

They saw a whole new direction to the drift of capitalism; in fact, they saw imperialism as signaling a change in the fundamental character of capitalism itself. Still more significant, they divined in the new restless process of expansion the most dangerous tendency that capitalism had yet revealed—a tendency that led to war.

It was a mild-mannered heretic who first made this charge, the product, as he described himself, of “the middle stratum of the middle class of a middle-sized town of the Midlands.” John A. Hobson was a frail little man, much worried over his health and plagued by an impediment in his speech which made him nervous about lecturing. Born in 1858, he prepared for an academic career at Oxford; and by all we know of his background and personality (which is not much, for this shy and retiring man managed successfully to avoid *Who's Who*), he was destined for the cloistered anonymity of English public-school life.

Two factors intervened. He read the works of Ruskin, the British critic and essayist who mocked at the bourgeois Victorian canons of monetary value and who trumpeted, “Wealth is life!” From Ruskin, Hobson acquired an idea of economics as a humanist rather than an impersonal science; and he turned from the refinement of orthodox doctrine to preaching the virtues of a world where cooperative labor guilds would give a higher value to human personality than the crass world of wages and profits. His scheme, Hobson insisted, was “as certain as a proposition in Euclid.”

As a Utopian he might have been respectable; the English like eccentrics. It was as a heretic, a trampler on the virtues of tradition, that he became an economic pariah. Chance threw him into the company of a person called A. F. Mummery, an independent thinker, a successful businessman, and an intrepid mountain climber (he was to meet his death in 1895 on the heights of Nanga Parbat). “My intercourse with him, I need hardly say,” writes Hobson, “did not lie on this physical plane. But he was a mental climber as well....” Mummery had speculated as to the cause of those periodic slumps in trade which had worried the business community as far back as the early eighteenth century, and he had an idea as to their origin, which was, as Hobson put it, considered by the professordom “as equivalent in rationality to an attempt to prove the flatness of the earth.” For Mummery, hearkening back to Malthus, thought that the cause of depression lay in the fact of excessive *saving*, in the chronic

inability of the business system to distribute enough purchasing power to buy its own products back.

Hobson argued at first and then became convinced that Mummery was right. The two wrote *The Physiology of Industry*, setting forth their heretical notion that savings might undermine prosperity. This was too much for the official world to swallow. Had not all the great economists, from Adam Smith onward, stressed the fact that saving was only one side of the golden coin of accumulation? Did not every act of saving automatically add to the fund of capital which was used to put more people to work? To say that saving might result in unemployment was not only nonsense of the most arrant kind, but it was positively inimical to one of the legs of social stability—thrift. The economic world was shocked: the London University Extension Lectures found that they could manage to dispense with Mr. Hobson's presence; the Charity Organization Society withdrew an invitation to speak. The scholar had become a heretic and the heretic now became, perforce, an outcast.

All this seems considerably removed from the problem of imperialism. But ideas germinate in devious ways. Hobson's exclusion from the world of respectability led him into the path of social criticism, and the social critic now turned his attention to the great political problem of the day: Africa.

The background of the African problem was complex and emotional. Dutch settlers had set up their independent states in the Transvaal country in 1836, solid communities of "Kaffir-flogging, Bible-reading" farmers. But the land they chose, wide and sunny and exhilarating as it was, hid more wealth than it displayed. In 1869 diamonds were discovered; in 1885 gold. Within a few years the pace of an oxcart settlement was transformed into the frenzied excitement of a community of speculators. Cecil Rhodes appeared on the scene with his projects of railroads and industry; in a moment of madness he sanctioned a raid into the Transvaal and the long-strained tempers of both English and Dutch burst their bonds. The Boer War began.

Hobson had already gone to Africa. This "timidest of God's creatures," as he called himself, traveled to Capetown and Johannesburg, talked with Kruger and Smuts, and finally dined with Rhodes himself on the eve of the Transvaal raid. Rhodes was a complicated and perplexing personality. Two years before his African adventure, a journalist had quoted him as saying:

"I was in the East End of London yesterday and attended a meeting of the unemployed. I listened to the wild speeches, which were just a cry for 'bread,' 'bread,' 'bread,' and on my way home I pondered over the scene.... My cherished idea is a solution for the social problems; i.e., in order to save the 40,000,000 inhabitants of the United Kingdom from a bloody civil war, we colonial statesmen must acquire new lands to settle the surplus population, to provide new markets for the goods produced by them in the factories and mines. The Empire, as I have always said, is a bread and butter question."

We do not know whether he expounded the same sentiments to Hobson; the probability is that he did. But it would have made little difference. For what Hobson saw in Africa dovetailed in the most unexpected way with the economic heresy of which he and Mummery had been convicted: the theory of oversaving.

He returned to Britain to write about jingoism and the war in Africa, and then in 1902 he presented the world with a book in which his African observations were strangely melded with his heretical views.

The book was called *Imperialism*; it was a devastating volume. For here was the most important and searing criticism that had ever been levied against the profit system. The worst that Marx had

claimed was that the system would destroy itself; what Hobson suggested was that it might destroy the world. He saw the process of imperialism as a relentless and restless tendency of capitalism to rescue itself from a self-imposed dilemma, a tendency that necessarily involved foreign commercial conquest and that thereby inescapably involved a constant risk of war. No more profound moral indictment of capitalism had ever been posed.

What was the substance of Hobson's charge?

It was an argument almost Marxian in its impersonality and inexorable development (although Hobson had no sympathy for the Marxists and their aims). It claimed that capitalism faced an insoluble internal difficulty and that it was forced to turn to imperialism, not out of a pure lust for conquest, but to ensure its own economic survival.

That internal capitalist difficulty was an aspect of the system which had received surprisingly little attention in the past—capitalism's unequal distribution of wealth. The fact that the workings of the profit system very often resulted in a lopsided distribution of wealth had long been a topic for moral concern, but its *economic* consequences were left for Hobson to point out.

The consequence he saw was most surprising. The inequality of incomes led to the strangest of dilemmas—a paradoxical situation in which neither rich nor poor could consume enough goods. The poor could not consume enough because their incomes were too small, and the rich could not consume enough because their incomes were too big! In other words, said Hobson, in order to clear its own market, an economy must consume everything that it makes: each good must have a buyer. Now, if the poor cannot afford to take more than the bare essentials, who is there to take the rest? Obviously, the rich. But while the rich have the money, they lack the physical capacity for *that* much consumption: a man with a million-dollar income would have to consume goods worth a thousand times those bought by a man with only a thousand dollars to spend.

And so, as a consequence of an inequitable division of wealth, the rich *were forced* to save. They saved not only because most of them wished to, anyway, but because they could not very well help themselves—their incomes were simply too large to be consumed.

It was this saving that led to trouble. The automatic savings of the rich strata of society had to be put to use, if the economy was not to suffer from the disastrous effects of an insufficiency of purchasing power. But the question was *how* to put the savings to work. The classical answer was to invest them in ever more factories and more production and thus to ascend to an even higher level of output and productivity: Smith, Ricardo, Mill, all the great economists agreed on this solution to the problem. But Hobson saw a difficulty in the way. For if the mass of the people were *already* having trouble buying all the goods thrown on the market because their incomes were too small, how, he asked, could a sensible capitalist invest in equipment that would throw still more goods on an overcrowded market? What would be gained from investing savings in another shoe factory, let us say, when the market was already swamped with more shoes than could be readily absorbed? What was to be done?

Hobson's answer was devilishly neat. The automatic savings of the rich could be invested in one way that would put them to use without the troublesome accompaniment of more production at home. They could be invested overseas.

And this is the genesis of imperialism. It is, wrote Hobson, "the endeavor of the great controllers of industry to broaden the channel for the flow of their surplus wealth by seeking foreign markets and foreign investments to take off the goods and capital they cannot use at home."

The result is disastrous. For it is not one nation only which is sending its surplus wealth abroad.

All nations are in the same boat. Hence there ensues a race to partition the world, with each nation trying to fence off for its investors the richest and most lucrative markets it can seize. Thus Africa becomes a huge market (and a source of cheap raw materials) to be split among the capitalists of England and Germany and Italy and Belgium; Asia becomes a rich pie to be carved up among the Japanese and the Russians and the Dutch. India becomes a dumping ground for British industry, and China becomes an India for Japan.

Imperialism thus paves the way to war—not by swashbuckling adventures or high tragedy, but through a sordid process in which capitalist nations compete for outlets for their unemployed wealth. A less-inspiring cause for bloodshed could hardly be imagined.

Needless to say, such a theory of violence and struggle found little encouragement in the official world of economists. Hobson, it was said, kept “muddling economics up with other things” and since those “other things” were hardly suggestive of a world organized around the pursuit of pleasure, the official world regarded the theory of imperialism as a display of the sort of bad manners one would expect of a man whose economics outraged such common-sense doctrines as the social beneficence of thrift.

But while the doctrine was scrupulously avoided by those who might have subjected it to an intelligent, if critical, scrutiny, it was embraced wholeheartedly by another section of the underworld: the Marxists. The idea, after all, was not entirely original with Hobson; variants of it had been worked out by a German economist named Rodbertus, and by Rosa Luxemburg, a fiery German revolutionist. But Hobson’s treatment was broader and deeper, and it was embroidered into the official cloak of Marxist doctrine by none other than their leading theoretician—an exile named Vladimir Ilich Ulyanov, better known as Lenin.

The theory emerged from its baptism somewhat changed. Hobson had puzzled over the question of why capitalist nations so avidly sought colonies after decades of more or less indifference to them. His theory of imperialism was not a dogma, and still less an ironclad prediction of absolutely inescapable war. Indeed, he expressed the hope that rival imperialisms might arrange a kind of final settlement of the world and exist peaceably side by side on a live-and-let-live basis.

But in Marxist garb, the theory took on tones both more menacing and more inexorable. Not only was imperialism placed as the capstone of the Marxist economic arch, but it was broadened and widened beyond Hobson’s framework until it accounted for the whole social complexion of latter-day capitalism. And what a frightening picture emerged!

Imperialism, the highest phase of capitalist development, immensely increases the productive forces of the world economy, shapes the entire world in its own image, and drags all colonies, all races, all peoples into the sphere of finance capitalist exploitation. At the same time the monopolist form of capital increasingly develops elements of parasitic degeneration and decay.... Imperialism piles up untold wealth from the immense superprofits it squeezes out of the millions of colonial workers and peasants. In this process, imperialism creates the type of the decaying, parasitically degenerating rentier state and entire strata of parasites who live by coupon clipping. The epoch of imperialism, which completes the process of creating the material prerequisites of socialism (concentration of the means of production, socialization of labour on a gigantic scale, the strengthening of workers’ organizations) at the same time makes the contradictions between the “Great Powers” sharper, and provokes wars which result in the breakdown of the single world economy. Thus imperialism is decaying, dying capitalism. It is the last state of capitalist development as a whole; it is the onset of the socialist world revolution.

The writer is Bukharin; the occasion, the Third International; the date, 1928. Writer, occasion, and date notwithstanding, the voice we hear is that of Lenin. And more disturbing yet, Lenin's conception of a ravaging and ravaged capitalism, internally corrupt and externally predatory, was the formal Soviet explanation of the world in which we live until the demise of the Soviet Union.

Of the fact of imperialism there is no doubt. No one who is familiar with the history of the late nineteenth and early twentieth centuries can fail to mark the line of plunder, territorial aggrandizement, and oppressive colonialism that runs like a telltale thread through the endless incidents of international jealousy, friction, and war. If it is no longer fashionable to regard the First World War as "purely" an imperialist conflict, there is no doubt that imperialist jockeying for position did much to bring it into being.

But conquest and colonies are as old as ancient Egypt, and as the Soviet invasions of Hungary, Czechoslovakia, and Afghanistan have made clear in modern times, they will continue whether capitalism is there to furnish an excuse or not. The question that the *economic* theory of imperialism makes us face is whether the conquests of the last fifty years have been differently motivated from the conquests that came before or may follow after. It is a simple matter to understand the thirst for power of the dynastic state. Imperialism asks us to consider whether the more impersonal forces of the market economy can lead to the same end result.

The apologists for the colonial system claimed that it could not. In 1868, Bismarck himself wrote: "All the advantages claimed for the mother country are for the most part illusions. England is abandoning its colonial policy; she finds it too costly." And other defenders of the system echoed his remarks: they pointed out that colonies "didn't pay"; that colonization was not undertaken gladly, but that it was forced on the great powers by virtue of their civilizing mission in the world; that colonies gained more than the mother country, and so on.

But they simply missed the point. True, some colonies did not pay—in 1865 a Committee of Commons actually recommended the abandonment of all British holdings save on the west coast of Africa on the ground that they were highly unprofitable ventures. But while *all* colonies did not yield a profit, *some* colonies were fabulously rewarding: the tea gardens in Ceylon, for example, would return 50 percent dividends on invested capital in a banner year. And while *all* industry did not benefit from overseas markets, *some* important industries could hardly have existed without them: the classic case in point is the dependence of the British cotton industry on the Indian market. And for England as a whole, foreign investment certainly provided a profitable outlet for savings: between 1870 and 1914, *one-half* of English savings were invested abroad, and the flow of dividends and interest from foreign investments provided 10 percent of the British national income.

To be sure, there were other motives generously mixed in with the purely economic, and the economic compensatory effect of imperialism was not quite so simple as J. A. Hobson had described it. But by and large, one could hardly find an explanation for the thrust of European power into Africa and Asia that did not contain some flavor of economic advantage. In the case of Holland, for example, the huge plantations of Java and Sumatra offered a field for profitable investment of great importance for Dutch capital; in the case of Malaya, invaluable and cheap raw materials provided John Bull with a lucrative international monopoly; in the case of the Middle East, there were oil and the strategic control over shipping through the Suez Canal. "What our industries lack ... what they lack more and more, is markets," said a French minister in 1885; and in 1926 Dr. Schacht, then president of the German Reichsbank, declared: "The fight for raw materials plays the most important role in world politics, an even greater role than before the war. Germany's only solution is her acquisition of

colonies.” From country to country the motives might differ, but the common denominator of economic gain was to be found in all.

Does this mean that imperialism is indeed an inseparable part of capitalism? The answer is not a simple one. Certainly capitalism has been an expansive system from its earliest days, a system whose driving force has been the effort to accumulate ever larger amounts of capital itself. Therefore from early on, we find that capitalist firms have looked to foreign lands, both for markets and for cheap raw materials; and equally important, the governments of capitalist nations have usually supported and protected their private enterprisers in these overseas ventures.

This much of the imperialist scenario seems beyond question. But we have come to look on this process of capitalist expansion in a somewhat different fashion from that of Hobson or Lenin. The driving force does not seem to be lodged in a pileup of undigested savings at home that require investment abroad. Rather, the underlying propulsive mechanism appears to be the extraordinary capacity of the capitalist mode of economic organization to displace other modes, and to establish itself in noncapitalist settings. There is something about the technological orientation, the efficiency, the sheer dynamism of capitalist ways of production that makes the expansion of the system “irresistible.”

Thus we tend today to see the process of imperialism as part of *the internationalization of capital*, a process that began even before capitalism was fully formed and that has not yet run its course. But here an important distinction must be made between the internationalizations of different eras. Imperialism of the kind that helped bring on World War I was not just the transplantation of capitalist modes of production into Africa and Asia and Latin America. It was this plus undisguised political interference, terrific exploitation, military force, and a general disregard for the interests of the poorer nations. What is so striking about late nineteenth- or early twentieth-century British investment in India, for example, is that it was largely based on and ruled by England’s needs, not India’s requirements. In the case of the Belgian Congo or the Netherlands Indies, “largely” can be read “entirely.”

Some part of this old-fashioned imperialism remains, although its outward manifestations have changed. The Second World War brought a general end to the relationship of colonialism within which the older economic hegemony exerted its sway. Where there were only supine colonies before the war, there emerged independent nations after it; and although many of these nations were (and still are) impoverished and weak, their national status has made it impossible for the European nations to exercise the same cavalier domination that was commonplace in the first half of the century.

Things have been somewhat different in the case of the United States. Here military force has been applied against underdeveloped nations many times since the war—against Cuba, Vietnam, Nicaragua, and Iraq among other instances—so that the United States has inherited the unenviable title of the main imperialist power in the world. But the motives that have prompted our imperialist adventures are not those that sent the Marines into the banana republic or the gunboats into China in the nineteenth century. It is not American property that we have been protecting, but American ideology. Rather like the English during the period of the French Revolution, until the Soviet debacle our government felt itself threatened by an immense revolutionary force—the force of worldwide communism, whose most likely recruits seemed to be the frail and unstable nations of the Third World. As a result, we have reacted to nearly every socialist tendency in those nations as if it were the entering wedge of a foreign-dominated Communist regime, and have supported every reactionary government in those nations as part of the same struggle against communism.

How this defensive-minded, aggressive-oriented policy will end remains to be seen. Perhaps the United States will be able to maintain a world safe for capitalism by bringing economic or military force to bear on socialist governments that appear in the underdeveloped world. Perhaps such a policy will end in our own frustration and demoralization. Whatever the outcome, however, this aspect of imperialism bears more relation to the problem of protecting a great kingdom from the influence of outsiders—a problem as old as ancient China or Rome—than to the direct support for business enterprises that was the frank motive for the imperial thrust of the last century. It is a direct political, rather than an indirect economic, form of foreign domination.

Meanwhile, there is a second aspect to the changing face of imperialism that is unmistakably economic. It is the spectacular emergence of the multinational corporation as the principal agency by which capital moves from its home country overseas.

The multinationals are giant corporations, such as Coca-Cola, IBM, Microsoft, and Royal Dutch Shell, whose manufacturing or processing operations are located in many nations. A multinational will drill for oil in the Middle East or Africa, refine it in Europe or America, and sell it in Japan; or it may extract ore in Australia, process it in Japan, and ship the finished beams to the United States.

Multinationals have brought two changes to the overall internationalization of capital. First, they have changed its geographic flows. In the days of classic imperialism, as we have seen, the objective of capitalist expansion was focused mainly on gaining access to raw materials or to markets for basic commodities, like textiles. The multinationals have turned away from these basic commodities toward the sorts of high-technology goods in which they are world leaders, such as computers and pharmaceuticals. The result has been a striking shift in the overseas allocation of capital. In 1897 almost half of American overseas capital was invested in plantations, railways, or mining properties. Today only a small fraction of our foreign investment is in those fields. Instead, the bulk of our overseas capital has moved into manufacturing, and three-quarters of the flow of international investment goes to Europe and Canada and other developed capitalist lands. So, too, the great preponderance of French or Japanese or German international investment seeks out locations in the developed world (including the United States), rather than in the old colonial parts of the globe.

A second economic consequence of the rise of the multinationals has been their remarkable ability to combine high technology with cheap and untrained labor. The incredibly complicated mechanisms that underlie modern economic life, such as computer parts or television subassemblies, can be produced in the Hong Kongs and South Koreas and Thailands of the world, using scientific machines operated by men and women just off the paddy fields. From the point of view of imperialism, the upshot of this is a perplexing one. The ability to transplant whole production processes into areas of the world that only yesterday were peasant economies has succeeded to an unprecedented degree in exporting the social institutions of capitalism. Just as the factors of production themselves emerged from a precapitalist social setting during the great economic revolution we witnessed in our opening chapters, so in our times a new economic revolution is bringing the market economy into regions that were formerly only passive, not active forces in the world economy. To that extent, modern imperialism has been a great force for the vitalization of capitalism abroad.

At the same time, the new imperialism has greatly intensified the competitiveness of the system in its developed homelands. This is not only the result of the interpenetration of each other's markets that we discussed above, but because the manufacturing outposts of the multinationals in the underdeveloped regions can fire artillery barrages of low-cost commodities back into their motherlands. As no nation knows better than the United States, TV sets made in Hong Kong or

Taiwan, or automobiles made in South Korea or assembled in Mexico, can easily undersell the same products manufactured in California or the Midwest.

It is too soon to foretell the consequences of this internationalization and intensification of competition or what may be the outcome of the financial and political crises that have appeared—not surprisingly—in nearly all the Asian “tigers.” What seems beyond doubt is that we have moved in the direction of a global economy in which new world-straddling enterprises coexist uneasily with older national boundaries and prerogatives. It is an ironic ending to our consideration of the problem of imperialism that the movement whose origins were connected with alleviating the pressures on capital has ended up by making them worse.

John Hobson died in 1940; in the London *Times* a properly circumspect obituary duly noted both his prescient ideas and his lack of general recognition.

For unrecognized he was. The most renowned economist of the Victorian world was an economist utterly unlike Hobson: Alfred Marshall—as considered, middle-of-the-road, and “official” as Hobson had been intuitive, extreme, and, so to speak, unauthorized. Yet it is fitting that we conclude this journey through the shadowy regions of the underworld by returning again to Victorian daylight. The economists who worked in that daylight might not have seen the disturbing sights revealed to more adventurous souls, but they did one thing that the heretics did not: they taught their world—and even our world—its “economics.”

Merely to look at Alfred Marshall’s portrait is already to see the stereotype of the teacher: white mustache, white wispy hair, kind bright eyes—an eminently professorial countenance. At the time of his death in 1924, when the greatest economists in England paid homage to his memory, one of them, Professor C. R. Fay, produced this indelible portrait of the Victorian professor *chez lui*:

Pigou told me I ought to go and see him about a subject for a Fellowship Dissertation. So one afternoon towards twilight I went to Balliol Croft. “Come in, come in,” he said, running in from a little passage; and I went with him upstairs. “Have you any idea what to do?” he asked me. I said “no.” “Well, then, listen,” he said, producing a small black book. He proceeded to read out a list of subjects having previously ordered me to hold up my hand when he came to one I liked. In my nervousness I tried to close with the first subject, but Marshall took no notice and read on. About halfway through the second page he arrived at “The Recent German Financial Crisis.” Having been to Greifswald for a summer I signaled acquiescence. “It wouldn’t suit you at all,” he said. I kept quiet for another five minutes, and, catching the word “Argentine” made another noise which stopped him. My only reason was that two of my uncles had been in business there. “Have you been there yourself?” he asked. “No,” I replied, and he went on. A few moments later he stopped and said, “Have you found a subject you like?” “I don’t know,” I began. “No one ever does,” he said, “but that’s my method. Now, what would you like to do?” I gasped out “a comparison of German and English labour.” Upon which (for it was now quite dark), he produced a little lantern with an electric button and began prowling around the shelves, handing out books in English and German—von Nostitz, Kuhlman, about 30 in all. “Now,” he said, “I’ll leave you to smell; when you’ve finished, blow down the tube and Sarah will bring you some tea.”

It was all very remote from the African strife that had disturbed Hobson or the boisterous American speculation that had formed the cradle of environment for Henry George’s ideas. Marshall, like his contemporary Edgeworth, was preeminently the product of a university. Although he voyaged

to America and even across America to San Francisco, his life, his point of view—and inevitably his economics—smacked of the quietude and refinement of the Cambridge setting.

But exactly what did he teach? The word to sum up Marshall's basic concern is the term we have already identified as the new Victorian vision of the economy—the term “equilibrium.” In contrast with Bastiat, who was drawn to the irrationalities of economic sophistry, or with Henry George, who saw the injustices of life cloaked with economic sanction, or with Hobson, who looked for hidden destructive tendencies in the impersonal processes of capitalist economics, Marshall was primarily interested in the self-adjusting, self-correcting nature of the economic world. As his most brilliant pupil, J. M. Keynes, would later write, he created “a whole Copernican system, in which all the elements of the economic universe are kept in their places by mutual counterpoise and interaction.”

Much of this, of course, had been taught before. Adam Smith, Ricardo, Mill, had all expounded the market system as a feedback mechanism of great complexity and efficiency. Yet between the overall vision and the fine working-out of details, there was much unexplored territory and foggy exposition: the theory of market equilibrium which Marshall inherited was a good deal more imposing at a distance than up close. There were sticky bits even about such basic matters as whether prices were really a reflection of the cost of production of a good, or of the final degree of satisfaction yielded by that good—were diamonds high-priced, in other words, because they were hard to find or because people enjoyed wearing them? Perhaps such questions would not make any but an economist's heart beat faster, and yet as long as they remained obscure it was hard to think clearly about many problems that economics sought to attack.

It was to these fuzzy questions of economic theory that Marshall applied himself. In his famous *Principles of Economics* he combined a mind of mathematical precision with a style that was leisurely, discursive, shot through with homely example, and wonderfully lucid. Even a businessman could understand *this* sort of economics, for all the hard logical proofs were thoughtfully relegated to the footnotes (with the result that Keynes irreverently said that any economist would do better to read the footnotes and forget the text than vice versa). At any rate, the book was a tremendous success; originally published in 1890, it is still prescribed fare for the student who aspires to be an economist.

And what was the great contribution of Marshall to the conceptual tangles of economics? The main contribution—the one to which Marshall himself returned time and again—was the insistence on the importance of *time* as the quintessential element in the working-out of the equilibrium process.

For equilibrium, as Marshall pointed out, changed its basic meaning according to whether the adjustment process of the economy took place in a short-run or a long-run period. In the short run, buyers and sellers met to higggle on the marketplace, but basically the bargaining process revolved about a fixed quantity of goods—the diamonds that the diamond merchants brought along with them in their suitcases. Over the longer run, however, the quantity of diamonds was not fixed. New mines could be opened if the demand warranted it; old mines could be abandoned if supply was superabundant. Hence in the very short run it was the psychic utility of diamonds—that is, the demand for them—which exercised the more immediate influence on their market price; but over the long run, as the recurring flow of supply was adjusted to consumers' wants, cost of production again asserted its upper hand. Neither cost nor utility, of course, could ever be quite divorced from the determination of price; demand and supply, in Marshall's own words, were like “the blades of a pair of scissors,” and it was as fruitless to ask whether supply or demand alone regulated price as to ask whether the upper or lower blade of the scissors did all the cutting. But while both blades cut, one of them, so to speak, was the active and one the passive edge—the utility-demand edge active when the cut took place in the quick time span of the given market; the cost-supply edge active when the cutting

extended over the longer period in which scales of output and patterns of production were subject to change.

It was, like everything Marshall touched with his analytic mind, an illuminating insight. And yet more than theoretical brilliance radiated from the *Principles*. If Marshall was the finest intelligence of the “official” world of economics, he was also its most compassionate intelligence. A genuine concern for the laboring poor, for the “cringing wretches” he noted on his trips to the London slums, for economics as a tool for social betterment—all this was inextricably woven into his book. So, too, it should be noted, was an appraisal of the future that cautioned against succumbing to the “beautiful pictures of life, as it might be under institutions which [the imagination] constructs easily,” coupled with hopes that the attitudes of the rich were capable of turning toward “chivalry,” to “help the tax-gatherer ... remove the worst evils of poverty from the land.”

We smile at these Victorian sentiments, but they do not constitute the aspect of Marshall’s vision that made its greatest imprint on economics itself. For that we turn to the front of the *Principles*, where two declarations meet the eye. The first is a typically charming Marshallian passage describing an individual weighing the pleasures to be received from a purchase against the loss of pleasure that the expenditure will entail:

A rich man, in doubt whether to spend a shilling on a single cigar, is weighing against one another smaller pleasures than a poor man, who is doubting whether to spend a shilling on a supply of tobacco that will last him for a month. The clerk with £100 a year will walk to work in a much heavier rain than the clerk with £300 a year.

The second statement comes a few pages later, where Marshall is discussing the purpose of economics. It is, he says,

a study of the economic means and aspects of man’s political, social and private life; but more especially of his social life.... It shuns many political issues, which the practical man cannot ignore ... and it is therefore ... better described by the broad term “Economics” than by the narrower term “Political Economy.”

Two things are noteworthy in these seemingly innocuous passages. The first, brilliantly realized in the clerk deciding whether or not to spend the money to take a cab, is nothing less than a new figure who will epitomize the Marshallian vision of the economy as aptly as, if much less dramatically than, the great monarch of the Hobbesian era. The new figure is The Individual, whose calculations not only symbolize the workings of the market system, but are in fact the rock on which the economy itself ultimately rests. Gone is the vision of economics as the study of the social dynamics of Monarchy or of a Smithian Society, not to mention Marxian class warfare. In its place we have economics as explication of the collective life of the individual, which is to say, of everyone for him- or herself.

Intimately tied to this is another change, implicit in the second quotation. It is the disappearance of a theme that was unabashedly a central part of earlier visions—namely, the political content of economics. Marshall sees the purpose of economics as explaining such questions as how equilibrium prices are arrived at, not the underlying question of how the relations of power and obedience that give structure to all stratified societies arise in a social order perceived as just a collection of individuals each seeking his or her “utility.”

Why this curious turning away from *political* economy? Two possibilities spring to mind. The first

is that the events of 1848, and perhaps the increasing flow of socialistic ideas, made an explicit recognition, much less examination, of power and obedience much more contentious than it would have been in Smith's or Mill's times, when such social relations were taken for granted. A second, quite contrary, possibility is that the gradual acceptance of democratic ideas during the nineteenth century gave the Marshallian vision a plausibility it would not have enjoyed in earlier times.

That is a question we can raise, but not resolve. All we can say with certainty is that Economics now takes the place of Political Economy; and a new chapter of economics begins. All this will become increasingly important as our study moves toward the present. But there is one last matter that deserves a word. It concerns the very element of Marshall's analysis that was his most important gift to economic analysis—the element of time. For time, to Marshall, was abstract time; it was the time in which mathematical curves exfoliate and theoretical experiments may be run and rerun, but it was not the time in which anything ever really *happens*. That is, it was not the irreversible flow of historic time—and, above all, not *the* historic time in which Marshall himself lived. Think for a moment of what he lived to see: a violent anticapitalist revolution in Russia, a world-encompassing war, the first rumblings of anticolonialism. Think of what lay just ahead: the decline of capitalism in much of Europe, a worldwide change in the conception of government, a world-shaking depression in the United States. Yet, of the relevance of economics to all these overwhelming changes, neither Alfred Marshall nor still less his official colleagues had much, if any, understanding. *Natura non facit saltum*—nature makes no sudden leaps—was the motto of the *Principles* in its last edition in 1920, as it had been in its first, in 1890. The fact that history might make sudden leaps, that the world of economics might be inseparably tied to the world of history, that the long and short run of the textbook implied a totally different conception of “time” from that of the relentless ticking of the social clock—all this was far removed from the notions of equilibrium which Marshall made the center of his economic inquiry. For nothing that he said could he be reproached, for he was a man of gentle faith and deeply felt convictions. The trouble was that nothing he said went far enough.

And even this might be condoned in hindsight were it not for one thing. All the while that Marshall and his colleagues were refining their delicate mechanism of equilibrium, a few unorthodox dissenters were insisting that it was not equilibrium but change—violent change—that characterized the real world and properly formed the subject for economic inquiry. War and revolution and depression and social tension were to their minds the basic problems for economic scrutiny—not equilibrium and the nice processes of adjustment of a stable textbook society. But when the heretics and the amateurs pointed this out to Victorian academic officialdom, their interruptions were resented, their warnings shrugged aside, their prescriptions scorned.

The complacency of the official world was not merely a rueful commentary on the times; it was an intellectual tragedy of the first order. For had the academicians paid attention to the underworld, had Alfred Marshall possessed the disturbing vision of a Hobson or Edgeworth, the sense of social wrong of a Henry George, the great catastrophe of the twentieth century might not have burst upon a world utterly unprepared for radical social change. It teaches us, in retrospect, that ideas, however heretical, cannot safely be ignored—least of all by those whose interests are, in the best sense of that misused word, conservative.