

4. *The Dismal Science*

Having seen the vision of the Promised Land, the nineteenth-century liberals began to feel that they had reached it. After all, they saw astounding progress in almost every field of human activity, not merely in the general standard of life but in a succession of scientific discoveries and inventions and in an elevation of man's sense of decency. That the nineteenth century was one of the very great creative periods in all history is not easily evident to us who take these achievements for granted. But it was evident to our great-grandfathers, who remembered what had gone before. So in justice to the older liberals we must remember, when their dithyrambs sound unduly complacent to our ears, that their eyes were fixed on the achievements of their epoch, whereas ours are fixed on the grave problems they neglected and left for us to solve.

Not only did their social science fail them as a guide to public policy because of their preoccupation with the false problem of *laissez-faire*; but they fell into a complementary fallacy which was equally destructive to the development of liberal science. Just as they had assumed that the economy of divided labor operates by natural laws outside the context of a legal system, so they also assumed that these natural laws were the laws formulated in their economic science. This is the fallacy of the classical economics which descends from David Ricardo and has permeated the outlook of successful businessmen, of conservative statesmen, and so much of the jurisprudence of the past seventy years. The fallacy, here, was subtler but none the less stultifying than that connected with the dogma of *laissez-faire*. It consisted in the drawing of tremendous practical conclusions from the first phase of an incompleting scientific inquiry.

The purpose of the inquiry, as Adam Smith defined it in 1776,⁸ was to ascertain the causes of the "improvement in the productive powers of labour, and the order, according to which its produce is naturally distributed among the different ranks and conditions of men. . . ." But in fact it was chiefly upon the second part of this programme that the attention of the classical economists after Ricardo was centred. Adam Smith, who wrote in the early days of the new industrial system, was concerned with its promise, and Malthus, who began to speculate during the French Revolution, was concerned with its disappointments; but by the time of Ricardo the new economy was triumphantly established in England. Ricardo was not concerned with the increase of wealth, for wealth was increasing and the economists did not need to worry about that. He even persuaded himself that to inquire into the causes which increase the total quantity of wealth was "vain and delusive." But the distribution of wealth was not so readily to be taken for granted. That was a problem made manifest by the social discontent in England after the Napoleonic Wars. Ricardo took this problem to be the subject matter of political economy, and set out to ascertain "the laws which determine the division of the produce of industry among the classes who concur in its formation."⁹

In separating the production of wealth from the distribution of wealth, Ricardo thought he was eliminating from economic science those things about which "no law can be laid down" and was directing it to the field where "a tolerably correct one can be laid down respecting proportions." The separation was almost certainly an error. For the amount of wealth which is

⁸ *Op. cit.*, p. 2.

⁹ In a letter to Malthus, Oct. 9, 1820, cited in Keynes, *op. cit.*, p. 4. See also Preface to *The Principles of Political Economy and Taxation* (1821 ed.): "To determine the laws which regulate this distribution is the principal problem in Political Economy."

available for distribution cannot in fact be separated from the proportions in which it is distributed. In a poor society the proportion of the national income which goes to the owners of capital will be relatively larger, though of course absolutely smaller, than in a rich society. We can see this illustrated, curiously enough, in Russia to-day, where the rate of interest, free of inheritance and income taxes, is between 7 and 8 per cent, whereas in America it is between 3 and 5 per cent; ¹⁰ moreover, in Russia the proportionate income of the poorest-paid workers to that of the so-called Stakhanovist workers is as one is to twenty, and to the directing specialists it is as much as one is to eighty or a hundred. This is a much more unequal distribution of incomes paid for producing wealth than is to be found in America,¹¹ and it arises because in a poor society the scarcity of capital, of special technical and organizing ability, will make the wages of capital and of ability relatively higher than in a country where they are more abundant.

Moreover, the proportion in which wealth is distributed must have an effect on the amount produced. Thus an unequal distribution of wealth will have different effects on production depending on whether it is a small amount, a moderate amount, or a large amount of wealth which is unequally divided. In a very poor country, the poor have such a hopelessly low standard of life that they cannot buy enough goods to make profitable the use of the capital which the rich might invest. In such a country, the rich will tend not to save but to live in profligate luxury. In a moderately rich community, the rich

¹⁰ Cf. Max Eastman's "The End of Socialism in Russia," *Harper's Magazine*, Feb. 1937.

¹¹ I am talking of interest paid on capital and of wages and salaries, and not, of course, of windfall fortunes accumulated from successful speculation in land or natural resources, from the monopolistic control of a market, whether by a great corporation or a moving-picture star, or even from pioneer enterprises, like Henry Ford's production of a cheap automobile.

will tend to save and invest capital, and to increase the national dividend. In a very rich country where the general standard of life is comfortable, the people will tend to prefer more leisure to more wealth; the returns on capital will, therefore, tend to fall because the supply is greater than the demand, and the rate at which wealth increases will tend to diminish.

This goes to show that in concentrating on the distribution of wealth the position of the classical economists after Ricardo was not even theoretically tenable. The initial error led to greater errors. In order to analyze the fictitious problem of distribution as such they had to construct an hypothetical economy. For no laws could be deduced from what William James once called the blooming buzzing confusion of the real world. The real world was a blooming buzzing confusion to the economist because the economy operated in a context of ancient habits, prejudice, usage, and law. They had to simplify the facts by supposing that all men would and could behave in certain definite ways. Thus they assumed that all labor and all capital were perfectly mobile, and, therefore, free and able to move without friction from one kind of production to another. They assumed that each laborer and capitalist knew infallibly where to move. That he knew when to move. That he was willing to move. That he had the facilities for moving. That he was not held down to a particular job by inveterate habit, to a particular place by family ties, by love of his own neighborhood, by friendships and social connections, by the ownership of a home which could not be disposed of without sacrifice. They assumed that all men are born free and equal, and have equal opportunities to develop and to use their differing native gifts. They assumed that workers and managers and entrepreneurs are capable of being highly specialized and at the same time capable of adopting a different specialty at any period in their active careers. They assumed that there were

no legal privileges, no natural monopolies, no conspiracies in restraint of trade, but only perfect and fair competition among equally intelligent, equally informed, equally placed and universally adaptable men.

In such a society all values would be "natural" values — that is to say, the wages of each laborer and superintendent and manager would be what he produced, the interest earned by each capitalist would be what his abstinence had contributed, and the profits of the entrepreneur would always approximate zero. In such a society the perfect competition of men with absolutely equal opportunities, infallible foresight, complete adaptability, and no prejudices about what they wished to do or where they wished to live would produce perfect justice. The laborer would be worthy of his hire and would always get it.

This seemed so delightful that the classical economists forgot that they had deduced from their hypothesis the conclusions which they had put into it. The subtler minds among them were, of course, aware that in the real world there were "disturbances" of one kind or another which they had left out of their science. But the general public which read Ricardo, the publicists who popularized economics, the businessmen and the politicians who read the popularizations, ignored all reservations about the "disturbances" and proudly exploited political economy as a demonstration that the existing order was the perfection of reason and justice. The economists, alas, did not protest very loudly when they found themselves promoted to the status of oracles. For it was a pleasant rôle, full of dignity and honor, and, moreover, they were profoundly confused.

For the imaginary system they had constructed was enough like the actual system to provide continual and reassuring verification for their conclusions. Thus while labor and capital were not perfectly mobile in the real world, they were much more mobile than they had been in any previous epoch of human

history. While opportunities were not equal for all men, they were much more nearly equal than they had ever been before. With the removal of caste privileges, mediæval and mercantilist restrictions, the diminution of class prejudice, opportunity was becoming more nearly equal. While competition was not perfect, it was much freer than it had been in former days under the chartered monopolies and licensed occupations. So the actual world did vaguely tend to approximate their imaginary world, and impressive evidence could be found to show that society was in fact progressing towards a higher standard of life and greater justice and enlightenment.

The best of the classical economists knew that they had constructed an hypothetical social order. But they did not appreciate the immense scientific implications or the practical consequences of the particular hypothesis they adopted. For their science was not the mere creation of a wayward fancy or an idle speculation with meaningless abstractions. Ricardo was a man of genius, and one of the marks of genius is the ability to leap over the apparent facts into hypotheses which open up fruitful inquiries. The imaginary social order of the classical economists was an act of creative imagination. It described an order in which the frictions and abuses of the actual world had been removed, in which the facilities, the adaptability, and the foresight that are actually lacking had by hypothesis been supplied. This imaginary order, let us note clearly, was not an impossible world such as a poet might construct by assuming that all labor was a pleasant exercise and that the necessities of life would be miraculously supplied. The imaginary order of the economists supposed a real world of the division of labor where men have to earn their living by the sweat of their brows. It supposed a real world in which men desire their own advantage. It was not the Garden of Eden before the curse fell upon Adam. Yet it was not the world they lived in. It was the

world they lived in drastically purged and reformed and reconstructed.

So what the political economists had conceived in their science was not a picture of the world as it is but a picture of the world as it needs to be remade. They had imagined the kind of human society in which the social problems arising from the division of labor are solved. Thus inadvertently, in the act of trying to simplify the facts in order to understand them, they had been inspired to discover the criterion by which these social problems can be truly defined and the true solutions can be indicated. By making certain assumptions they had described a just society based on the division of labor; then it followed that in the real world of injustice and maladjustment these assumptions were the proper objectives of policy. What they overlooked was that in order to imagine how the division of labor would work with perfect justice, it had been necessary to assume a reformed society of reformed individuals. It should have followed, then, that, in order to achieve the result in practice, it is necessary to make the reforms in practice.

Instead of the classical economics being an apologetic explanation of the existing order, it is, when properly understood, a searching criticism of that order. It is a theoretical measure which reveals how far short of the promise, how unadjusted to the needs of the division of the labor, is the actual society in which we live. Had the liberal economists realized this implication of their own hypothesis, they would have embarked at once upon the task of exploring the legal, psychological, and social circumstances which obstructed and perverted the actual society. They would not have left the criticism and the reform of society to those who did not understand, or were determined to abolish, the new mode of production. They would have seen that the mission of liberalism was to develop the principles by which mankind could readapt its habits and institutions to the

industrial revolution. They would have carried on the tradition that Adam Smith founded, and, like him, they would have been the critics of the status quo and the intellectual leaders of its necessary reform.

They did not do this. The liberal economists from Ricardo until recent times were obsessed by the deadly confusion that their imaginary world was not a critical introduction to research and reform but the delineation of an order to which the real world conformed approximately, and sufficiently. This error sterilized the scientific advance of liberal thought, paralyzed the practical energies of liberal statesmen, and destroyed the prestige of liberalism. So the economists were properly rebuked by Carlyle, who had his eyes on the real world, as the teachers of a Dismal Science.¹⁸

¹⁸ Thomas Carlyle, "The Nigger Question."