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ECONOMICS AND THE NEGLECTED SPIRIT OF REFORM

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Economics as a discipline and as a source of policy advice has come under sustained criticism in Australia in the last five years. However, dissent has been branded as having come from outsiders (by definition ill-informed)¹ or from groups with selfish interests. The criticism has thus had no evident impact on the profession's self-confidence, on the structures (syllabus, texts, etc.) by which future generations of economists are reproduced, or on its status within the policy-making institutions.

The current process of disarming dissent replicates a pattern that has been followed for centuries. In this long-standing intellectual and political conflict, the merits of 'free markets' have loomed large as a source of contention. Yet the detractors from the 'free market' position keep getting written out of history. It is perhaps predictable that the revolutionary analyses and politics of Marxists and anarchists should be neglected. More surprisingly, there has also been neglect of a vibrant tradition of those who wanted to harness economic reasoning to a politics of moderate social reform. Unlike the revolutionaries, these moderate reformers have perennially carved out niches within economics, even occasionally threatening to take a prominent role in the discipline. However, their ideas have been repelled and marginalised.

¹ Michael Pusey, a sociologist at the University of NSW, and his book *Economic Rationalism in Canberra* (1991), have provided a focal point of dissent. Pusey has in turn been the focal point of a virulent counter-attack by the 'economic rationalists' and their supporters.

The reasons for their neglect is a process well-documented elsewhere. In brief, this process of marginalisation has occurred partly for methodological reasons - economists like their stories simple (c/f Jones, 1994b). Partly, this process has occurred for ideological reasons (c/f Jones, 1994a). The attack on dissent (reformist as well as radical) has escalated since the end of World War II, with the permeation of cold war politics in the west, the decline in cross-fertilisation across disciplines and across countries, and the erection of a formidable network of privately-funded think tanks devoted to setting the agenda for 'respectable' economic analysis (Cockett, 1994; Wheelwright, 1994). The last fifteen years have witnessed a discipline more monolithic than at any previous period in its history (in particular, acting to truncate any continuing influence of the dissent of the early 1970s).

Variation of opinion survives within economics but it remains constrained within a narrow band. The long-time preoccupation with the formal mechanics of the 'market mechanism' has left economists neglectful of and ignorant of social processes. It has given to economists an unwarranted optimism regarding the economic bounty and social legitimacy of a model centred on presumed impersonal 'market' processes, leavened by some simple rule-bound government regulations. In general, economists now have little concept of the cultural structures or the conscious processes which have contributed within capitalist development to economic stability and social cohesion.

Moderate reformers have been concerned precisely with such structures and processes. One might call them 'theorists of stability'; however, like revolutionaries, they have also been self-conscious activists for their cause. As theorists, propagandists and activists, they have reflected and influenced the values of their age. They have been concerned to 'reform economic society in order to save it' - both from the radical right and from the radical left. In social philosophy they have typically taken a conservative or reformist liberal stance. Many of them have been motivated by religious conviction, directing their spiritual and moral concerns into social criticism. In addition, such groupings have been particularly prominent during periods of economic and social crisis.

One might not share the values of the moderate reformers; indeed one might find some of them repugnant. However, they have formed an

important part of the intellectual and political landscape. It is instructive to resurrect a sample of such dissidents to provide a contrast with the mainstream tradition and to highlight significant strands in opposition to which the mainstream tradition was constructed. These strands of reformers are considered roughly in chronological order.²

Mercantilism and Adam Smith

Foremost historically are the ideas associated with mercantilism, at large in western Europe from the 16th to the 18th century. Mercantilism (at its most coherent) was preoccupied with the simultaneous development of the nation state and of the health of the business community. National power was seen as dependent upon the twin pillars of a strong state and a strong economy.

The first Earl of Shaftesbury (1621-83) (under whom John Locke served an apprenticeship) is representative of the system-builders. So also was James Steuart (1713-1780), a contemporary of Adam Smith. Shaftesbury was keenly aware of the inevitability of the growth of commercial imperatives, but also that its attendant social structures brought instability and hardship as well as benefits. Regulations to enhance wealth were deemed necessary, but also regulations to ensure

2 Evidently, the broad tradition of 'sociology' would also have just claims to preeminence in the analysis of social stability. The present article is restricted to those groupings who have attempted to establish traditions focused on an *economic* analysis that ran contrary to those traditions that acquired the mantle of 'orthodoxy' (in turn, classical economics and neoclassical economics). Evidently, disciplinary compartmentalisation contributed to the entrenchment of an economic orthodoxy. There continued to be 'big picture' thinkers who thought *systemically* about the evolution of capitalism, but they were now cordoned off into other disciplines. Both the labels and the broad scope of analysis renders 'sociologists' like Max Weber (1864-1920) and 'anthropologists' like Karl Polanyi (1886-1964) inaccessible to the modern economist. Effectively, these people don't exist, so their analysis and opinions of economic processes is of no consequence to economists. Eventually, of course, these other social disciplines have been narrowed by the same methodological and ideological imperatives as have afflicted economics.

social order and stability. Corporative social philosophy was important - society was deemed at least as important as the individuals who make it up. Corporative philosophy was carried over from a medieval (Catholic) age and remoulded to suit new times.

"The mercantilists correctly asserted that society was an interrelated system composed of conflicting, competing, and co-operating interests; and for that reason men had consciously to manage their affairs to accommodate and balance the various parts and to advance the general welfare." (Williams, 1966:70)

The English were the most successful of the mercantilist regimes and, underpinned by naval might and the assertive pursuit of national self-interest, became the modern world's first commercial and industrial super-power.

Adam Smith (1723-90) came onto the scene in the mid-eighteenth century and found the panoply of mercantilist regulations not to his liking. Smith was engaged in a long debate with James Steuart over the nature of the British economy and its future prospects. Steuart drew his experience partly from a long residence in Europe. Smith has become famous, but Steuart has been neglected (although he was influential in nineteenth century Germany).

Smith is customarily worshipped as being the propounder of the universal and timeless merits of a system of *laissez-faire*. Several qualifications are in order.

First, Smith is too much canonised. He overstated the degree of harmony possible between private interest and public benefit. Smith's reasoning was not driven purely by experience and empirical generalisation. Rather, it was a product of the prevailing philosophy of natural law. Though natural law philosophy was formally modernistic and purportedly based on scientific appropriation of the natural world, social thought was still deeply immersed in religious conviction. The 'invisible hand', for Smith, is partly a metaphor for the beneficent hand of God.

Second, for Smith even God's wondrous ways were deemed imperfect. Smith was conscious of the continuing threat to the 'social bond' by the pursuit of commercial gain. He recommended the visible hand of the temporal government (Whig, undemocratic), supplemented by a strong acculturation process (Church and moral education) to maintain a political and moral framework to ensure the social good. So even Adam Smith was concerned with the delicate process of ensuring social order while enhancing national wealth.

Third, Smith did not support a cosmopolitan liberal position of global free trade. Smith supported Britain's colonialism and the naval might that underpinned that dominance. Indeed, it was the continuance of empire that allowed him to posit the much-admired elements of his theory - the size of the economic domain facilitated greater division of labour for productive growth, and greater economic liberties at home.

Fourth, Smith's vision was progressive for his time - he estimated that the working classes would do better from the 'trickle down' from economic growth than they would from the mercantilist regulations which controlled the wages and conditions of labour. Yet Smith did not foresee the major changes which would take place in capitalism as it took on an industrial form and became more large-scale, with the subsequent pressures for state action. If the nineteenth century saw the ascendancy of *laissez-faire* in Britain it also saw increasing efforts to counter its influence.

Developments in Germany

Meanwhile, Germany was coming from behind. The German principalities had been devastated by the Thirty Years War (1618-1648), and developed their own school of mercantilist thought, known as Cameralism, to support rapid state-led development. The development of Prussia under the Hohenzollern dynasty (notably Frederick the Great in mid-eighteenth century) was a dramatic manifestation of this process. German fragility was further exposed by the Napoleonic Wars and by widespread poverty in the 1830s and 1840s, further enhancing Prussian ambitions to hasten German economic development.

German social inquiry had partly embraced liberalism, but increasingly the Germans distinguished between liberalism's positive role as a vehicle for political reform, and its ambiguous role in economic competition. Friedrich List (1789-1846) countered that Germany wasn't ready for English economics. In his 1841 *National System of Political Economy* and in myriad journalistic pieces, List emphasised the importance of national strength for economic survival. Towards this end, he pushed for economic integration of the German states. Global free trade in an unequal world, he noted, would merely result in greater British dominance over more backward countries. List polished his ideas during residence in the United States in the late 1820s, a period of active debate on protectionism and national economic development.

Moreover, German intellectual culture was permeated with the corporative sense of community as an organic entity, by contrast with the increasingly individualist mentality of the English. Both were speculative, in spite of English self-perceptions of their empiricist modernity. Indeed, into the nineteenth century, respectable English economics became more abstract whereas German inquiry became more historical in orientation.

There developed several generations of the 'German historical School'. Representative of this tradition was Gustav von Schmoller (1838-1917). Schmoller has been treated as a curiosity because he was fiercely opposed to the abstract method of classical economics, and because his own work, as a by-product of his all-encompassing multidisciplinary orientation, was eclectic and lacked coherence.

However, Schmoller was emphatic that economic activity could only be understood in social and historical context, and that no insight could be had from analysis based on the fiction of the autonomous individual, 'economic man'. He sought to understand the specific balance of forces in German development. He was very sympathetic to mercantilist ideas and practices, because he saw the past centralisation of political authority as having been essential to German security and development.

Schmoller thus saw no incongruity in the advance of capitalist activity under the Prussian absolutist bureaucratic regime, and he sought to humanise this modern form of authoritarianism with practical reforms.

He was gifted at straddling the different worlds of academia and policy-making and was highly successful in charting measures of social reform through the Prussian bureaucracy.

Schmoller believed that raising both the material and the cultural standards of the working classes through a paternalistic social policy was necessary to inhibit socialist politics from gaining the broad loyalty of the working classes. To this end he supported measures of improved educational opportunities, regulation of working conditions, the development of cooperatives, government-organised welfare support, and so on.

One of Schmoller's contemporaries, Adolph Wagner (1835-1917), not uninfluential as a Professor of Political Economy at the University of Berlin, was even more 'radically' conservative. He supported the nationalisation of sectors that were highly concentrated, in particular, transport, utilities and banking. He also drew on his expertise in public finance to advocate an assertive redistributive tax policy.

The ideas of the Germans, both with respect to method and to social vision, were in turn taken up by the Japanese and the Americans; so there was a cross-fertilisation amongst countries that were moving into the ranks of industrial powers.

Nineteenth Century Britain

But back to Britain. Britain in the early nineteenth century witnessed the gradual dismantling of trade barriers, and the dismantling of the mercantilist welfare structures (the then 'poor laws'). The classical economics tradition had imbued the country with the notion that nothing could be done to alleviate the lot of the lower orders. It is true that individual 'classical' economists differed amongst themselves as to questions of wages, population, the contributions of machinery to unemployment, etc. Nevertheless the core values of the discipline were crudely simplified and widely disseminated through the opinions of popularisers like Jane Marcet, Harriet Martineau and Archbishop Richard Whately (Routh, 1975:Ch. 3.8), people who became famous in their own right. This public version of classical economics imposed a

dead weight on reforming initiatives (comparable to the influence of the ideas labelled 'economic rationalism' on current economic policy in Australia).

The thrust of classical economists coexisted (sometimes in the same individuals) with the utilitarianism of Jeremy Bentham (1748-1832) and his disciples, especially James Mill (1773-1836). Classical economics is typically labelled as being in support of *laissez-faire*, i.e. as favourable to state inaction. It would be more accurate to claim that classical economics favoured a state devoted to commercial liberties, which might require assertive state action towards this end. 'Benthamism' was a peculiar philosophy - on the one hand, doctrinaire (policy should be dictated purely by reference to the desirability of its consequences); on the other hand, open to interpretation. The Benthamite creed was 'the greatest happiness of the greatest number', but this creed is so amorphous as to be open to variable interpretation and application. In its early application Benthamism reinforced the class prejudices of classical economics in its contribution to such developments as the draconian 1834 Poor Law and an extensive prison system. However, Benthamism was gradually appropriated to provide support for those groups acting to circumscribe commercial liberties.

In spite of the considered opinion of the professional classes, the lot of labourers and of many skilled workers continued to be bleak, and even worsened. The transformation of agriculture and the extension of machine production generated structural unemployment. Economic crises were endemic. Factory workers laboured under appalling conditions; industrial cities were unliveable; health epidemics threatened; industrial infrastructure demanded public regulation. Radicals and the leaders of the working classes, and also conservatives with a social conscience, considered immediate political action probably more effective than waiting indefinitely for the economic 'trickle down' that had been promised by the economists from the industrial revolution.

Mid-century saw boom and rising affluence, but the 1870s saw the return of persistent crises throughout Europe. In addition to renewed imperatives for economic regulation, the political pressure for an extended franchise meant that the lower orders were also in urgent need of literacy, skills and political conditioning.

The English Historical School

In this context, England produced a number of pragmatic reformers, dissenters from the classical tradition. An 'English Historical School' flourished, including Richard Jones (1790-1855), T.E. Cliffe Leslie (1827-82), John Ingram (1823-1907), Herbert Foxwell (1849-1936), William Cunningham (1849-1919), and William Ashley (1860-1927).

Foxwell summed up the historical school's disdain for the classical tradition when he said in 1885:

"we have been suffering for a century from an acute outbreak of individualism unchecked by the old restraints and invested with almost a religious sanction by a certain soul-less school of writers. The narrowest selfishness has been recommended as public virtue."

Much of the historical school's writings were preoccupied with criticism of the *method* of classical economics - an antagonism for abstract deductive thought centred on an artificial entity called 'economic man', and a preference for detailed historical research and inductive generalisations.

Yet behind these methodological criticisms was an alternative moral philosophy and political agenda. They supported existing trends of the state to regulate economic activity (as in factory acts and public health acts). They supported Irish social and economic reform - Cliffe Leslie and Ingram were Irish, and had more personal reasons to confront the instabilities and insensitivities associated with English industrial and colonial development. They supported the legal recognition of trade unions, contrary to the antagonism of classical economics and the repression of the courts. They were also concerned with the plight, not merely of industrial workers, but of agricultural workers as well. Later in the century, some of them supported protectionism as a means of providing greater stability and order to the British economy.

The historical scholars blended with a band of individuals whose social reforming impulse came from their religious convictions. Oxford University was an important location, symbolised by Arnold Toynbee

(1852-83). An honorary member would have to be the 7th Earl of Shaftesbury (1801-85), the father of the British Factory Acts and indefatigable champion in parliament of measures of social amelioration.

Social Liberalism

Later in the century, there was formed a critical mass of opinion which aimed to humanise philosophical liberalism and appropriate its centre of gravity from its *laissez-faire* variant. A social liberalism was constructed which tried to blend the traditional liberal axiom of individual freedom based on private property rights, with communal notions of social justice and with governments taking increasing responsibility for guaranteeing that economic activity was constrained and channelled to serve the national interest.

Instrumental in the growth of social liberalism was Oxford's T.H. Green (1836-82), who borrowed from the German philosophical emphasis on community and adapted it for English values. He emphasised the moral sphere and the role of education, and the necessary role of the state in social improvement. Green was a philosopher, not an economist. However, he provided an important philosophical backdrop for specifically economic philosophies and theories that were socially-based, and which provided justification for the widening range of state activities already taking place.

Later generations, represented by L.T. Hobhouse (1864-1929) and John Hobson (1858-1940), moved more explicitly and more radically to confront the economic sphere and its regulation, advocating rural land redistribution, amelioration of urban distress, the control of the trade cycle, public ownership and welfarism. These elements coincided with the ascendancy of Lloyd George in the Liberal Party and his reforming budgets of the late 1900s.

Hobhouse, a philosopher, sociologist and anthropologist, provides an important link between the moral philosophers and the economists. Hobhouse was no arm-chair idealist. He was an active journalist and editor, and was personally involved in the politics of resolving labour-capital conflict as chairman of trade boards and as a labour arbitrator.

Importantly, he wrote an accessible book (*Liberalism*, 1911/1964) which could be viewed as a handbook for the basic tenets of 'social liberalism'.

John Hobson is probably the most important British embodiment of social liberalism. He published a huge volume of work, both through books and journalism. He made major contributions to the theory of distribution, of economic crisis and imperialism, yet he is ignored by economists.

Hobson was eclectic in his views. Unlike many dissident reformers, he was strongly committed to free trade as a principle. He was happy to contemplate public ownership but not as the automatic answer to all society's ills. He supported public ownership on occasions of natural monopoly, but also for products whose production could be routinised, in parallel with the retention of a vibrant artisan and small business community. This emphasis combined concerns for potential economic exploitation with concerns for the quality of life, manifest both in worker satisfaction and product design and diversity.

Hobson's major positive contribution was in his theory of 'underconsumption'. Hobson claimed that economic depression was caused by a deficiency of effective demand. Unlike Keynes, who later blamed deficient demand on inadequate investment, Hobson blamed it on oversaving and *overinvestment*. Investment was seen as too great for the prevailing structure of consumption, behind whose inadequacy lay the maldistribution of income and wealth. This analysis in turn led Hobson to a theory of British imperialism as providing an outlet for British investment surplus.³

Hobson also came to believe that some income was 'unearned' and was economically dysfunctional. His theories of crisis and of distribution combined to lead to proposals for income and wealth redistribution through taxation and welfare measures. Hobson's ideas were later absorbed by some American theorists of depression, and by groupings

3 Lenin's theory of imperialism as a necessary product of the stage of monopoly capitalism borrowed from Hobson. Lenin's interpretation was broader but also more mechanical. Hobson's theory of imperialism was formulated with regard to the specific character of British institutions.

within the British Labour Party and within the Australian Labor Party (notably John Curtin); and their significance was belatedly acknowledged by Keynes.

The Fabians

No less important (and further to the left) were the Fabians. The Fabians were an eclectic group of individuals with eclectic theories. They were, however, overwhelmingly and self-consciously middle class in origin and temper. If formal economic theory alone was the touchstone, they would deserve little consideration, as their theories involved selective appropriation of parts of orthodox classical and neoclassical theory. Yet they had in common a desire to harness the productive capacities of capitalism while offsetting the distributional inequities of private property. With this moral impetus, they combined great organisational commitment and capacities.⁴ The name 'Fabian' derives from their agenda of political gradualism (the playwright G.B. Shaw called it a 'resolute constitutionalism'), which they defended as the translation of 'socialist' principles appropriate to Britain's culture.

In the earlier generations, the most well-known figures were Beatrice and Sidney Webb (1858-1943, 1859-1947). The Webbs combined a massive research agenda into the conditions of industrial labour with a political program which involved legislation to ensure class harmony and the gradual development of public enterprise (beginning with 'municipal socialism') and public works to ensure economic stability and social justice. Originally the Fabians intended that their work would be politically non-partisan, but increasingly the British Labour Party was to be a key vehicle for such ambitions. World War I, in particular, cemented the links between the Fabians and the Labour Party. The Webbs' support of public ownership disclosed a pervasive optimism regarding administrative principles and bureaucratic structures, and they later wrote favourably (and uncritically) about the Soviet experiment.

4 It has been said that the Fabians' impulse to social reform was driven by a Victorian puritanical conscience, but with a jettisoning of the religious component - 'the uncoupling of guilt from faith'.

Fabianism thrived with the institutionalisation of the Labour Party but its job became more difficult with internal differences amongst the new generation. Fundamental conceptual and strategic differences existed over the use of the market mechanism and the price system. Key adherents would become Labour members of parliament (Hugh Dalton, Hugh Gaitskell), yet their formal power acted to produce an intellectual 'backtracking'.

Other adherents like G.D.H. Cole (1889-1959), an Oxford academic, was a committed socialist and on the 'left wing' of the Fabians. He wrote a massive literature in defence of planning (which had not been an issue for the Fabians before World War I), in examining experiments in capitalist planning, and in the pursuit of a democratic mechanism for socialist planning. He was also an important proponent of public works (borrowing from Hobson).

To a certain extent, Fabianism lost influence to Keynes in the 1930s and Beveridge in the 1940s. Yet the 1945 victory of the Labour Party, the subsequent nationalisation program, and the continuing concern with industrial structure as much as with demand management and welfarism, highlighted that Fabianism continued to influence reformist thought and politics in the post-war period. Fabianism, however, would be dogged by internal differences over the degree of emphasis given to managerial elites and to worker/union involvement in decision-making structures.

The 'Medievalists': Looking Backward

Orthodox economists and their detractors differed in their attitudes about what could be done to mould the economic environment but, from the late eighteenth century onwards, they were mostly agreed that dramatic social change was inevitable. Others were not so sure. A long line of individuals expressed hostility to the onset of industrialisation and urbanisation. Such individuals (in England) included William Cobbett (1763-1835), Samuel Taylor Coleridge (1772-1834), Thomas Carlyle (1795-1881), John Ruskin (1819-1900), William Morris (1834-1896), and (belatedly) Richard Tawney (1880-1962). Some of these names one will recognise from their fame in other capacities, but they were all

active participants in a public debate about the preferred form of economic system.

For such individuals, industrialisation (and even commercial activity *per se*) was responsible for profound disruptive effects on society - not merely producing impoverishment, but also the destruction of culture and what one might now call the psychological fabric of communities. Industrialisation was destroying the customs that had ruled social interaction for centuries and which had evolved only gradually. For them, social order was of supreme importance; and though order was bound up in an entrenched social hierarchy, it also involved reciprocal obligations for the mutual benefit of all layers of society. Like the socialists and communists, they condemned the profit motive for its destructive structural and moral impact, but they looked backward rather than forward - they especially looked with nostalgia upon medieval society.

One might ask, why bother with people who were preoccupied with 'looking backward'? The answer is that these people offered some of the most telling criticisms of the adverse effects of industrialisation, or more generally, or what is now called 'modernisation'. Through these criticisms they influenced the opinions of others - members of the schools of intellectual reformers as mentioned above. J.S. Mill (1806-1873), for example, modified the austere rationalism of philosophy and values that he had inherited from his father by exposure to Carlyle, Coleridge and William Wordsworth the poet.

They also influenced politics itself - in particular in providing support for groups fighting to retain some semblance of past customs within the new order, such as craft unions. In a sense, this was the politics of moving 'forward into the past'. It exerted a real impact in that 'capitalist' societies everywhere have never been pure but have carried over elements from a pre-capitalist past. This is especially important of capitalist countries that have embodied renewed 'corporative' values - countries as diverse as Germany, Japan, and England itself.

The Catholic Church

Perhaps no institution was better placed for moving 'forward into the past' than was the Roman Catholic Church. In general, analyses of crises and proposals for social stabilisation and amelioration thrived in the volatility and dramatic transformation occurring in leading capitalist countries in the late nineteenth century. This was the context for some belated but critical reflection by the Catholic Church, whose backward-looking stance since the Napoleonic Wars was being threatened by industrialisation, urbanisation, and socialist ideology and class politics. Enter Leo XIII (1810-1903) and a series of encyclicals devoted to contemporary economic and social problems. Most significant was the 1891 encyclical, *Rerum Novarum*, with a refurbished social philosophy paying significant attention to social justice.

Pope Leo condemned not merely socialist ideology but also capitalist practice. On the latter, he commented:

"Working men have been given over, isolated and defenseless, to the callousness of employers and the greed of unrestrained competition. ... And to this must be added the custom of working by contrast, and the concentration of so many branches of trade in the hands of a few individuals, so that a small number of very rich men have been able to lay upon the masses of the poor a yoke little better than slavery itself." (quoted in Fushfeld, 1990:96)

With such an assertive reconstruction of its social philosophy, the Catholic Church dragged itself into the twentieth century. In this process, the Church added its voice to those defending the role of the state in measures to offset the harshness and inegalitarian effects of the operation of the marketplace (comparable to the social reformers within the Anglican Church in England).

In Europe, there were gradually established Catholic labour unions and Catholic-associated political parties which provided an institutional base for a hearing for the Church's social vision. This was to come to fruition after World War II in Germany and Italy (though not, alas, in Spain) when Conservative governments paid particular attention to measures of

social stability with elaborate welfare structures and industry-support mechanisms (especially for small family-based businesses).

Reformists in the New World

Social Liberals and Fabians in Australia

The spirit of reform also spread to the new world - to the US and to the British 'white settler' colonies. Australia had its own 'social liberals' at the turn of the century, concerned to transcend the economic and social chaos of the 1890s with a program of moderate political and social reform. Francis Anderson (1858-1941), Alfred Deakin (1856-1919) and Henry Higgins (1851-1929) are representative of this loose grouping - representative not merely in the character of the political vision but in combining ideas with action.

Anderson was an influential academic philosopher and teacher, an Australian version of T.H. Green, whom Anderson admired. He was a key figure in the foundation of the Workers' Education Associations as institutions for the preaching of a social liberal vision.

Deakin was sometime Prime Minister and key leader of a Liberal-Labor coalition in federal parliament in the 1900s. Deakin contributed to the achievement of federation itself and, as a fervent protectionist, to moving the country away from economic and political dominance by the pastoral and financial elite. In conjunction with Labor, Deakin's party oversaw the establishment of the arbitration system (1904) and that of the old age pension (1908), the first building block of the Australian welfare state.

Higgins was Chief Judge of the federal Arbitration Court in 1907 when he brought down the deliberation of the basic wage (sometimes labelled the family wage), establishing a minimum wage for male workers. He epitomised the vision preoccupied with social stability through measures of moderate reform.

Fabianism was also imported to Australia, and counted amongst its adherents journalists and authors, public servants, clerics, academics and lawyers. The prospects of an alliance with the labour movement varied

with the social character of each colony - the less polarised the classes (South Australia and Victoria by contrast with Queensland) the greater the success. Fabianism as an articulated movement fell away as the middle-class/labour political coalition broke down towards the end of the 1900s. Individual Fabians became influential in the gamut of institutions of paternalist social reforms - for example, educational and housing reform. Fabianism was successfully re-constructed after World War II; its social vision was centred in the peculiarities of Victorian politics, but its adherents claim a major influence at the federal level on the 'Whitlamisation' of the Labor Party in personnel and policies.

American Institutionalists

It was the Americans, however, who built a robust school opposed to economic orthodoxy. The American Institutionalists admired German scholarship and borrowed German notions of organic community, adapting it to the conditions of the new world.

Thorstein Veblen (1857-1929) and, more recently, J.K. Galbraith (1908-) are perhaps the most well known of the fraternity of Institutionalists. Perhaps more representative of the tradition is John Commons (1862-1945). Commons was a plodding personality in every respect. Yet he engaged in massive research on the conditions of labour and on the legal foundations of capitalist exchange. His motif was 'collective action in control of individual action'.

Commons did sterling work for the American Progressive political movement (especially at the State government level), drafting legislation for such measures as public utility regulation, workers' compensation and unemployment support. His contribution was similar to that of the Webbs in Britain, at least in the early stages of the latter's work.

From the late nineteenth century until the 1930s the Institutionalists threatened to be the dominant school of American economics. They were instrumental in the establishment of the National Bureau of Economic Research in which Wesley Mitchell (1874-1948) was a key figure. The NBER drew on and was motivated by the experience of planning during World War I, and it performed pioneering work on

business cycles and on national accounting systems. Other Institutionalists, for example Rexford Tugwell (1891-1979) and Gardner Means (1896-1988), worked in the New Deal administration, in particular in the stabilisation of the agricultural sector.

The influence of the Institutionalists fell away during and after World War II under myriad influences - from an alternative school of reformist economics, that of Keynesianism; from reactionary cold war politics; and from a resurgent neoclassical economics, coupled with the growing status of mathematical forms of analysis.

After 1945, the Institutionalists survived on the margin of academic economics. In so far as any political impact survives it is in the 'applied' arenas of industrial organisation and of labour studies. In the sphere of industrial organisation Institutionalists have charted in great detail the rise of 'big business' in the US, and have moralised over the implications of this phenomenon for the traditional concerns of economic and political liberty. In the process, they have helped to forge a conceptual background for what the Americans call 'antitrust' policy. Yet the seemingly inevitable rise in concentration at the core of the economy, not least through perennial merger/takeover waves, has left Institutionalist reformers fighting a losing political battle and a seemingly uphill battle of ideas.

The sphere of labour has perhaps witnessed a more pronounced effect of Institutionalist thought and action. Neoclassical economics had tended to treat labour as merely another factor of production (as reflected in the orthodox sub-discipline of 'labour economics'). This analysis has been combined pragmatically with pressure from business interests against favourable political treatment for workers. By contrast, Institutionalists have always insisted that labour's human character has meant that the labour 'market' works differently to the markets for other production inputs. In their view, the wage has never been determined by an impersonal system (of 'demand and supply'), and they have documented the complex historical process by which wages have been determined and have evolved. In this respect, they have carried on the tradition of the Webbs and of Commons (c/f Ross, 1948/1985).

Institutionalists have sought to bring their knowledge and values to bear on labour-capital relations in the US (a country atypically antagonistic to the expression of labour's collective interests). To this end, they were instrumental in the creation of Institutes of Industrial Relations which have combined research, worker education, and political lobbying. The US National Labor Relations Board (a weak version of Australia's arbitration system) embodies their principles of dispute resolution through arbitration and negotiation rather than brute force. President Carter's Secretary of Labor, Ray Marshall, an Institutional labour economist, was representative of this tradition.

Keynes and Keynesianism

The 1930s produced another crisis, and of profound proportions. Each country produced its own theorists and practitioners of reform. Some countries produced more thought than action (Britain); some countries produced more action than thought (Germany, Japan); and some countries produced both (Sweden, the USA.). Britain produced the English-speaking world's most memorable reforming theorist of stability in J.M. Keynes (1883-1946).

Keynes claimed that World War I was the high point of a qualitative change in the nature of global capitalism, and of Britain in particular. Britain had for so long benefited from industrial dominance and imperial greatness that it had taken its benefits for granted - the country was now effectively run by bankers predominantly in the interests of passive ('rentier') wealth-owners.

The aftermath of the first World War showed the precariousness of the British economy and (following the unsustainable reparation demands on Germany) the precariousness of the global economy.

Keynes pragmatically reconstructed the complacent orthodox macroeconomic view of the economy as naturally tending towards stability. He placed an emphasis on productive investment as the driving force of the economy, and on its volatility. In his view, the natural tendency of the system was to instability and underemployment of resources.

Keynes as activist faced the same moral dilemmas as did previous generation of social liberals - how to ensure freedom while also ensuring stability. Stability could not be assured via application of the reigning doctrine - high interest rates, high exchange rates, budgetary austerity and wage control - which produced unemployment and instability. Keynes was both a nationalist and an internationalist; he concluded that both national governments and supranational institutions had to be used pragmatically to reflate the national and global economy simultaneously, giving private industry breathing space for necessary adjustment.

Thus there was erected a Keynesian school which formalised Keynes' analytical and political contributions which had been pragmatically developed specifically for conditions between the wars. Keynesians developed an analytical structure which could employ an enhanced macroeconomic policy apparatus in symmetric fashion to stabilise the national and global economies if threatened by recessionary or excessive boom conditions.

Keynes is the only dissenting economist to have acquired a place near the heart of the (English-language) discipline, and that for an extended period. Yet this achievement overstates the quality of his analysis which was rather narrowly conceived. Its technocratic character and amenability to pragmatic policies of a macro-financial nature ensured its popularity, especially during the favourable period of the post-World War II boom. Even Keynesianism has now been eclipsed in the textbooks of acceptable opinion.⁵

5 Keynes and Keynesianism has been a special target of the well-endowed forces of respectable opinion. Keynes offered the prospect that a 'social liberal' political agenda could be enhanced in legitimacy because given more substantial conceptual underpinnings. A group of right libertarian economists, initially centred on the Austrian Friedrich von Hayek, have had the propagation of their views facilitated by the considerable platforms afforded by copious business funding and cold war politics (Cockett, 1994; Wheelwright, 1994). This propaganda push finally came home to roost in the administrations of Thatcher and Reagan. It has contributed dramatically to the present monolithic character of the economics profession.

The Theory of 'Circular and Cumulative Causation'

Coincident with Keynes' work, there was developing the germ of an idea which has gelled into a school, clumsily labelled, of 'circular and cumulative causation'. The Swede Gunnar Myrdal (1989-1990) and the Cambridge-based Hungarian-born Nicholas Kaldor (1908-1988) are two of its best known adherents. There are also hints of the idea in Adam Smith.

In this view, economic activity can only be understood as an organic process - the components of the whole are seen as inevitably inter-related, and not merely in an impersonal detached sense as implied in mainstream macroeconomics.

The preoccupation is with the degree of symbiosis and coherence between the component parts. With the system in inevitable movement, a tendency towards stability is less likely than either integrative growth or disintegration. The outcome is amenable to deliberate political action to generate the institutional coherence conducive to integrative growth.

This school has had most recognition for its analysis of underdevelopment in the 'third world'. Yet it is arguable that it is the first world that most demonstrates the plausibility of the approach. The Kaldor version places particular emphasis on the integrative significance of manufacturing industry, and the capital goods sector in particular.

Manufacturing industry generates sector-wide cost economies that are a product not strictly of scale but of a continuing division of labour through process specialisation. For example, the post-World War II realisation by the Japanese that a viable automotive industry could exist only in parallel with a viable machine tools industry illustrates the merit of this approach.

Other proponents see the integrative process as involving more than technical factors, and including political and social factors. Integrative growth generates a more democratic polity, higher educational standards, and so on. Integrative growth is not merely a process of material enhancement but is a civilising influence as well.

Gunnar Myrdal put such ideas into practice as an active Social Democratic member of parliament in Sweden, and as a key administrator in Third World programs for the United Nations in the post-World War II period.

The Results of Neglect

The last several hundred years has consistently produced a range of economists and economic thinkers who have held views contrary to those of the orthodox traditions of classical and neoclassical economics. Many have merged reformist politics with an analysis to support their values. The typical education of the modern economist involves little consideration of these people (save for a jaundiced treatment of Keynes). Some authors who can't be ignored, like Adam Smith, continue to be interpreted selectively.

Many of the dissident thinkers discussed above developed economic theories which were partial and scrappy. This has provided a convenient excuse for neglect. Yet socio-economic processes are themselves complex. The economists and other social thinkers who have had their 'feet on the ground' have inevitably constructed more fragmented analyses and they have committed themselves to working towards tangible solutions.

Economists acknowledge the existence of historically-constructed stabilisation processes, yet they typically interpret them as politically-derived mistakes, and in a process of inevitable decay. Lacking adequate understanding of their origins, institutions of stabilisation and regulation are seen by economists as typically disruptive and corruptible (compare economists' attitude to the long-standing Australian tariff regime or to post-World War II financial regulation).

The influential economics profession provides significant mediation in the endless political battle over economic strategies. This mediation has produced an intellectual imbalance, now structurally entrenched. The politics of the libertarian right are assured support through channels both active (explicit ideological underpinnings) and passive (a preoccupation of economists with analytical simplicities). Alternative political agendas

are inhibited, although not obliterated. When such agendas do get up via a modicum of pluralism in the political process, they are subject to perennial disarticulation through the channels of influence of the libertarian right.

By contrast, reformers see policies for stabilisation and regulation not merely as desirable but as inevitable. Societies (including the business community itself) will not tolerate the anarchy of unregulated commercial activity. When one set of stabilisation measures breaks down, a new set will ultimately have to be formulated and constructed. Measures of economic and social stabilisation have to be on the policy agenda, whether one likes it or not.

The politics of stabilisation continues apace, but in a headless fashion because the precedents have been obliterated from the collective memory. For that reason, it is instructive to exhume the 'theorists of stability' from the unread books on library shelves. Their historically-specific concerns may no longer be directly relevant, but their moral concerns and mode of reasoning are still on the political agenda.

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UP AGAINST IT

CAPITAL TO LABOUR: *'You may succeed in knocking me out, but don't forget that then you'll have to fight a champion that no one can stand up against.'*

Bernard Partridge *Punch* 13 April 1921

ASPECTS OF THE FREE TRADE/TARIFF DEBATE IN VICTORIA 1857-1881

Frank Cain

The debate on free trade versus protection is a recurring one in Australian history and is most marked in times of economic depression. All the Australian States engaged in internal debates after they established responsible government in the mid-1850s and in New South Wales opinion fractured into two political parties represented by the Protectionist's Party and the Free Trade Party. The debate flared again at the time of Federation which was accompanied by the after-shock of the 1890s depression and witnessed the new Commonwealth opting for protection. The years following the First World War saw a further expansion in the level of tariffs in order to protect the employment and capital invested in the import replacement industries established during the war. The necessity to harbour Australia's sterling balances in London led to the raising of tariffs during the Great Depression as a means of stemming the import of British-made goods. The range of tariff items was further expanded after the Second World War as Australia strove to establish an industrial manufacturing base. It was this, together with the economic growth associated with the Cold War, which largely led to the high level of affluence enjoyed by most Australians in the last 40 years.

The abandonment of the tariff on imports during recent decades has contributed significantly to falling government revenues and rising unemployment as local manufacturing firms closed or moved off-shore to exploit the cheaper labour. Concurrently there has been the abandonment of the post-war concept of full employment. This curious reversal of a national economic policy that has been widely accepted for