



Edited by
Thomas Hoerber · Alain Anquetil

Economic Theory and Globalization

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Foreword

The financial crisis of 2008 has triggered a searching debate over the nature of globalization—the relationship between gainers and losers, between national sovereignty and internationalism. Branco Milanovic’s “elephant curve” has shown that two groups in society have gained—the emerging middle class in China and Asia (at the top of the elephant’s body) and the plutocracy in the west (at the top of the uplifted trunk), with losers in the lower middle and working class in the developed countries (at the dip of the trunk). Although the losers in the west remain better off than their counterparts in the emerging markets, their experience of relative decline or stagnation has provoked a populist backlash. At the same time, neoliberalism promoted financial globalization and wilfully imposed austerity alongside bailing out the financial elite whose actions caused the crisis. It is a form of hyper-globalization that departed from the embedded liberalism of the post-war order. Then, Keynes and many economists who emerged from the economic section of the League of Nations rejected both the dominance of national policy by adherence to the gold standard that led to deflation and hardship for workers, and the economic nationalism of the

1930s that led to trade and currency wars. They wanted a form of “thin” multilateralism embedded in international organizations that allowed a balance between internationalism and domestic welfare by controlling international capital flows, and subordinating finance to production. Now, the impact of the global financial crisis and the populist turn of the losers of hyper-globalization, are leading to renewed interest in those earlier economists.

A number of recent books have looked back to earlier writers as a counter to neoliberalism—whether it be the “Chicago plan” of Irving Fisher that proposed 100% backing of bank deposits by central bank money to remove the power of commercial bankers to create money, or Keynes’s argument in favour of capital controls, or demands to control rent-seeking firms and natural monopolies that so worried John Stuart Mill. And surely Burke’s point that “society is but a contract between the dead, the living and those yet to be born” has resonance at a time of protests about climate change. Economists grapple with the discount rate to be applied to our current use of the environment, and whether future generations can be allowed to bear the costs or whether that will lead to extinction.

The history of economic thought provides access to a wider repertoire of ideas that were of their time but also tools for thinking about the present. The recent study of the Nobel Prize in economics by Avner Offer and Gabriel Soderberg has shown how its award validated a particular approach and contributed to undermining a different, social democratic view of the subject. By providing a wider vision of economics, this collection of essays provides students with a much-needed sense of perspective.

Economic thinking on globalization has undergone massive changes in the past, from the zero-sum mercantilism of the seventeenth and eighteenth century rejected by Adam Smith to the open markets of Richard Cobden, and back to trade warfare of economic blocs. Keynes himself moved from one position to the other, campaigning for free trade before the First World War but advocating insular capitalism to protect domestic welfare in the 1930s, before returning to a balanced form of globalization during the debates of the Second World War.

These issues are once again to the fore, and an awareness of the rich debates of the past will only help us to grapple with the present and future. This book answers these questions in a lively and informed way.

Cambridge, UK

Martin Daunton

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Introduction

Thomas Hoerber and Alain Anquetil

Methodological Groundwork

Each chapter sets an economic theory and its creator's key ideas and concepts in both a historical and a biographical context, as much as is necessary to enable the reader to understand the environment in which the economic theory was conceived. Great ideas have often been inspired by their immediate surroundings, as in the case of Adam Smith, who interacted with merchants and had thus gained a practical knowledge of the economy. These ideas, by their nature, have also tended to question established wisdom and sought to reframe the parameters of the discipline(s) to which they contributed. Therefore, this book can be read as a conversation about

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the nature of economics, about the process of exploring and defining its limits.

The impact and reputations of economic theories—degrees of refutation or acceptance—change over time. They are reinterpreted and made to perform different tasks in the realms of academia and politics more generally. This book will attempt to fit established economic theories into the relatively new phenomenon of globalization. Each of the chapters endeavours to shed light on our era of globalization by using the theories developed by the thinkers presented here [and in reference to the title of this book: *Economic Theory and Globalization*]. One can surely do justice to the creator of an economic theory in his or her historical context while also considering the “application” of the theory to our time of globalization. This may indeed be seen as giving relevance to the theory, today.

As editors, we have not found it easy to decide which theories—and which thinkers—to include in this volume. In the end, we made the choice according to our own knowledge and estimate of the actual importance of the economic theory. Schools of economic thought and their creators often served as focal points. Evidently, we might have chosen other schools of economic thought and their representatives, e.g. Amartya Sen or Milton Friedman, to name only two very prominent ones. The choice we made is based not so much on the importance (however assessed) of an economic theory, but on the experience of the editors and the authors as teachers. The economic theories which feature in this book have been found striking, important and instructive to students whom we have taught over more than a decade in the course named “Economic Theory and Globalization.” This course has been offered in various shapes and forms at the ESSCA School of Management. It has featured those economic theories now treated by the authors in this book, selected as being the most worthwhile for our students. The book is therefore not primarily an original contribution to the academic discourse on a particular economic theory. It is written to appeal to students, seeking to give them easy access and a good understanding of important economic theories. It also aims to bring home to them the extent to which economics influences and is influenced by other fields of thought, including philosophy, sociology, political science, and psychology. And we could add that the book also has a cultural

as well as an educational objective: that of inspiring in busy students a desire to actually read the works of the authors presented.

This work is firstly addressed to undergraduates and graduate students or generally educated adults who are looking for a first access to an economic theory. This is hopefully a liberating experience, but it is not without its pitfalls. Accessibility means that much of what may normally be fit for fellow specialists has had to be omitted. But we do believe that this lighter approach to economic theories could well actually produce original academic insights, which the authors of each chapter will present, beyond a mere summary of the economic theories each chapter will furnish. This will happen through cutting back an academic discourse in economics which has in places become incomprehensible for everyone except an expert audience. We argue that the production of expert knowledge only has never been the nature of economics. Great economic theories have provided a narrative of how society should work in all its aspects, as captured in moral philosophy, for example. To pose once again these questions on what a just economic system should provide for the individual, for society, and for the state will reorientate economic theory towards a new usefulness for society.¹

Ideally, the driving ideas of an economic theory will be explained by reference to historical and biographical examples which show, for instance, the criticism a particular theory made of its own contemporary environment, or indeed, the explanation of it, such as by Marx, who deplored the poverty and deprivation that was the dark side of Manchester capitalism, or Adam Smith explaining the origin and function of specialization in modern society. The relevance of historical theories is highlighted, secondly, by applying their historical lessons to our current time, even if the authors apply a theory to the contemporary world in a necessarily limited way. This will address the fundamental question whether economic theories can be safely left to gather dust on a shelf without having any impact on us, or whether the classic economic ideas still have something to contribute to the great quest for a fairer society in its many interpretations, or may even contribute to serious thought in the fields of moral philosophy and political philosophy in the twenty-first century.

Research Questions

The following research questions will run through all the chapters in this book. Although they will not all be answered in each chapter, they underlie nevertheless the basic tenant of each chapter.

- At what point or points does the economic theory considered a break out of its constrictive cage of pure economics?
- What is the relevance for society of economics, and where does this field of thought become sociology or philosophy?
- When, and to what extent, should economics interact with philosophy and other social sciences?
- Was your favourite economic theory actually conceived as economic theory?
- Did it criticize the *management* of the economy or its fundamental structures?
- Can economics as a discipline be self-sufficient in the eyes of the school of economic thought considered, or does it need to interact with other disciplines?
- Why has the economic theory apparently become so important?
- How were these various writings received at the time? How have they fared over the years in terms of popularity, actual implementation and success in the field?
- What is the relevance of the theory today?
- If we want to understand any given theory, what should we read first?

The framework of this book will be provided by the editors “book-ending” the “operational” chapters with an Introduction and a Conclusion. Particularly the Conclusion will make the connection to globalization as indicated by the title of the book.

Preliminary Definition of Two Key Concepts

In this Introduction, we provide a preliminary definition of key terms, which can serve as a working basis for further interpretation in the chapters.

In order to produce a fresh approach to economic theory, we will not base this definition explicitly on any previous literature. Rather, we propose a definition of our own, not least in order to avoid taking sides, which may block progress to further insights or at least easy access to the economic theories which we would like to present.

Economic Theory

Economic theories have usually been based on observations of the real world. They describe needs, production, later economic exchanges and deduce rules as to how human society has worked. The economy is usually understood as one constituent element of society, with varying importance for the proper functioning of the whole, depending on the respective theory.

Economic theories often assume an ideal proto-society. The internal balance of this society is deemed to have been upset at some point in its history, leading to shortcomings or indeed new solutions to restore equilibrium.

Economic theories are always the children of their times. Rather than seeing this proto-society as the ideal, the theories define themselves in opposition to an outdated form of societal functioning. Therefore, they often provide a narrative as to how we can achieve a better world. At the very least, they suggest some remedies to the wrongs then besetting communities.

Globalization

Globalization is the process whereby the world, and therefore humankind organized in its different societies, has grown closer together. The reference point for globalization has always been previous stages of human development, where interconnection and interdependence were not as developed as they are today, e.g. the nation state or more primitive forms of human society. Therefore, winners and losers of the process are often identified by contrast with previous societal orders.

These comparisons often make reference to the same ideal proto-society, which is in most cases fictional. Particularly in economic theory, such comparisons are based on a rationale of economic efficacy and efficiency of the overall economic system.

However, this is also the point where economic theory becomes social theory, because just as in the tentative definition of economic theory above, such comparisons are no longer about figures denominating winners and losers of globalization, but really about a moral judgement as to which is the better or the worse economic system. The reasons for the respective moral judgement will be outlined in each chapter.

Synopsis of the Chapters

***The Social Liberalism of John Stuart Mill,* by Alain Anquetil**

If a short list of keywords had to be proposed in order to explain why John Stuart Mill (1806–1873) is ranked as a great liberal thinker, it would certainly include *utility*, *liberty*, and *equality*. The chapter will deal with these concepts as they express Mill's view of liberalism, which lies between classical liberalism and a social, if not socialist, vision, calling for significant intervention of the state.

Mill goes beyond the classical doctrine of utility proposed by Jeremy Bentham. In Mill's view, happiness cannot be reduced to quantities of pleasure, especially since there are widely different *qualities* of pleasure. Moreover, an individual's happiness intrinsically depends to no small extent upon his or her character and individuality. But as utilitarianism aims at the general happiness, Mill has to explain—and this is what he does in *Utilitarianism* (1863)—how to reconcile individual and general levels.

Mill's account of liberty as the absence of interference from others has always exerted a great influence on political and economic liberalism and on Western democratic societies. Mill links freedom with the development of individuality. Such a position implies a defence of pluralism, which refers to the multiplicity of ways of living. It also implies tolerance towards the personal choices of others with regard to behaviour and lifestyle.

Mill was a proponent of democratic equality and was concerned with social and political inequalities, but he was not opposed to inequality as a matter of principle. For example, he argued that the capitalist must be compensated because “he embarks in business on his own account” (*Of Profits*, 1848). However, in *The subjection of women* (1869), Mill demanded “perfect equality” between men and women. Equality also appears in the context of the conflict between Mill’s principles of liberty and utility.

Although the social, political and economic conditions of our time are far from the conditions which influenced Mill’s thought, many insights can be derived from the study of his arguments. This applies, in particular, to the relationships between utility, liberty and equality. Their conflicts are inevitable, but through such conflicts they reveal an important democratic ideal, which is one of the hallmarks of liberalism: the constant search for compromise through a democratic process of deliberation.

***Karl Marx’s Communism and Critique of Capital*, by Paul Prew**

As an essential author whose insights influence much of the thought on globalization, Karl Marx provided substantial conceptual underpinning for a wide range of global theoretical perspectives such as the *dependistas* (the supporters of the dependency theory relating to development²) and world-systems perspective. This chapter will highlight Marx’s foundational ideas, helpful to understanding the contemporary global economy. By combining Marx’s biographical context with a clear discussion of his ideas, readers will become acquainted with his core concepts, such as the working day, accumulation, and alienation. Readers will also learn how concepts like primitive accumulation are related to more contemporary ideas such as world-systems’ incorporation. The chapter is designed to help readers make sense of contemporary social events, notably revolutionary movements rooted in socialist principles. By discussing Marx’s thoughts on revolutionary activity, readers will be able to connect Marx’s insights on social conditions to contemporary social movements. Readers will learn how Marx’s analysis of the 1848 French revolution necessitates a more complex understanding of the outcome of revolutionary activity.

The chapter is a concise, accessible introduction to Marx's fundamental concepts related to globalization.

***Edmund Burke's Liberalism*, by Thomas Hoerber**

Edmund Burke may be considered as a second rank thinker in comparison with contemporaries, such as Adam Smith and J. S. Mill, who did so much to shape the history of liberal economic thought. Burke was more of an amateur, but in the positive and particular British sense of the word. An amateur of politics (*Reflections on the French Revolution*), an amateur of agriculture (*Thoughts on Scarcity*), an amateur of philosophy (*Sublime and Beautiful*), and an amateur of economics, which he saw mainly as the pursuit of economic activity for the well-being of society, exercised in his own role as a farmer, as he liked to portray himself. Not being a master of any of these disciplines sometimes meant that he could give only incomplete answers on a particular topic, such as the eminently economic topic of scarcity, only to find that other disciplines were necessary to understand better the importance of the topic, e.g. the impact of scarcity on society and human behaviour, or the pressure the scarcity of corn could produce on the politics of his time. Burke was therefore someone who, with this very British practicality, looked for understanding to find solutions for real problems. That may be the reason why he never produced a comprehensive theory, but contributed, nevertheless, substantially to the development of liberal thought; in economics, as a farmer and keen observer of the market; in politics, as Member of Parliament and political advisor to Government; and philosophically in his explanations of human nature.

This chapter will show Burke's work as offering a comprehensive understanding of eighteenth-century English society drawn from the practice of his own life. Being a farmer, a politician and a philosopher may well be seen as an image of the ideal society, which Burke saw in his own country. Do these lessons of a liberal society still ring true today in our time of globalization? The analysis of Burke's work in this chapter will hopefully provide an answer to this question.

The Free Liberalism of Adam Smith, by Alain Anquetil

There is no doubt that Adam Smith is a great economic thinker. To this day, he is often quoted, especially in the media; his famous “invisible hand” has passed into ordinary language; and he is often called upon to help us understand our globalized world. Because of this celebrity, many feel that they know most of his thoughts without having read his works. Is he not the prototype of the thinker of the liberal economy and capitalism, those great ideas or ideologies that perhaps best characterize our social and economic world? And wouldn't our globalized world be “Smithian?” If that were the case, observing how this world works would provide us with empirical information about Smith's vision of the economy. The following maxim, which summarizes the founding principles of the World Trade Organization: “to open trade for the benefit of all,”³ would seem to contain all his thoughts in a few words.

But it is not that simple. To argue that our world reflects Smith's thinking is a hazardous, if not actually fallacious, induction. He is not easily categorized. Perhaps he is not even a liberal thinker at all, despite his rejection of mercantilism (an economic system that assigns the state a key role) and his celebrated theory of the invisible hand (a form of *laissez-faire*). Here are four illustrations of the difficulty of clearly classifying Smith in a particular school of thought. Firstly, while he defends an economic and social system based on “natural liberty,” he is wary of private interests. According to him, their logic may run counter to the general interest, and state intervention is necessary to offset the effects of their selfishness. Secondly, Smith provides a naturalistic explanation for the division of labour (another of his major concepts), based on the propensity of human beings to exchange. But he warns against its consequences on the intellectual and moral development of workers subjected to repetitive tasks. Thirdly, he underlines the benefits, for the general interest, of the search by economic actors for their own private interest. But he does not rely on selfish motivations to explain the origin and mechanisms of human sociability. Finally, if Smith is said to have been one of the first great economists (he is consistently ranked among the ten most influential economists of all time), he was also a great moral philosopher, a thinker influenced by the spirit of

the Enlightenment who made “sympathy,” a non-economic notion, the key concept to explain human sociability.

The chapter seeks to unravel the complexity of his thinking but also to highlight the coherence of his theoretical system.

Economic Cycles by Josef Schumpeter, by Assen Slim

If, alongside Keynes, there is one economist of the twentieth century whose name still resonates today, it is surely Joseph Alois Schumpeter. Given the profusion of articles and books quoting his name, it seems that researchers and analysts have rediscovered Schumpeter and his work. Throughout his life, this thinker always assigned a special place to economic theory, the aim of which, he believed, was to deal with what he called “the economic mechanisms.” This chapter explores the mechanisms Schumpeter dealt with. First, a brief introduction to his theory of business cycles is presented. As we shall see, “innovations,” producing “clusters,” will disturb whatever equilibrium exists and are responsible for three different kinds of cycles, which develop simultaneously. Secondly, the Schumpeterian vision of capitalism, seen as a dialectically unfolding process (in the same tradition as Karl Marx, Werner Sombart and Max Weber) is discussed. Finally, Schumpeter’s *œuvre* may have a vital relevance to help us explain emerging issues such as: globalization, the sharing economy, peer-to-peer free economy, and even cryptocurrencies.

The Bancor and International Trade Possibilities of John Maynard Keynes, by David Rees

If we accept that John Maynard Keynes stands on the podium of the three best-known economists of all time, along with Adam Smith and Karl Marx, then we might find it surprising that both Keynes and Marx considered themselves philosophers rather than economists, and that the word economist didn’t even exist when Adam Smith came to fame with *The Wealth of Nations*. Perhaps all economists should be philosophers first, for how else can they position the purpose of economics with its ethical and moral implications when applied to society? There are also very few

economists who have been so deeply involved in practising their calling in the real world. Marx watched communist societies rise in rebellion against “bourgeois” government, but he was always working outside the state, whereas Keynes worked closely with and strongly influenced statesmen who, for good or ill, negotiated major changes in the world in which he lived (Versailles Peace Treaty, Bretton Woods, etc.). Keynes did not simply elaborate an economic theory and see it applied, often with great success, in political and economic policy around the world—he was regularly on the stage—in the heat of political and economic struggle. This meant that sitting in an ivory tower of theoretical contemplation was out of the question. He was constantly taken up in major international negotiations—negotiations which were of the utmost importance in shaping his and our world.

This chapter will look at economic solutions, such as the Bancor and an International Clearing Unit for world trade, which Keynes proposed at Bretton Woods in 1944. It will finally look at whether we are currently seeing a revival of a Keynesian paradigm that could provide a solution to the current economic, societal, and political problems in a globalized world: structural problems that were brought to a head by the subprime housing crisis of 2008.

***The Roots of Neo-liberalism in Friedrich von Hayek,* by Thomas Hoerber**

This chapter attempts an in-depth re-evaluation of Friedrich Hayek’s *The Road to Serfdom*—and only this, against the background of our present time. It explains the historical context in which the book was written and attempts to come to a conclusion as to whether lessons can be drawn for current economic and political phenomena such as the financial crisis, globalization and European integration, in particular.

Hayek was one of the great thinkers of liberal economics in the twentieth century. He based his own perceptions on the findings of his predecessors, such as Adam Smith, and turned them into a new understanding of society, which went well beyond a description of domestic economies, destructive competition among which was seen by left-wing circles as one of the rea-

sons for World War II. Hayek certainly did not share this critique of liberal economics, but his main contribution in *The Road to Serfdom* may well be seen as taking national liberal economics to the brink of understanding that there must be a world beyond little-country economics. A political or economic understanding must be forged at international level. *The Road to Serfdom* was written before the creation of the United Nations and the European Communities, but apart from criticizing economic planning, which he saw as leading to totalitarian dictatorship in World War II, he also offered the liberals of the mid-twentieth century economically and politically something beyond the nation state.

Are there still totalitarian risks today? Have international organizations served their purpose or is liberalism still a theory which holds potential for the future in the twenty-first century? Is neo-liberalism, of which Hayek became the creator, no longer useful for future generations? These are the questions this chapter will address.

***Elinor Ostrom or the Revolution of the Commons,* by Fanny Verrax**

The first and still the only woman ever to receive the Nobel Prize for Economics, in 2009, Elinor Ostrom (1933–2012) has developed interdisciplinary and innovative theoretical models to tackle the issue of sustainable resource management and what has been called “the tragedy of the commons” (Hardin 1968). This chapter proposes an overview of the various economic models that existed before Ostrom’s work and that she helped to challenge with many case studies and substantial fieldworks. Three theoretical insights which we owe to Ostrom are then examined: i.e. a revisited definition of the commons; design principles for successful common pool resources management; and a multilevel analysis of institutional change. The conclusion finally outlines some of the main criticisms that have emerged in recent years contesting Ostrom’s work.

The Ecological Economy of Georgescu Roegen, **by Gabriel Weber, Ignazio Cabras**

“The destiny of the human species is to choose a truly great but brief, not a long and dull career” (Georgescu-Roegen 1971: 304).

Ecological economics is an alternative school of economic thought. In comparison to environmental economics, which is mainstream economic analysis of the environment, it treats the economy as a subsystem of the ecosystem and lays emphasis on preserving natural capital (van den Bergh 2001). “Ecological critics of economics have argued for over hundred years that economists should study the flow of energy and materials in the economy. The services nature offers to the human economy cannot be adequately valued in the accounting system of neoclassical environmental and resource economics” (Martinez-Alier 1997: 117). However as Martinez-Alier (1997) points out, ecological economics does not only criticize. The Romanian American economist Nicholas Georgescu-Roegen (1906–1994) provided ecological economics with a modern conceptual framework based on the material and energy flows of economic production and consumption. The concept of entropy (Georgescu-Roegen 1971) draws on thermodynamics, in comparison with neoclassical economics, which relies on Newtonian physics. More specifically it applies the second law of thermodynamics, i.e. that usable “free energy” tends to disperse or become lost in the form of “bound energy,” governs economic processes. This concept had a major impact and was promoted by many—most notably by his student and foundational ecological economist, Herman E. Daly (1992, 1995, 1999). Another student of Georgescu-Roegen, Kozo Mayumi, extended his theories on entropy in the study of energy analysis (2002).

However, despite his influence as a key intellectual and founder of ecological economics, his work is little prized by mainstream economists (Zamagni 2008). Herman Daly has asked “how long can neoclassical economics ignore the contributions of Georgescu-Roegen?” (1999: 1)

The chapter in this book is an attempt to place Georgescu-Roegen’s work where it belongs, i.e. within both economic history and mainstream economic thought. Considering the background of ongoing environmental and economic crises, we revisit core ideas that go far beyond the entropy

law. The chapter also reflects Georgescu-Roegen's ideas on the recently reinforced movement and academic debate on "degrowth" (Georgescu-Roegen 1979). It shows his life and his career as the context in which he endeavoured "to reformulate economic process as 'bioeconomics,' a new style of dialectical economic thought" (Mayumi 2001: 1). In doing that, the chapter will show that he was a considerable economic thinker working well ahead of his time.

Conclusion, by Thomas Hoerber, Alain Anquetil

The Conclusion, principally, and the Introduction, will make the connection to Economic Theory and Globalization as indicated in the title of the book. The preliminary definitions of both concepts will become more refined in the Conclusion, based on the findings of the individual chapters.

Outlook

In this book we consider a number of schools of economic thought. The selection which we have made offers a general overview of the dominant theories, notably various strands of liberalism, Keynesianism and Communism. It adds other theories in part because they have been under-represented and are felt by the editors to have an important contribution to make, nevertheless, particularly ecological economics. The question of which theories should be selected will always remain disputed and cannot be resolved to everyone's satisfaction. Therefore, the choice of schools considered in this book is personally that of the editors, but will of course be justified in the relevant chapter and thereafter in the Conclusion.

We shall end this Introduction with two final remarks before yielding the floor to the contributors. Firstly, the reader will very quickly notice that none of the authors presented in this book can be labelled as solely a pure economist. This is because they have in common the fact that their thinking does not assume that the economy is a *separate domain from social life*. Thus, besides their interest in the economy, Adam Smith was

a moral philosopher and his *Wealth of Nations* was to be part of a comprehensive project on jurisprudence; Edmund Burke is known to have been one of the eighteenth-century political scientists; John Stuart Mill had many intellectual interests, including logic and moral and political philosophy; Karl Marx was of course also a social philosopher; John Maynard Keynes was involved in the philosophical and cultural life of his time, e.g. the Bloomsbury group, particularly in the philosophy of probability, and his work overlaps with the domain of political philosophy; Josef Schumpeter is the author of *Capitalism, Socialism and Democracy* (1942); Friedrich Hayek taught philosophy and is considered both an economist and a social philosopher; Nicolas Georgescu-Roegen, known as an “unconventional thinker,” counts in modern ecological thinking; and Elinor Ostrom’s approach was multidisciplinary, with a particular interest in political science.

Secondly, these thinkers are not only protagonists of a given school of economic thought. They are also *figures*. Let us take the example of Adam Smith. He is a figure because his ideas have been, and are always, *morally interpreted*, i.e. *incorporated* into moral narratives. Adam Smith is thus a figure of economic thought, because his thought makes connections between different modes of thinking, between different planes of the reality of human life. Beyond economy, Adam Smith is interested in the existence of human society and its workings, e.g. in the idea of man and his psychology, or the phenomena of emergence and self-organization. Moreover, he opens doors and leaves them open. He lets his reader see without always explaining his views in detail. This is how his famous concept of the “invisible hand” operates, only if it is taken seriously, of course—this discussion will be held in the chapter. Like other concepts presented in this book, the invisible hand is nowadays invoked and discussed in the complex world of globalization. This work on and of ideas, the appropriation that is made of them in today’s world, is one of the dimensions of this book. We hope that it will catch the interest of the reader and stimulate their curiosity.

Notes

1. For a more in-depth explanation, see T. Hoerber (2017), *Hayek vs. Keynes*, Reaktion Books, London.
2. See for example Jorge Larrain, who writes that “the new theories of dependence are sceptical about the liberating role of national bourgeoisies and propose that the processes of industrialization in the third world are the vehicle of imperialistic penetration and of a new kind of dependence on transnational companies” (1989: 14).
3. “The World Trade Organization – the WTO – is the international organization whose primary purpose is to open trade for the benefit of all.” URL: https://www.wto.org/english/thewto_e/whatis_e/wto_dg_stat_e.htm.

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The Social Liberalism of John Stuart Mill

Alain Anquetil

If a short list of keywords had to be proposed in order to explain why John Stuart Mill (1806–1873) was a great liberal thinker, it would certainly include *utility*, *liberty*, and *equality*. These concepts express his view of liberalism, which lies between classical liberalism and a social, if not socialist, vision, calling for a significant intervention of the state. Apart from his insights in many domains of the individual, economic, social, and political life, Mill's specific position in the history of liberalism justifies to devote particular attention to his work.

Mill is well known for his defense of the principle of utility, in the wake of the work of James Mill (1773–1836), his father, and Jeremy Bentham (1748–1832), a friend of his father, who both shaped John Stuart's education. Mill propounds a more personal version of this principle in *Utilitarianism*, published in 1863, where he distinguishes between inferior and higher pleasures, defines happiness and connects the principle of utility with the development of higher faculties of mind and self-realization or, as Mill says, "the cultivation of nobleness of character" (CW X: 214).¹

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Liberty gives its name to another famous book published in 1859, *On Liberty*, which has been influenced by Mill's wife, Harriet Taylor (1807–1858). The importance of individual liberty within society, especially the “very simple principle” (CW XVIII: 223), as he calls it, that everyone should be free provided that no harm is done to other people (the “harm principle,” which is not an expression due to Mill), has become a seminal text for liberal thinkers.

Harriet Taylor is also said to have strongly influenced at least some parts of the *Principles of Political Economy* (although the depth of her influence is controversial). Published in 1848, the first version, which became immediately popular—“It was, from the first, continually cited and referred to as an authority,” Mill says in his *Autobiography* (CW I: 243)—was originally dedicated to Harriet, who was married at the time—Mill met her in 1830 and they were involved in a close but platonic relationship until the death of her husband in 1849. Although Mill is considered as a classical economist, classified in the same category as Smith, Ricardo, Malthus or Say, he was sympathetic to socialist ideas. He did not adhere to the abolition of property rights or to the Marxist dictatorship of the proletariat, but he defended, jointly with his wife and especially in the second version of the *Principles*, published in 1849, the importance of achieving social justice and, to this end, the necessary intervention of the state, for example in the economy and in the field of education. This is one reason why *equality* can be viewed as a third keyword in the list, all the more so as it appears, in *The subjection of women* (1869)—another text influenced by Harriet—in the form of a claim for a “perfect equality” between men and women.

A lot has been written about Mill's views. The reader will have no difficulty in finding descriptions, explanations, and analyses. Not only have Mill's claims largely been dissected and subjected to critical scrutiny, but their coherence has also been questioned. This was the case with regard to the effects of the evolution of Mill's thought, for example between the successive versions of the *Principles of Political Economy*,² the nature of his liberalism, the importance he gives to the foundation of a “religion of humanity” (CW X: 328), separated from Christianity,³ or the relationships between his view of utilitarianism and his doctrine of liberty.

Central to the present chapter are both the liberal socialist perspective which has been defended by Mill and the idea that this original perspective may be enlightened by utility, liberty and equality.⁴ Mill does not propose a comprehensive political, social, and moral theory based upon this triad of concepts, nor does he present complete arguments to solve the potential conflicts between them. But utility, liberty and equality, taken together, provide direct (and suggestive) insights into Mill's thought and help to explain why Mill can be considered, even with our modern eyes, as a great liberal thinker.

This is the case in the economic realm. Admittedly, utility, liberty and equality do not exclusively belong to economy, but Mill did not consider that economy was a separated realm of human affairs. Rather, it was part of social sciences as a whole. In the *Principles of Political Economy*, he says that he “treated Political Economy not as a thing by itself, but as a fragment of a greater whole; a branch of Social Philosophy” (CW I: 243). He adds that this particular branch of Social Philosophy is “so interlinked with all the other branches, that its conclusions, even in its own peculiar province, are only true conditionally, subject to interference and counteraction from causes not directly within its scope” (CW I: 243).

The present chapter is divided into five sections. The first is devoted to the importance Mill attributes to the formation of the human character. Sections two to four deal with Mill's accounts of utility, liberty and equality. Their meaning is described, as well as their conceptual relationships. The fifth and last section addresses Mill's liberal socialist perspective, which is mainly expounded in his *Principles of Political Economy*.

The Formation of the Human Character

Let us start with the importance Mill attached to the human character. As strange as it may sound, understanding what Mill says about it is key to his insights on utility, liberty and equality.

A short biographical note is useful here. It regards the education Mill received. As Maurice Cranston says, “James Mill [John Stuart's father] did not send his eldest child to any school; he taught him at home following a strenuous plan of education devised by himself and Bentham to produce

the perfect utilitarian” (1987: 83). James Mill’s belief that “education can do everything,”⁵ in particular that a right education depends on the circumstances in which children are reared, explains that he “was determined that his first-born son’s character would be carefully molded and shaped by the right circumstances, that is, those that he deemed right and good” (Ball 2000: 33–34). In his *System of Logic*, John Stuart said of the “Necessitarian”—a thinker who endorses a deterministic account of human action—that he believes that “his education and circumstances have so moulded his character, that nothing can now prevent him from feeling and acting in a particular way, or at least that no effort of his own can hinder it” (CW VIII: 840). Later, Mill observed that his education had not prepared him to act as a full agent: “The education [my father] gave me was, considered in itself, much more fitted for training me to *know* than to *do*,” and that, “[having] been, through childhood, under the constant rule of a strong will [...] I was so much accustomed to expect to be told what to do, either in the form of direct command or of rebuke for not doing it, that I acquired a habit of leaving my responsibility as a moral agent to rest on my father, my conscience never speaking to me except by his voice” (CW I: 613). But beyond this observation, he was convinced that human beings have the ability to shape their own character, for example that they may alter their habits and desires. Such an ability is a condition of moral freedom: “[T]his feeling, of our being able to modify our own character *if we wish*, is itself the feeling of moral freedom which we are conscious of” (CW VIII: 841). In Mill’s view, forming one’s own character is not a mere possibility, but a faculty which is common to all human beings.

Why is this a key to understanding Mill’s account of utility, liberty, and equality? Because human happiness, which is a crucial component of the principle of utility, includes the ability of persons to cultivate their character and pursue self-directed life plans; because the cultivation of one’s own character presupposes that specific conditions prevail in society—conditions which provide a great amount of liberty to citizens; and because liberty should be distributed equally to each member of the society.

Utility

Mill proposes a definition of utility which is rather similar to Jeremy Bentham's "Greatest Happiness of the Greatest Number" (1962: 227): "The creed which accepts as the foundation of morals, Utility, or the Greatest Happiness Principle, holds that actions are right in proportion as they tend to promote happiness, wrong as they tend to produce the reverse of happiness" (CW X: 210). What immediately follows shows that Mill is, like Bentham, a hedonist, as he considers that happiness depends on the search of pleasure: "By happiness is intended pleasure, and the absence of pain; by unhappiness, pain, and the privation of pleasure" (CW X: 210).

But Mill's conception of pleasure is quite different from the one professed by Bentham. Indeed, Mill draws a distinction between two categories of pleasures. There are inferior pleasures, which human beings share with animals, and higher pleasures, which stem from human "faculties more elevated than the animal appetites" (CW X: 210) and have typically an intellectual nature. The latter may be distinguished from the former empirically, through experience. Each type of pleasure corresponds to one mode of living—one "manner of existence," in Mill's words (CW X: 211). And when a human being has had the opportunity to experience pleasures of a high quality, then he "unquestionably" tends to prefer them to lower pleasures, even if those are more difficult to attain. The process is, so to speak, non-reversible, because a person whose noble faculties are well-developed could "never really wish to sink into what he feels to be a lower grade of existence" (CW X: 212). It would be contrary to the "sense of dignity" which grows with those faculties. The point is expressed by Mill's famous statement: "It is better to be a human being dissatisfied than a pig satisfied; better to be Socrates dissatisfied than a fool satisfied" (CW X: 212).

In Mill's view, cultivating one's character implies that one prefers a manner of existence based upon the search for higher pleasures. And this search is coherent with the principle of utility. To be sure, utilitarianism promotes the "greatest amount of happiness altogether" (CW X: 213),⁶ and it is not obvious at all that a person enjoying a noble character should be happier than people enjoying lower pleasures. But Mill affirms that, due to the human preference for higher pleasures, a noble person (i.e.

an educated person, having ideals, admirable qualities of character, and a sense of dignity) will increase other people's happiness. As a result, he says, utilitarianism "could only attain its end by the general cultivation of nobleness of character even if each individual were only benefited by the nobleness of others" (CW X: 214).

The utilitarian criterion is not to be applied by anyone in any situation of choice. Because many ordinary decisions and actions are short-sighted and limited in scope, it would be unrealistic to believe that the search of the greatest amount of happiness for the greatest number should always be taken into account. Mill states it this way: "It is a misapprehension of the utilitarian mode of thought, to conceive it as implying that people should fix their minds upon so wide a generality as the world, or society at large" (CW X: 220). However, they should, under all circumstances, refrain from acting against the public interest, even if their decision is a private one.

In *Utilitarianism*, Mill depicts a vision of man which is at odds with the *homo economicus* that he considered, 15 years before, in the *Principles of Political Economy*.⁷ Yet, in Chapter 4, Mill deals with the desire for money, observing that "the love of money is not only one of the strongest moving forces of human life, but [that] money is, in many cases, desired in and for itself" (CW X: 236). However, this does not imply that Mill considers that, whether in life in general or in the economic sphere in particular, people lack or lose sight of moral virtues. The desire of money for itself is the result of a law of association and of habit. It is an "acquired desire" which leads people to believe that money is an end in itself, while it is only in reality a "means to happiness" (CW X: 235). But the mean has not become an end in itself: it is only a part of another end. This is what Mill means by saying that "in being desired for its own sake it is, however, desired as *part* of happiness" (CW X: 236). In a nutshell, Mill's principle of utility does not imply that the search for money and the search for virtue are incompatible: "The utilitarian standard, while it tolerates and approves those other acquired desires, up to the point beyond which they would be more injurious to the general happiness than promotive of it, enjoins and requires the cultivation of the love of virtue up to the greatest strength possible, as being above all things important to the general happiness"

(CW X: 237). Thus, Mill's vision of man is that of a virtuous person who cares both for his well-being and for others' well-being.

This leads us to another reason why Mill's vision of man is inconsistent with the *homo economicus*, i.e. the idea that human beings have natural sympathies. They are disposed to care for each other. Mill states that "social feelings of mankind" (CW X: 231), which include, in particular, "the desire to be in unity with our fellow creatures" (CW X: 231), are at the foundation of utilitarianism as a moral doctrine. His assertion that "the social state is at once so natural, so necessary, and so habitual to man, that, except in some unusual circumstances or by an effort of voluntary abstraction, he never conceives himself otherwise than as a member of a body" (CW X: 231), reflects his rejection of the idea that human beings would be purely selfish creatures.

Liberty

I now turn to Mill's conception of liberty. I begin this section by evoking his account of the mission of a good government—which is, in Mill's perspective, a *representative* government. A good government aims at improving the quality of people's lives from material, intellectual and moral perspectives. Now, this goal implies that each member of society enjoy liberty. In order to make it clear that liberty is an essential condition of the workings of any advanced society,⁸ Mill considers the case of an enlightened despot. He admits that a society may be governed by such a system of despotism, but, for the sake of human development and liberty, it ought to be temporary and conditional: "I am far from condemning, in cases of extreme exigency, the assumption of absolute power in the form of a dictatorship[...] But its acceptance, even for a time strictly limited, can only be excused, if [...] the dictator employs the whole power he assumes in removing the obstacles which debar the nation from the enjoyment of freedom" (CW XIX: 403).

But how does Mill define freedom? When, in respectively *The Principles of Political Economy*, *On Liberty* and *Considerations on Representative Government*, Mill refers to freedom, he seems at first hand to mean *doing what one desires*⁹—"Liberty consists in doing what one desires," Mill says,

almost incidentally, in *Liberty* (CW XVIII: 294). However, as Bernard Williams argues, Mill “cannot quite mean this: he must at any rate mean the capacity to do what one desires [...] This is an idea of liberty as ability or capacity” (2001: 7). Furthermore, *doing what one desires* should be complemented by a clause specifying the nature of the desires which constitute the motives of the act. Not only did Mill not ignore the moral value of such motives, which Montesquieu described one century before,¹⁰ but he also insisted on the importance of deliberation and good judgment. Being “qualified to form a judgment” (CW XIX: 510) is a consequence of freedom and intellectual ability, and this is an ideal that each member of a free society should have the opportunity to realize. Chapter 2 of *Liberty* and other passages of this book refer to the effect of the liberty of discussion on the formation of good judgment and the cultivation of individual characters. The main justification of such a liberty is the search for truth. In this context, even one single opinion, however strange it might seem, should be considered—assuming that it were false, it would make the force of the presently true opinion more salient.¹¹

Quite importantly in a liberal perspective, Mill also connects freedom with the development of individuality, i.e. the cultivation of character and the realization of one’s potentialities. Mill maintains “that freedom is the essential condition to the growth of individuality in its richest diversity,” as Dorothy Fosdick indicates (1939: 155).

Such a position has moral, social and political consequences. It implies a defence of pluralism, which refers here to the multiplicity of ways of living—there are as many ways of living as the number of people within the society. It also implies tolerance towards others’ personal choices with regard to their plans of life. Such a tolerance must be shared by each member of the society, and it should be embedded within social institutions. Mill’s idea of liberty as ability or capacity supposes that state’s interference with individual liberty be reduced to a minimum. In the first chapter of *Liberty*, he asserts that what he calls a “very simple principle” is “entitled to govern absolutely the dealings of society with the individual in the way of compulsion and control, whether the means used be physical force in the form of legal penalties, or the moral coercion of public opinion” (CW XVIII: 223). The simple principle states that “the only purpose for which power can be rightfully exercised over any member of

a civilized community, against his will, is to prevent harm to others” (CW XVIII: 223)—which has been called the “harm principle.” To defend his position, Mill appeals to a separation between self-regarding actions and other-regarding actions,¹² considering that, in the former, the individual should be absolutely free. In the private sphere, any intervention of the state is prohibited.

This view has led to considerable discussions, relative, for example, to the scope of the concept of harm (does an offence to other’s beliefs count as a harm?¹³), to the difficulty in separating self- and other-regarding actions, or to the nature of the impediments to the individual’s exercise of liberty. As to the latter objection, Charles Taylor observes that obstacles to liberty not only include external constraints (originating from the government and from society¹⁴), but also internal, psychological obstacles, such as “lack of awareness, or false consciousness, or repression” (1979: 176).¹⁵ If Mill, like many modern tenants of liberty, adheres to “the post-Romantic idea that each person’s form of self-realization is original to him/her, and can therefore only be worked out independently” (1979: 176), he should consider the possibility that one fails in realizing one’s own individuality.

It should be noted that, in Mill’s view, liberty is first of all opposed to the love of power, not to external constraints or psychological obstacles. The love of power is the worst evil. It is the opposite of liberty. Mill puts it unequivocally in a passage of the *Considerations on Representative Government* where he also refers to equality: “[T]he love of power is the most evil passion of human nature [...] With the love of liberty it is wholly the reverse” (CW XIX: 610).

Mill is a defender of individual liberty. But is this commitment sufficient to qualify him as a liberal? Not yet. What is needed in addition is an argument with regard to the relationship between liberty and both utility and equality, and to the function of the state. Let us deal first with the relationship between liberty and utility.

It seems obvious that utility and liberty may be antagonistic. This is due to the possibility that individual liberties might be sacrificed for the sake of utility. Under some circumstances, actually, maximizing the well-being of all might require the suppression of some individual freedoms. What is Mill’s position about this question? The answer refers to what he says about the necessary conditions for the enforcement of utility and liberty.

In *Utilitarianism*, Mill observes that the principle of utility, considered as a political ideal, is likely to be enforced only if certain social conditions prevail, especially the level of education provided in the society. As Catherine Audard says, these conditions should be such as to “enable, if not everyone, at least a vast majority of people, to achieve their full potential, which is Mill’s definition of happiness” (1999: 72). And in *Liberty*, he asserts that the development of freedom requires a certain degree of intellectual and moral maturity.

This could suggest that Mill eludes the possibility of a hard conflict between utility and liberty, as both depend on a common cause, i.e. specific social conditions. However, Mill justifies liberty by utility. He argues that liberty contributes to utility so far as it is controlled by the harm principle. In *Liberty*, Mill views “utility as the ultimate appeal on all ethical questions” (CW XVIII: 224), adding that “it must be utility in the largest sense, grounded on the permanent interests of man as a progressive being” (CW XVIII: 224). He emphasizes that “those interests [...] authorize the subjection of individual spontaneity to external control, only in respect to those actions of each, which concern the interest of other people” (CW XVIII: 224). Thus, the subordination of liberty to utility is only justified by the harm principle. However, in *Utilitarianism*, Mill puts forward another and more vague justification, which depends on the general opinion about what is better for society. The general opinion could be the reason why the right of equality of treatment applied to freedom would be overridden: “All persons are deemed to have a *right* to equality of treatment, except when some recognised social expediency requires the reverse” (CW X: 258).

In short, Mill’s account of utility and liberty supposes a high degree of maturity on the part of the members of society. They should have developed psychological dispositions allowing them both to define their own plan of life and to accept that other people do the same, the latter requirement being supported by human natural sympathies. This form of pluralism is a key feature of liberalism.

Equality

What has been said so far logically entails expectations about equality. These expectations are somewhat more elaborate than the “Everybody to count for one, nobody for more than one” (CW X: 257), which is the egalitarian formula of Bentham’s utilitarianism. Mill’s view about the importance of human development entails that if any member of society should be allowed to develop their full potential, then they should have a right to liberty. And this right should be distributed equally, both for reasons related to Mill’s defence of the individual’s good and, at a collective level, for utilitarian reasons, because, as has been said before, freedom of discussion leads to the discovery of truth, and thus to human progress and happiness. Such an equal distribution has direct effects on the workings of society, as it supposes and requires that everyone has appropriate and sufficient means to develop and cultivate one’s faculties. These means suppose the implementation of public rules, which apply to all citizens with impartiality and justice, because no individual—and no class of individuals—should be in a privileged position, or, conversely, in a disadvantageous position, to develop one’s talents.

These statements are typical of liberalism. Guido de Ruggiero wrote that “liberalism [...] implies not only the feeling of liberty but the idea of equality” (1961: 51). Thus, liberal thinkers do not defend liberties alone. They also insist upon the importance of specific political conditions guaranteeing freedom, i.e. “the progressive implementation of the rule of law, state’s commitment to impartiality and impersonal modes of control,” in Monique Canto-Sperber’s words (2006: 19).¹⁶ She adds that “no one may have legitimate expectations with regard to self-preservation and protection of one’s property without being sure that one’s demands will be treated fairly, that one will be able to appeal to a public rule applicable to all” (2006: 19).

How does Mill respond to these expectations? The ideas of equal opportunities and equal treatment are part of his philosophy. Isaiah Berlin develops that point with respect to freedom of expression: “If I am permitted to read or write or express my opinion freely it is wrong, unjust, unfair, etc., that others should not be permitted to do so too” (1955–1956: 304). But equality should not have a *deleterious* impact on the pluralism of ways of

living. It would be the case if claims for equality led to social uniformity. Mill feared, in his time marked by the pressure of Victorian society more than the interference of the British government in private lives,¹⁷ that “the general tendency of things throughout the world [were] to render mediocrity the ascendant power among mankind” (CW XVIII: 268).

This quotation provides the occasion for another bibliographical digression. When Mill suffered a “mental depression” (CW I: 148) in 1826 at the age of 20, he turned to poetry and the Romantics. He discovered other ways of thinking, far removed from the rationalist and empirical traditions which had formed the backdrop of his strict upbringing. The following statement illustrates Mill’s deep concern for the development of individuality and, indirectly, for the “eccentricity of conduct” (CW XVIII: 265): “Every great poet, every poet who has extensively or permanently influenced mankind, has been a great thinker, has had his mind full of thoughts, derived not merely from passive sensibility, but from trains of reflection, from observation, analysis, and generalization” (CW I: 413). When writing these lines, perhaps Mill thought that those qualities could be attributed to him. Actually, the circumstances of his life, combined with his great intellectual abilities, led him to develop his character and to acquire the features of a type of person in which he was particularly interested, namely the genius.

Two last points deserve attention with regard to Mill’s account of equality. The first one deals with “perfect equality”, a phrase he uses at the beginning of *The Subjection of Women* (CW XXI: 261). Indeed, he defends the idea “that the principle which regulates the existing social relations between the two sexes – the legal subordination of one sex to the other – is wrong in itself, and now one of the chief hindrances to human improvement; and that it ought to be replaced by a principle of perfect equality, admitting no power or privilege on the one side, nor disability on the other” (CW XXI: 261). Mill’s commitment to a strict equality between men and women is apparent in his attack against the despotism of the head of the family and its impact on education and, consequently, on human and social progress. He called for a change in the regulation of family relationships, especially in the balance of power between its members. According to him, the human family should reflect the political democratic ideal. Of course, such a view is connected with the advent of the free society he deemed

desirable, as Maria Morales insightfully observes: “The family also should become a democratic institution,” i.e. “an association where people first are trained in the virtues of freedom” (1996: 196).

The second point concerns political economy, i.e. “the science relating to the moral or psychological laws of the production and distribution of wealth” (CW IV: 318). It has been developed in the chapter *On the Probable Future of the Labouring Classes*. Mill discusses two ways in which workers may be treated by those who own the means of production. The first one, which he called the “theory of dependence” (CW III: 759), expresses a dependency of workers upon their employers. It implies that they are seen as pure means and “treated like children” (CW III: 763), i.e. without taking their individuality into account, nor their ability to act autonomously. The second way is the “theory of self-dependence” (CW III: 759)—Mill’s preferred theory. According to it, workers and employers or owners should be on an equal footing. And it goes without saying that, if this was the case, then economic relations would be deeply transformed, as Mill explains: “Whatever advice, exhortation, or guidance is held out to the labouring classes, must henceforth be tendered to them as equals, and accepted by them with their eyes open. The prospect of the future depends on the degree in which they can be made rational beings” (CW III: 763). Thus, in his view, equality is neither wishful thinking, nor an empty promise. It should be enforced in the context of economic relations even if it would result in a deep change in the social and economic order.

Mill’s Liberal Socialist Perspective

The historian John Brebner wrote that “before the French Revolution of 1830 broke out, before he met or could be influenced by Mrs. Taylor [...], John Stuart Mill had become what might be called a liberal socialist” (1948: 67). However, Mill does not use this phrase to describe himself. Moreover, he did not defend a pure socialist doctrine, at least not in the sense given by Marx and Engels. Mill supported private property, especially because “private property, in every defence made of it, is supposed to mean the guarantee to individuals of the fruits of their own labour and abstinence” (CW II: 208). Social problems which can be attributed to

property do not rest on the principle itself, but on the way property may develop and on the consequences that may result in terms of inequalities of chances. If, Mill says, “the tendency of legislation had been to favour the diffusion, instead of the concentration of wealth – to encourage the subdivision of the large masses, instead of striving to keep them together; the principle of individual property would have been found to have no necessary connection with the physical and social evils which almost all Socialist writers assume to be inseparable from it” (CW II: 208). And he adds unambiguously that the system of private property should not only be maintained, but also developed and improved: “The political economist, for a considerable time to come, will be chiefly concerned with the conditions of existence and progress belonging to a society founded on private property and individual competition; and [...] the object to be principally aimed at, in the present stage of human improvement, is not the subversion of the system of individual property, but the improvement of it, and the full participation of every member of the community in its benefits” (CW II: 214). Mill is indeed a proponent of the free market and competition, although the “law of competition” (CW II: 216) should not become a type of regulation applicable to many domains of the social and even economic life.¹⁸

So, for what reasons has Mill been called a *liberal socialist*? These reasons can be found in his concern for the social reality of his time—esp. working conditions and inequalities (e.g. between labourers and a “non-labouring class,”¹⁹ between workers and employers)—but also in the interest he has shown for romanticism and utopian socialism.²⁰ His liberal socialist arguments constitute the “heterodox contributions” of his work to political economy²¹ and imbue the *Principles* with a special “tone” which, as Mill explains in his *Autobiography*, owes a lot to his wife Harriet: “This tone consisted chiefly in making the proper distinction between the laws of the Production of Wealth, which are real laws of nature, dependent on the properties of objects, and the modes of its Distribution, which, subject to certain conditions, depend on human will” (CW I: 255).

But one should not ask too much of political economy. Mill insists that it is not the aim of this branch of social philosophy to “treat of the whole of man’s nature as modified by the social state, nor of the whole conduct of man in society” (CW IV: 321). However, his *Principles*,

especially the chapter devoted to *the Probable Future of the Labouring Classes*, have implications which go far beyond the economic realm.

This is the case for education, an important issue in Mill's philosophy. Education is a recurring theme throughout the *Principles*, either as a general requirement or applied to specific classes of people, for example peasants. Wendy Donner stresses that, "in Mill's theory [...] a lot rests upon [...] educative and socialization procedures," because "people need a supportive social context to provide the circumstances in which human excellences develop" (2009: 92).

Education is narrowly connected with the issue of state intervention. Always in the *Principles*, Mill argues that the government should impose education for all children. It is not to say that a common education should be given (it would bear the risk of uniformity), but that it is an essential component of the function of the state: "Education is one of those things which it is admissible in principle that a government should provide for the people" (CW III: 948).

The function of the state is both a central element and a crucial test for Mill's idiosyncratic liberalism. According to H. J. McCloskey, Mill's view is "that the end of the state is to maximize the goods of true knowledge, rational belief, self-direction, self-perfection, moral character and responsibility, happiness and progress" (1950: 144). It is remarkable that Mill first warned against the risks, for the productivity of economy, resulting from an extended intervention of the state—"The only insecurity which is altogether paralysing to the active energies of producers, is that arising from the government, or from persons invested with its authority" (CW II: 113)—but he also proposes a different version as to the distribution of wealth which, in his view, could and should depend on state intervention: "Unlike the laws of Production, those of Distribution are partly of human institution: since the manner in which wealth is distributed in any given society, depends on the statutes or usages therein 'obtaining'" (CW II: 21). The emphasis on distribution was not so developed in Mill's predecessors in classical economy. Distribution of wealth does not obey the "physical laws," likely to be submitted to a scientific enquiry, which would regulate production. It is rather, Mill argues, "a matter of human institution solely" (CW II: 199). As Martha Nussbaum says about Mill's view, "government should not simply keep order; it should arrange for the

conditions of human equality to be met, something that, in Mill's own view, requires substantial redistribution [of wealth]" (2011: 14).

Of course, such a perspective may seem somewhat naive, particularly since, on the democratic scene, many conflicting interests have to be reconciled. Thus, part of the society (the wealthiest part, or those who think they deserve more due to their contributions to the social cooperation) could militate against a strong redistribution of wealth. This is why Richard Posner remarks that Mill "was probably mistaken in claiming that while government could do little to increase the aggregate wealth of society, it had a free hand in deciding upon the distribution of that wealth across the population" (1997: 348). In other words, the government's special consideration for the interests of the rich would de facto help to maintain a system of unequal distribution of wealth to the benefit of the wealthy.

Mill's emphasis on redistribution remains a significant aspect of his social liberalism. Another one is the importance he grants to the "stationary state" (CW III: 738). This state would be the ultimate social and economic situation resulting from the law of the falling rate of profit which was described, among others, by David Ricardo.²² This final stationary state would occur because capitalists, having no expectations of investment returns, would be discouraged to invest and, as a result, would lend their capital to workers. "As this change proceeded," Mill explains, "owners of capital would gradually find it to their advantage, instead of maintaining the struggle of the old system with workpeople of only the worst description, to lend their capital to the associations" (CW III: 793). The "associations" mentioned here refer to the cooperative system which would characterize the stationary state, the workers being then the owners of the means of production.

From a perspective of human progress, this final state has a moral and progressive dimension. It would be, as Michael Levy says, "the final state of the 'liberal ideal,'" a situation in which people "would be 'free' to develop their personalities in a greater variety of ways" (1981: 276–277).

To sum up, Mill supports free market, competition, and private property, but at the same time he calls unambiguously for a change in the economic order, for the sake of social justice and human development. His vision of the ideal social and economic order, illustrated by what he

calls the “stationary state,” expresses his conception of the full development of humanity.

Conclusion

A lot of Mill’s views in social philosophy could be invoked in contemporary debates. In fact, this is often the case, beyond the topical issues related to freedom of speech and expression. Some of the difficult issues raised by the function of the state, which are widely discussed nowadays, can be found in Mill’s political economy. Although the social, political and economic conditions of our time are far from the conditions which influenced his thought, many insights can be derived from the study of his arguments. This applies, in particular, to the relationships between utility, liberty and equality which have been discussed above. Their conflicts are inevitable, but through such conflicts they reveal an important democratic ideal, which is a hallmark of liberalism: the search for compromise through a democratic process of deliberation.

To conclude this chapter, two additional observations can be made. First, Mill argues that well-educated and well-trained persons should be at the head of the government, and that they should be assisted by specialists and bureaucrats. In short, the state should be ruled by an elite. But he immediately insists that “the electors are entitled to know how [the leaders] means to act; what opinions, on all things which concern his public duty, he intends should guide his conduct” (CW XIX: 510). Second, even if a liberal government could restrict civil liberties in the name of national security or intervene in the economy in order to protect the interests of society, the liberal spirit requires that its interventions be not authoritarian—that they imply, as Canto-Sperber says, “consensus through negotiations, compromises and transactions” (2006: 22). Such a requirement reflects Mill’s idea of liberalism.

Notes

1. Almost all the subsequent references to Mill's work will be taken from the *Collected Works of John Stuart Mill* (CW). To indicate the source of the citations, we mention CW followed by the volume number.
2. 1848 is the year the first edition was published. There were seven editions of the *Principles*, the last one dating from 1873.
3. In this respect, he was influenced by the French philosopher Auguste Comte (1798–1857), who advocated a religion of humanity in his *System of Positive Polity* (London, 1875–1877). Mill had a correspondence with Comte and discussed his work in *Auguste Comte and Positivism* (CW X, 1865).
4. Some authors consider that Mill was more radical than what is suggested by the common interpretation of his philosophy. For instance, Maurice Cowling contends that “Mill's liberalism was a dogmatic, religious one, not the soothing night-comforter for which it is sometimes mistaken. Mill's object was not to free men, but to convert them, and convert them to a peculiarly exclusive, peculiarly insinuating moral doctrine” (1963: il).
5. This formula is taken from what the French materialist philosopher Helvetius (1715–1771) wrote about the power of teaching in his posthumous book *De l'homme* (1773).
6. It is worth noting here that Mill stresses that “utility includes not solely the pursuit of happiness, but the prevention or mitigation of unhappiness” (CW X: 214). This assertion evokes the debate which occurred one century later about “negative utilitarianism,” exemplified by Karl Popper's formula: “Instead of the greatest happiness of the greatest number, one should more modestly demand the least amount of suffering for anybody” (1945: 241).
7. The economic man is not a psychological type of man, just a methodological artifact exhibiting “instrumental rationality and self-interest” (Anderson 2000: 172). Homo economicus is a “human being considered in regard to its economic aspect or capacity,” so this artifact should not be the object of moral judgments: “The actions of Homo economicus can no more be judged immoral than can a Stradivarius be blamed for making a bad tune” (Wilson and Dixon 2008: 243).
8. Inspired by Auguste Comte, Mill depicts three stages in the historical evolution of human societies, the last one being the stage of society, “a union

or aggregation of human beings for a common purpose or purposes” (IV: 320).

9. I refer especially to James Scanlan (1958).
10. “In governments, that is, in societies directed by laws, liberty can consist only in the power of doing what we ought to will, and in not being constrained to do what we ought not to will” (Montesquieu 1777: 196).
11. “If the opinion is wrong, [those who dissent from the opinion lose] the clearer perception and livelier impression of truth” (CW XVIII: 100).
12. Mill uses the first expression—“self-regarding conduct” (CW XVIII: 283), but not “other-regarding.”
13. Some authors consider that the harm principle is imprecise; for his part, Joel Feinberg argues that it should be complemented by a principle of offence, which states that “it is necessary to prevent hurt or offense (as opposed to injury or harm) to others” (1985: ix).
14. Mill insists on the fact that society may be as tyrannical as a government: “Protection [...] against the tyranny of the magistrate is not enough; there needs protection also against the tyranny of the prevailing opinion and feeling; against the tendency of society to impose, by other means than civil penalties, its own ideas and practices as rules of conduct on those who dissent from them; to fetter the development, and, if possible, prevent the formation of any individuality not in harmony with its ways, and compel all characters to fashion themselves upon the model of its own” (CW XVIII: 220).
15. In *Liberty*, Mill discusses the issue of “strong impulses,” to which he gives the name of “energy” (CW XVIII: 263).
16. My translation.
17. Cranston remarks that “nearly all individuals were constantly pressured by neighbors, employers, husbands, and fathers, who were dominated in turn by taboos and conventions governing a host of matters – courtship, dress, recreation, use of the Sabbath, and much else” (1987: 86).
18. Mill states that the “spirit of competition” does not exercise an “unlimited sway” (CW II: 239). For instance, Mill warns that “so far as rents, profits, wages, prices, are determined by competition, laws may be assigned for them. Assume competition to be their exclusive regulator, and principles of broad generality and scientific precision may be laid down, according to which they will be regulated” (CW II: 239). He also explains how custom may alleviate the detrimental effects of competition: “Custom is the most powerful protector of the weak against the strong; their sole

- protector where there are no laws or government adequate to the purpose” (CW II: 240).
19. “The great social evil exists of a non-labouring class” (CW III: 758).
 20. Nicholas Capaldi includes in this category both the tenants of utopian systems (for example the adepts of Robert Owen and Charles Fourier) and those who strived to meet the social question without reconsidering the principles of the capitalist system (2012: 127).
 21. I borrow these words from Michael Montgomery (2012: 236), who proposes a critical summary of Mill’s *Principles of Political Economy*.
 22. *Principles of Political Economy and Taxation*, ed. P. Sraffa, Indianapolis, Liberty Fund, 2004. See Chapter 21.

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Karl Marx's Communism and Critique of Capital

Paul Prew

Introduction¹

Karl Marx (born May 5, 1818; died March 14, 1883) left an indelible mark on the study of globalization. While he initially intended to examine the “world market” (Marx 1987 [1859]: 261), he was unable to complete his study. This has not prevented future researchers from incorporating his analysis to study the world economy and global issues (see Aguirre-Beltran 1979; Amin 1976; Baran 1957; Cardoso 1972–1973; Cox 1959; Dos Santos 1970; Du Bois 2007 [1939]; Emmanuel 1972; Frank 1969; Furtado 1964; Galeano 1997; Lenin 1975; Luxemburg 1964; Magdoff 1978; Mariátegui 2011; Portes 1973; Rodney 1973; Wallerstein 1974). While the chapter will not cover Marx's multitude of applications to globalization, it will identify the core concepts that provide the foundation for the researchers in globalization who have followed in Marx's footsteps.

There is a statement in the *Communist Manifesto* often cited as evidence of his global view.

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The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilisation. The cheap prices of commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the barbarians' intensely obstinate hatred of foreigners to capitulate. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilisation into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image. (Marx and Engels 1976 [1848]: 488)

The power of this statement, and others, in the *Communist Manifesto* is the generality that can be applied in any number of historical periods. Today, we can see the relevance of “cheap prices of commodities” in World Trade Organization’s (WTO) mission to lower trade barriers (WTO 2018). We can easily see the struggles of Nicaragua and Venezuela as they face the “pain of extinction” for charting a path different than free market capitalism (Con Sal 2018; Cusack 2018; Felicien et al. 2018). The *Communist Manifesto* was a call to action. It was unlike his more methodical research, because it was intended to excite the working population to promote social change. In his research, Marx focused on identifying the specific processes that cause the general trends outlined in the *Communist Manifesto*. As this chapter will demonstrate, Marx was a meticulous researcher whose body of work remains relevant today.

Early Years

At the time of Marx’s youth, Europe was undergoing tremendous political upheaval. In the German state of Prussia, political acts such as free speech rallies were subject to arrests and surveillance (Wheen 1999: 13). After entering the University of Bonn in 1835, Marx joined political discussion groups, but also enjoyed a boisterous social life in the local pubs. His father, hearing of his extracurricular activities, moved him to the University of Berlin (Wheen 1999: 16–17). At the University of Berlin, Marx continued his participation in discussion circles where he became interested in the ideas of G. W. F. Hegel, but rejected the religious aspects of

Hegel's approach. What attracted Marx was the notion of a "dialectic" between thought and reality. For Hegel, the dialectic meant reality was the end result of the ongoing refinement of ideas. As new ideas challenged and replaced older ideas, a more perfected form of society was created. Marx argued he turned Hegel "right side up again" (Marx 1977a [1887]: 19). "The ideal is nothing else than the material world reflected by the human mind" (Marx 1977a [1887]: 19). Marx was fundamentally concerned with how the existing structure of society affected the people within it. For Marx, the organization of society tends to give rise to the ideas in society. Instead of remaining in the realm of philosophy, Marx felt that the dialectic method could be used to study society. Using the dialectic method, a researcher must conduct a detailed analysis to understand the inner connection of the objects under study (Marx 1977a [1887]: 19). The dialectical method to study the material relations within society can then be applied to inform movements for social change.

Marx continued his research after completing his doctoral thesis in 1841, but he could not avoid the turbulent political conditions of his time. Personally, he grew to realize he would not obtain a professorship at a German university due to the political climate. His colleague, Bruno Bauer, was dismissed from the University of Bonn for his views (Rubel and Manale 1975: 22). At this early period in his life, Marx was increasingly affected by the appalling conditions of the working classes.

The streets are generally unpaved, rough, dirty, filled with vegetable and animal refuse, without sewers or gutters, but supplied with foul stagnant pools instead. ... the stream itself is checked every few paces by high weirs, behind which slime and refuse accumulate and rot in thick masses. Above the bridge are tanneries, bonemills, and gasworks, from which all drains and refuse find their way into the Irk, which receives further the contents of all the neighbouring sewers and privies. It may be easily imagined, therefore, what sort of residue the stream deposits. (Engels 1975 [1845]: 331, 352)

Given his philosophical interests and debates with fellow scholars, Marx threw himself into the task of documenting and critiquing these inequalities.

Marx edited the newspaper, *Rheinische Zeitung*, from 1842 to 1843 and contributed articles detailing the loss of public access to dead wood and the plight of wine-farmers. Due to the repressive censorship of the government, the newspaper was banned, and Marx left the editor position to join his colleague, Arnold Ruge, in Paris to work on a new newspaper. This new effort lasted only one issue. It was banned in Marx's native Prussia, and copies were seized exiting France. Arrest warrants were issued for Marx and others involved in its publication. At this point, Marx took advantage of the more radical environment in Paris to throw himself more deeply into a study of political economy. One of the articles that impressed him was written by Frederick Engels who would eventually become a close friend. Marx would refer to this essay, "Outlines of a Critique of Political Economy," in his later work (McLellan 1973: 56, 59, 63, 98, 105–106).

Alienation

While in Paris in the summer of 1844, Marx began a very deliberate study of capitalism (Pospelova 1975: xvi). His analysis included a concept, "species being" that he felt was the core essence of human beings. For Marx, the concept of species being is not the same as a biologically determined human nature, but arises from early communal societies "among all civilised nations at the dawn of their history" (Marx 1987 [1859]: 275). As early humans evolved, they used their minds in "conscious life activity" (Marx 1975 [1844]: 276) in conjunction with their hands to "work upon the objective world" in a social context (Marx 1975 [1844]: 277). People evolved to work together to solve problems with their minds and create solutions with their hands through labour. For the vast majority of human history, people lived in relatively egalitarian, peaceful, communal societies. Species being is the inner desire to express this creative, meaningful labour as a fundamentally social being.

Marx, in his notes (now referred to as the *Economic and Philosophic Manuscripts of 1844*), felt that capitalism stripped people of this species being. The very act of wage labour ensured that people could no longer realize their full species being. Marx called the stripping away of species being "alienation" and identified four primary forms. "(1) ... *the product*

of labour... (2) ... the act of production" (Marx 1975 [1844]: 275, italics in original) "(3) ... *species being*" and "(4) ... *man from man*" (Marx 1975 [1844]: 277, italics in original).

The first form of alienation is alienation from the product. According to Marx, when workers put effort into producing a product, the product represents, or more precisely embodies, the labour that the workers put into the product. Because the capitalist owns the products of the workers' labour, the efforts of the workers' labour do not belong to them. Under wage labour, the workers do not produce what they need to survive, nor do they interact directly with nature. In fact, because much of the work that wage labourers do is gruelling, workers tend to be physically deteriorated by their work.² The product of someone's labour, which in prior communal societies was life-affirming, is now the expression of degradation (Marx 1975 [1844]: 272–273). "It is true that labour produces wonderful things for the rich—but for the worker it produces privation. It produces palaces—but for the worker, hovels. It produces beauty—but for the worker, deformity... It produces intelligence—but for the worker, stupidity, cretinism" (Marx 1975 [1844]: 273).

The alienation from the product also leads to "the fetishism of commodities" according to Marx. Because people encounter products in the marketplace such as a store, they do not understand the role of labour in its creation. Consumers do not think of the workers' efforts when they purchase a product. Consumers only think about the mystical qualities of the product that they purchase (Marx 1977b [1887]: 81–83). "There it is a definite social relation between [people], that assumes, in their eyes, the fantastic form of a relation between things" (Marx 1977b [1887]: 83). For example, when shopping for cell phones, consumers are likely to think about the speed of the phone, the quality of the network, and the applications that they can perform on the phone, i.e. the mystical qualities. They do not contemplate whether the metals in the phone came from the work of small children in a distant nation filling sacks of mineral-laden soil from a muddy riverbed. The labour embodied in the phone, no matter how horrendous or exploitative, is not a common consideration for the consumer.

Following the alienation of the product, Marx turns to the alienation in the process of production. The act of labour is an alienating activity

under capitalism. Within the communal labour of species being, labour may be life-affirming, but under wage labour, the activity becomes toil—a coerced, unhappy, ruinous, alien activity. The act of production is no longer the direct activity of satisfying needs, but becomes a secondary means of meeting needs through wages. Because people work only to receive wages, they are alienated from the very activity of providing their own livelihood. An example of the difference between wage labour and labour that affirms their species being would be a farmworker picking vegetables in the hot sun for wages and someone who grows vegetables in their own garden. Alienation from the act of production can get so awful that workers feel like themselves only outside of work, engaged in activities also associated with animals, such as “eating, drinking, procreating” (Marx 1975 [1844]: 274–275).

The activity of production strips, from the worker, the mental capacity and forces the labourer to serve others for their purpose. In essence, workers must submit to the dictates of their managers and others who tell them what to do. The very creative activity central to species being is lost, because workers do not control the process of their work. Workers do not have to think, because someone else controls their actions in the wage labour process. Because wage labour can be physically and mentally debilitating, labour, essential to the human experience, is transformed into something to be “shunned like the plague” (Marx 1975 [1844]: 274). Under capitalism, the labourer is reduced “to the level of an appendage of the machine, ... work ... into a hated toil [and] life-time into working-time” (Marx 1977b [1887]: 639).

Marx continues by outlining the alienation of species being. For Marx, the centre of human existence is people’s interaction with nature. The relationship between people and nature is not merely one of convenience, but of necessity. People must interchange with nature to survive, however, meeting needs through nature is not limited to the most basic of needs, as it is with other animals.

An animal forms objects only in accordance and the need of the species to which it belongs, whilst [a person] knows how to produce in accordance with the standard of every species, and knows how to apply everywhere the

inherent standard to the object. [A person] therefore also forms objects in accordance with the laws of beauty. (Marx 1975 [1844]: 277)

By producing through the interaction with nature, people exhibit their species being. Alienated production in capitalism strips people of their species being by stripping, from them, the conscious, free activity of production, and transforming it into simply a *means* to survival, an alienated activity. No longer do people directly engage nature, further stripping them of their species being (Marx 1975 [1844]: 276–277).

The final estrangement is people from each other. Since the act of production is the alienation of the person from the product, it is also the alienation of the person from the producer. The alienation of others is a necessary result of the alienation of product, production, and species being. Since the commodity mystifies the real human toil in the act of production, people are estranged from each other and their species being—their free, conscious, social production (Marx 1975 [1844]: 277). As with the alienation from the product, people meet their needs in the marketplace. Instead of dealing directly with the people who produce your products, we go to supermarkets, malls, and online stores to meet our needs. When we encounter people in the marketplace, we are more concerned with the product than the relationship we have with the person in the store. We really do not view them as fellow human beings. Workers in retail and food service must face customers who scream at them, because they want a discount or free food. “Hence within the relationship of estranged labour each [person] views the other in accordance with the standard and the relationship in which [a person] finds [them] as a worker” (Marx 1975 [1844]: 278). Instead of being able to relate to a retail or food service worker as a real human being, the customer tends to treat them simply as a worker, to be derided and abused.

The Communist Manifesto

While in France after writing the 1844 Manuscripts, Marx continued to write and remain involved in the newspaper *Vorwärts*, but his involvement contributed to his expulsion from France in 1845 (McLellan 1973: 136).

In order to gain entry into Brussels, he had to send a letter promising not to “publish in Belgium any work on current politics” (Marx 1975 [1845]: 677; Wheen 1999: 90). During this period, Marx furthered his research and began a book project with Engels known as *The German Ideology*, but it was not published during their lifetimes. Like similar prior works, Marx and Engels contrasted their views with others, in this case, Ludwig Feuerbach. Like Marx, Feuerbach was a critic of Hegel, but was too ahistorical for Marx. In addition to *The German Ideology*, Marx drafted a brief list of reflections on Feuerbach now known as the *Theses on Feuerbach* (McLellan 1973: 140). The eleventh thesis contains the heart of Marx’s project, “The philosophers have only *interpreted* the world in various ways; the point is to *change* it” (Marx 1976 [1844]: 5, italics in original).

To put his ideas of changing the world into practice, Marx was active in organizations dedicated to social change. In 1846, Marx formed the Communist Correspondence Committee (McLellan 1973: 54), and joined the Communist League in 1847 (McLellan 1973: 172). The centrality of Marx to the Communist League prompted its members to choose Marx and Engels to write the manifesto to outline its principles (McLellan 1973: 177). Marx and Engels worked together to produce the *Manifesto of the Communist Party* to represent the goals of the Communist League, but it does contain many of Marx’s ideas. The *Manifesto* discusses how workers are mere appendages to their machines. They criticize the lengthening of the working day and the intensification of labour.

In the *Manifesto*, Marx and Engels suggest capitalism is undermining its future. The very basis of capitalism is the necessity to constantly expand. Capitalists must continually accumulate more and more capital, increase profit, on a never-ending basis. To do so, they have to expand their operations into new markets. A natural impulse is to expand their operations internationally. “The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe” (Marx and Engels 1976 [1848]: 487). As this process occurs, capital, or money, accumulates as the economy grows generally. As capital accumulates in society into the hands of capitalists, Marx refers to this as the concentration of capital (Marx 1977b [1887]: 620). While accumulation leads to a concentration of capital, capitalist enterprises tend to gobble up their competitors through mergers and competition that leads some firms to

bankruptcy (Marx and Engels 1976 [1848]: 488). “One capitalist always kills many” (Marx 1977b [1887]: 750). “Capital grows in one place to a huge mass in a single hand, because it has in another place been lost by many. This is centralisation proper, as distinct from accumulation and concentration” (Marx 1977b [1887]: 621). The growth of accumulation into the hands of capitalists generally is the concentration of capital, while the destruction of smaller capitalists by larger capitalists, and the consolidation of wealth in few hands is centralization.

Accumulation and concentration lead to a growing polarization as the wealthy get far wealthier relative to the working classes. Centralization means that there is an increasingly smaller group of capitalists who control the vast majority of wealth in the world, which empirically is the case, even today (Ratcliff 2018). According to Marx and Engels, this growth in inequality and the instability of concentration and centralization of wealth will lead to conflict between the classes. In the *Manifesto*, Marx and Engels conclude, “Let the ruling classes tremble at a Communistic revolution. The proletarians have nothing to lose but their chains. They have a world to win. WORKING MEN OF ALL COUNTRIES, UNITE!” (Marx and Engels 1976 [1848]: 519, all capital letters in original).

Revolution, however, is not a simple process according to Marx. The transition away from a capitalist society and towards the communism that Marx outlined would be a long process.

[People] make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given and transmitted from the past. The tradition of all the dead generations weighs like a nightmare on the brain of the living. (Marx 1979 [1852]: 103)

The first step in the transition to communism is dependent on the working classes gaining political power (Marx 1985 [1864]: 12). If the working classes are successful, the aim of the communist society is to eliminate private property and establish a society where labour is no longer isolated alienated labour, but a communal activity. As the society becomes more democratic and egalitarian, the need for political parties and the exertion

of political power by one group over another will disappear over time (Marx and Engels 1976 [1848]: 505).

However, communism is not simply the elimination of private property, but the realization of species being. If private property is eliminated, but the relationships of society change only in that the community is now the possessor of the private property, communism would be realized in crude form. If workers still work for wages, but are paid by the community, it would replicate the relations of private property (Marx 1975 [1844]: 295). To be fully developed communism, people must be able to achieve their species being.

In a higher phase of communist society, after the enslaving subordination of the individual to the division of labour, and thereby also the antithesis between mental and physical labour, has vanished; after labour has become not only a means of life but life's prime want; after the productive forces have also increased with the all-round development of the individual, and the springs of common wealth flow more abundantly—only then can the narrow horizon of bourgeois right be crossed in its entirety and society inscribe on its banners: From each according to [one's] abilities, to each according to [one's] needs! (Marx 1989 [1875]: 87)

The communism outlined by Marx must allow everyone to participate in the decision-making regarding the labour that occurs in society. The goal is to focus on improving social productivity so that producing people's basic needs takes very few hours, allowing people to spend the rest of their time pursuing their own interests. The reduction in the time people spend working to meet basic needs allows for the greater expression of people's species being. To accomplish the "higher phase of communist society," the transition must be complete, and it will be difficult.

In order to abolish the *idea* of private property, the *idea* of communism is quite sufficient. It takes *actual* communist action to abolish actual private property. History will lead to it; and this movement, which *in theory* we already know to be a self-transcending movement, will constitute in actual fact a very rough and protracted process. (Marx 1975 [1844]: 313)

Marx understood that any transition would be dependent on the historical circumstances. Because the conditions for the transition would vary, Marx did not provide a specific plan for revolutionary transition, but some basic preconditions. There must be the elimination of private property and a society that would allow for the fulfilment of species being.

The *Manifesto*, published in 1848, was uniquely suited to its historical moment in time. Europe was about to erupt into an open clash between the ruling elite and their opponents. In the ensuing revolts, Marx was expelled from Belgium and made his way to Cologne through France. While in Cologne, Marx started a newspaper called, *Neue Rheinische Zeitung* focused on the revolutionary activity in Europe from 1848 to 1849. Pressure began building on the paper from government forces. In the end, Marx was expelled again to France. It was not too long after Marx was forced from France to London (McLellan 1973: 190, 194, 198, 221, 225).

Capital

After Marx's move to London in 1849, he struggled with his meagre finances and faced considerable health problems. His friend and writing partner, Engels, helped support Marx financially (McLellan 1973: 264–266, 331, 337), and Marx earned some income writing short books and newspaper articles. While helpful financially, Marx only wrote them begrudgingly. Although he made regular contributions to the *New York Daily Tribune*, he felt the work was not scientific, and consumed his time (McLellan 1973: 284–285). In the midst of these personal challenges, Marx devoted considerable time to research in the British Museum from 1850 to 1851 (McLellan 1973: 280). It was during this period that Marx composed his most famous work, *Capital*, but he also spent considerable time involved in political organizations.

Although he clearly emphasized research and endeavoured to maintain an empirical approach, he was not satisfied with merely documenting capitalist society. His research and analysis was an effort to provide the means to overcome the current system of exploitation. Marx's active attempts to engage politics and social action were evident beginning with his contri-

butions to the *Rheinische Zeitung* but continuing throughout his career. Before his analysis was more thoroughly articulated in *Capital*, Marx was already fully engaged in the social upheavals in Europe. As part of his ongoing involvement in organizations promoting change, Marx became involved in the Working Men's International Association (The International) (McLellan 1973: 360). While Marx did not form the International, his influence was decidedly felt by the International's request for Marx to write the Inaugural Address, Preamble, and the rules for the organization in 1864 (Thomas 1980: 256, 260–261).

The combination of financial woes, health issues, political activity, and Marx's meticulous research process slowed the completion of *Capital*. The preparatory work for *Capital* spanned many years including notes produced from 1850 to 1853 and a manuscript from 1857 to 1858 merely for "self clarification" (Vasilyeva 1986: xii, xiv). The final corrections for the finished first volume of *Capital* were not delivered until August of 1867 (McLellan 1973: 341, 360). Marx continued to include new developments in future editions of *Capital*. As his health was deteriorating, he included revisions and clarifications in the second edition of *Capital* (Marx 1977a [1887]: 12–13). Before he could complete the revisions for a third edition of Volume One and prepare Volumes Two and Three for publication, Marx died on March 14, 1883, leaving Engels, his long-time collaborator, to edit and assemble Marx's remaining volumes of *Capital* (Engels 1977 [1887]: 27–29).

The Concept of Value

Based on Marx's research method, he begins *Capital* with the commodity, an object that serves a want or need (Marx 1977b [1887]: 45). The commodity is also the key to understanding the origin of value. Marx criticizes and expands on the concept of value as it was defined by Adam Smith and David Ricardo. Like Smith and Ricardo, Marx's discussion divides value into use and exchange value, but much like it sounds, use value describes the usefulness to the person who possess it, and use value is inherent in the object itself (Marx 1977b [1887]: 46). Use value is the practical purpose to which someone puts an object. There is use value in a rock used to

hold open a door, or the pen used to take notes. Exchange value is entirely independent of use value (Marx 1977b [1887]: 48), except that something with no use is unlikely to have an exchange value (Marx 1977b [1887]: 51). If something does not meet a need, no one is likely to exchange for it.

For Marx, if something is to have an exchange value, there must be something in common between all commodities that allows them to be traded with each other, in other words to be commensurable.

Therefore, first: the valid exchange-values of a given commodity express something equal; secondly, exchange-value, generally, is only the mode of expression, the phenomenal form, of something contained in it, yet distinguishable from it. ... there is nothing left but what is common to them all; all are reduced to one and the same sort of labour, human labour in the abstract. (Marx 1977b [1887]: 47, 48)

As Marx discussed in the alienation from the product, people's labour is embodied in the products that they work upon. This effort, the very labour of the work, is crystallized in the product in the form of value (Marx 1977b [1887]: 48). People's labour is the common element in commodities that give it exchange value in a capitalist economy.

When Marx discusses exchange value, he argues, like with other concepts, it must be considered historically. According to Marx, it is not technically correct to argue that there are two types of value, use and exchange. In his view, "A commodity is a use-value or object of utility" (Marx 1977b [1887]: 71). Outside of capitalist relations, there is no such thing as exchange value, because exchange takes place based on the utility of the objects. Only when you have capitalist exchange relations does a commodity assume an exchange value, instead of a value based on the usefulness to the person who possesses it. Because labour is central to the determination of exchange value, Marx continues with his centrality of labour to his analysis. As with labour in species being, the labour in the production of the commodity produces a value, and it is the labour embodied in every commodity that is shared in common that allows commodities to be commensurable in exchange.

Marx feels that prior economists and “Free-trade bagmen” (Marx 1977b [1887]: 71) did not understand this distinction and confused the concept of exchange value in capitalism with the value of items in prior historical periods. Other previous economists tended to assume that exchange value existed in all historical periods. “For them there consequently exists neither value, nor magnitude of value, anywhere except in its expression by means of the exchange-relation of commodities, that is, in the daily list of prices current” (Marx 1977b [1887]: 71). Because they do not understand that exchange value does not exist outside of capitalism, these economists cannot comprehend the common measure used to determine the value of products. Marx points out that Ricardo criticizes those who want to use corn as a common unit of value, but Ricardo concludes, “Of such a commodity [as a common measure], we have no knowledge, but we may hypothetically argue and speak about it, as if we had” (Ricardo 1962 [1821]: 275).

Marx’s notion of value differs from Ricardo’s, also, because Ricardo does not situate the concept of value historically. Ricardo’s analysis of value assumes that all societies consider exchange in the same fashion as in capitalist society. In his discussion of value, Ricardo, sourcing Smith, returns to a “fictitious primordial condition” to illustrate the relative value of fish and deer (Ricardo 1962 [1821]: 26–27). For Ricardo, people in these early societies traded goods based on exchange value, no different than those in bourgeois society; barter is equivalent to commodity exchange. Marx notes the absurdity of such a discussion (Marx 1977b [1887]: 87, see footnote) because Ricardo and other political economists are unable to differentiate between values in different historical periods.

As regards value in general, it is the weak point of the classical school of political economy that it nowhere, expressly and with full consciousness, distinguishes between labour, as it appears in the value of a product and the same labour, as it appears in the use value of that product. (Marx 1977b [1887]: 91n)

According to Marx, the classical school views the value in the trade of goods in early societies as same as the value in capitalist trade. Thus, the unique historical nature of the concept “value” is concealed by the imposition

of the concept of exchange value outside of its specific historical context within capitalism. As a result, the fact that exchange value is unique to capitalist society is not recognized.

Those who focus on exchange value, as if it exists in all societies, contribute to the fetishism of commodities, obscuring the source of exchange value in abstract labour time (Marx 1977b [1887]: 86). Exchange appears, not as the relationship between people, but as a relationship between things, commodities in the market. In contrast, Marx points to feudal relations where the relations between servant and lord are not hidden. The transfer of personal labour expended in the service to the lord is obvious to the servants (Marx 1977b [1887]: 88). When servants turn over the products of their labour to the lord, it is clear to whom the product is given and what was necessary to produce it. In wage labour, the product of the workers' efforts belongs to the owner, but it is not clear what the owner takes from the workers, unlike peasants who know exactly what they gave up to the lord. Also, consumers who purchase products with their wages do not know the workers who produced their goods. Within bourgeois commodity production, the exploitation by the capitalist and the social nature of producing the items we need are concealed.

Labour as the Source of Value and Profit

Proceeding from the value of commodities, Marx investigates the source of profit in the exchange of commodities. To find the source of profit, Marx identifies two circuits of the exchange of commodities. The first is C–M–C. The first “C” is a commodity that is then exchanged for “M” which is money that can be exchanged for another commodity, the second “C.” This circuit ends when the commodity is consumed (Marx 1977b [1887]: 113–115). For example, an artist may sell a piece of jewellery (C) for money (M) that is used to purchase bread (C). Once the bread is consumed, the circuit is ended.

The first circuit, C–M–C, is characteristic of exchange in the marketplace. Marx is more interested in the creation of value and profit, so he turns his attention to the second circuit, M–C–M. In this circuit, money is used to buy a commodity that is then sold for money. Initially, this circuit

seems to go nowhere; money is exchanged only to return with the same money (Marx 1977b [1887]: 158). To address this issue, Marx changes the circuit slightly, $M-C-M'$. In this circuit, M' is M with additional M , and the added amount of M is called “surplus value” (Marx 1977b [1887]: 161). The overriding goal of the capitalist system is to focus on creating more M , money, at the end of the circuit than at the beginning. A capitalist will then reinvest the additional money in the circuit to generate more money, surplus value. The process of generating additional money is the underlying requirement of the capitalist system to engage in a never-ending accumulation of more money, capital.

Accumulate, accumulate! That is Moses and the prophets! ... Accumulation for accumulation's sake, production for productions' sake: by this formula classical economy expressed the historical mission of the bourgeoisie, and did not for a single instant deceive itself over the birth-throes of wealth. (Marx 1977b [1887]: 591)

The capitalist society must abide by this circuit of accumulation. All capitalists, as business owners, must continuously expand, if they are to survive in business. All other considerations, including the use value of their product, are secondary. “Use values must therefore never be looked upon as the real aim of the capitalist” (Marx 1977b [1887]: 164). Capitalists do not care about the usefulness (or harm) of their products as long as they are able to sell them to accumulate more money. For example, it is of no concern to a capitalist who makes plastic bags if a store employee puts a plastic bag around an item with a handle. The customer likely throws the bag away, and it can end up floating about in the ocean where a sea creature may consume it (Horton 2018). The capitalist has no interest in the possible ecological consequences of its product as long as it can realize its exchange value. If public outcry over the anti-environmental nature of the product reduces sales, the capitalist will begin to be concerned, not because of the moral or ethical implications, but because it threatens the realization of exchange value, i.e. corporate profits. Global problems of ecological degradation and labour abuses are the direct consequence of the capitalist's singular focus on exchange value and disregard for use value.

To find the source of exchange value and profit, Marx first critiques earlier economists and their views regarding the source of profit. Marx referred to the subjects of his critique as “vulgar economists” (Marx 1977b [1887]: 92f). In the first view, Marx, and Engels, argue vulgar economists assert the owners make profit by selling a product for greater than the purchase price of its component parts. According to this view, workers are unable to sell their labour for greater than its cost (unlike the business owner), and thus, workers receive no profit from selling their labour (Engels 1998 [1894]: 12–13; Marx 1977b [1887]: 168–169, 172–173). In the second view according to Smith, labour produces value in production, but nearly all labourers in a capitalist society work for another who supplies the workers with materials necessary for their work. Profit is the deduction, from wages, of the share of the value taken by the business owner for advancing the workers the materials of production (Smith 1999 [1776]: 168). In effect, profit is, basically, a fee paid by the worker for the privilege of working for the business owner. In the explanations by the vulgar economists and Smith (workers sell their labour for too little, and workers rent their materials), the business owner’s actions are responsible for producing profit. Marx felt the explanations were unsatisfactory, and set about to describe the origin of profit in production.

To determine the correct source of profit, Marx analyzed the working day of a wage labourer under capitalism. For capitalism to function, it must have “free” labour. Free does not indicate slavery, but the opposite. Free labour requires a person (1) is not obligated to work for someone else, like a slave or indentured servant, and (2) cannot survive without wages, because they do not own the materials necessary for one’s own survival such as land, machinery, etc. If individuals do not have capital or other means of providing for themselves, they must sell the only commodity they possess, the capacity to work. Marx refers to the capacity to work as “labour power.” When capitalist purchases workers’ labour power, they are paying workers for a day’s labour. The capitalist does not purchase a specific amount of labour, so the amount of work that the workers do during the day can vary. Since the workers may work faster or slower depending on the capitalist’s demands, the amount of value that the workers produce may also vary (Marx 1977b [1887]: 177–179).

Marx divides up the workday into two components, necessary value and surplus value. According to Marx, the value of any commodity is equal to the amount of labour necessary to produce it. When workers sell their labour power to the capitalist, the value is equal to what is necessary to produce workers, just like any other commodity. The first component of the workday is based on the amount of value produced during the workday equal to the amount necessary to keep workers alive and in good health, as well as their families. In essence, workers will work for a certain portion of the day, and their labour produces value. The value produced during this portion of the working day will provide enough value to support the workers and their families (Marx 1977b [1887]: 180–182). Marx refers to this portion of the day worked as “necessary labour time” (Marx 1977b [1887]: 226).

Workers do not stop working after their necessary labour time. While during their necessary labour time, they produce the value that would, roughly, go to their wages. They continue to work, but during the rest of the day, their efforts would continue to produce value for the capitalist. The labour that they put in after the necessary labour time is called surplus labour time. During this second portion of the workday, workers create “surplus value which, for the capitalist, has all the charms of a creation out of nothing” (Marx 1977b [1887]: 226). The value that is produced after workers complete their necessary labour time is the value that goes entirely to the capitalist. The value produced during the surplus labour time is surplus value. By identifying workers as the ones who produce surplus value, not capitalists, Marx is able to argue that exploitation is inherent in the capitalist system. For Marx, the real question is not the quality of working conditions, but the fact that workers create surplus value in capitalist production. Exploitation is the appropriation of workers’ surplus value by the capitalist. “The rate of surplus value is therefore an exact expression for the degree of exploitation of labour-power by capital, or of the labourer by the capitalist” (Marx 1977b [1887]: 227). Whether workers have comfortable and rewarding jobs or work in sweatshops, they are all exploited by the capitalists for the surplus value they create, and workers are still alienated through their wage labour. While generally, exploitation is considered being treated unfairly, exploitation is not a matter of work-

ing conditions according to Marx, but the very nature of wage labour and capitalist profit-making.

Having located profit in the process of wage labour, Marx then demonstrates how the workday can be manipulated to help capitalists expand their profits. Since the workday is divided into necessary and surplus labour, the capitalist is interested in expanding the amount of surplus labour as possible (Marx 1977b [1887]: 239–241). This may be accomplished by “lengthening the working day and intensifying labour” (Marx 1998b [1894]: 230).

Capitalists desire to make the working day as long as they can to produce more surplus value during the day (Marx 1977b [1887]: 243, 250–251). While the longer day may strain the workers’ health, the capitalist gains more in surplus labour through longer hours than the loss in the small increase of necessary labour to recuperate the exhausted workers (Marx 1977b [1887]: 270–272).

But in its blind unrestrainable passion, its were-wolf hunger for surplus labour, capital oversteps not only the moral, but even the merely physical maximum bounds of the working-day. It usurps the time for growth, development, and healthy maintenance of the body. It steals the time required for the consumption of fresh air and sunlight. It higgles over a meal-time, incorporating it where possible with the process of production itself, so that food is given to the labourer as to a mere means of production, as coal is supplied to the boiler, grease and oil to the machinery. It reduces the sound sleep needed for the restoration, reparation, refreshment of the bodily powers to just so many hours of torpor as the revival of an organism, absolutely exhausted, renders essential. (Marx 1977b [1887]: 270–271)

The capitalist, in their individual interest, will attempt to prolong the working day to the greatest length possible, at the expense of the health of the worker. Only through the pervasive struggle of the worker against the capitalist to settle, in legislation, the proper length of the workday, has the workday been prevented from its maximum (Marx 1977b [1887]: 274–276).

The pressure by the workers to reduce the workday further encouraged capitalists to increase the intensity of labour to restore the value of production lost by the fewer hours in the workday. One mechanism to intensify

the productivity of labour was simply the greater application of surveillance of the workers. By ensuring workers are not idle, capitalists realize greater productivity. Another mechanism for intensifying the productivity of labour is the improvement of the machinery to increase the pace of work (Marx 1977b [1887]: 413–415). The intensification of labour allows the workers to complete their necessary labour in a smaller amount of time, leaving a greater amount of surplus labour in the workday. While the extension of the workday adds surplus labour (and hence surplus value) to the end of the workday, the intensification of the workday is the addition of surplus value through greater productivity in a given workday. Marx sums up the working day and the source of value thus, “Capital is dead labour, that, vampire-like, only lives by sucking living labour, and lives the more, the more labour it sucks” (Marx 1977b [1887]: 241). It is in the interest of the capitalist to achieve increased profit by pushing workers to their mental and physical limits by forcing workers into ever longer workdays and intensifying their work.

Primitive Accumulation

Near the end of the first volume of *Capital*, Marx turned his attention to the very origin of capitalism. Marx was very clear about the brutality and utter cruelty that was the basis for sums of money necessary for the economic system of capitalism to originate.

The discovery of gold and silver in America, the extirpation, enslavement and entombment in mines of the aboriginal population, the beginning of the conquest and looting of the East Indies, the turning of Africa into a warren for the commercial hunting of blackskins, signalled the rosy dawn of the era of capitalist production. (Marx 1977b [1887]: 739)

The transition Marx described from a feudal society to a capitalist one was a long and bloody process, both in Europe and the regions where Europeans conquered. There is no disguising the fact that capitalism owes its genesis to the murder, slavery, and displacement of indigenous peoples of the Americas and Africa as well as the peasants of Europe. Marx stated,

“If money... comes into the world with a congenital blood-stain on one cheek, capital comes dripping from head to toe, from every pore, with blood and dirt” (Marx 1977b [1887]: 748). Marx refers to the dawn of capitalism as “primitive accumulation” (Marx 1977b [1887]: 748).

For capitalism to originate, two elements are necessary, “free” labour and “considerable masses of capital” (money). With free labour, as mentioned above, labourers must not be owned by others, as a slave, or legally bound to someone else as a peasant or indentured servant. Also, free labourers must not own property that could be used to support themselves. In other words, labourers cannot make a living without being employed by someone else (Marx 1977b [1887]: 704–706). The second element is a large sum of wealth, capital, in order to begin investing in capitalist enterprises.

Beginning with the first element of free labour, the feudal system in Europe began to deteriorate, and peasants were released from their service to their lords in the process. At the end of the fourteenth and the early fifteenth century, the feudal system began to break down, leaving many of the peasant tenants to produce, in large part, for themselves. Peasants worked on large estates, but also made use of the small plots of land near their homes and areas called the commons, tracts of land that were made available for use by the entire community. The commons provided the means to pasture their cattle, collect firewood, and cut timber for building their structures (Marx 1977b [1887]: 707–708).

The first move to disenfranchise the peasants came as feudal lords cast out great numbers of feudal retainers and servants during the last part of the fifteenth and the early part of the sixteenth century. Soon, feudal lords began to uproot the peasantry from their lands as the price of wool increased. In 1488, King Henry VII attempted to legislate against the concentration of land ownership and the removal of people from the land by putting limits on the destruction of cottages (Marx 1977b [1887]: 708–710). Next, the legal system of feudalism was dismantled and new taxes were imposed by the state. Through these legal measures, the right of private property was established. State lands were appropriated by large landowners and early capitalists (Marx 1977b [1887]: 713–714).

To facilitate the removal of peasants from the land and to concentrate land ownership in the eighteenth century, a process called the “enclosure

of the commons” denied public access to the commons and put it in the hands of large landowners. The enclosures removed the last ability of peasant labourers to provide for themselves by concentrating the common lands into the hands of wealthy landowners. Large landholders would appropriate vast tracts of land already in use by many tenants under the guise of the enclosure movements. What previously supported many farms and tenants now supports a few wealthy landowners. The amount of land used for agricultural production declined dramatically. Those forced off the estates or enclosed lands were now forced to labour on agricultural farms where wages were less than the necessities of life (Marx 1977b [1887]: 715–717). The people who were displaced are now “free” labourers because they no longer are obligated to their feudal lord, and with the loss of land, cannot support themselves without working for someone else.

The final movement in the enclosures was to clear people from the land. In order to appropriate the land, it must first be cleared of its current inhabitants (Marx 1977b [1887]: 718). In some cases, whole villages were systematically uprooted as their houses and buildings were burned. Many were then relocated to less productive land in much smaller plots (Marx 1977b [1887]: 720). Even though people were forcibly removed from the land, they did not gleefully or willingly migrate to the urban areas to labour in the budding capitalist manufactures. Legislation in the late fifteenth and early sixteenth century was created and enforced against the unemployed. Under the first offence, the offender is usually whipped and returned to their birthplace. Second offences resulted in more corporal punishment and possible branding. Usually, the third offence led to capital punishment. Other methods placed the convicted unemployed into indentured servitude or slavery, depending on their offence (Marx 1977b [1887]: 724–726). As early as the fourteenth century, wages were set by legislation which punished both the employer and the employee, although the employee receives the more severe punishment for accepting higher than legal wages. Worker “combinations” or unions were illegal until 1825 in England (Marx 1977b [1887]: 727–728). At the dawn of capitalism during primitive accumulation, the working populations strenuously resisted working for wages. Only through fines, punishment, and laws forbidding workers’ objections to the new capitalist system were the

wealthy capitalists able to subdue the population into a wage labour system.

The second element necessary for the genesis of capitalism was the amassing of a pool of wealth that could then be used to facilitate the creation of capitalist enterprises. The development of the industrial capitalist occurred as a result of the new wealth being generated through the subjugation and devastation of indigenous communities around the world. The conquest of the Americas would be the major source of wealth to provide Europe with the necessary capital. The indigenous populations of the Americas were enslaved to work in mines to produce silver and gold to be shipped back to Europe. When the indigenous populations were decimated, the African slave trade produced the labour to continue to exploit the Americas for its minerals and other resources. Working indigenous people to death and enslaving Africans were the fundamental mechanisms used to generate the capital necessary for capitalism to originate. In the process of the theft of resources through colonial expansion, the colonies provided markets for the home countries' goods, but also provided the capital for growing manufactures. The theft of resources and the brutal treatment of the indigenous and African peoples provided the "treasures" that were sent back to Europe (Marx 1977b [1887]: 739–741). Marx commented on this process wryly, "These idyllic proceedings are the chief momenta of primitive accumulation" (Marx 1977b [1887]: 739). While crude economists may think of the successes of capitalists are due to their hard work, Marx emphatically disagrees (Marx 1977b [1887]: 704–705). The brutality of the colonial system generated wealth for the early capitalists, "without the advance of a shilling" (Marx 1977b [1887]: 740).

The Origin of "Race" in Primitive Accumulation

Researchers since Marx have pointed to the same processes Marx outlined as primitive accumulation as the origin of the notion of racial differences and the subsequent racial inequality. Marxist researcher Oliver Cox firmly places the origin of racial antagonism in the era of primitive accumulation. "If we had to put our finger upon the year which marked the beginning

of modern race relations we should select 1493-1494” (Cox 1959: 331). To exploit the resources of the Americas, the need for labour, satisfied by indigenous and African slaves, was the origination of the ideology that would become racial antagonism. “It was not an abstract, natural immemorial feeling of mutual antipathy between groups, but rather a practical exploitative relationship with its socio-attitudinal facilitation—at that time only nascent race prejudice” (Cox 1959: 332). According to Cox, race hatred is not something biological or the result of natural antagonisms between neighbouring societies. Racial antagonism is rooted in the very dawn of capitalism and its necessary exploitation of labour and drive for profit. The use of race to facilitate exploitation did not stop with primitive accumulation. “As it developed and took definite capitalistic form, we could follow the white man around the world and see him repeat the process among practically every people of color” (Cox 1959: 333).

Another Marxist researcher, W. E. B. Du Bois, pointed to the early era of capitalism and the slave trade as the origin of racial ideology. “Karl Marx emphasized the importance of slavery as the foundation of the capitalist order” (Du Bois 2007 [1939]: 99). Du Bois quotes Marx’s analysis of the slave trade in the generation of the capital necessary for the growing industry in Europe. “The treasures obtained outside Europe by the direct looting, enslavement, and murder, flowed to the motherland in streams, and were there turned into capital” (Marx 1977b [1887]: 741, cited in Du Bois 2007 [1939]: 101). Du Bois, like Cox, argued that racial ideology came from the use of slavery during the early period of capitalism. “Hence arose a doctrine of race based really on economic gain but frantically rationalized in every possible direction” (Du Bois 2007 [1939]: 91).

The race doctrine, according to Du Bois, is then used to justify the ongoing exploitation of the regions of the world where people of colour live, even after primitive accumulation ends. “Bluntly put, that theory is this: It is the duty of white Europe to divide up the darker world and administer it for Europe’s good. This Europe has largely done. The European world is using black and brown [people] for all the uses which [people] know. Slowly but surely white culture is evolving the theory that ‘darkies’ are born beasts of burden for white folk” (Du Bois 1986b [1920]: 931). The process through which the exploitation of these regions of the world occurred is called colonialism. Under colonialism, a region of the world

is directly controlled by another nation, and its political, economic, and cultural institutions are governed closely by the colonizing nation. The colonizing nation establishes the relationship to furnish the raw materials and commodities it needs from the region it colonizes (Du Bois 1985 [1944]: 229). At varying time periods under different historical circumstances, a shift occurs where the colonizing nation no longer directly politically controls a nation, but retains an economic dominance in the region. Du Bois (1985 [1944]: 230) refers to the newer form as “semi-colonial.” The colonizing nation no longer needs to manage the political affairs of the nation, but still retains the same exploitative relationship. “Instead of removing labourers from Africa to distant slavery, industry built on a new slavery approaches Africa to deprive the natives of their land, to force them to toil, and to reap all the profit for the white world” (Du Bois 1986a [1920]: 940). Capitalist enterprises seek out these regions of the world because they find that the labour is the cheapest, and profit is higher. Du Bois attributes the cheapness of labour to the racist ideology meant to justify racial inequality (Du Bois 1986b [1920]: 935–936).

The tragedy of the analysis by Cox and Du Bois is that they have been largely ignored until recently (Zuckerman 2004: 7). The process that Du Bois outlines where capitalist enterprises seek out the cheapest labour has also been discussed by another Marxist researcher, Immanuel Wallerstein. As Marx and Du Bois stated, indigenous populations are displaced so that capitalists can create free labour and access the resources necessary for profit-making, but despite its similarity to primitive accumulation, this process occurs after primitive accumulation has ended. Wallerstein does not refer to this more recent process as primitive accumulation, but calls it incorporation (Hopkins and Wallerstein 1987: 763). Capitalist enterprises, as Marx stated, must constantly reinvest in production to expand its capital. According to Wallerstein, one mechanism to facilitate expansion is to expand out to other regions of the world (Hopkins and Wallerstein 1987; Wallerstein and Martin 1979). Capitalists will seek out those regions where the labour is cheapest, especially where people are not fully dependent on wage labour. If workers can provide part of their income through some other means, they will be predisposed to taking a lower wage (Wallerstein 1983: 39). These regions tend to be areas that are still largely agricultural or populated by indigenous people of colour who

have not joined the labour force in large numbers. Contemporary issues of displacement and exploitation of indigenous groups can be understood using Marx's analysis and researchers who have followed his approach.

Conclusion

This chapter is not able to cover all the ways Marx's perspective could be applied to globalization, but the range of possible applications is nearly endless. For example, contemporary researchers point to Marx's use of the term "metabolism" and his analysis of the degradation of the soil by capitalist agriculture (Foster et al. 2010). Marx contended, "Moreover, all progress in capitalist agriculture is a progress in the art, not only of robbing the labourer, but of robbing the soil; all progress in increasing the fertility of the soil for a given time, is a progress towards ruining the lasting sources of that fertility" (Marx 1977b [1887]: 507). Kohei Saito (2017: 243) has been able to study recently published notebooks of Marx to add to our understanding of Marx's ecological critique. One promising section documents Marx's research into the effects of human activity on the local climate. Although these notebooks were near the end of his career and he was unable to incorporate them into his writing, Saito points out how eager Marx was to incorporate the latest knowledge. Our current concerns regarding local and global climate change are easily incorporated into an analysis following Marx's intellectual groundwork.

Researchers since Marx continue to apply Marx to issues of global concern. The meticulous research method Marx created provides a solid body of research, but also a model for conducting future research. The questions that Marx raised about alienation, workplace struggles, centralization of wealth, racial exploitation, and ecological degradation are all issues of global concern in our contemporary society. The force of Marx's analysis is the systematic understanding of concepts that can be applied today, but also the ability, as Marx argued, to understand the issues we face historically. Although Marx was unable to complete the project he set out for himself, researchers have since been able to continue his work, and the understanding of globalization is one area where his legacy can be fruitfully applied.

Notes

1. Some of the concepts in this chapter were previously covered in a prior chapter, “Karl Marx,” written for graduate audiences and above (Prew 2018). The focus of this chapter is directed towards Marx’s ideas that are relevant to the field of globalization. In contrast to the prior chapter which was organized thematically, this chapter is written chronologically and is intended to be more accessible for those new to the work of Karl Marx.
2. Even people who tend to work at “desk jobs” can suffer this physical degradation. As I write this very chapter, I suffer from a bulging disc in my back causing nerve pain that allows me to walk only a few feet at a time. My back problems are a direct result of my 65–70 hour work week as a university professor that has prevented me from exercising for the past few years.

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Edmund Burke's Liberalism

Thomas Hoerber

This chapter on the political thought of Edmund Burke (1729–1797) will mainly focus on British politics and history in the context and in contrast to the French Revolution of 1789. Writing at the height of the Enlightenment period and alongside great thinkers, such as David Hume (1711–1776), Adam Smith (1723–1790), who also have dedicated chapters in this book, Edmund Burke has been overlooked as a great thinker. His liberalism was much more practical economics than what Smith provided and Burke's hands-on studies of the functioning of the market was overshadowed by the theoretical analysis of the functioning of the free market economy by the other two thinkers. Rather than a theoretical sprit, Burke saw himself as an astute observer and representative of British Conservatism with liberal tenant, both in the economic and the political field. That is also where he put forward his most brilliant arguments, i.e. on the crossroad between economics and politics, or rather where economics has a real purpose, namely serving the people and the state. That is why this chapter will focus on the political arguments of what Burke called British

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Traditionalism, namely where the good functioning of economic action, mostly of individual citizens, serves the well-being of the whole society. In this approach, economic logic will be used to show its usefulness for society as a whole in order to reflect one of the principal objectives of this book, namely to make the link between economics and politics evident. This would not have been necessary in Burke's time. Economics did not even exist as a discipline, as the example of Adam Smith teaching Political Economy clearly shows. Today, in our time of Globalization, economics seems to have lost that natural link to political and societal usefulness (Hoerber 2017). This chapter on Edmund Burke is meant to show that the connection of the two is essential and that one way of making economics more meaningful in our time of Globalization may be to go back to those roots where economics explained the proper functioning of economic activity for the benefit of society.

Pocock on Burke—Why Is the History of Political Thought Important?

The name of J. G. A. Pocock has long been familiar to those interested in the History of Political Thought. After his seminal book, published in 1975, *The Machiavellian Moment—Florentine Political Thought and the Atlantic Republican Tradition* (1975), his reputation as one of the great voices in the field was assured. He summarized his area of study thus:

The history of ideas may legitimately, though not exclusively, be viewed as the history of modes of explaining the world and its behaviour which have from time to time existed. (Pocock 1975: p. 126)

Pocock's article which we consider in the first part of this paper, was written 15 years earlier to *The Historical Journal*, Cambridge, UK. The title, "Burke and the Ancient Constitution—a Problem in the History of Ideas" (Pocock 1960: pp. 125–43), may not seem particularly appealing to a layman in this field. However, Pocock, like Burke, who was his subject of analysis, has no difficulty in demonstrating the relevance of seventeenth and eighteenth century British and French History to the fundamental

issues, such as liberty or equality, which still define our societies and much of our very existence, today.

He began with an outline of the essentials of Burke's conservatism—what he calls “traditionalism,” and which is certainly an important subtenant in the *History of Political Thought* (Pocock 1960: p. 126). “... a nation's institutions were the fruit of its experience ... they had taken shape slowly as the result, and were in themselves the record of a thousand adjustments to the needs of circumstance ...” (Pocock 1960: p. 125). The past tense is used here in reference to the reality of seventeenth and eighteenth century society and the values it was based on. Burke called this *traditionalism* and this political, social, and historical phenomenon is the main subject of analysis in this chapter. For Burke, trial and error, usage and experience, were the tools which shaped these institutions (Pocock 1960: p. 125). The existing institutions were thus beyond full and proper understanding for their current users, because they did not share the historical experience of their predecessors, but ought to accept their wisdom (Pocock 1960: pp. 125, 132). This conservative tradition, which Burke represented in the late eighteenth century as writer, farmer—as he liked to see himself—and politician, was diametrically opposed to the concepts of the “age of reason” (Pocock 1960: p. 125), which had gained such widespread currency during the Enlightenment, culminating, in Burke's time, in the high romantic drama of the French Revolution. Burke saw himself as representing this tenant of British traditionalism, which opposed the cold logic of the natural sciences or the French revolution, both consequences of the Enlightenment. For Burke, feeling, customs and experience were more important than pure logic and this world view still existed in Britain in his time (Pocock 1960: pp. 126–7). The following quotation clearly shows his way of understanding the world:

I must see with my own eyes, I must, in a manner, touch with my own hands, not only the fixed, but the momentary circumstances before I could venture to suggest any political project whatsoever. I must know the power and disposition to accept, to execute, to persevere. I must see all the aids and all the obstacles. I must see the means to correcting the plan, where correctives would be wanted. I must see the things; I must see the men. Without a concurrence and adaptation of these to the design, the very best

speculative projects might become not only useless but mischievous. Plans must be made for men. We cannot think of making men, and binding nature to our designs. (Burke 1791a: p. 312)

The way British society was managed came from a time well before the Magna Carta of 1215, the first written constitution, which itself was—arguably—little more than a reaffirmation of long-existing rules and customs common to all inhabitants of the British Isles (Pocock 1960: pp. 127–8; Burke 1790: p. 34). This, in Burke’s time, made up the unwritten British constitution. “Rights are not justified [in Burke’s Britain] by abstract reason, but as an inheritance under positive law” (Pocock 1960: p. 128). Even Cromwell’s revolt against the Crown in 1648–1649 has usually been interpreted as appealing more to the common law and customs than to reason and social contract, notably in John Locke’s *Two Treatises of Government* of 1764 (Pocock 1960: p. 128) or Thomas Hobbes’ *Leviathan* of 1651 (Pocock 1960: p. 133). This is legal instinct based on lived tradition with a keen feeling for British society, as opposed to reason and logic brought to bear to reach an understanding of French society after the Revolution of 1789. Burke was witness to some of the horrors of the early years of this Revolution and preferred by far the way British affairs were organized, with so much less reference to doctrine and much more reference to and reliance on precedent (Pocock 1960: p. 129):

... experience does what reason cannot do – it finds out the ‘conveniences and inconveniences’ that attend the operation of a particular law, which the complexity and instability of the social context render it impossible ‘for the wisest Council of Men at first to foresee’. Secondly, and in consequence of this, he [Matthew Hale (1609–1676), Cromwell’s Chief Justice and a conservative with whom Burke ultimately found some common ground] (see Burke 1791a: p. 287) argues that ancient laws very often defy our criticism, for the reason that while we have the law itself we no longer know the circumstances in which, or the reasons for which, it was originally made. Therefore we cannot criticize these reasons; but the mere fact that the law survives furnishes a presumption, not only that the law was originally good, but that it has adequately answered the needs of all the situations in which it has subsequently been invoked. There is a further presumption that it will

adequately solve our problem, even though to our intellects, evaluating the problem and the law, it may not appear so. (Pocock 1960: p. 135)

Such conservative legal tradition did not suggest that the laws were somehow carved in stone, however. They were under constant scrutiny through practice and their interpretation was constantly adapted to the circumstances of the society they served (Pocock 1960: p. 137). This concept is founded in the conviction that there exists a fully formed society which generates laws for its own governance.

At this point, perhaps surprisingly, Burke disagreed with the conservative tradition of political thought—Matthew Hale was quoted as its forerunner and frequent reference—which made this conception of society its basis. He said the following in response:

... the truth is, the present system of our laws, like our language and our learning, is a very mixed and heterogeneous mass; in some respects our own; in more borrowed from the policy of foreign nations and compounded, altered and variously modified, according to the various necessities, which the manners, the religion and the commerce of the people have at different times imposed. (Burke 1877: 413–16)

Burke offers conservatism a better explanation of the functioning of law in society, by saying that there is more than just the law itself which can explain society's existence and finally its usefulness. By saying that laws come partly from abroad—he mentions the influence of Montesquieu on “the manners, the religion and the commerce of the [British] people”—the spirit of institutions can be discerned through their historical development within British society, but also through an analysis of outside influences. “He implies clearly that the history of law can be made intelligible” (Pocock 1960: p. 139). He rejects the mystical and immemorial nature of laws and institutions, which had earlier been the hallmark of conservative political thought, such as in Matthew Hale—as mentioned above. Towards the end of his life and perhaps in the face of the experience of the French Revolution, Burke came back to the classical traditionalist position of Matthew Hale as can be seen in the following quotation:

Our constitution is a prescriptive constitution; it is a constitution whose sole authority is that it has existed time out of mind ... Your [British] king, your lords, your judges, your juries, grand and little, all are prescriptive; and what proves it is the disputes not yet concluded, and never near becoming so, [as to] when any of them first originated. Prescription is the most solid of all titles, not only to property, but, which is to secure that property, to government ... It is accompanied with another ground of authority in the constitution of the human mind – presumption. It is a presumption in favour of any settled scheme of government against any untried project, that a nation has long existed and flourished under it. It is a better presumption even of the *choice* [italics in the original] of a nation, far better than any sudden and temporary arrangement by actual election. Because a nation is not an idea only of local extent, and individual momentary aggregation; but it is an idea of continuity, which extends in time as well as in numbers and in space. And this is the choice, not of one day, or one set of people, not a tumultuary and giddy choice; it is a deliberate election of the ages and of generations; it is a constitution made by what is ten thousand times better than choice, it is made by the peculiar circumstances, occasions, tempers, dispositions, and moral, civil and social habitudes of the people, which disclose themselves only in a long space of time. It is a vestment, which accommodates itself to the body. Nor is prescription of government formed upon blind, unmeaning prejudices – for man is a most unwise and most wise being. The individual is foolish; the multitude, for the moment is foolish, when they act without deliberation; but the species is wise, and when time is given to it, as a species it always acts right. (Pocock 1960: p. 140)

This has become the embodiment of English conservatism, which was situated, as we will see later, against the perceived horrors of the French Revolution and very much in opposition to it. This very British way of being provided, from Burke's perspective, a better solution to the challenge of the government of a people than the first French Republic could.

The question how change happens to a conservative constitution has been answered above through the constant and uninterrupted adaptation of the interpretation of laws to the habits of the current situation (Burke 1790: p. 65). The French Revolution, however, posed the existential question whether the English constitution was good or had, perhaps, over time, drifted away from original principles. Burke answers this in the

most sternly conservative way possible: the English constitution was good, because it existed. In his own words, that meant:

To ask whether a thing which has always been the same stands to its usual principles, seems to me to be perfectly absurd; for how do you know the principles but from the constitution? and if that remains the same, the principles remain the same. It is true, that to say your constitution is what it has been is no sufficient defence for those who say it is a bad constitution. It is an answer to those who say it is a degenerate constitution . . .

On what grounds do we go to restore our constitution to what it has been at one definite period, or to reform and reconstruct it upon principles more conformable to a sound theory of government? A prescriptive government, such as ours, never was the work of any legislator, never was made upon any foregone theory. It seems to me a preposterous way of reasoning, and a perfect confusion of ideas, to take the theories which learned and speculative men [Burke refers to representatives of the social contract, such as Rousseau, but also Hobbes and Locke] have made from that government, and then, supposing it made on those theories, which were made from it, to accuse the government as not corresponding with them. (Pocock 1960: p. 148)

By contrasting these positions—immemorial laws versus contextual understanding of them—which Burke took at different periods of his life, Pocock shows very convincingly the conservative adaptation to the circumstances of the times. Rationalism, which appealed to the young Burke, the older Burke rejected in favour of conservative traditionalism, not because he had mellowed with age, but because the French Revolution demonstrated all too spectacularly the perversions of the enthronement of reason taken too far. What France suffered in 1789 and in the Terror of 1793–1794 horrified Burke. He definitely wanted to prevent such a fate for Britain. Pocock shows this when he summarized Burke's reversion to traditionalism, quoting "... little or nothing can be known of the history of an immemorial constitution save that there is a great weight of presumption in its favour" (Pocock 1960: p. 142); Pocock also shows, in the reference to Hale, that Burke's conservatism was based on an older tradition which still had a wide following in the England of Burke's time and which in itself must be seen as an argument for the rightful existence of common customs, common practice, and an instinctive unwritten

element to the British constitution and its laws (Pocock 1960: p. 143; Burke 1791a: p. 290).

True, this was the debate as it unfolded in the 1780 s and 90 s in Britain. Pocock outlines this clearly. It shows also that political reform was threatening the *ancien régime* of tradition and customs, not just in France, but in Britain as well. In the next section, we will see Burke taking position firmly against the revolution, which, against the backdrop of his political thought is not surprising. In conclusion, and in preparation for this coming argument, we must ask, however, how Burke and the political thought of conservatism and traditionalism would explain how revolutions such as that in France happen? Is it just by the folly of people or could traditions possibly weigh, after a long period of time, too heavily on the people and become too inflexible, even oppressive to them? Rousseau would argue that, at this point, the people have to rise up to shake off the shackles which the traditionalism of the *ancien régime* has placed upon them (Rousseau 2011).

Burke on the French Revolution—British Traditionalism Versus French Universalism

The political spirit in Burke's work is clearly discernible even where it is least expected. Probably his most important work is *A Philosophical Enquiry into the Sublime and Beautiful* (1757), and even here he explains the workings of human society by exploring the very roots of individual motivation and action.

Politics is very much, of course, the subject of his writings on France, i.e. "Reflections on the Revolution in France" (1790, hereafter: *Reflections*); "A Letter to a Member of the National Assembly" (1791a); "Thoughts on French Affairs" (1791b). The preface to the collection, which hosts these three documents, written by F. W. Raffety, presents Burke's position on the Revolution as largely erroneous:

... it is impossible to form any other conclusion than that his love of order and reverence for settled government, with an insufficient knowledge of the true state of affairs, led him lamentably astray. (Raffety 1958: viii)

The *Reflections* were generally received at the time as reactionary in their uncompromising opposition to the great experiment in France and its genuine aspiration of progress for humankind. However, the impact of Burke's *pamphlet* was immediate and widespread, with tens of thousands of copies sold in France as well as in England (Raffety 1958: p. ix). Refutations came from polemicists as notable as Thomas Paine, in his *Rights of Man* (Paine 1961).

However, Burke was right on a number of points. In 1790, he predicted, notably, the executions of the French King and Queen, finally carried out in 1793:

The usurpation no longer seeks plausibility. It trusts to power. ... In spite of their solemn declarations, their soothing addresses, and the multiplied oaths which they have taken and forced others to take, they will assassinate the king when his name will no longer be necessary to their designs: but not a moment sooner. They will probably first assassinate the queen, whenever the renewed menace of such an assassination loses its effect upon the anxious mind of an affectionate husband. At present, the advantage which they derive from the daily threats against her life is her only security for preserving it. They keep their sovereign alive for the purpose of exhibiting him, like some wild beast at a fair. (Burke 1791a: p. 294)

He predicted, too, the advent of a military dictator (Burke 1790: pp. 226, 232, 234–45; 1791b: p. 364), i.e. Napoleon, although logically Burke could not have mentioned him, because that happened after his writing. He also foresaw war for the whole of Europe, because of the Revolution, notably in “Thoughts on French Affairs” of 1791:

Never shall I think any country in Europe to be secure, whilst there is established in the very centre of it, a state (if so it may be called) founded on principles of anarchy, and which is, in reality, a college of armed fanatics, for the propagation of the principles of assassination, robbery, rebellion, fraud, faction, oppression and impiety. ... They may be tolerably safe at present, because the comparative power of France for the present is little. But times and occasions make dangers. ... What mercy would these usurpers have on other sovereigns, and on other nations, when they treat their own king with

such unparalleled indignities, and so cruelly oppress their own country? (Burke 1791a: pp. 290–1, 305, 309; 1791b: pp. 327, 342)

He saw the politics of France after the Revolution as being guided by an unshakeable belief in the superiority of its ideas, just as had been the case at the time of the English Reformation. He believed that the revolutionaries might well develop a deliberate policy of exporting their ideas to other countries and regions, where they would not always be necessarily welcome (Burke 1791b: pp. 328, 356–7):

But the terror of France has fallen upon all nations. A few months since all sovereigns seemed disposed to unite against her, at present they all seem to combine in her favour. At no period has the power of France ever appeared with so formidable an aspect. . . . France exists with a great power of fomenting rebellion . . . (Burke 1791b: pp. 373–4)

In addition, other coalitions of power might result from this change of doctrine in France. What were alliances of confession at the time of the Reformation in Europe, after the 30 years war of 1618–48, Burke predicted to become alliances of Democracies versus Monarchies, after the French Revolution of 1789 (Burke 1791b: pp. 329–30).

This system [which could be called democracy, but what Burke would summarise as a dictatorship of the masses], as it has been realized, dogmatically, as well as pragmatically, in France, makes France the natural head of all factions formed on a similar principle, wherever they may prevail, as much as Athens was the head and settled ally of all democratic factions, wherever they existed. The other systems [monarchies] have no head. (Burke 1791b: p. 332)

Interestingly, though, democracy is posed as a *threat* by Burke, a threat to the traditional structures in existence in Europe in the eighteenth century. He considered France's neighbour, the German Empire, to be at the greatest risk from such an ideological assault (Burke 1791b: pp. 336–7, 339, 374–5). He was right and the revolutionary wars culminating in 1848 came (Burke 1791b: p. 340).

Must Burke's *Reflections* be seen as misguided conservatism, because of his opposition of *French* democracy, or does his traditionalist message still ring true? Burke starts with the question: "Can I now congratulate the same [French] nation upon its freedom?" (Burke 1790: p. 8) The evidence on the ground was bloodshed and destruction not just of physical property (Burke 1790: p. 266), which Burke, as most conservatives, would like to see protected, but also of the structures of the state, itself necessary to the protection of property and people:

I should therefore suspend my congratulations on the new liberties of France, until I was informed how it had been combined with government; with public force; with the discipline and obedience of armies; with the collection of an effective and well-distributed revenue; with morality and religion; with solidarity and property; with peace and order; with civil and social manners. All these (in their way) are good things too; and without them, liberty is not a benefit whilst it lasts, and it is not likely to continue long. The effect of liberty to individuals, is, that they may do what they please: we ought to see what it will please them to do, before we risk congratulations, which may be soon turned into complaints. Prudence would dictate this in the case of separate, insulated private men; but liberty, when men act in bodies is *power* [italics in the original]. Considerate people, before they declare themselves, will observe the use which is made of *power* [italics in the original]; and particularly of so trying a thing as *new* [italics in the original] power in *new* [italics in the original] persons, of whose principles, tempers, and dispositions, they have little or no experience, and in situations, where those who appear the most stirring in the scene may possibly not be the real movers. (Burke 1790: pp. 8–9)

The circumstances of the Revolution, unsurprisingly, left Burke uneasy, first, in the connections which even some of his political friends sought to establish between conditions in France and those in England, evoking the necessity for reform of the British constitution, the government and the laws of the country (Burke 1790: p. 9). Secondly, he was uneasy about the situation in France itself: "Everything seems out of nature in this strange chaos of levity and ferocity, and of all sorts of crimes jumbled together with all sorts of follies" (Burke 1790: pp. 10, 74, 85). The rallying cry of the Revolution, for Liberty, was, in this context for Burke a perversion

at best: “But what is liberty without wisdom, and without virtue? It is the greatest of all possible evils; for it is folly, vice and madness, without tuition or restraint” (Burke 1790: p. 272). This is one example where he saw the French Revolution going astray and in the following we will see several points where Burke saw the British system of government superior to the French Republic.

Sovereignty

The origin of sovereignty was one of the major questions. The French Revolution placed, for the first time, the people as the source of sovereignty, if not the acting sovereign. In 1790 in France, the King was still the highest officer of the nation, but acted as the representative of his people on the orders of the *Assemblée Nationale*, which had become the representation of the people.

With us [the British], when we elect popular representatives, we send them to a council, in which each man individually is a subject, and submitted to a government complete in all its ordinary functions. With you the elective assembly is the sovereign, and the sole sovereign; all the members are therefore integral parts of this sole sovereignty. (Burke 1790: p. 207)

Here we can already see the French republican system emerging, with parliament as the dominant political power, even if it was not the sovereign, as Burke said. The British system was different: “Now nothing can be more untrue than that the crown of this kingdom [Great Britain] is so held by his majesty” (Burke 1790: p. 14). Sovereignty was encapsulated in “King in Parliament” for the United Kingdom. From Burke’s point of view, this formula was a compromise which the British peoples had reached after centuries of struggle, a compromise which provided for stable government. Republican France offered neither stability nor compromise. That alone would have been enough for a Conservative such as Burke to consider the new system in France inferior to British constitutional monarchy based on traditionalism.

Representation

He goes further with a critique of the nature of representation as practised under the French Republic:

You will smile here at the consistency of those democratists, who, when they are not on their guard treat the humbler part of the community with the greatest contempt, whilst, at the same time, they pretend to make them the depositories of all power. (Burke 1790: p. 61)

Here it has to be asked whether the British people were in fact being treated better and whether it was more important to try to change that situation or to be rationally consistent and leave the people to their plight. As a convinced British Conservative, Burke replies that the British constitution "... has been found perfectly adequate to all the purposes of which a representation of the people can be desired or devised" (Burke 1790: p. 61).

Revolution

Burke would argue that Britain had itself long since endured the turmoil of revolution with the execution of Charles I in 1649 at the height of the civil wars, but the immediate outcome, tried and found wanting, had led to the restoration of the monarchy in 1660. And even during the time of Cromwell's "Protectorate," laws, customs, and what might be called the unwritten constitution were maintained. A single example may suffice:

... Cromwell, insisted that there must be engagements which no inner conviction entitled men to break, and that there must be structures of positive law, against which the "law of nature" was not a sufficient plea. His chief reason for saying this, he declared, was that the law of nature might decree that each man should have his own, but could not determine what was to be each man's. Property, an affair of particulars – Harrington was to call it "the good fortune" – must be distributed by human decision, not by universal principles. (Pocock 1975: p. 375)

Burke sees the historical arrangement of the British constitution as manifest evidence that Britain's constitutional Monarchy was the good and legitimate government for the country:

If ever there was a time favourable for establishing the principle that a king of popular choice was the only legal king [as in France in 1790], without all doubt it was at the Revolution [of 1688]. Its not being done at that time is proof that the nation was of opinion it ought not to be done at any time. (Burke 1790: p. 18)

Constitutional Monarchy

True, James II was removed (Burke 1790: pp. 28–29), but the principle of monarchy itself was not seriously challenged and the succession was assured without further upheaval. Burke goes as far as to argue that national elections could threaten the “unity, peace and tranquillity of this [British] nation” (Burke 1790: p. 20). This had been the experience in the 1690s, in the early years of general elections in England and particularly, later, during the period of Robert Walpole. But Burke clearly preaches against his better understanding when he infers “... therefore to exclude for ever the Old Jewry doctrine of ‘a right to choose our own governors’ ...” (Burke 1790: pp. 20–21).¹ General elections had been held in Great Britain, i.e. England, Scotland, and Wales, for a century by his time of writing. It could not have escaped Burke that despite teething problems in the early years, democratic representation had undoubtedly contributed to the political stability of the kingdom. True, there was no idea of electing the king, as mooted in France in 1790, and it is also true that Ireland was included in British general elections only in the early 1800 s, i.e. after Burke's time. However, to argue that Britain was not positively disposed to democratic representation and its benefits ignores historical reality and denies Great Britain its claim to be the cradle of modern democracy.

Democracy

Burke did appreciate the role of the House of Commons and its functions under the constitution (Burke 1790: p. 22), and this does entail some qualification of the above observations. What might explain Burke's "dislike for revolutions" (Burke 1790: pp. 27, 33, 68, 274) is the *consequences* of the civil wars for British society. He tries to portray the British monarchy as stable, but in the seventeenth century it had been anything but stable. This must have influenced his own generation to strive at all costs to prevent a repetition of such excesses. Beyond sentiment, the logical argument Burke put forward was the following:

Have these gentlemen [in France] never heard, in the whole circle of the world of theory and practice, of anything between the despotism of the monarch and the despotism of the multitude? (Burke 1790: p. 136)

What was happening in the course of the French Revolution was the nightmare of the dictatorship of the masses, the rule of an often desperate mob (Burke 1790: pp. 98–102, 110, 137; 1791b: p. 331), something Burke would have sought to avoid by all means at his disposal for France, were it possible, and certainly for Britain. The *Reflections* may well be his best attempt to achieve this goal at least for Britain. Could that explain why in his very substantial pamphlet he sometimes goes too far, for example when he called the elections to the *Assemblée Nationale* an "election of evil"? (Burke 1790: p. 43). He makes frequent reference to examples drawn from the English civil wars, for example: "Believe me, sir, those, who attempt to level, never equalize. . . . The levellers therefore only change and pervert the natural order of things" (Burke 1790: p. 53). Social revolutionaries upsetting the aristocratic order of Britain, the levellers committed substantial violence during the civil war, of the kind that Burke saw coming in France as well. Could that be the reason why he rejects democracy along the lines of Aristotle as being closest to tyranny, while at the same time commending the merits of stable English monarchy? (Burke 1790: pp. 136–42, 273). Such a position seems baffling today, but Burke's traditionalist argument is that there was no *stable* modern democracy at the end of the eighteenth century, not even in the USA. Given that risk, one should rather rely on

a well-proven system—monarchy, and develop it organically, if necessary (Burke 1790: p. 142). How much more of an English Conservative could Burke be?

Property

In addition, in France the foundations of society were undermined, i.e. for a traditionalist and conservatives such as Burke, mainly by the confiscation and destruction of property during the French Revolution:

... you think you are combatting prejudice, but you are at war with nature. ... At present, you seem in everything to have strayed out of the high road of nature. The property of France does not govern it. Of course property is destroyed and rational liberty has no existence. (Burke 1790: pp. 53–6, 117)

Striving for property, for Burke, was the natural order of things:

The strong struggle in every individual to preserve possession of what he has found to belong to him, and to distinguish him, is one of the securities against injustice and despotism implanted in our nature. It operates as an instinct to secure property, and to preserve communities in a settled state. What is there to shock in this? (Burke 1790: p. 153)

The “landed property,” in the example of the English gentry, was the embodiment of that foundation of society for Burke (Burke 1791a: pp. 280, 304; 1791b: p. 332). The French Revolution was diametrically the opposite. It destroyed particularly, but of course not only, church property, which is another parallel to the English civil wars, where this had also happened. In Oliver Cromwell’s home town, the Cathedral of Ely was vandalized, certainly not on the same scale as in many places in France, but these events must have marked British society, and Burke, nevertheless, which could be one reason why he rejects the French Revolution in his *Reflections* so fervently. In France hatred of the Church had flared up, though unevenly throughout the country, because of centuries of privilege, oppression, and flagrant injustice. What was different from the English

civil wars, and worse in Burke's opinion, was that the revolutionaries fostered the confiscation of property and terror against property owners in order to service the French debt and cope with soaring government costs (Burke 1790: p. 132). Burke denies the bankruptcy of the "*ancient government*" as justification for the Revolution against the French Monarchy (Burke 1790: p. 258). More importantly, property, for a conservative such as Burke, was even the natural limit to sovereignty.

We entertain a high opinion of the legislative authority [in Britain]; but we have never dreamt that parliaments have any right whatever to violate property, to overrule prescription, or to force a currency of their own fiction in the place of that which is real and recognized by the laws of nations. (Burke 1790: p. 168)

Debt and Money

Unbalanced finances were another point a conservative such as Burke could not condone. In his view, the state was supposed to be passive in the economy:

In every prosperous community something more is produced than goes to the immediate support of the producer. This surplus forms the income of the landed capitalist. It will be spent by a proprietor who does not labour. But this idleness is itself the spring of labour; this repose the spur to industry. The only concern of the state is, that the capital taken in rent from the land, should be returned again to the industry from whence it came; and that its expenditure should be with the least possible detriment to the morals of those who expend it, and to those of the people to whom it is returned. (Burke 1790: p. 177)

Here he is in line with the traditional liberal position with the objective of a balanced budget and a *laissez-faire* policy of the state towards the economy. When Burke rejects paper money, the famous *assignats*, introduced during the French Revolution, he fell, however clearly behind his own time. Even Adam Smith had proposed the creation of a virtual currency in his *Wealth of Nations* (Smith 1776, Book II, Ch. 2). But the attachment to

“real” money, i.e. precious metal, remained dominant in liberal economic thought for a long time after him, witness the abiding reliance in the twentieth century on a gold, or “gold exchange,” standard. Burke saw in the introduction of paper money, separate from “real” value, a perversion of the utility of money and a danger for the economy.

It consists in the means of drawing out at discretion portions of the confiscated land for sale; and carrying on a process of continual transmutation of paper into land, and of land into paper. When we follow this process in its effects, we may conceive something of the intensity of the force with which this system must operate. By this means the spirit of money jobbing and speculation goes into the mass of land itself, and incorporates with it. By this kind of operation, that species of property becomes (as it were) volatilized; it assumes an unnatural and monstrous activity ... (Burke 1790: p. 212)

He conceded that recourse to paper money accelerated economic activity and mobility of previously immobile things such as land tenure. But instability of the economy, and with it of the country, was, he argued, the inevitable consequence (Burke 1790: p. 212).

Formerly few, except the ambitious great, or the desperate and indigent, were to be feared as instruments of revolutions. What has happened in France teaches us, with many other things, that there are more causes than have commonly been taken into consideration, by which government may be subverted. The monied men, merchants, principal tradesmen, and men of letters (hitherto generally thought the peaceable and even timid part of society), are the chief actors in the French Revolution. But the fact is, that money increases and circulates, and as the circulation of news, in politics and letters, becomes more and more diffused, the persons who diffuse this money, and this intelligence, become more and more important. (Burke 1791b: p. 333)

Burke’s traditionalist positions can be explained by his perception of the need for stability of the political system.

Mixed government – the term which rendered it possible for the king’s subjects to accept republican tradition – was supposed to ensure stability

by setting up an equilibrium of virtues and power. The enemy of balance was fortune [see Burke's opposition to money and the concentration of economic power in the hands of the rising middle class], and the enemy of fortune was virtue [a classical conservative value of personal stability serving as example for others in society]. (Pocock 1975: pp. 370–1)

Thus money, in a conservative view, destabilized society. It corrupted the citizens and prevented them from seeking virtue. This was an almost chivalric aspiration in which we can see Burke's nostalgia for the feudal society where civic duty of striving for virtue and valour represented the ideal—this topic will be of concern later in this section (Pocock 1975: p. 402).

... in an economy dependent upon public finance, everything – including the value of land itself – depends upon the rate at which capital can be got; ... that this in turn depends upon men's confidence in one another, and that this again, while in the long run it depends upon their perception of moral and material realities, is in the short run determined by opinion and passion, hope and fear, which render it peculiarly exposed to manipulation by corrupt speculators in the paper tokens to which it has been reduced. (Pocock 1975: p. 451; Kramnick 1968: pp. 42, 61–3)

Credit was an even stronger factor of instability—exemplary for an eighteenth century Conservative position, to be distinguished from a liberal position of the kind of Adam Smith, for example:

... of all beings that have existence only in the minds of men, nothing is more fantastical and nice than Credit; it is never to be forced; it hangs upon opinion, it depends upon our passions of hope and fear; it comes many times unsought for, and often goes away without reason, and when once lost, is hardly to be quite recovered. (Pocock 1975: pp. 439, 447, 452–3)

Private property, on the other hand—again very much in a Conservative view—was the foundation of British society. It was because of this, to some extent, even beyond the reach of public power (Pocock 1975: pp. 375, 387, 389, 458). This concept reflects the gentry and served it well:

... the end of land is not profit, but leisure: the opportunity to act in the public realm or assembly, to display virtue. We return towards an ethos of civic excellence, in which politics are peculiarly suited to “the genius of a gentleman, but the poor freeholders are not dismissed from the role of the critically applauding Many”. (Pocock 1975: pp. 390–1)

In that way, property provided stability to society as a whole by including the poor and the rich (Pocock 1975: p. 391). Pocock refers to Harrington, who saw in private property, large and small, the reason why freedom and independence existed, individually for English citizens, but also for the country, free to prosper under these conditions and afford a “standing army” for its defence—another reference to civic duty and even humanism in that a country needed to be defended by its citizens (Pocock 1975: pp. 410–4). This conservative heritage we find deeply ingrained in Burke, who may be one of the best embodiments of the English gentry, but also one of the most fervent advocates of the merits of such a conservative constitution of affairs.

Modern democracy, the market economy, and mass media, particularly newspapers (Burke 1791b: p. 335), were, for Burke, the evils of the French Revolution, which threatened the stability of the old world, i.e. of his revered England. Burke defended this old world with its traditions, customs, and habits, an approach to the problems of his country distinguishing him sharply from market liberals such as Adam Smith, who, relying on the “invisible hand,” favoured untrammelled innovation in the economy, though mostly not the kind of political changes the French Revolution brought.

Equality

Equality of all men was, of course, one of the great rallying cries of the French Revolution and was, unsurprisingly, another major bone of contention for Burke. The rights of men as proclaimed by the revolutionaries were “... withholding in practice the *real* [italics in the original] rights of men” (Burke 1790: p. 64). What does he mean with this? Burke uses first of all his skill in marshalling concrete examples to take him through to more general conclusions:

They have the right to the fruits of their industry; and to the means of making their industry fruitful. They have a right to the acquisitions of their parents; to the nourishment and improvement of their offspring; to instruction in life and to consolation in death. Whatever each man can separately do, without trespassing upon others, he has a right to do for himself; and he has a right to a fair portion of all which society, with all its combinations of skill and force, can do in his favour. In this partnership all men have equal rights; but not to equal things. He that has but five shillings in the partnership, has as good a right to it as he that has five hundred pounds has to his larger proportion. (Burke 1790: p. 64)

The French Revolution, for Burke, lost all measure by seeking to confer unrestricted freedom in respect of everything to everyone. This would be bound to upset established institutions, such as, but by no means only, the machinery of justice itself, and would lead to the corruption of French society by its own people, freed of all inhibition and restraint, and thus wanting all (Burke 1790: p. 65). The self-conscious conservative Burke pleaded for moderation, deliberation, and patience:

The pretended rights of these theorists [e.g. Paine and Rousseau] are all extremes: and in proportion as they are metaphysically true, they are morally and politically false. The rights of men are in a sort of *middle* [italics in the original], incapable of definition, but not impossible to discern. (Burke 1790: p. 67; 1791a: pp. 297–8, 301, 303).

Rejecting the “all or nothing” vaulting romanticism of the French Revolution, Burke’s choice is for trial and error in the management of society (Burke 1790: pp. 69–70). Society, the British just like the French, had developed a workable structure. France’s passionate explosion “... inverted order in all things” (Burke 1790: p. 75). Burke saw this inversion of values as the very definition of evil (Burke 1790: pp. 75, 182, 185; 1791a: p. 296). “Such must be the consequences of losing, in the splendour of these triumphs of the rights of men, all natural sense of wrong and right” (Burke 1790: p. 89). For Burke, the French Revolution had lost all measure of what could realistically be provided for every man. Absolute equality was thus an unrealistic dream which, if implemented as in the Revolution, must produce evil by destroying the old order.

Pocock on the Machiavellian Moment—How the Past Influences the Present and Burke’s Nostalgia

In connection with the above sections on Burke, Pocock’s analysis of the English mixed constitution is important if we are to understand the differences as compared with France and why Burke as a representative of this traditionalist quintessentially conservative system was so opposed to the French Revolution and revolution in general. Pocock summarized the English mixed constitution as a balance between three “estates,” the Crown, the Lords, and the Commons (Pocock 1975: p. 361):

Government in England is no longer a direct emanation of divinely or rationally enjoyed authority; it is a contrivance of human prudence, blending together three modes of government – the only three that can exist – each of which possesses its characteristic virtues and vices . . . This blend is a balance, an association in which each partner contributes its particular virtue, while inviting the others to check its particular vice. The government of England, in short, without ceasing to manifest the element of monarchy, is being presented as a classical republic. (Pocock 1975: pp. 362–3, 368)

Each of the estates has its representation, the House of Commons, the House of Lords, and the Monarchy (Pocock 1975: p. 363). What then was the English Republic? It was represented mainly, but as we have seen, not only, by the House of Commons, which had grown into the third power of the country. Its members were charged with representing their constituents, with regular attendance in their constituencies (Pocock 1975: p. 407). This was also meant to forestall the corruption of MPs by the power and luxury of London and a sumptuous Court. Frequent elections of the House of Commons were meant to strengthen the links with the ordinary citizens (Pocock 1975: p. 414).

The House of Lords was seen as an intermediary between Court and Commons, featuring a “useful” aristocracy which devoted its energies to the improvement of the country, not merely to leisure (Pocock 1975: pp. 419–20). This arrangement was meritocratic rather than feudal and reflected modernity in the English political institutions. The order so

achieved guaranteed the liberties of citizens (Pocock 1975: pp. 428–30). Modernity was no longer that of the virtuous knight, but that of trade and commerce (Pocock 1975: pp. 441–4). England had made that step by the eighteenth century. Others on the continent, such as France, had not. Pocock's analysis shows clearly, however, that Burke had kept faith with the older concept of British society. He was a Conservative, but even more nostalgic for the stability the old feudal system had provided for such a long time. Looking into that past, though a past that had all but disappeared when he was writing near the end of the eighteenth century, leads Burke almost inexorably to condemn the calamitous events in France. With the onset of the industrial revolution, the feudal period had definitely ended. Change brought instability as every new system does. However, the British political system had adapted to the innovations quite well, by a process of evolution, not by conscious compliance with Burkean ideas of conserving the old system. France had languished much longer and more statically with the *ancien régime* and finally, in Burke's view, embarked all too abruptly on changes that at best ought to have been gradual. Evolution rather than revolution is not too surprising an idea for a Conservative, but Burke's Traditionalism goes beyond and reflected towards the end of his life a nagging nostalgia of old times which were no longer the reality at the time of writing and certainly did not hold much potential for the development of British society into the period of the Industrial Revolution.

This nostalgia can also be seen as a search for compromise rather than strict rules. A good example is Burke's rejection of Universalism of which the French Revolution, became the embodiment, e.g. the Universal Declaration of Human Rights. The universal declaration of human rights was meant to free everyone, but required that those rules apply to everyone. This was where cold logic and the belief in reason went decidedly wrong. For Burke, this is where freedom fails, when it becomes a "benevolent universal plan." In the liberal tradition, he saw individual free will as the best guarantee of liberty, for all, in the right sense of the word:

It is better to cherish virtue and humanity, by leaving much to free will, even with some loss to the object, than to attempt to make men mere machines and instruments of a political benevolence. The world on the whole will gain by a liberty, without which virtue cannot exist. (Burke 1790: p. 114)

Here Burke was the precursor of later liberal thinkers such as Isaiah Berlin (1969) or Friedrich von Hayek (1944), who would both readily endorse the last quotation. Rather than empathy, Burke saw cold-hearted petty tyrants sitting in the *Assemblée Nationale*:

But it seems as if it were the prevalent opinion in Paris that an unfeeling heart and an undoubting confidence are the sole qualifications of a perfect legislator. Far different are my ideas of that high office. The true lawgiver ought to have a heart full of sensibility. He ought to love and respect his kind and to fear himself. ... Our patience will achieve more than our force. ... and I have never yet seen any plan which has not been mended by the observation of those who were much inferior in understanding to the person who took the lead in the business. (Burke 1790: p. 187)

Evolution rather than revolution Burke pleaded, and for understanding for the imperfections of men: “By hating vices too much, they come to love men too little” (Burke 1790: p. 188). Clearly this is a far cry from the mayhem raging in Paris:

They who always labour can have no true judgment. You never give yourselves time to cool. You can never survey, from its proper point of sight, the work you have finished, before you decree its final execution. You can never plan the future by the past. You never go into the country, soberly and dispassionately to observe the effect of your measures on their objects. You cannot feel distinctly how far the people are rendered better and improved, or more miserable and depraved, by what you have done. You cannot see with your own eyes the sufferings and afflictions you cause. You know them but at a distance, on the statements of those who always flatter the reigning power, and who, amidst their representations of the grievances, inflame your minds against those who are oppressed. These are amongst the effects of unremitted labour, when men exhaust their attention, burn out their candles and are left in the dark. (Burke 1791a: p. 322)

Burke cherished and recommended the calm of the English countryside around Beaconsfield, where he was writing. Two worlds apart, he deduced—wrongly, this time—that Great Britain would avoid meddling in France, preserving at home what it could of the old order “... if

mutations must be ...” (Burke 1790: p. 172). The country would stick to its customs and even “prejudices,” because it had faith in the wisdom of time which, working from precedent to precedent, had brought about the British society system he revered. One can discern British pride in the white cliffs of Dover as the boundaries of a “sceptred isle” set in the dark but protective sea (Burke 1790: pp. 95–7). The *Reflections* could well be seen as a parting shot, a regretful farewell to the “Olde Englande” which we have seen described throughout this paper.

Conclusion

This yearning for peace and quiet seems to be a hallmark of coming change. Nostalgia and signs of worldwide radical change to come: does this sound familiar, today? In reflection of the title of this book, the economic theory of Edmund Burke may give us some insights for our rapidly changing world in a Globalization process which seems to gather pace. It is getting louder and quiet reflection seems to get more and more difficult. Burke regretted that already about his time:

Because half a dozen grasshoppers under a fern make the field ring with their importunate chink, whilst thousands of great cattle, reposed beneath the shadow of a British oak, chew and cud and are silent, pray do not imagine that those who make the noise are the only inhabitants of the field; that of course, they are many in number; or that, after all, they are other than the little shrivelled, meagre, hopping, though loud and troublesome insects of the hour. (Burke 1790: p. 93)

However, Burke's Traditionalism has been shown to be outdated by the time he wrote the *Reflections*. Falling back into the past, e.g. into nationalism as we find it in many corners of the world in our times, cannot provide answers for the future. In Burke's condemnation of the French revolutionaries one can also find a little hope that some good might come from the Revolution, perhaps even the glimpse of a new age dawning:

I do not deny that among an infinite number of acts of violence and folly, some good may have been done. They who destroy everything certainly will remove some grievances. They who make everything new, have a chance that they may establish something beneficial. (Burke 1790: p. 273)

Lessons can be drawn from the past in providing general guidelines for the future, but the past is not the recipe for a better future. Indeed, in condemning so comprehensively the Revolution in France, Burke may have been wrong, but he showed that there are different ways of bringing about change. Clinging too long to the past may well be discerned as a recipe for disaster, but France's lurch into the future, at any rate the manner of it, may also be considered to have come at a too high price.

Burke appealed for moderation. In our time such moderation can be found in the European Union. It is a compromise with its weaknesses perceived by all sides, but nevertheless the only institution which has provided peace and prosperity to the EU. The stability it has provided to a European continent of failing nation states after the Second World War has become a beacon of hope. In this period of Globalization, this may be more necessary than ever.

What we can see in Burke's writings is not economic theory, but a political theory which uses economics to explain the proper functioning of society. Just like David Hume (1711–1776), Adam Smith (1723–1790), before him or John Stuart Mill (1806–1873) and Friedrich Hayek (1899–1992) after him, economics had to be applied. It had to have a purpose which was often political. Current, economics seems to have strayed from that essence of using economics for the benefit of the people helping them in their understanding of the world. Burke was first and foremost a politician who observed astutely the realities of his time. Fundamental economic realities, such as supply and demand had always been present in human society. Such economic principles which Burke describes served a purpose in society more importantly than being the subject of study. In that sense Burke never looked for abstraction, but tried to understand the workings of human society and economics as a major element within it. In his writings he tried to explain to his audience, often in a very convincing way, what he had understood and what lessons could be drawn for the evolution of society. Pocock explains best that Burke was

a learned man with a lot of experience as a farmer—perhaps he was one of the best examples of the English gentry—who applied economics in real life—and made a fortune out of it—and then generalized this experience in his engagement in politics where some of his insights could be applied to the whole nation. Being the embodiment of the English gentry at the time, Burke believed in habit and customs rather than reason, which he showed in the *Reflections* not to be sufficiently tempered. Moderation based on experience and compromise was his belief would achieve the best results for the Nation. This may well be a lesson we can draw from Burke's writings for our time of Globalization that logic driven too far can to calamity. Insufficient reason, too. Moderation and compromise in the middle are vital for proper working of any society.

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Note

1. The Old Jewry was a meeting place in the city of London where, during Burke's time, the Revolution Society of progressive liberal thinkers met who were clearly opposed to the British Traditionalism and Conservatism Burke represented. In the preface to Burke's *Reflections*, F. W. Raffety put it this way: "It was before the end of this year [1790] that Burke burst forth, angered by the fact that at a meeting of the Revolution Society – a society which commemorated our own peaceful revolution of 1688 – sentiments of appreciation had been expressed. Dr. Price's sermon certainly contained expressions not generally acquiesced in. But all Burke's previous political associates were looking across the water with hopeful admiration; and it is impossible to form any other conclusion than that his love of order and reverence of settled government, with an insufficient knowledge of the true state of affairs, led him lamentably astray." (Raffety 1958: p. viii)

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The Free Liberalism of Adam Smith

Alain Anquetil

There is a familiar way to appeal to Adam Smith (1723–1790), the famous philosopher and great economic thinker of the Scottish Enlightenment. He is often considered as the father of modern economics and capitalism. We must also consider the frequent references to him. “What would Adam Smith think?” is a formula that the media quite often applies to contemporary economics. This is because, contrary to those who rank Smith among the proponents of neoliberalism, his thought reflects a balance between economics and morality.

But familiarity can go hand in hand with misunderstandings, even mistakes, about Adam Smith’s true vision in economic and moral matters. It can also lead to compartmentalizing his thinking, not considering it as Smith’s proper and coherent theoretical system. The famous “Adam Smith problem” reflects this alleged incoherence. It stems from an apparent inconsistency between the moral philosophies underlying Smith’s two main works: the *Theory of Moral Sentiments* (TMS), first published in

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1759, and the *Inquiry into the Nature and Causes of the Wealth of Nations* (WN), published in 1776.¹ Thus, the moral philosophy of TMS would be based on the psycho-sociological mechanism of *sympathy*. It forms the cement of every human society and is the source of moral norms and virtues. By contrast, the moral philosophy of economic agents, whose behaviour is one of the main themes of WN, would be based on personal interest or *self-love*. Adam Smith revised TMS until 1790—the sixth revision, completed shortly before his death, was quite significant, but did not completely eliminate the impression of an inconsistency in his thinking.

But “the Adam Smith’s problem” has the advantage of drawing attention to the relationship between the fundamental notions of sympathy and self-love. It is useful to provide an example right away. On one hand, it is sympathy that, according to Smith, drives us to admire those who enjoy wealth and greatness, to share the feeling of good order and usefulness of their possessions—“the palaces, the gardens, the crew, the retinue of the great,” Smith writes (TMS: 182). He continues: “Of our own accord we readily enter into it, and by sympathy enjoy and thereby applaud the satisfaction which they are fitted to afford [the great]” (TMS: 182). To obtain these frivolous pleasures, we are ready to devote a life of labour, even if it means regretting, at the end of our existence, that we have been the victim of an illusion. However, this “deception,” as Smith calls it, is quite useful. Indeed, it is *it* which “rouses and keeps in continual motion the industry of mankind” and which “first prompted them to cultivate the ground, to build houses, to found cities and commonwealths, and to invent and improve all the sciences and arts, which ennoble and embellish human life” (TMS: 183). In short, this deception leads to material progress.

On the other hand, driven by self-love as a rational search for self-interest, individuals tend to conduct their affairs with prudence and frugality. This is the surest way for them to improve their condition: “[...] The principle which prompts to save [i.e. making savings], is the desire of bettering our condition, a desire which, though generally calm and dispassionate, comes with us from the womb, and never leaves us till we go into the grave” (WN: 341). Economic rationality also appears in this other excerpt from WN, which deals with each individual’s search for maximizing their investments: “Every individual is continually exerting himself to find the most advantageous employment for whatever capital

he can command” (WN: 454). But that is not all, because this maximizing rationality (to put it in modern terms) has an unintended consequence: the maximization of general well-being. Smith states immediately after the previous quotation: “It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily leads him to prefer that employment which is most advantageous to the society” (WN: 454).

Through this example, we can already perceive the complexity of Adam Smith’s theoretical system. In our investigation, we will not seek to avoid this complexity. Our objective is to connect the main concepts designed by Adam Smith and, in that way, to demonstrate the coherence of his thinking. We will begin with self-love (part 1), then continue with sympathy and the impartial spectator (part 2), and end our chapter with some key aspects of Adam Smith’s economic theory (part 3).

Selfishness and Self-Love in Adam Smith’s Philosophy

Let us start with the first sentence of TMS, in which the adjective “selfish” appears in the foreground:

How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it. (TMS: 9)

The introductory clause—“How selfish soever man may be supposed”—covers the fact that selfishness is one of the essential drivers of human actions. The informed reader will immediately link this to human nature as Thomas Hobbes conceived it, for instance in *Leviathan* where he described man in the state of nature as “solitary, poor, nasty, brutish, and short” (1994: 7). He added that, in this situation prior to civil society, “nature should thus dissociate, and render men apt to invade and destroy one another” (1994: 77)—which makes natural sympathy impossible. Even selfishness seemed to be at the root of Hobbes’ feeling of pity. Indeed, in

Chapter 6 of *Leviathan*, Hobbes explains pity—an apparently altruistic feeling—by the idea that the misfortune we see in others could also happen to us. However, Smith refuted this vision of man. He refuted the idea that self-love lies at the root of all our feelings and affections, even if it can be a motive for our actions. Self-love does not cause our judgements about what is right and wrong, about what to do and what not to do—it does not explain the “principle of approbation,” in Smith’s words, i.e. that faculty of the mind which allows us to appreciate or not people or ways of acting, to judge them good or bad (TMS: 314). It is also wrong to say that we “deduce from self-love the interest which we take in the welfare of society” (TMS: 316). Finally, it is wrong to think that when we sympathize with others, when we understand their feelings, share their emotions, are concerned with their well-being, we bring others’ cases back to ourselves according to a selfish principle, as in Hobbes’ account of pity (TMS: 317).

Let us now consider this well-known excerpt from WN, in which Smith seems to be advocating the *exclusive* search for self-interest—a misinterpretation, as we will see in a moment. The situation of the protagonists staged by Smith is that of a commercial exchange of goods:

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow-citizens. Even a beggar does not depend upon it entirely. (WN: 26–27)

Why does Smith use the word “self-love” here and not “selfishness” as in the first sentence of TMS quoted above? First of all, it should be noted that the activity described by Smith, which concerns one aspect of economic activity (the exchange of goods), is beneficial for each of the parties involved—Smith suggests that this applies to the beggar too. This is not a matter of deceiving one of the parties to the exchange. The situation expresses a fair reciprocity. However, as Amartya Sen notes, the key role of self-love here is a “very limited claim” (1993: 46) because of its particular scope: the exchange of commodities. Moreover, Smith does not defend

the thesis that self-love plays the same role in other dimensions of the economy, namely the production and distribution of wealth.

In order to account for the role of self-love in the exchange of goods, five additional observations can be made.

- (i) First, the situation of the protagonists evokes what Smith considers to be a fact of human nature we mentioned above: “bettering our condition,” which is the “great purpose of human life” (TMS: 50). He also refers to it in WN about the importance of the principle that motivates saving (see above). If we follow Smith, each of the parties to the exchange pursues this “great purpose” and, as a result, they act in accordance with their nature.
- (ii) Secondly, the situation of these protagonists corresponds to what Smith considers to be another fact of human nature, that he describes as a “propensity.” It causes and explains the division of labour, an essential concept within his theoretical system:

[The] division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another. (WN: 25)

It thus appears that the division of labour is not the result of a decision taken by any authority whatsoever. It comes from a “general disposition” (WN: 30) to exchange goods. This disposition results in a specialization among human beings, a division of roles, which should ideally express everyone’s talents and aspirations. Moreover, from a general point of view, the division of roles increases productivity. In the situation described above, the roles of butcher, brewer, and baker arise from this specialization. To the extent that they occupy these roles and that these roles allow them to satisfy their personal interest, by seeking to accomplish their duties they seek to satisfy their self-interest.

- (iii) Thirdly, it can be considered that the butcher, the brewer, or the baker, as well as their customers, have respected a principle of self-preservation by acting in their own interest. The principle of self-preservation belongs in particular to the Stoic philosophy, to which Smith devotes many pages in TMS.² He endorses this philosophy when he states, for example, that “every man, as the Stoics used to say, is first and principally recommended to his own care” (TMS: 219). Every animal—and every man—is governed by the principle of self-love, a principle the objective of which is to “preserve, not only its existence, but all the different parts of its nature, in the best and most perfect state of which they were capable” (TMS: 272).
- (iv) Fourthly, the fact that merchants and customers are concerned about their own interests in the exchange described by Smith does not violate any of the “general rules of morality” (TMS: 159). These rules are not laid down a priori. They come from experience. They arise from the experience we make that “all actions of a certain kind, or circumstanced in a certain manner, are approved or disapproved of” (TMS: 159). In this case, selling a product to a customer without the transaction being tainted by fraud by either party is morally permissible, because it results from “inductive generalizations” (Raphael and Macfie 1984: 12) about appropriate commercial relations.
- (v) Fifthly, the search for self-interest can be linked to virtuous habits. Smith argues that “the habits of economy, industry, discretion, attention, and application of thought, are generally supposed to be cultivated from self-interested motives, and at the same time are apprehended to be very praise-worthy qualities, which deserve the esteem and approval of every body” (TMS: 304). And even if, according to Smith, “we are not ready to suspect any person of being defective in selfishness” (TMS: 304), the lack of desire to preserve oneself or the absence of concern for one’s health or wealth would be considered blameworthy. In modern terms, this absence would mean a lack of rationality—in Smithian terms: “a want of the proper attention to the objects of self-interest” (TMS: 304).

These five considerations seem to confirm that, unlike selfishness, self-love is not inherently blameworthy, except, of course, when it is opposed to the

general good, that is, when it obstructs the “desire of the general happiness of mankind” (TMS: 303):

Self-love was a principle which could never be virtuous in any degree or in any direction. It was vicious whenever it obstructed the general good. When it had no other effect than to make the individual take care of his own happiness, it was merely innocent, and though it deserved no praise, neither ought it to incur any blame. (TMS: 303)

Adam Smith uses the word “selfish” in the TMS excerpt above (“How selfish soever...”) not only to emphasize, for rhetorical purposes, the contrast between self-care and caring for others, but also to suggest that selfish tendencies can be radically self-centred and thus potentially destructive for the happiness of mankind. In contrast, the WN’s butcher-brewer-baker quotation, where “self-love” is used, is rather a matter of highlighting the natural benefits of self-love.

However, the distinction between selfishness and self-love is not so clear-cut. It does not cover the distinction between “self-preservation” and the “exclusive pursuit of one’s own interest” that has been outlined above. In TMS, self-love is sometimes close to selfishness. This is the case, for example, in Smith’s chapter on self-deceit. In this chapter, he highlights the negative effects of self-love on the partiality of agents with respect to their conduct. Before acting, Smith says, self-love distorts the deliberation that precedes action: “every thing appears magnified and misrepresented by self-love” (TMS: 157). And after doing wrong, people take a partial look at their actions to avoid forming a bad opinion of themselves. Smith describes all these negative influences as “delusions of self-love.” Smith goes so far as to talk about the “arrogance” of self-love (TMS: 83) and the “danger of being corrupted by the violence and injustice of our selfish passions” (TMS: 141). However, we can remedy the shortcomings of self-love: “Nature,” Smith writes, “has not left this weakness, which is of so much importance, altogether without a remedy; nor has she abandoned us entirely to the delusions of self-love” (TMS: 159).

What is this remedy? There are two ways to answer this question. The first is to invoke the exercise of the virtue of prudence. The field of application of prudence concerns the preservation of the self, which covers the

health of the body as well as the person we are in society and the external goods that result from our social activity (TMS: 213). Thus, Andrew Skinner observes that “the objectives of actions based upon self-love could be realised by practising the virtue of prudence, which is essentially rational self-love” (Skinner 1992: 394). When Smith defends the idea that self-love is a driver of human action insofar as it realizes “that great purpose of human life which we call bettering our condition” (TMS: 50), he assumes that the improvement of our condition is the result of a reflective activity based on prudence.

The second way to explain the remedy for the negative effects of self-love is to refer to the authority of this kind of inner consciousness, this “judge within,” whom Smith calls “an impartial spectator” (TMS: 134). We can retain for the moment the idea that this impartial spectator operates within us in the function of the moral consciousness that allows us to judge good and evil. Now, Smith gives this internal “spectator” a fundamental role in the control of self-love: “the natural misrepresentations of self-love can be corrected only by the eye of this impartial spectator,” he argues (TMS: 137).

It remains to establish the link between prudence and the impartial spectator, since each one contributes to mastering self-love. Adam Smith explains this link in a section of TMS dedicated to prudence. It is based on the mechanism of approbation. Smith asserts that the impartial spectator would approve of the actions of a man behaving with prudence:

In the steadiness of his industry and frugality, in his steadily sacrificing the ease and enjoyment of the present moment for the probable expectation of the still greater ease and enjoyment of a more distant but more lasting period of time, the prudent man is always both supported and rewarded by the entire approbation of the impartial spectator, and of the representative of the impartial spectator, the man within the breast. (TMS: 215)

Let us add that Smith’s self-love is compatible with caring for others and the public good. Inspired by the Stoic doctrine of “appropriation” (*oikeiosis*³), he claims that we are naturally led to care for our loved ones (family, friends, people with whom we maintain habitual relations), and, beyond that, with the society to which we belong. Close ties, the fact that a good

understanding, for example between “colleagues in office” (TMS: 224), is beneficial for all concerned, the gratitude we feel towards a person who has been good to us, are among the circumstances that lead an individual to be good. This includes concerns for the welfare of one’s own country. The good citizen wants “the welfare of the whole society of his fellow-citizens” (TMS: 231). But in Adam Smith’s theory, if this extension from self-love to love of others is possible, it is thanks to the mechanism of sympathy as he sees it (see part 2).

However, the reference to Stoic “appropriation” does not mean that self-love, by which we care for ourselves, is devoid of envy or vanity. Quite the contrary. We have mentioned above the fundamental desire of every man to improve his condition. But what is the content of this desire? Not a solitary pleasure or happiness, but the fact of being the object of others’ admiration. Smith repeats it in TMS, for example in this passage:

To be observed, to be attended to, to be taken notice of with sympathy, complacency, and approval, are all the advantages which we can propose to derive from it. It is the vanity, not the ease, or the pleasure, which interests us. But vanity is always founded upon the belief of our being the object of attention and approbation. (TMS: 50)

The mechanism of sympathy lies behind the desire to be recognized or admired by others, and this desire nourishes self-love and its avatars, for example vanity. Self-love depends on the love of others through the mechanism of sympathy. This idea has a fundamental consequence: self-love is not reduced to the cold search, through rational calculation, for self-interest. In particular, it is inappropriate to think that the economic world in which these interests are at work could do without sentimental ties. This world is actually nourished by feelings: “[Smith] well knows that self-love draws its substance only from the recognition of others, and that the private search for material gain, far from breaking ties harmful to social stability, creates passionate relationships between beings” (Dupuy 1992: 102).⁴

Despite their conceptual richness, the previous developments do not sufficiently reflect Adam Smith’s philosophy. Indeed, what is missing includes a fundamental organizing principle, viz, sympathy; the heart of

Smith's moral doctrine: the impartial spectator; and the ordering of his theses.

Sympathy and the Impartial Spectator

Adam Smith's sympathy attracts the attention of contemporary researchers and readers for several reasons. First, it founds and explains human sociability. It is the keystone of Smith's social interaction theory—"Adam Smith makes sympathy the basis for our concern for others" (Coase 1976: 529). Sympathy is not a feeling. It is a mechanism that is sometimes called "operator" or "morphogenetic principle" (Dupuy 1992: 101) because it creates forms and structures. Secondly, sympathy is the first principle of Smith's moral system. The inner guide who governs our conduct—the impartial spectator—as well as the norms and moral virtues, depend on the operation of sympathy. Finally, Smith's sympathy, like empathy, of which it is not an exact synonym,⁵ can now be used to explain the mechanisms of mental state attribution or perspective-taking.

Smith's concept of sympathy must first be compared to the way David Hume, his predecessor and friend, had defined it. For Hume, sympathy fulfils a social function, because it contributes to the well-being of society. He argues that it is "a very powerful principle in human nature" (2007: 369) that testifies to our "general approval of what is useful to society" (1963: 226). Sympathy refers to a correspondence between souls. When two people meet and communicate with each other, the cause-and-effect relationship plays an essential role. It is by perceiving the effects of an emotion in others that the spectator infers the emotion that the actor experiences. But sympathy also plays a regulating function in human interactions, a role similar to mirrors reflecting each other. Thus, the satisfaction of a rich man is reflected in the mind of a spectator, and the esteem that the latter feels is projected into the mind of the former. Hume also underlines another type of interactional regulation, which involves our moral sentiments towards others. In order to avoid that our partialities, stemming for example from the importance we attach to our relatives rather than to strangers, bias our moral feelings and judgements, we must adopt

“some steady and general points of view” (Hume 2007: 372), rather than judging on the basis of our “peculiar point of view” (Hume 2007: 371).

Some of these ingredients are found in Smith’s work, but his concept of sympathy is more elaborate than Hume’s—which remains close to a contagion of feelings—as well as the mechanism for seeking *stable and general points of view*, a claim which Hume does not theorize. Here are Smith’s main theses.

(i) The importance of the *situation*

Sympathy, therefore, does not arise so much from the view of the passion, as from that of the situation which excites it. (TMS: 12)

Here it is not, as in Hume’s case, the effect (“the view of the passion”) that brings us back to the cause. The mechanism of sympathy can only come from one’s involvement in a social situation.

(ii) Sympathy is *not* a selfish principle

[Though] sympathy is very properly said to arise from an imaginary change of situations with the person principally concerned, yet this imaginary change is not supposed to happen to me in my own person and character, but in that of the person with whom I sympathize. (TMS: 317)

Thus, sympathy is not an incorporation of the other’s self in my own self. It is rather an impetus from my own self to the other’s.

(iii) The spectator *becomes* the actor

By the imagination we place ourselves in his situation, we conceive ourselves enduring all the same torments, we enter as it were into his body, and become in some measure the same person with him. (TMS: 9)

Of course, the identification of the spectator with the actor can only be temporary and incomplete. The spectator keeps a certain distance, like a theatre actor playing a character.

(iv) Sympathy is a source of *great pleasure*

Whatever may be the cause of sympathy, or however it may be excited, nothing pleases us more than to observe in other men a fellow-feeling with all the emotions of our own breast. (TMS: 13)

Smith proposes an example that makes it possible to singularize the pleasure caused by the sympathetic communication between two people: reading to a friend a book or a poem that we know from having read it many times and which now seems boring to us. It is not the content of the text that arouses in us a feeling of surprise or admiration, and provokes our pleasure. It is the fact that “we enter into the surprise and admiration which it naturally excites in [our friend]” (TMS: 14). The pleasure we experience is the pleasure of matching our feelings with his.

(v) Sympathy is a process of *mutual adjustment* which leads to a “*perfect concord*” between the actor and the spectator

The mutual adjustment at issue here presumes that both sides (the person principally concerned and the spectator) strive to control the expression of their feelings. Without these mutual efforts, interaction cannot lead to a coincidence of feelings. The person principally concerned must adjust his feelings to a level of expression that is acceptable to the spectator. And the spectator must, for his part, adjust his feelings to those of the actor, in order to participate in his feelings. Thus, an actor communicating excessive joy could create discomfort for the spectator. For interaction to lead to an authentic sharing of feelings, the actor must reduce the expression of joy to a level acceptable to the spectator. Such a mutual adjustment conditions the social acceptability of the individual expression of feelings. It conditions more broadly the respect for what Adam Smith calls “propriety.”

(vi) Sympathy *presupposes the exercise of moral virtues*

This is the result of the previous point. To enter the actor’s feelings, the spectator must exercise “amiable virtues”—typically “candid con-

descension and indulgent humanity” (TMS: 23). For the actor, it is self-command, an “awful and respectable” virtue (TMS: 25) capable of dominating passions, which is at work.

(vii) The main source of moral approval is the *agreement and harmony of feelings*

Such a harmony is the result of a comparison between the feeling that the spectator would feel if he were the actor in his situation, and the feeling that he would feel himself in this situation. When the comparison leads, in the spectator’s mind, to the perception of a coincidence, then he approves the actor’s feeling.

(viii) There is a *conceptual link* between sympathy and the impartial spectator

Smith describes it as follows:

The principle by which we naturally either approve or disapprove of our own conduct seems to be altogether the same with that by which we exercise the like judgments concerning the conduct of other people. (TMS: 109)

In many situations of choice, we need to have the assurance that our actions will be approved. This involves taking the necessary distance to judge the motives and feelings which lead us to act. However, we can only determine this distance by observing our motives and feelings “with the eyes of other people, or as other people are likely to view them” (TMS: 110). A sympathetic relationship is then established with this “man within the breast” (TMS: 130)—the “judge within” we mentioned above. This relationship is based on the same mechanism of sympathy that allows us to interact with our fellow human beings.

The question of the moral judgement of approval or disapproval we discussed at section (v), where we referred to “propriety,” also leads us to Smith’s theory of the impartial spectator. Indeed, the agreement of feelings between the actor and the spectator presupposes a “point of propriety” (TMS: 242), which is, according to Smith, “the degree of any passion

which the impartial spectator approves of” (TMS: 242). This point of propriety (approved by definition by the impartial spectator) is a condition for the “perfect concord” (TMS: 16) between the actor and the spectator.

The impartial spectator is at the origin of social norms, including moral ones. In a passage on the development of self-command in children, Smith describes the mechanism by which these norms emerge (TMS: 145). After having tried, in his earliest years, to attract the attention of his parents by letting his emotions run free, he is led, when at school, to control their expression until they adjust to his classmates’ expectations. Later, he will be involved in defining these expectations. And if this young child becomes a wise man, he will act, in all circumstances, in accordance with the moral norms embodied in the impartial spectator—he will “almost [become] himself that impartial spectator, and scarce even feels but as that great arbiter of his conduct directs him to feel” (TMS: 147).

The Wealth of Nations

Considering Smith as a pioneer in the science of complex systems, Jean-Pierre Dupuy noted that Smith’s society “is a system of actors and spectators that is closed in upon itself because every actor is also a spectator and vice versa” (2008: 99). It is within this society that the economy develops and eventually acquires autonomy from political power—and perhaps also from morality. This autonomy is based on the fact that, in Smith’s view, economic activity would not require the exercise of sympathy, but only the selfish pursuit of particular interests. And thanks to the invisible hand mechanism (which we will talk about in a moment), this selfish search leads economic agents to work unintentionally for the common good. But if, in Charles Taylor’s words, the modern economy is a domain with “its own internal dynamic, its own autonomous laws”, this does not mean that it must free itself from politics (1995: 215–216). Taylor noted in this regard that “even Adam Smith was in favor of much more state regulation than his popular reputation allows” (1995: 216).

Taylor’s remark could apparently be linked to Smith’s definition of political economy in WN. According to this definition, conditions should be created so that the people can satisfy their material needs themselves and

the state have sufficient resources to provide “publick services” (WN: 428). But as Vivienne Brown (1994) notes, this definition does not correspond to the purpose of WN. Rather, it points out the economic systems to which WN is opposed, in particular mercantilism. So what is the purpose of *The Wealth of Nations*?

Natural Liberty

It seems difficult to reduce to a simple formula a work as rich as WN. However, a formula turns out to be crucial: “the obvious and simple system of natural liberty” (WN: 687). It appears in the context of Adam Smith’s criticism of two economic systems: the mercantilist system—which, aiming at the accumulation of wealth at the level of a nation, imposes constraints on the economy and hinders the development of trade—and the agricultural system—for which the land is the sole source of wealth. In Smith’s view, these two systems, made up of state’s encouragements and restraints, subvert the functioning of the economy by diverting capital from what it would naturally be invested in.

The system of natural liberty is that of the free market, a market through which individuals can satisfy their own interests, and in which *arbitrary* decisions, depending on the particular will of a state or private interests, have no place. It is individuals who should enjoy this freedom first and foremost:

Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. (WN: 687)

It goes without saying that such a consequence leads to a second one: the state should implement the conditions allowing the “system of natural liberty” to function in practice: “If Smith emphasized the market, he also emphasized the need for a system of justice without which neither the market nor, indeed, society itself could exist” (Wilson 1976: 83).

In particular, as Smith has just stated, the state must not only promote the effective expression of natural liberty in the market, but also put in place

rules of justice to regulate it. And if there was a sentence that summarized Smith's answer to the question asked in the title—*An Inquiry into the Nature and Causes of the Wealth of Nations*—it would be this one, where liberty and justice, perfectly realized within society, ensure the prosperity of nations:

If a nation could not prosper without the enjoyment of perfect liberty and perfect justice, there is not in the world a nation which could ever have prospered. (WN: 674)

But that's not all, because Smith states that "every man [should] pursue his own interest his own way, upon the liberal plan of equality, liberty and justice" (WN: 664). Thus, in addition to freedom and justice, *equal* treatment between people should be guaranteed, which would mean equality before the law.

The three key values of Smith's system (equality, liberty, justice) underline one of its fundamental justifications: the fact that it vigorously opposes feudal political and social systems, in which relations between people are dictated by allegiance and domination. These systems are unequal by construction, liberty (in the sense of being free to satisfy one's own interests) is repressed, and arbitrariness replaces justice.

Economic progress depends on underlying conditions that are related to political structures which, for Smith, depend on power structures. R. M. Hartwell notes that, in WN, Smith not only analysed the economic aspects of prosperity, but also the "appropriate socio-political institutions and government" (1976: 34). He adds that "the constitution appropriate for growth [...] guarantees liberty, property, and contract, and [...] carefully defines and limits the role of government" (1976: 39–40).

Indeed, socio-economic conditions, including institutions, are also invoked in relation to two fundamental notions of WN: the division of labour and the invisible hand. For Torben Hviid Nielsen, the division of labour, which is associated with the very possibility of exchange (see point (ii) of the first part above) constitutes one of WN's essential ideas: "The positive effects on production and prosperity of the division of labour and exchange was the principal and dominant idea of *The Wealth of Nations*," Nielsen writes, "exchange led to a 'mutual' and 'reciprocal' gain, and the

division of labour was similarly ‘advantageous to all the different persons employed in the various occupations’” (1986: 288). But what is the link between the division of labour and exchange? It is, on an anthropological level, the “propensity to truck, barter, and exchange one thing for another” we mentioned earlier. But the link is also part of economic logic, where the division of labour and exchange maintain a dialectical relationship, as Ronald Coase expresses it:

[The efficiency] of an economic system depends on, as Adam Smith puts it, the division of labor, [...] on the specialization of people, of firms, of countries. But you can't have specialization without exchange and, therefore, the ability to make exchanges is a very necessary part of a good economic system. (1997: 1139)

The Invisible Hand

Let us now turn to the famous invisible hand, which was mentioned only three times as such in Adam Smith's work, once in TMS and once in WN.⁶ The invisible hand explains that, unintentionally and unknowingly, agents who only seek to satisfy their personal interests contribute more to the general well-being than if their contribution was the result of benevolent motivation or a coercive mechanism. Thus, in TMS, the rich “are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society” (TMS: 184–185). In WN, the person who seeks to make the best possible use of his capital “intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it” (WN: 456).

The postulation of an invisible hand preserves an idea that lies in the background of the search for personal interest: the fact that no one else is better placed than ourselves to know our best interest and how to satisfy it. This is why it is essential that the state does not intervene. On the basis

of this principle, a mechanism must be found to move from satisfying particular interests to maximizing the public interest. In Smith's view, the invisible hand is supposed to be such a mechanism.

The Role of the State

These considerations, general in nature, do not reflect the whole content of WN. Far from being an exclusively theoretical work, it has an empirical dimension, partly based on observation. It offers an astonishing variety of examples, illustrations and figures which reflect in particular the fact that Smith frequented clubs in Glasgow where merchants raised concrete economic issues. His theses do not remain abstract for another reason that we have mentioned about socio-political conditions: Smith was concerned about their practical implementation, which is the responsibility of the legislator. For if the state is not to “[superintend] the industry of private people” (WN: 687), it must imperatively fulfil functions that those with private interests would not be able to fulfil.

Smith distinguishes three functions of the state: “protecting the society from the violence and invasion of other independent societies” (WN: 687), protecting citizens from injustice and administering justice, and “erecting and maintaining certain public works and certain public institutions” (WN: 687–688) which, as we have just mentioned, individuals would not have a personal interest in erecting and maintaining.

This last function can be related to Smith's severe judgements on the logic of economic interests: “The interest of the dealers [...] is always in some respects different from, and even opposite to, that of the publick” (WN: 267). The divergence of dealers' interests and general interest can be reflected in the merchants' actions. Even in a context where a market connects consumers and dealers, the latter may seek to corrupt the functioning of the market, in particular the free play of competition, in order to satisfy their interests alone. Smith makes bitter comments about producers, whom he considers, according to a logic similar to that described above, to be responsible for the mercantilist system. The selfish defence of their interests—“selfish” meaning here “contrary to natural freedom”—has had the effect of going against consumers' interests.

Smith also emphasizes the role of the state in education. It responds to his liberalism: if individuals are to be able to satisfy their personal interests and, on an economic level, to be wise consumers (consumption being, for Smith, an expression of individual freedom), they must have access to material resources and enjoy intellectual capacities. Smith was very concerned, in particular, about the fate of workers obliged to perform repetitive tasks in the context of the division of labour (WN: 781–782). For him, the state has to “take some pains to prevent” such a situation (WN: 782). Smith does not propose the advent of an education system comparable to that of modern advanced democratic societies. But he argues that useful knowledge—first to read, write, and account—should be taught to the common people.

However, Smith provides evidence that it is in the interest of producers that their employees are free persons with the ability to take initiative, and that they are also well paid (WN: 99, 684). Everyone must live a decent life, and a degree of equality in the distribution of wealth must prevail within any society (WN: 96). But these imperatives clash, on the one hand, with the desire for wealth when it is indifferent to the condition of others—“All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind” (WN: 418)—and, on the other hand, with the materialistic drift of society that leads to “the corruption of our moral sentiments” (TMS: 61). Smith added this striking expression to TMS in its latest revision. He states, at the beginning of the chapter in question, that “this disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least, to neglect persons of poor and mean condition, though necessary both to establish and to maintain the distinction of ranks and the order of society, is, at the same time, the great and most universal cause of the corruption of our moral sentiments” (TMS: 61).

What did he mean by that? Lisa Hill (2012) provides an answer that allows us to go beyond the first appearance, which is that trade and its materialistic spirit compromise the pursuit of the highest moral virtues. According to Hill’s argument, Smith reasoned on the basis of a fact that he considered *natural*. If the rich and the powerful are the object of admiration while, according to the criteria of authentic virtue, they do not deserve it simply because they are wealthy and powerful, it is because it is in the

order of nature. Hill discusses three functions of this admiration which is natural in the sense that it is useful to the prosperity of society. This social utility stems first of all from the fact that admiration for the rich and the powerful is a “deliberate deception” (Hill 2012: 106) that leads to prosperity (see our comment in the introduction). The second function of admiration is to preserve social order by maintaining classes and ranks. Finally, because the external attributes of wealth and greatness are quite visible, it follows that those who form the mass of the people easily perceive these attributes, and they perceive them much better than they perceive the authentic moral virtues. The rich and the powerful thus enjoy social authority. Their power is considered legitimate by the people. Hill can thus conclude that the idea that Smith denounces at the end of his life—the corruption of moral sentiments—does not denote an accent of pessimism, but the affirmation of the *natural* character of this corruption. However, acceptance of this corruption presupposes “that it takes place within the bounds of natural liberty, positive justice and the limits set by the impartial spectator” (Hill 2012: 107).

Conclusion

At the end of this short journey on Smith’s thinking, we grasp its intrinsic coherence. It is, first of all, a thought of interaction and exchange, which encompasses both commercial and non-commercial relationships. But the primacy of exchange has two counterparts. First, a distance is preserved between each member of society. This distance is compatible with the possibility offered to each person to choose their life. Secondly, exchange must take place in accordance with the principle of natural liberty. The implementation of this principle makes it possible to avoid mechanisms that disrupt social functioning as well as individual functioning. These mechanisms are typical of feudal systems or collusion of private interests, to which Adam Smith was strongly opposed.

These considerations help to answer the question of whether Smith is a liberal. At first sight, they seem to give a positive answer. The freedom of the individual, the autonomy of society from the state, a non-arbitrary intervention by the latter, and the legitimacy of the invisible hand mecha-

nism seem compatible with the main principles of liberalism—principles that apply to its political, moral and economic versions.

But these apparent correspondences are too general. The corruption of moral sentiments discussed at the end of the last part goes against the idea that Smith is a supporter of pure liberalism. This perspective was defended by Elias Khalil (2002). He proposes the concept of “vicarious sympathy” which underlies the admiration for the great and the powerful. Now, as Hill suggested, this admiration without hope of being rewarded is, according to Smith, one of the sources of submission to authority: “By this admiration of success we are taught to submit more easily to those superiors, whom the course of human affairs may assign to us” (TMS: 253). And, importantly, submission to authority is as *natural* as admiration and respect for the rich and powerful. “For Smith, it is in our nature to submit to authority” and “the submission is spontaneous and inborn,” Khalil says (2002: 676), before observing rightly that this “poses a problem to the interpretation of Smith as a liberal” (2002: 676).

This observation is not only insightful. It is also useful for those studying Adam Smith. It avoids classifying him too quickly into a predefined family of thought. Adam Smith is no more a pure liberal than a neoliberal or a proto-socialist or proto-Marxist. He is Adam Smith, and it is by recognizing his uniqueness that we must study him and use his thinking to shed light on contemporary facts.

Notes

1. Smith’s writings have been collected in *The Glasgow Edition of the Works and Correspondence of Adam Smith*. Indianapolis: Liberty Fund.
2. See, in particular, TMS: 140–149 and 272–293.
3. According to this doctrine, nature has logically made human beings interested in themselves—or “appropriate” to themselves—which corresponds to the meaning of the *oikeion* root: “what is proper to oneself, one’s own” (Preus 2007: 51).
4. My translation.
5. The concept of empathy was forged in the nineteenth century from the German word “Einfühlung.” The relationship between sympathy and

- empathy as it is conceived today can be summarized, respectively, by the expressions “feeling into” and “feeling with” (Thirioux et al. 2014: 287).
6. The third occurrence, found in a text on the history of astronomy (posthumously published in *Essays on Philosophical Subjects*, ed. W. P. D. Wightman, Indianapolis: Liberty Fund, 1982), is not relevant to our purpose.

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Economic Cycles by Josef Schumpeter

Assen Slim

Introduction

If there is one economist of the twentieth century whose ideas speak to us today, it is Joseph Alois Schumpeter (1883–1950). Looking at the number of articles and books quoting his name, it seems that researchers and analysts have recently rediscovered Schumpeter and his work (see, for example, Clemence 1988; Hagedoorn 1996; Lakomski-Laguerre 2006). According to an analysis published in the *Journal of the History of Economic Thought*, “annual citations to Schumpeter have continued to increase more than 50 years after his death. For social scientists, since the mid-1990s, annual citations to *Capitalism, Socialism and Democracy* have even exceeded annual citations to Keynes’s *General Theory*” (Diamond 2009, p. 538).

Throughout his life, Schumpeter always assigned a special place to economic theory whose purpose is to deal with what he called “the economic mechanisms.” This chapter explores these mechanisms Schumpeter

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analysed. Firstly, a brief introduction to Schumpeter's theory of the business cycle will be presented. As we shall see, "innovations," tending to form "clusters" are going to disturb whatever equilibrium exists and are responsible for three different kinds of cycles, which simultaneously unfold. The Schumpeterian vision of capitalism, seen as a dialectically unfolding process (in the same tradition as Marx, Sombart, and Weber) will then be discussed. Finally, Schumpeter's thought may have a vital relevance to help us explain emerging issues such as Globalization and international specialization of countries, industry dynamics, and endogenous growth.

Schumpeter's Thought

From "Economic Circuit" to Fluctuation

Without recalling here all of Schumpeter's contributions to economic theory,¹ it is important to emphasize his particular conception of growth. Inspired by Wicksell's intuition² about the importance of investment for economic growth, Schumpeter dissociates it from the analysis of monetary phenomena. This makes him produce, from 1912 onwards, an original interpretation of growth, which he sometimes called "evolution" (Schumpeter 1912, p. 106). And this is where Marx comes in. Schumpeter was probably the only pro-capitalist economist to be influenced more by Marx than by Smith. According to Schumpeter, Marx (1867), was interested in exactly the same problem which is to build "a vision of economic evolution as a distinct process generated by the economic system itself" (Schumpeter 1937, p. 166). So, just like Marx (1867), Schumpeter starts his analysis from an initial state of the economy where there is no growth. He calls this situation "economic circuit" (equivalent to Marx's "simple reproduction"³) and describes it as a situation in which the different structural elements are reproduced identically (demography, wages, rent, production). This is a simplified representation of economic life and the relationships between economic agents. It is characterized by free competition, private property, and division of labour. Methods of production and consumption practices remain stable. Supply is equal to demand, so that the allocation of resources is always efficient. As a consequence, there are no changes,

no doubt, no uncertainty, and no cycles, or crises. The economic circuit always remains at its Walrasian general equilibrium.⁴ Schumpeter compares it to the bloodstream. The economic agents, who act based on their past experience, introduce no fundamental break in their behaviour and economic relations in place. Routine behaviours and adaptive mechanisms then lead to stability. The intrinsic mode of a stationary economy causes no endogenous change. The stationary economy is only able to change in order to ensure its reproduction (from an imbalance, it manages by its own operation to return to the initial balance).

Schumpeter then questions the origins of growth (equivalent to “expanded (or enlarged) reproduction” in Marx). Being however radically different from the Marxist analysis of surplus value (Marx 1867, pp. 237–256), Schumpeter argues that the transition from the “economic circuit” to “evolution” finds its origin in “innovations.” But how can a disturbance appear in the economic circuit?

In his book *Theory of Economic Development* (1912), Schumpeter develops the concepts of “entrepreneurs” and “innovations,” leading to the emergence of a “business cycle.” According to the author, the circular flows in the circuit are interrupted by the presence of “entrepreneurs.” Quoting Cantillon (1755) and Say (1803), Schumpeter defines an entrepreneur as a person who combines land, labour, and capital to create goods and services. But for Schumpeter, an entrepreneur is also someone able to identify market opportunities and exploit them by organizing resources effectively to accomplish an outcome that changes existing interactions in the economic circuit. Guided by the pursuit of profit, entrepreneurs are therefore seen as “innovators” which means they are key players in changing business standards and finding new productive combinations. Someone who is willing to accept a high level of personal, professional or financial risk to pursue opportunity. “If I had listened to my consumers, I would have given them a quicker horse!”⁵ used to say Henry Ford, often cited as an example to illustrate the typical Schumpeterian entrepreneur. Here is the origin of economic change, inherent to the economic process itself and able to disturb whatever equilibrium exists. Schumpeter insists that “external factors” from the circuit such as wars, inflation, and political changes that lead to an economic change are not relevant to his analysis as they are not coming from inside the economy. Wars are responsible

for cessation of activity as men are fighting at the front lines. Inflation creates waves in the economy just like “revolutions, natural catastrophes, institutional changes, but also changes in commercial policy, in banking and currency legislation and habits of payment, variations of crops as far as due to weather conditions or diseases, changes in gold production as far as due to chance discoveries, and so on” (Schumpeter 1935, p. 3). These “external factors” should be disregarded, Schumpeter says, if we want to get a truthful image and understand the economic changes.

Growth factors are, for Schumpeter, mainly summarized in the concept of innovation. An innovation (as distinguished from “invention” or “experimentation”), Schumpeter says, is more than just small changes put together: “Innovations are changes in production functions which cannot be decomposed into infinitesimal steps. Add as many mail-coaches as you please, you will never get a railroad by doing so” (Schumpeter 1935, p. 4). Schumpeter distinguishes the invention which is the discovery of new scientific and technical knowledge, from innovation which is its application’s in a practical sense helping companies to improve their productivity: “the inventor produces ideas, the entrepreneur gets things done, which may but need not embody anything that is scientifically new. Moreover, an idea or scientific principle is not, by itself, of any importance for economic practice. That Greek science had probably produced all that is necessary in order to construct a steam engine did not help the Greeks or Romans to build a steam engine; the fact that Leibnitz suggested the idea of the Suez Canal exerted no influence whatever on economic history for two hundred years” (Schumpeter 1991, from Schumpeter’s Lowell Lectures of 1941, p. 413).

Schumpeter defines five types of innovations, being all considered as “opportunities to produce” (Schumpeter 1947, p. 89). These innovations refer either to technical progress or to the widening of markets and/or sources of supply for companies: “The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates” (Schumpeter 1947, p. 83).

The existence of innovation disrupts the steady state of the economy and causes a break, an imbalance, and a source of economic change.

Innovations play a central role in growth, Schumpeter says, when they occur in the key sectors of the economy. When innovations take place in these sectors, they have a ripple effect and induce a new demand. First, there is a set of entrepreneurs who successfully introduce innovations that leads to the creation of new companies, new markets. Their profits are the result of successful innovations in the market. Attracted by these new opportunities, others will follow the path. That means other companies are going to produce the same new products just by imitating the first innovator. Schumpeter calls this behaviour “imitation.” Without hope of profits, people are not encouraged to innovate. So, innovation is followed by imitation. These two behaviours explain evolution through cyclical movements.

Creative Destruction and the Three-Cycle Schema

After a major innovation (a breakthrough innovation due to technical progress or scientific progress for instance), other related innovations are brought by this discovery, called by Schumpeter “cluster of innovations” (Schumpeter 1935, p. 4). According to Schumpeter, the occurrence of clusters determines the economic cycles. He considered these clusters as the main cause of what he calls “creative destruction” (Schumpeter, 1943b, p. 26). It refers to a “process of industrial mutation, if I may use that biological term, which incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of creative destruction is essential to capitalism. It is what capitalism consists of (...)” (Schumpeter 1947, p. 83). Creative destruction is an endless process which is simultaneously producing the disappearance of sectors of economic activity in conjunction with the creation of new economic activity. Schumpeter compares it to the “perennial gale” (Schumpeter 1947, p. 84). It can affect all kinds of organizations, even the most important ones or those supposed to enjoy previously a strong and dominant position, including a monopoly in the market. Successful innovation is normally a source of temporary market power, providing new monopolistic benefits to the innovative company. According to Schumpeter, interests and profit are in essence the remuneration for innovations.

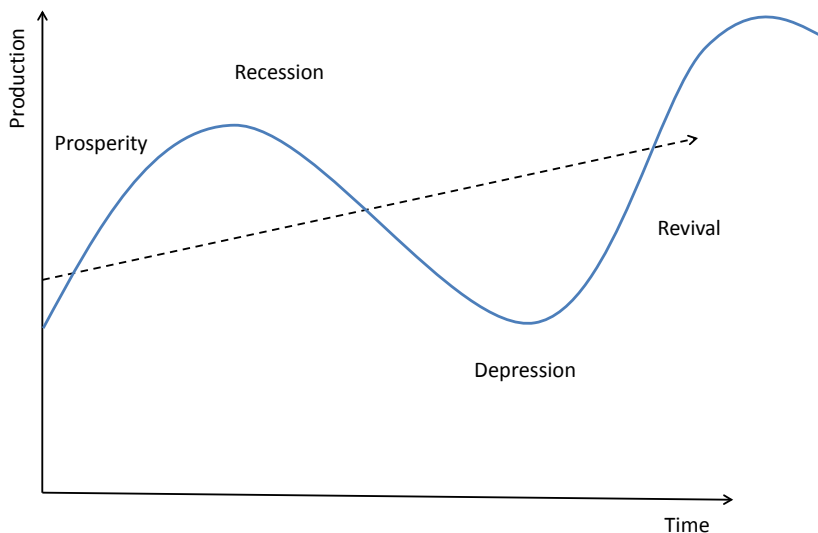


Fig. 1 The cycle (Source Inspired by Schumpeter [1935, p. 7])

As a result, clusters correspond to periods in which innovative companies see their profits increase while companies unable to follow the movement of innovations, trapped in the economic circuit and the routines that are inherent to it, see their profits eroded. It is in this sense that “profit is the child and the victim of evolution” (Schumpeter 1912, p. 223). With the combination of its destructive and creative effects, this process shows how powerful the dynamic changes in economic and industrial activities are. And they are also social effects to be expected from creative destruction such as layoffs of workers with obsolete working skills but also new opportunities for workers able to adapt their skills to the new requirements. This forces workers to refine their skill set.

Creative destruction leads to the emergence of a cycle, which is described by Schumpeter as a “wave-like movement” (Schumpeter 1935, p. 6) including four phases: prosperity, recession, depression, and revival (Fig. 1). “These fluctuations do not occur independently in every such time series, but always display either instantaneous or lagged association with each other” (Schumpeter 1935, p. 3).

The expansion phase is explained by the profits that generate an increase in investment and demand, driven by innovation clusters. Initially, loans will cause an inflation of capital goods and consumption. Then, the additional quantity of goods generates deflation, accentuated by the repayment of loans announcing depression. The profit opportunities are few in this phase and companies fail. This means that innovations destroy outdated companies and cause job losses. The imitation phenomenon causes saturation of markets and a decline in monopoly rents, leading to a reduction in investment followed by a decline in economic activity. The crisis can only be overcome by other waves of innovation. This is the decisive mechanism of cyclical activity, which involves the process of creative destruction.

As innovations appear discontinuously over time, “there is no ground to believe that there should be just one wave-like movement pervading economic life” (Schumpeter 1935, p. 7). Some cycles may be short while others should take much more time to have full effect. Schumpeter describes three different cycles. The Kondratieff cycle is a long wave cycle (“between fifty-four and sixty years”) due to major innovations such as the steam engine, railway, electrical engineering, etc. The Juglar cycle (“from nine to ten years”) is linked to periodic disturbance of credit. And finally the Kitchin cycle is the shorter wave cycle (“roughly forty months”) due to volatility in the stock market (Schumpeter 1935, pp. 6–8).⁶

Capitalism in the Oxygen Tent

Despite the dynamic nature of capitalism,⁷ Schumpeter remains pessimistic (especially in his book *Capitalism, Socialism and Democracy*, 1947) about its future. According to Schumpeter, the capitalist process has an evolutionary character. It went through various stages over time. The first stage is called by the author “Early capitalism” (from the Greco-Roman period to the sixteenth century) and “there were factories producing for markets; there were bankers; and merchants that traded internationally” (Schumpeter 1946, p. 801). The second stage was the “Mercantilist capitalism” (from the sixteenth to the eighteenth century) in the State which raised taxes against the interests of the bourgeoisie and “the bourgeoisie indeed accepted that supremacy” of the State (Schumpeter 1946, p. 802).

The third stage is called “Intact capitalism” (from the Napoleonic wars to the end of the nineteenth century) and is based on free trade, low level of taxes, technical progress, peace, economic growth, and social inequalities. “It was the success of the capitalist enterprise that raised the bourgeoisie to its position of temporary ascendancy” (ibid., p. 803). Finally, the “Modern phase” (from 1898 and later) in which nearly all of what Schumpeter found positive in the previous stage has disappeared or was reversed to high levels of taxes, rampant protectionism, wars, etc.

Schumpeter outlines all the events and structural changes that will lead to the collapse of capitalism. First he describes how in making a predicative judgement an important distinction must be made between preference and prognosis and how Marx was the first to realize and approach the fundamental question. Schumpeter then analyses the reasoning behind what is necessary to make a valid prognosis, refuting Marx’s argument and presenting an alternative assessment for the same prognosis. Schumpeter then goes on to compare how his tendencies are apparent in the changes in the world, and how one might make an assessment for the immediate future.

Schumpeter explains the difference between an objective observation and the consequent estimation of an economic trend compared to subjective evaluations that can lead to future economic developments. Schumpeter then states that the first to make this distinction between a prognosis and a subjective evaluation was Karl Marx, however, Schumpeter shows that Marx assertions cannot be shown to be true. In particular, Schumpeter contests the tendency for labour to be driven to a revolution as a result of the growing misery deriving from the capitalist system, as Marx suggests. Even though Marx’s assumptions were wrong, that does not discount the resultant argument that capitalism will indeed fail. (Approaching the same conclusion from a different set of inevitabilities.) In contrast, it is not the proletariat, Schumpeter argues, that will overthrow capitalism as a result of its miseries, but the disconnection between the forces of innovation and the capitalist process itself.

Schumpeter and the concepts of innovation are closely related, and in his prediction of the fall of capitalism this is apparent. Schumpeter asserts that his prediction of the loss of the leadership and strength of the entrepreneur will become the reason for the fall of capitalism.

As the growth of capitalist societies continues, the entrepreneurs are slowly replaced by an increasingly mechanized system of specialized groups of management staff designed to perform the management duties required of an entrepreneur. This is an important observation about the inevitable tendency of capitalist institutions to produce social groups hostile to the capitalist system, such as bureaucrats and administrators. This is further compounded by the growing distance of the capitalist class to the lower classes, resulting in loss of a holistic appreciation and control of the economic systems they are in charge of, as well as a loss of the motivations of social upward mobility. The result is an increasing bureaucratization of economic functions and increasing support of the labour interests, undermining the necessary innovation in a capitalist system.

Schumpeter makes a distinction here between the fall of capitalism and the rise of socialism. He does not predict full-fledged socialism, but rather a transitional state that would neither be capitalism nor socialism. He states that this process of gradual change, in contrast to Marx's view of a violent revolution, would happen through small and compounding changes in the life of the bourgeoisie. He argues that cumulative internally driven change is far more potent in bringing the capitalist system to collapse than an external revolution.

Applying these principals to the major upsets of the capitalist systems of his time, Schumpeter considered how the impact of the First World War accelerated conditions unfavourable to capitalist systems. This leads him to describe the immediate future, at the time of writing of *Capitalism* (1945), in the transformation capitalist society has already undergone. Analysing the degree of control that governments held at the time, it was apparent that extensive measures of control in capitalist systems (see Chapter on Hayek in this book) were already present, controls for labour and capital markets, for pricing and for income distribution were all present. Schumpeter adds that state-driven initiatives to control factors including housing and foreign investment would be enough to transform these regulated capitalist systems into a guided capitalism without even necessitating a mass nationalization of industries. Schumpeter says that this type of capitalism may even be called socialism, and goes on to state that survival of capitalism in such a society becomes less a matter of such a society's explicit values, but more a matter of terminology: "such a system

will no doubt still be called capitalism. But it's capitalism in the oxygen tent – kept alive by artificial devices and paralyzed in all those functions that produces the success of the past” (Schumpeter 1943b, p. 142). Finally, it would take not only a reversal of the existing trends towards a pseudo-capitalist society, but a change in the political, societal, and economic fundamental structures, in order to go back to “real” capitalism.

Schumpeter presents a different explanation of the fall of capitalism compared to Marx. Yet, in analysing the real world of his time, Schumpeter presents the fall of capitalism not as violent as the revolutionary suggestion by Marx. He argues that the growth of socialist bodies in a capitalist society leads to a mixed society with socialist and capitalist elements. Schumpeter presents an optimistic solution to the conflict between socialism and capitalism that he presented as an unbiased prognosis of a naturally balancing evolution of human societies.

Schumpeter's Dividends

Largely neglected outside of academic circles, Schumpeter currently receives great attention for his research. His visionary views of capitalism and the concepts he has produced provide relevant tools to analyse current issues. We are going to focus on a few of them, i.e. a new approach of international specialization, industrial dynamics and the case of the music industry.

A New Approach of International Specialization

As predicted by Smith (1776) and Ricardo (1817), international division of labour emerged from globalization. Each country specializes in the production of goods in which it has an advantage (“absolute” according to Smith, “comparative” according to Ricardo). The comparative advantage theory of Ricardo has a greater explanatory power than the Smith's theory, because it shows that countries have an interest in specializing, even if they have no absolute advantage. The specialization of each country is based on differences in opportunity costs. It allows saving of labour costs promoting

the productivity gains and the increase of the volume produced. Later, the mainstream neoclassical current explained international specialization by differences in factor endowments. For Heckscher (1919) and Ohlin (1933), for instance, countries no longer differ by level of technology, but by the factors of production (labour, capital, natural resources) with which they are endowed. As goods differ by the factors of production they require to be produced, the Heckscher–Ohlin model posits that a country will produce at lower cost the goods whose production requires relatively large amounts of the factors of production with which that country is relatively well endowed. In other words, countries will have comparative advantages in producing goods that use the abundant factor of production in the country.

Adopting a Schumpeterian view on international specialization leads to a radically new understanding of comparative advantages. One of the first authors to highlight the importance of technological innovation in explaining countries international competitiveness was Posner (1961). The author observes that new products and processes are constantly being developed. According to him, countries which are able to implement at least one of the five types of innovation introduced by Schumpeter, will then enjoy comparative advantages over their partners. But sooner or later, the imitation process is going to occur, mainly because of the diffusion of technology. The determinant therefore lies in the temporary technological gap between countries. Advanced countries export intensive goods in new technologies while the other countries are specialized in standardized goods. As a consequence, comparative advantages and export performance are directly related to the intensity of research and development efforts (expenditure on research and development, number of scientists and engineers, number of patents, etc.). Posner's analysis can therefore be seen as a revision of Ricardo's model.

These observations have been deepened, and formalized by Krugman (1979). In his simple general-equilibrium model, Krugman considers two regions (the innovating Northern hemisphere and non-innovating Southern hemisphere). Schumpeterian innovation takes here the form of new goods produced first in the North and only after a given period of time in the South. This technological gap, Krugman says, gives rise to trade, “with

the North exporting new products and importing old products” (Krugman 1979, p. 254). The author then shows how new industries emerge permanently in the North, with the aim of maintaining the income level of this area. For Krugman, the technological monopoly of the North is being continually eroded by technological transfers and can only be maintained by constant innovation. The high wages of the North reflect the temporary monopoly rent for new technologies (Krugman 1979, p. 263).

Vernon (1966), on his side, focuses on the new product itself and on its life cycle which was suggested but never studied by Schumpeter. Vernon makes a link between the product’s life cycle and the structure of international trade. A product, Vernon says, can experience three or four phases: emergence, growth, maturity, and decline. During the first phase, the production is intensive in new technology; then its growth and mass production require a high capital intensity (investments). The last phases of maturity and decline characterized a standardized and labour intensive product. At first, the product is manufactured for its domestic market (1st phase). It is then exported (2nd phase), the innovative firm and country benefiting abroad from their temporary technological monopoly. Eventually, exports will slow down and stop due to the foreign imitation process. The product can even be imported by the country which first launched it. The product life cycle thus correspond to a cycle of international trade where the products at the beginning of their cycles will be exported by the technologically advanced countries (developed countries), while the products at the end of their cycles will be exported by the low skilled and cheap labour countries (underdeveloped countries). The product cycle being staggered over time, for these different countries according to their respective level of development, will give rise to a dynamic view of international trade, where comparative advantages are changing from one group of countries to another, like a “wild gees flight” (to use the expression of Akamatsu 1962, p. 18).

The numerous empirical verifications of this neo-Schumpeterian approach of international specialization found a strong correlation between the export performance of the countries and the importance of their Research and Development or the number of patents. In general, the higher the level of industrialization, the greater is the tendency to export new and differentiated products.

Industrial Dynamics

A rich neo-Schumpeterian evolutionary literature has developed on the notion of “industrial dynamics.” The aim is to understand how an industrial sector facing a deep technological innovation reacts (Hamdouch 2006, p. 10). Depret and Hamdouch highlight, for instance, how the techno-industrial dynamic is reshaping the different dimensions of the whole biomedical industry, namely through new patterns of behaviour, new legal frameworks (laws, regulations, standards, types of contracts, system of property rights, etc.), new scientific and technological structures (research programmes, research institutions), new economic structure (financing processes, reorganization of the market), new political organization (structures of power), new social requirements (labour market, trade unions) and even new cultural models (languages, beliefs, values, habits, customs) (Depret and Hamdouch 2007, p. 90). This industrial evolution shows a particular trajectory of industrial change which combines both order and continuity factors (such as routines, learning effects, path dependence, irreversibility, lock-in) and disorder and discontinuity effects (radical uncertainty, mutations, paradigm shifts, emergence of new institutions, instabilities, deviation enhancers, self-reinforcing processes) (Paulré 2004).

The Music industry provides another good example of such an evolution. This industry has been confronted for a few decades to a radical innovation cluster which affect the traditional enterprises at three different levels: digitalization of content, distribution, and marketing, delivery, and exhibition. Digitalization has provided the musical industry with more choice and wider dissemination and promotion. The range of formats through which music is carried has changed (cassettes, vinyls, CDs, DVDs, digital formats, etc.). “Significantly, many costs associated with the manufacture and duplication of physical products [e.g. CDs, spindle cases, printing packaging] are removed or greatly reduced with the advent of digital” (Rogers and Sparviero 2011, p. 10). Thus, emerges a life cycle of music media in the sense of Vernon (Fig. 2).

The distribution and marketing stage has been disrupted by the development of the Internet. Its emergence as a medium for mass communication gives to the producers of contents (artists, singers) the opportunity to



Fig. 2 Album sales by media from 1973 to 2015 (millions of units) (*Description* it appears on the figure that the album sales show a cycle for each media which seem to confirm the intuition of Vernon. *Source* Calculated from several reports of the *Federation of Phonographic Industries* [IFPI 2010, 2013, 2014 and 2015])

bypass the established major music industry in getting directly their creations to a mass audience: “Producers of music would be able to directly access their public without the machinery of a multinational corporation mediating this relationship. Costs associated with distribution and retailing would be eliminated. Rather, the rapid diffusion of Internet technologies would mean anyone could potentially enter the market” (Burnett 2011, p. 441). For the delivery and exhibition stage, the major change lies in the method of Peer-to-Peer exchange. This gives anyone the opportunity to bypass the traditional music distributors in getting the music files electronically and potentially for free.

One can clearly see how the Schumpeterian creative destruction process is triggered in the music industry. Even the big music companies such as EMI Music Group, Sony Music Entertainment, Warner Music Group have to keep innovating in order to survive. It is a period where change is demand-driven rather than supply-pushed. The claim that free downloads of music files are ‘illegal’ or attempts to introduce locks, like the Digital Rights Management (DRM) will not stop the creative destruction process.

As Schumpeter predicted, it is clear that resistance to evolution is futile. The technical and legal responses of the entrenched companies in the music industry are doomed to fail. They should adapt their activities from being music manufacturers to service providers. And free exchanges of files on the Internet does not exclude profit as shown in the freemium business models or advertisement models. “Freemium” is the contraction of “free” and “premium.” It is a pricing model by which a music offering is provided free of charge, but money (premium) is charged for additional features or services. “Advertisement model” means a site offers free content to customers and sells advertising to make money. New trends are giving a clear indication of what is expected: more music, better variety, and free exchanges.

Conclusion

How does the capitalist system work? How is it going to evolve? Which forces are driving globalization? These questions are the most difficult ones ever asked. Among all the authors who tried to answer, Schumpeter gave the best answers: Research efforts create “innovations” which are created by “entrepreneur” (who is not the same person with capitalist). Banking credit is essential to support entrepreneurs to make innovation. Finally, innovation is responsible for “creative destruction” which is an opportunity for evolution.

With the benefit of hindsight, we can see Schumpeter’s answers still having an impact in today’s world. It is able to explain new causes for economic change. In this sense, Schumpeter is a modern author. However, Schumpeter poses a real challenge to the economic discipline and its working hypotheses. The most difficult one is to start to explain the real dynamics of the economy! Schumpeter invites us to rethink each concept of economic theory (such as the Ricardian comparative advantage model). It insists on the importance of governments and big companies to intensify their efforts in supporting ambitious research and development programmes. It shows that innovation is the essence of globalized capitalism, and that nothing lasts forever. This is the main reason why capitalism is a process in constant evolution. Is this evolution a good thing?

“The question of appraisal of social gains from entrepreneurship... is so complex and perhaps hopeless that I beg to excuse myself from entering into it” answers Schumpeter (1991, p. 34). But, finally, Schumpeter was pessimistic about the future of capitalism because he believed innovation would vanish.

Notes

1. Which is very well done by Richard V. Clemence (1988).
2. Wicksell was a Swedish economist who built a general synthetic economic theory in which payments to factor of production correspond to their marginal productivity.
3. According to Marx, “Simple reproduction” is the process by which the capitalist is going to reproduces his base capital and the worker is going to reproduces the conditions and necessities of his labour.
4. Walrasian General Equilibrium shows how and why a free market tends toward equilibrium in the long run. Walras proved that any individual market was necessarily in equilibrium if all other markets were also in equilibrium.
5. *Les Echos*, 20 November 2003.
6. Schumpeter named the cycles in the names of the economists who brought them to light.
7. Under the combined effects of endless innovations, the capitalist machine is constantly kept on the move.

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The Bancor and International Trade Possibilities of John Maynard Keynes

David Rees

Introduction

In 1971, US President Richard Nixon announced his “New Economic Policy.” The world was stunned as it learnt that the New World Order that had been created at Bretton Woods in 1944 was over. Governments no longer knew the value of their major reserve currency, the dollar that they held in their banks, and could no longer convert their dollars into gold. Since Bretton Woods, currencies had been tied to the dollar, and were hence tied to each other with fixed exchange rates, and the dollar was pegged to gold at a value of 35\$ per ounce. Suddenly, the organization of the world’s entire financial and commercial structure that had been created 27 years before was in tatters, and no-one was sure what the consequences of floating currencies would be on world trade and globalization. Nixon sold the effective devaluation of the dollar to the American people as an international success, the Dow Jones index rose, and the US media praised this bold move. Nixon may have ignored that the Bretton Woods system

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had been created in order to provide economic and financial stability following the chaotic inter-war years from 1918 to 1944.

The New World Order created at Bretton Woods was a bold reorganization of international political economy. It saw the birth of the International Monetary Fund (IMF), designed to help countries with balance of payments problems, the World Bank, designed to provide financial aid for major capital investments such as dams and infrastructure projects, the General Agreement on Tariffs and Trade (GATT), now the World Trade Organisation (WTO) since 1995, to set the rules for international trade policy, and to oversee its implementation.

In 1944, the tying of currencies to the dollar effectively gave the USA financial hegemony in the world and broke the previous British pound zone. Keynes was, with the American Harry Dexter White, responsible for the Bretton Woods negotiations and the founding of this new economic and political order (Steil 2014). For Keynes, this was perhaps his most difficult role, given that the USA held all the cards (and the gold) and the British Empire was on the verge of economic collapse due to its massive debts incurred during the First and Second World Wars. Harry Dexter White and the Americans got what they wanted—and Keynes watched as his proposals were rejected, the British Imperial Tariff Preference (the Ottawa Agreement) was broken up, the Exclusive Sterling Trade Area was dismantled, and the UK became indebted not only to the US, but was also tied to a New World Order under the GATT agreement, the World Bank and the IMF. No-one could have done better than Keynes to safeguard British interests, but he had no decent cards to play. Most students of economics know what came out of the Bretton Woods agreements, but are often unaware of what Keynes proposed there. The purpose of this chapter is to look in more detail at Keynes's Bretton Woods proposals, and to speculate on how they could be applied today to resolve international trade imbalances, high debt levels, increasing international and intra-national wealth inequality, and even how he would resolve the structural problems of the Eurozone. In the same way that Bretton Woods proposed and produced a New World Order,¹ this chapter will propose a Keynesian New World Order that would fundamentally change the current neo-liberal, or market-based, economic and political ideology. To those readers who might consider a paradigm shift impossible, and believe in the TINA

(There Is No Alternative) of today's market-based system, I recommend reading Thomas Kuhn's book 'The Structure of Scientific Revolutions' (Kuhn 1962), to better understand how ideology underpins policy, and what is required to change from one paradigm to another, whether it be in the 'pure' sciences, or in political and economic sciences.

John Maynard Keynes

If we accept that John Maynard Keynes stands on the podium of the three best-known economists of all time (The Complete University Guide 2016), along with Adam Smith and Karl Marx (see the chapters in this book on Smith and Marx), then we might wonder at the fact that both Keynes and Marx considered themselves philosophers rather than economists, and that the word 'economist' did not even exist when Adam Smith came to fame with 'The Wealth of Nations' (Smith 1776). Perhaps all economists should be philosophers first, for how else can they position the purpose of economics with its ethical and moral implications when applied to society? As Keynes himself states:

The study of economics does not seem to require any specialized gifts of an unusually high order. Is it not, intellectually regarded, a very easy subject compared with the higher branches of philosophy or pure science? An easy subject, at which very few excel! The paradox finds its explanation, perhaps, in that the master-economist must possess a rare combination of gifts. He must be mathematician, historian, statesman, philosopher – in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man's nature or his institutions must lie entirely outside his regards. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician. (Keynes 1933, pp. 140–141)

There are also very few economists who have been so implicated in acting on the real world as Keynes was. Marx saw communist societies grow up in rebellion against bourgeois government, but he was always working

outside the state, whereas Keynes was a statesman who negotiated major changes in the world in which he lived. (The Versailles Peace Treaty, UK government policy, the New Deal, Bretton Woods etc.) Keynes did not simply write an economic theory and see it applied more or less successfully within national economic policies around the world—Keynes was regularly on stage—in the heat of political and economic struggle. This meant that sitting in an ivory tower of theoretical contemplation was out of the question. He was constantly involved in negotiating in the real world—negotiations which were of the utmost importance in shaping his and our world.

Keynes was present at the Paris Peace Conference (often referred to as the Versailles Peace Conference) in 1919 as a member of the British Treasury, where he represented British economic interests after World War One. It was during this treaty that the conditions for peace with Weimar Germany were established. He was so appalled at the proposed conditions that he felt would not only destroy Germany economically, but also humiliate them. He left the conference in protest and wrote perhaps his most important work, *The Economic Consequences of the Peace* (Keynes 1920) in which he foretold the likelihood of further war since the proposals were not economically possible for Germany. Keynes was also the principal British interlocutor during the final months of World War Two to negotiate the US-British Lend-Lease programme and the Marshall Plan loans (Marrin 2015; Marshall Foundation 2007). He disapproved most of the Morgenthau Plan, especially the idea to destroy German industrial capacity in 1945 (United States Department of State 1945, pp. 22–28).

What frightens me most in the whole problem is that these issues are extremely likely to be settled by those (as I know by first-hand conversations), who have not given continuous or concentrated thought to it... For in fact there is *no* good solution. *All* the solutions which are now being talked about are, not only bad, but very bad. (Moggridge 1992, p. 777)

But Keynes would have surely approved US Secretary of State, James Byrnes's 'Speech of Hope' in Stuttgart in September 1946 (Byrnes 1946) had he lived a few months longer; a speech that declared a change in US policy to cancel some of Germany's debt and relaunch its economy.

As stated in the introduction, Keynes negotiated the Bretton Woods proposals with Harry Dexter White at the end of the Second World War. Keynesian economics was also at the heart of Roosevelt's New Deal to rescue the USA and the world from the Great Depression following the 1929 US stock market crash. He also managed British interests in the 1930s to reduce the impact of the decline in world trade on the British economy.

Keynes was, therefore, unlike analytical economists who deal with observation and explanation (economists that he disapproved of, with their curves and diagrams that were out of touch with reality), an applied economist dealing with the actual application of economic theory that underpins the organization of society—and that requires constant adjustment—not just of the mechanism itself but also of the underlying paradigm. This required flexibility and pragmatism. It is perhaps this flexibility that came from his considerable intellect that makes Keynes difficult to study. Quite simply—he often changed his mind and opinions when faced with global realities or *realpolitik*. For example, at Cambridge University (1902–1905) he strongly supported Free Trade, but in 1915, Keynes helped UK Chancellor of the Exchequer Reginald McKenna prepare his first budget that saw the introduction of the McKenna duties: a 33.3% duty on luxury imports! He then changed again in 1923 when he attacked the Conservative party's demand for protection, stating “If there is one thing protection cannot do, it is to cure unemployment” (Keynes 1978, pp. 151–152). A few years later, with British unemployment growing, the solution he advocated was—protectionism! Under the pressure of reality, he had become a staunch protectionist! (see Eichengreen 1984) This protection helped defend the British car and lorry industry from international competition.

Keynes was homosexual, but then married a Russian ballerina, Lydia Lopokova (Mackrell 2009), strongly supported full employment and social welfare, but considered himself to be bourgeois, not a socialist, opposed currency speculation that threatened economic stability, but himself started a speculation club with his Bloomsbury friends! This is symptomatic of the paradox that is Keynes. Rules and norms were to be applied to others, but not to himself, since he considered himself above such things.

In the neo-liberal post-1980s, we might be tempted to look back at Keynes and consider him politically socialist since his policies, particularly visible in Roosevelt's New Deal, were socialist in character—a definition follows here: a neo-liberal, monetarist policy is supply-based and looks to control the value and quantity of money, whereas Keynes insisted on the demand side which meant full employment and fair wages. He, like Marx, understood that workers are also consumers. Was this solution purely an economic answer? I doubt it, since he was first and foremost a philosopher, and was concerned with the welfare of society as a whole and believed, somewhat naively, that greater national wealth would and should benefit all society and lead to fewer working hours and more leisure for everyone, and not be hoarded by an over-wealthy elite (Johnson and Moggridge 2012; Keynes 2009). Keynes did not believe that a Smithian “invisible hand” would automatically correct the economy—invisible, perhaps, because it does not exist (Niman 1987). Keynes understood that market forces will not provide the economy and hence society with what it requires.

It is the well-being of human beings and human society that lie at the heart of Keynesian economics (Keynes 2012). This comes very close to the socialist belief that the economy should serve men, not men the economy (...) It should be not the greed of the few but the needs of the many that are the driving rationale for economic decisions. (Hoerber 2017, p. 80)

But, although convinced of the social, political and economic importance of full employment, and a somewhat unhappy member of the Liberal Party, he opposed the Labour Party of the day as much as he opposed the Conservatives:

Labour “is a class party,” he wrote, “and the class is not my class. If I am going to pursue sectorial interests at all, I shall pursue my own (...) the class war will find me on the side of the educated bourgeoisie”. (Keynes 1978, vol. xix, p. 297)

Skidelsky suggests that:

But let's get Keynes and Keynesianism right. In the U.S., more than in Britain, he is considered a kind of socialist. This is wrong. Keynes was not

a nationalizer, nor even much of a regulator. He came not exactly to praise capitalism, but certainly not to bury it. He thought that, for all its defects, it was the best economic system on offer, a necessary stage in the passage from scarcity to abundance, from toil to the good life. (Skidelsky 2009, p. xvii.)

It is perhaps not quite as black and white as Skidelsky suggests, since Keynes actually urged government intervention in key industries and services in the USA as part of The New Deal, as illustrated in the work of the Tennessee Valley Authority (TVA). The TVA was a federally-owned electric utility and regional economic development agency. It still exists today and is the nation's largest public power provider. We can perhaps identify some of this idiosyncratic personality from his upbringing. Keynes came from a family of staunch Baptists with strong values for truth and morality, though he was not religious himself. His education at Eton, a very elite independent boarding school in England, followed by Cambridge University and a Cambridge University-based group of artists and intellectuals known as the Bloomsbury Group, allowed him to interact with exceptional minds. He was strongly influenced by G. E. Moore (philosopher), Bertrand Russell (philosopher) and Ludwig Wittgenstein (philosopher) as well as Virginia Woolf (writer), E. M. Forster (writer) and Lytton Strachey (biographer) as well as W. H. Macaulay (mathematician).

'Rules, rules, what are rules for?' Macaulay would ask himself before answering himself: 'to be broken, to be broken' ... The sentiment that creative minds were justified in breaking rules, when the results might be productive, was to underlie Keynes's rethinking of economic laws after 1924. (Davenport-Hines 2015, p. 56).

It was perhaps this irreverence, this feeling of intellectual superiority, that allowed him later on to break with standard moral codes (homosexuality was illegal at the time), to break with standard economic theory to create his own, and even to break with his own ideas when he found them impractical.

We had no respect for traditional wisdom or the restraints of custom. We lacked reverence... for everything and everyone. (Rosenbaum 1995, p. 95)

This rebel, however, managed to work within the corridors of power without too much trouble. This is what can surprise us most. Take a look at a portrait of John Maynard Keynes—he looks like the icon of an obedient Edwardian civil servant—a cog in the wheel of a vast and powerful empire. Yet Keynes the rebel, Keynes the risk taker, Keynes the lover, Keynes the flexible changer of his own ideas is there. Perhaps that is why he still commands such interest. If he had remained in the Military Department of the India Office where he started work in 1906, even though it was only for 20 months, he would never have changed the world as he did. He was brilliant, he was different, and he did not suffer fools lightly. But Keynes was part of the intelligentsia with a mission. He could easily have settled back into relative wealth and comfort, but he took on his mission of finding economic and political solutions with an extraordinary sense of duty, despite his battles with hierarchy and government. He was also a great speaker—most notably in his speech to the House of Lords in 1945 (Keynes 1945) concerning the lamentable terms of the American loan to the British government, a government that still thought it ruled the waves; he required diplomacy, convincing economic arguments, and a mastery of rhetoric—and he had them all. He clearly understood during the First World War that the world as he knew it was about to change. He was one of the few people that understood not only the economic and political details, but who was also able to place these details within a global framework. Employed in the Treasury Department, in 1917 he wrote to his wife:

My Christmas thoughts are that a further prolongation of the war, with the turn things have now taken, probably means the disappearance of the social order we have known hitherto. I am on the whole not sorry. The abolition of the rich will be rather a comfort and serve them right anyhow. What frightens me more is the prospect of general impoverishment. In another year's time we shall have forfeited the claim we had staked out in the New World and in exchange this country will be mortgaged to America. (Johnson and Moggridge 2012, vol. XVI, p. 287)

Keynes vs Dexter White at Bretton Woods

The British position at Bretton Woods had strength in the brilliant ideas and plans of Keynes, but the weakness of a failing British Empire. In 1914, Britain was the biggest trading economy in the world. It was also the largest supplier of credit for investment. The First World War dented this trade supremacy and, as the effects of the US Great Depression hit the UK, the British set up the Imperial Preference Scheme which guaranteed that members of the Empire buy and sell in pounds sterling, keeping them away from trade with the USA. After World War Two, the situation was even worse; the USA held most of the world's gold resources, had debt control over most of its allies, and was the only country with an intact major productive infrastructure. The Americans used the Lend-Lease program to break up the British Empire by insisting on the removal of the Imperial Preference Scheme, without which the British lost the last of their commercial power. They were in no position to impose terms at Bretton Woods. The British representative Keynes and the American representative Dexter White agreed on most points. The world had suffered greatly under currency instability after World War One as countries had devalued their national currencies to gain markets for their exports. A managed global economy was needed to stabilize exchange rates, stop devaluations and avoid speculation. The two men, however, proposed different mechanisms for this new global economic structure. Keynes promoted an International Clearing Union using a virtual currency—the Bancor:

Each item a country exported would add bancors to its ICB account (International Currency Bank), and each item it imported would subtract bancors. Limits would be imposed on the amount of bancors a country could accumulate by selling more abroad than it bought, and on the amount of bancor debt it could rack up by buying more than it sold. This was to stop countries building up excessive surpluses or deficits. ... Once initial limits had been breached, deficit countries would be allowed to depreciate, and surplus countries to appreciate, their currencies. This would make deficit country goods cheaper, and surplus country goods more expensive, with the aim of a rebalancing of trade. (Steil 2014, p. 43)

The Americans, however seized their chance to impose the dollar as the world's exchange and reserve currency. Instead of the Gold Standard, all currencies would have fixed rates with the dollar, and the dollar would have a fixed rate to gold. In this way banks could store dollars instead of gold, and the Americans could simply print the world's money. The American people, wary of funding European debt, supported the American position, as we can read in this report in *The New York Times*:

The kid who owns the ball is usually captain and decides when and where the game will be played and who will be in the team. While international monetary stabilization is not baseball, it is a game. Gold is as necessary to that game as the ball and bat are to baseball. Since the US now owns some twenty-two billions of the world's reported twenty eight billions of gold, we think Uncle Sam is going to be the captain of the team or there will be no game... and the idea of "supplanting gold as the governing factor" and apportioning voting power on the basis of pre-war trade, which would give Britain about fifty per cent more voting power than the U.S., not only is not good baseball – it is not even cricket *New York Times*, March 30, 1943. (Steil 2014, p. 167)

The USA would enormously benefit from being able to print the world's reserve currency. There were other differences as well. The British government under Prime Minister Clement Attlee was nationalizing essential sectors of the economy, as epitomized by the Iron and Steel Act of 1950 (see <https://api.parliament.uk/historic-hansard/commons/1950/sep/19/iron-and-steel-nationalisation> for Churchill's parliamentary speech on this) whereas the Americans wanted Britain to be part of a free-trade, capitalist Europe. In short, Keynes did his best to defend British interests, but had to swallow Dexter White's American system. The UK needed loans; the USA had the money, so the USA called the shots, and let's face it, the British would have done likewise if they had been in the same situation. The rest of the world, perhaps with the exception of Russia, played marionettes to the system; there was virtually no possibility to vote—just to discuss and then agree to the plan that had been prepared long before their arrival at Bretton Woods.

The institutions of a New World Order were created: the World Bank to finance long-term projects such as the construction of dams where

massive investment was required long before any financial returns were possible; the IMF to help countries out of temporary debt difficulties; and the GATT that later became the WTO (WTO) to ensure that countries would not use protectionism (particularly against US goods since the US held a virtual monopoly of productive capacity). Some see the Bretton Woods institutions as instruments of US capitalist hegemony (Danaher 1999). Keynes's objectives were different. Although he sought international institutions to avoid a recurrence of the inter-war currency and trade crisis, he clearly wanted truly international institutions rather than American-led ones. He also wanted the Bancor to be the basis of an international currency union. Currencies would be tied to the Bancor, but would have some flexibility depending on their Balance of Trade. Currency speculation (and devaluation) would hence be stopped. Excessive creditors and debtors would not exist either since the terms of trade would become more and more difficult for countries in trade credit and the opposite would happen for those in trade deficit. This would also have the impact of releasing reserves since they would be spent rather than held in banks. The economics of the Bancor system was considered far better than the American system, but the Americans were certainly not going to give any currency or trade sovereignty to an international institution where they were not the masters of the game. For further details of Keynes's Bancor system, see chapter 6.2 of *Reforming the Global Financial Architecture: a Comparison of Different Proposals* (Klaffenböck 2008).

A Keynesian Proposal for an International Money Clearing Unit and a Virtual World Currency, the Bancor

Keynes understood that free-floating currencies were dangerous for the world economy since he had seen the beggar-thy-neighbour practices of devaluation in the inter-war years. He also understood that a fixed-system like the Gold Standard was not a solution either. What was needed was:

1. An internationally-controlled currency system that avoided a currency roller-coaster and currency speculation.
2. A method of controlling balance of trade excesses to avoid major currency creditors and debtors.
3. A flexibility system to allow changes in productivity to feed back into the system to avoid the rich becoming richer and the poor poorer.

Our globalized trade is currently working within a highly unstable system, with high levels of currency speculation, massive trade imbalances, a worsening debtor-creditor situation, and wider and wider wealth gaps. How would Keynes deal with our current structural problems? Well, most of his solutions have already been proposed in his Bretton Woods proposals in 1944. Unfortunately very few people are aware of his proposals since history is written not by the losers but by the winners, i.e. the Americans! How can one stabilize currencies without fixing them rigidly and at the same time control trade to avoid trade surpluses and deficits? Keynes proposed a system including a virtual currency, the Bancor, for international trade, and an International Money Clearing Unit (ICU); both of these systems to be operated by international institutions (as opposed to the US-dominated IMF, WTO and World Bank).

Here are the main principles of Keynes's Bancor system:

1. Member countries will agree on their currency exchange rate in terms of Bancor. These rates can change slightly without permission (i.e. revaluation or devaluation). Large changes need permission from the board. (This is similar to the EU's European Monetary System where pre-EMU members should 'tie' their currencies to the Euro within an agreed band of flexibility.)
2. Each member will have an agreed quota of Bancors with the ICU, to be adapted every year according to its average volume of trade.
3. A member with an excess or debit of its balance of payments of more than 25% will be charged 1% p.a. of its total excess or debt with an extra 1% if it exceeds 50%. Member states in debt can borrow from countries in credit to avoid these payments.
4. A country with a persistent deficit (over 25% annually) should devalue its exchange rate to the Bancor by not more than 5%.

5. A country with a persistent surplus (more than 50% of its quota), should (a) increase domestic credit and demand, (b) appreciate its currency in terms of Bancor or increase wages, (c) reduce import tariffs, (d) provide international loans for developing countries.
6. Gold can be credited as Bancor, but not the reverse. The ICU board can distribute gold to countries with Bancor credits.
7. Non-member countries should have an account at the ICU but cannot have overdrafts and cannot vote.
8. Countries can resign with one year's notice after settling their accounts.

A country does not have to maintain a trade balance with other members, simply with the ICU. The plan also includes capital controls:

The ICU would oversee all capital transfers; therefore no country can safely allow the flight of funds for political reasons or even to evade domestic taxation. Equally there is no country that can safely receive fugitive funds, which constitute an unwanted import of capital, yet cannot safely be used for fixed investment. In this way foreign direct investment (FDI) can continue, but not speculation. Given the estimated world losses in tax revenue through tax fraud via tax havens, estimated at 5% of the world GDP (Johnston 2011; Murphy 2017), this system would considerably increase world wealth.

An ICU along Keynesian lines has been proposed by Paul Davidson (2008, 2014). The trade architecture is Keynesian, but he suggests avoiding a supranational central bank that he feels is politically not conceivable.

The US trade balance was in credit after the Second World War and remained balanced during the 50s and 60s. But by 2018, it is nearly 44\$ billion in deficit. China's trade balance was steady until 2004 (introduction of private property rights) and by 2018 is 42\$ billion in credit. Obviously the resultant imbalance is reflected in employment levels and the Chinese purchase of US debt. Under Keynes's Bancor system, this would not be possible since China would have to steadily increase the value of its currency leading to a reduction of exports and increase in imports. The USA would have to do the opposite. Daily spot-trading (a spot-trade is the purchase or sale of a foreign currency or commodity for instant delivery) in currencies is over 5\$ trillion. This massive and rapid speculation would simply not exist with the Bancor system since devaluation or revaluation

would only occur under the auspices of the International Clearing Union. This would help stabilize the world economy.

What would Germany's position be under such a system? This would depend upon the status of individual EMU (Eurozone) members. If treated individually, then Germany's excess trade surplus would lead to sanctions, but changing the value of the currency, the Euro, would not occur unless the entire Eurozone was in trade credit, in which case the Euro would be required to increase the value of the Euro. But, every balance of trade credit is equalled with a trade deficit, and since two-thirds of European trade is intra-EU, then large external trade deficits or surpluses are unlikely. If we look at option 5 under Keynes's ICU / Bancor system:

5. A country with a persistent surplus (more than 50% of its quota), should
(a) increase domestic credit and demand, (b) appreciate its currency in terms of Bancor or increase wages, (c) reduce import tariffs, (d) provide international loans for developing countries.

we can rule out (b) (responsibility of the European Central Bank) and (c) (responsibility of the European Commission). This leaves (a), an increase in domestic credit and demand, and (d) providing international loans for developing countries. The latter is controversial since it depends upon the status of the loan—is it tied to goods (tied-loan), is it at a 'correct' level of interest rate, etc.? How could Germany increase domestic credit and demand? Credit depends upon loan rates which are controlled by the ECB. It could, however, use fiscal control to increase consumption and increase wages. However, would this greater consumption be of imported goods (the objective in order to balance the trade between exports and imports) or of locally-produced goods?

The Bancor/ICU system could work very satisfactorily on a world level, and help reduce international trade imbalances and the associated debt imbalances. However, something else is needed within a currency zone such as the EMU. What, therefore, might Keynes suggest in such a situation?

A Keynesian Proposal to Resolve Eurozone Structural Imbalances

The ICU was designed (but never created) in 1944 before the creation of currency zones such as the Eurozone. Yet the Eurozone has a serious structural weakness—there is no flexibility. Members of the Eurozone can no longer depreciate or appreciate their currencies to reflect their comparative productivity. Even non-EMU members are constrained since if they are members of the ERM II system, they have to tie their currencies to an agreed value band (15%) in relation to the Euro. In theory, more productive countries such as Germany should have inflation that should lead to higher interest rates, an appreciated currency, higher wages and hence increase the cost of their exports (which would become comparatively expensive) and increase imports (which would become relatively inexpensive). But this has not happened. Germany actually benefits from the Euro which constitutes an average of EMU productivity—and hence has been able to avoid the appreciation of the German Mark that would have resulted if there were no Euro. In the same way, France has been unable to continue its pre-Euro depreciations, and hence is stuck with a Euro that is possibly more expensive than the French Franc would be. We now have considerable imbalances amongst EU members: since 1999 (the introduction of the Euro), German trade surplus has increased considerably to 19.5€ billion (annual to July 2017) (Trading Economics 2018a). This is in comparison to France which was positive in 1999, and has now shrunk to a deficit of 6€ billion (annual to July 2017) (Trading Economics 2018b, p. 2).

If there were an ICU, then it would be the European Union, represented by the European Central Bank, the European Commission and European Parliament that would be a member, not individual nations, therefore the Bancor system would affect the Euro as a whole, but not resolve intra-EMU problems. The value of the Euro would be fixed to the Bancor with slight adjustments possible depending on the EU's trade balance with the rest of the world. A trade surplus would lead to increasing the value of the Euro; a trade deficit would do the opposite.

If currency is fixed, and productivity varies, then there are only two mechanisms to regulate the system; financial transfers and labour costs.

In terms of financial transfers, the transfers exist already under the EU's Structural and Investment funds (ESIF) (that includes the Regional Development Fund [RDF], the European Social Fund [ESF], the Cohesion Fund [CF], the European Fund for Agricultural Development [EAFRD], and the European Maritime and Fisheries Fund [EMFF]) that flow mostly to the poorer countries of the EU (this represents over 50% of the EU budget). These funds are designed to help weaker countries to develop their infrastructure and economies. This inflow of funds attracts FDI not only to participate in the projects, but also from companies that set up abroad in order to benefit from an improved infrastructure. However, the current levels of funds are vastly insufficient to harmonize current wealth disparities. Each member provides the equivalent of 1% of its GDP to the EU budget. Some get more back than they put in, some the reverse. This is the 'solidarity model' whereby Germany puts more in than it gets back, and poorer countries get funds and buy German goods—at least that is the theory! But Germany gets back about half of its contribution, so it actually only transfers about 0.5% of its GDP to the poorer countries. If financial transfers were to have a real impact on the European economy, then transfers should be much higher—which in turn means increasing the GDP % going into the EU budget, at least twice as much, and fixing better rules on where the money goes. The ESIF funds could also have rules concerning the provision of goods and labour whereby the maximum of these goods and labour should come from within the recipient country and not from outside, when possible. For example, if the EU were to establish a major investment in solar farms in Greece, then it should be accompanied by financing the educational institutions and factories to produce those panels and that technology rather than importing them from China. The extent of Keynes's multiplier effect depends upon the extent to which locally-produced goods are made. For example, if a government borrows money (deficit spending) to inject into the economy, the total money spent will multiply since new jobs and materials will be used, which in their turn will increase fiscal revenue to the government. If a government injects 1% GDP into its economy, with a theoretical multiplier of 2, GDP growth would increase by 2%. If the injected money is tied to home-made goods and hence employment, the multiplier will be high. If it results in importing goods from abroad, the multiplier will be low.

The reverse is also true. A fiscal contraction (increasing taxes and removing money from the system), will also have a negative multiplier effect whereby a fiscal contraction of 1% GDP might lead to a loss of GDP growth of 2% GDP. The difference is that fiscal contraction is always local, whereas monetary expansion might be external (via importation) rather than local (via the purchase of nationally-produced goods). Another advantage of transfers from richer to poorer countries in the EU is the effect of the different purchasing power parities (ppp). Although ppp is usually used as a cross-currency exchange rate guide, it can also be used within the Eurozone. One Euro purchases more in Estonia than it does in Luxembourg. This means that a transfer from richer to poorer has a greater impact than from countries with the same ppp. We can also return to Keynesian economics, if we include the Marginal Propensity to Consume (MPC). In a poorer country, the MPC will be higher, since if you are relatively poor, you are likely to spend most of your income, and an increase in income will lead to increased consumption, whereas if you are relatively rich, your MPC will be lower, and an increase in income is likely to lead to greater savings, rather than higher consumption. If you combine ppp and MPC, then obviously, funds going to a poorer country will have a far greater beneficial economic effect than in a richer country. The solidarity model, provided by the transfer of ESIF funds, should partly be able to resolve intra-European wealth disparities over time. However, richer countries are better organized to extract ESIF funds from the EU budget than are poorer countries that have greater needs but have a weaker presence in Brussels and a smaller administration to deal with the considerable paperwork necessary to fulfil the requirements of submitting requests for financial support. There are, of course, criteria pertaining to the use of the different ESIF funds, but if we include Common Agricultural Funds, we can better understand why the transfer of wealth from rich to poor is insufficient. For example, within the 2014–2020 Common Agricultural Policy (CAP) budget (42% of the total EU budget), the average 2014–2020 direct payments per hectare p.a. to Latvia was 159€, whereas Germany received 302€.

What we have seen since the 2008 subprimes crisis that turned into the European debt crisis as nations increased deficit and debt to bail out

their banks, is that the European solidarity model has turned into a debt-control model of predation whereby the political control of the richer countries via institutions such as the Eurogroup, has weakened countries such as Greece, Spain, Ireland and Portugal, by the application of austerity plans. These plans have, as predicted by economists (Blyth 2013; Kinsella 2019; Krugman 2011; Varoufakis 2016 etc.), failed, and have made the situation even worse; they have also considerably widened the intra-European wealth gap. German and French banks have been able to buy Greek, Portuguese and Italian bonds at what might be considered immorally high interest rates. Joseph Stiglitz deals with this unsustainable European model in some detail in his book 'The Euro and its Threat to the Future of Europe' (Stiglitz 2016), especially on the structural problem of working within a fixed-exchange rate (Euro) system. I feel sure that Keynes would agree with Stiglitz's analysis and would insist on some mechanism of transfer from richer to poorer countries, if the European Union is not to fail as a badly-organized, good idea. The rigidity of the ECB has two main problems: it is only concerned with controlling inflation, rather than employment, and it cannot lend to countries, only to banks. Countries in difficulty therefore have to borrow via national bonds on the private market. A country in difficulty is downgraded by the rating agencies, leading to a higher interest rate to sell its bonds, leading to a greater debt as debt servicing becomes more and more expensive. It is a vicious circle that allows banks to make very high levels of profit at the expense of the country in difficulty that has not only no possibility of devaluing its currency since it has lost monetary sovereignty to the ECB, but that also might see forced restructuring, as in Greece via the Troika (ECB, European Commission and IMF) that proposed an austerity plan and a lowering of wages and pensions that simply make the situation worse rather than better.

Another problem is that the EU created the Economic and Monetary Union (EMU), but only succeeded with Monetary Union, the Euro, and failed to provide the Economic Union via harmonized macroeconomic policy and harmonized fiscal policy. This harmonization would not have allowed a neo-liberal competitive model whereby Germany can have cheaper wages than poorer neighbours, and thereby 'steal' jobs from neighbouring countries that propose a social model with a higher level of

social protection that 'costs' in terms of production. Let us take a couple of examples. The Maastricht criteria (Interest Rate, Deficit, Debt, Inflation and EMR II membership) that need to be achieved in order to join the Eurozone (EMU) and the Stability and Growth (sic) Pact that have to be followed after joining EMU (Debt and Deficit) are only concerned with controlling inflation and controlling overall European debt. Where is the criterion for unemployment? Where is the criterion for social security and unemployment benefits? Where is the criterion for minimum wages and poverty levels? The European Union is failing to provide for the majority of its citizens, and a Keynesian revolution is perhaps the only way forward to save the EU from itself. A minimum salary could be based on a percentage related to the national average salary. A maximum poverty level could be defined (which is automatically related to average income), also proportionally. Agreements could be made to harmonize unemployment benefits, maternity benefit, child benefit and other factors that at present create an unfair playing field within the European Single Market, and could be harmonized whereby a country like Germany would be unable to reduce its labour costs (and increase precarious jobs and poverty) to compete against its fellow member states.

Let us take a look at the problem between Germany and France, then see what Keynes might have suggested. Germany is the richest country in the EU in terms of GDP, but its per capita average monthly income is only 2225€ in comparison to 2180€ in France (Fischer 2016). Germany's trade surplus and growth has not led to an increase in salaries. Under the Hartz Plan IV that started in 2003 (Sozialleistungen 2018), medical benefits were cut, pensions reduced, and unemployment benefits drastically cut and labour 'flexibility' was increased. If you add to this that a minimum wage was not introduced until January 2017, then we can understand why German labour costs have remained relatively low and have included many precarious job situations. Poverty (less than 60% of the average income) in Germany has increased from 11% in 1992 to 15.7% of the population by 2015, (Esposito 2014; Knight 2017) in spite of GDP growing steadily. Therefore we can understand that low unemployment is related to poorly-paid jobs or part-time jobs. If we do not use the previous financial transfer solution, then why not a labour cost solution? Intra-European trade imbalances could be tied mathematically

whereby trade balance surpluses would be tied to minimum wage levels rather than currency conversion against a Bancor or financial penalties. On the other hand it would be socially unacceptable to reduce minimum wages in countries with a deficit. Over time the labour costs in trade surplus countries would increase, improving their standard of living and increasing their imports from the other countries. Obviously this would be difficult for a German government to accept, but it would be much cheaper than the cost of the break-up of the Eurozone which is the direction in which it seems to be going if nothing is done to introduce a transfer system. For Germany to go back to the Deutsch Mark would be very expensive since its currency would appreciate strongly.

Following the 2008 subprimes crisis that led to governments increasing their deficit and debt to bail out their banks, the EU engaged in applying an Austerity Plan on countries in difficulty (unfortunately known as the PIGS—Portugal, Italy, Ireland, Greece and Spain). Where did this Hooverite² idea come from? When the USA faced the same problem at the beginning of the Great Depression following the 1929 Wall Street Crash, Roosevelt proposed Keynesian, government-led expansion by creating jobs and security, as opposed to Hoover who proposed balancing the budget by reducing government spending in a time of crisis. Fortunately the American people voted overwhelmingly for Roosevelt's Keynesian plan that managed to reverse the crisis, restore consumer consumption and confidence. So why did the EU do exactly the opposite, despite the long history of the failure of austerity measures to improve a failing economy? The Troika got it wrong and have left austerity-imposed countries, such as Greece, worse off than they started. Keynes would be turning in his grave. As George Santayana said, "Those who cannot remember the past are condemned to repeat it" (Santayana 1905). In June 2013, the IMF admitted that it had got it wrong (IMF, 2013), but nothing has been done to resolve the economic and social disaster in Greece. If only Keynes were here to speak to the Troika and propose practical solutions instead of the current application of a bankrupt economic and political ideology.

Perhaps we could summarize a return to Keynesian policies for the European Union:

1. The priority of full employment. The current levels (7.8% in September 2017) are socially, economically and morally unacceptable.
2. The need for a European New Deal (DiEM25 2018; European Commission 2018)
3. Recreate a European solidarity model and reverse the current predatory model.
4. Create an international currency union along the lines of the Bancor system to stop currency speculation and control the balance of payments among members.
5. Introduce a transfer model within the EU, either in terms of greater financial transfers within the regional funds or by linking trade surpluses to minimum wages to increase prices.
6. Introduce the necessary trade regulations or protection to guarantee full employment with the EU.

In a globalized world, a country or trade group that maintains Keynesian policies of high employment cannot compete under Free Trade since its production costs are inevitably higher. Some sort of balancing or protectionism is necessary, as applied by Keynes in the UK to maintain employment. Under neoliberalism since the 1980s, whether in the USA or in the EU, the old mantra of avoiding inflation, opening free trade, and ignoring unemployment have been the unhappy creed.

Conclusion

If we asked Keynes's ghost today what he thought of our current state of affairs, the first thing he would point out, was that GDP growth in the world was much better under Keynesian policy (from the 1940s to the late 1970s) than under the neo-liberal policy that started in the late 1970s under Reagan and Thatcher (The Equality Trust 2018). During the Keynesian era, France and Germany saw their GDP grow by 4.0% and 4.9% respectively. The UK and USA also had high growth rates. Since the birth of neoliberal policy in the late 1970s under Reagan and Thatcher, growth collapsed to 2.1% in the UK, 1.9% in the US, 1.6% in France

and 1.8% in Germany. The lack of post-Keynesian growth is evident—even though different economists might disagree about cause and effect. Keynes would point to the fundamental market error of increasingly high wealth discrepancies under neo-liberalism. Poor wealth distribution does two harmful things: it leaves too much wealth at the top that cannot be spent and seeks investment opportunities. In Keynesian days this would have produced profitable capitalism as capital would find good returns in industry; this is no longer the case since the West has de-industrialized, and spare money goes into financial speculation which adds exactly to the boom and bust problem of capitalism. The other problem with increasingly unequal wealth distribution as visible by worsening Gini scores (a measure of wealth disparity) (see The Equality Trust 2018 as a UK example showing a clear reduction in inequality during the Keynesian policy years until 1979 when Margaret Thatcher was elected Prime Minister—when income distribution almost immediately worsened). Keynes, like Marx, understood that workers are consumers. High unemployment levels, and poorly-paid workers remove demand from the economy. Some people suggest that budget deficits due to countries bailing out their banks and then hiding debt under quantitative easing is Keynesian due to the printing of money (or nowadays, the electronic creation of virtual, fiat money). But this is a mistake. For Keynes, it is the spending of money, not the printing of it that is the solution. Providing cash to banks does not create jobs, it keeps those who created a failing system healthy, wealthy and unwise. Keynesian era employment was high across Europe in comparison to a post-Keynesian world. In the UK, for example, from the end of the Second World War until 1973, unemployment was between 1.5% and 3.5%, (ONS Historical Unemployment). In 1975, Margaret Thatcher was elected. Unemployment rose immediately, reaching 12% by 1983. Some of the rise might be blamed on the devastating effect of the 1973 Oil Crisis, but this appears to have been absorbed by 1977 (at around 5.5%).

Perhaps the most glaring failure has been that of the very institutions that Keynes oversaw at Bretton Woods. The IMF and the World Bank were designed specifically to reduce international inequalities. Keynes insisted that they be international in nature. He lost, and they became

US-dominated and part of the current neo-liberal paradigm (do not forget the continuing IMF restructuring in Greece as part of the Troika's 'rescue plan'). Perhaps Keynes would join the 50 Years is Enough association (<http://www.50years.org/>) which asks exactly how well these two institutions have done after 50 years (now over 70 years)— the results make dismal reading. In the same way that the Paris Peace Conference refused to look at the facts presented by Keynes, the Troika refuses to accept the facts presented by Yanis Varoufakis (2017), and today we are refusing to understand what is staring us in the face, that the neo-liberal paradigm simply has not worked, is not working and will not work in the future.

It is time for Keynesian policy, Keynesian philosophy and Keynesian morality to take centre stage in a Keynesian New World Order—and where better to organize that meeting than in New Hampshire—Bretton Woods II.

To complete this paper, I shall leave the final words to John Maynard Keynes himself, the intellectual pragmatist, with words of warning that he wrote in a book of hope: *Economic Possibilities for our Grandchildren* (Keynes 1987). Some might consider Keynes a fanciful utopian, but at least he proved on the world stage that he could provide world-scale solutions. Perhaps naivety is exactly the opposite—to be stuck in a neo-liberal paradigm without believing that the economy can serve society, and that we could all be better off under a Keynesian New World Order.

There are changes in other spheres too which we must expect to come. When the accumulation of wealth is no longer of high social importance, there will be great changes in the code of morals. We shall be able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us for two hundred years, by which we have exalted some of the most distasteful of human qualities into the position of the highest virtues. We shall be able to afford to dare to assess the money-motive at its true value. The love of money as a possession – as distinguished from the love of money as a means to the enjoyments and realities of life – will be recognised for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease (Keynes 2009, p. 369).

Notes

1. The term ‘New World Order’ has been used to refer to a major change in political and financial organization at an international level. It is equivalent to the application of a new economic and political paradigm, often resulting in a change of political and economic power.
2. At the beginning of the US Great Depression, following the 1929 Wall Street Crash, Hoover’s policy was to balance the budget and reduce public spending despite massive unemployment and depression. Therefore an austerity programme in times of depression can be considered ‘Hooverite’.

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The Roots of Neoliberalism in Friedrich von Hayek

Thomas Hoerber

Introduction

Hayek is one of the most important liberal thinkers of the twentieth century. Born in 1899 in Vienna, he became with Ludwig von Mises, who was his mentor during his time at Vienna, one of the main representatives of the Austrian School of liberal economic thought. In 1931 he emigrated to Britain and took up a position at the London School of Economics. There he became the main intellectual opponent of John Maynard Keynes poising free market economy against Keynes' planned economy. This contest led both men in their work far beyond the disciplinary limits of economics or perhaps to the origins of economics where it actually explains

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the functioning of society as a whole and ideally the positive contribution economics can make to that. He died in 1992 in Freiburg, Germany.

His key work—*The Road to Serfdom* (Hayek 1944)—was the product of his political reflections during one of the most horrifying periods of world history. Written during the core phase of World War II, its background was the growing realization that crimes against humanity on an appalling scale were being committed in the heart of a continent once proud of its civility. If what later came to be known as the Holocaust was certainly the worst example, the Nazi leaders also presided over and promoted the wholesale corruption of long-entrenched values of decency, common sense, and non-violence. The German people, once admired as a great *Kulturvolk*, became an amorphous mass of mindless savages, spreading death and wholesale destruction throughout Europe. Worse perhaps, Hayek feared that the effects of the war could be to strengthen those forces in Britain which had helped to prepare the ground for the Nazis in Germany (Hayek 1944: vii, 2). This is the context, and at the same time the reason for, the battle of ideas in the field of economics—central planning versus the free market. Hayek became the harbinger of the latter and the banner bearer of liberalism in the twentieth century. He developed it into a modern ideology that became and have remained extremely influential.

First, we shall have a look at the political roots of liberalism leading to Hayek's elaboration of his version of it, which leads him to argue that democracy needs the free market to function. His opposition to popular ideas of Keynesian planning in connection with his abhorrence of Nazi and Communist ideology led him to define a new strand of ideology which should define the Cold War period, i.e. Totalitarianism. This is what Hayek is most remembered for, but his main innovation of Liberalism might well lie in his perspective beyond the nation state, which his liberal predecessors only had for trade, but not for politics. Hayek defined more than anyone else Western liberal democracies, but he also realized that World War II was proof that no nation could stand alone and that international arrangements were needed. They had to prevent war and guarantee liberty. His suggestion of federalism seems surprising after his insistence on national sovereignty, but it is nevertheless the only international political system that can bring together unequal states in freedom.

Classical Liberalism

Hayek calls his description of liberalism “The Abandoned Road” (Hayek 1944: Ch. 1). His spiritual fathers are clearly those working in the classical liberal tradition. He often quotes Lord Acton and other notable liberal politicians and thinkers, but in the end such applied liberalism takes him and us back inexorably to the great ideas on liberalism elaborated, promoted or developed by David Hume (1711–1776), Adam Smith (1723–1790), Edmund Burke (1729–1797), and John Stuart Mill (1806–1873).

Three of these authors have particular chapters dedicated to them in this book which will explain their particularities, but generally such classical liberalism has two strands. One is economic liberalism, the contention that the market will provide the maximum incentive for entrepreneurship, private initiative and personal profit. This leads to the conclusion that the market must also provide the best possible outcome for society and its citizens, because it stimulates active forces within society so that they produce wealth. This will be to the common benefit, through a “trickledown” effect of accumulated wealth seeping through from the top to the bottom of society. Eventually, this also means that wealth generated can be taxed by government authorities and redistributed, but the idea of taxation is already a qualification of the original concept of liberalism, which holds that the market should be allowed to operate entirely untrammelled to satisfy the economic needs of society—call it *laissez-faire*, Manchester capitalism or simply the free market economy (Hayek 1944: 19).

The second strand of liberalism is that of civil liberty and freedoms. It has to be seen against the background of the eighteenth and nineteenth century emancipation of the emerging middle classes from aristocratic privilege and arbitrary or tyrannical royal power. Liberalism, this is, at its root, liberation from the shackles of suppression. The middle class, the bourgeoisie, the intelligentsia saw their inner drive for advancement hindered by the old order of social standing, rank, and an aristocratic constitutional order. The seeds of enlightenment promised progress, the spread of knowledge, the spirit of toleration, the rule of law, liberty, and even democracy. The wind of change made the old order shake and laid bare its weaknesses. Towards the end of the eighteenth century some monarchies

were clearly threatened. The French Revolution was, among many other things, a lurid demonstration that the *ancien régime* was not only “the former system” but also a system that had become thoroughly discredited and hopelessly out of date.

Even before that, the intellectual inventiveness of the middle classes had developed in academia, because new ideas concerning the organization of the “good” society found fertile ground in universities. Such natural receptiveness in places such as Oxford and Cambridge could, however, be used only gradually, because colleges and universities were originally set up to serve the aristocratic system by preparing the scions of wealthy families to take over positions of power. Hence, conservatism—in the sense of conserving the existing system—was slow to admit new ideas as to how the economy and the state should be run. The only point at which the constraints of vested class interests could readily be broken was the economy. No status, title, office, or social rank could provide economic success. Here we find the radical element in liberalism, which we still find in “raptor capitalism,” today. The energy within it comes from the will to win more, more money, but also more freedom.

Hayek’s Liberalism

Hayek goes back to this radical root of liberalism and defines it as the only reasonable foundation for the “good” life in the “good society.” He reasons that state intervention in the economy can only pervert the genuinely positive drive of individuals to achieve profit and thereby serve the benefit of all society. He argues, state intervention cannot be stopped, once started, because one needs more and more remedies for the evil caused in the first place by preventing citizens from following their own interests—quite simply: profit. More and more state intervention necessarily means less and less freedom leading to the “nanny state” in which the citizen depends in every aspect of its life on the state. Eventually the process must lead to dictatorship if equal access to resources is to be achieved. All freedom is lost, including the personal freedoms postulated by liberalism. What Hayek is thus describing is the trade-off between the goal of equality—be it of opportunity or of outcome—among citizens and the goal of individual

freedom which every society in history has always had to make. Hayek, for his part, leans heavily on the side of freedom.

The price function is the key to, the fulcrum of, Hayek's liberal economy. Untrammelled competition in the marketplace is essential if the balancing act is to yield the "right" price (Hayek 1944: 51–2). The objective becomes that of profit maximization by means of keen, competitive pricing, i.e. low prices more than offset by high turnover to yield enough profit to keep the economic agent in the market. This logic will provide for the needs of society as a whole. Small profit margins led to extensive division of labour in modern societies and eventually to mass production. This provides for the economic needs of society and guarantees economic freedom. Liberal market economy fulfils, thus, the anonymous function of setting the right price at the right time for the right product, importantly without any planning or conscious control (Hayek 1944: 52).

Hayek draws the conclusion that modern society—seen as inherently positive—can only continue its path of growth on the basis of freedom and liberty—one might well invoke the image of Adam Smith's "invisible hand" here. Importantly, what is meant is freedom and liberty in the economic sense as well as the political sense, and this is the link between the economic and the political sides of liberalism. Hayek's addition is the equation: more economic planning = less freedom; more freedom = more progress of the positive type liberalism had provided. This was the liberalism that had transformed societies of the type of the *ancien régime* into modern societies.

Hayek saw one of the major reasons for the widespread demand for economic planning of the interwar years in the imperfection of human nature, or rather in a vain and ultimately counterproductive striving for perfection:

There is an infinite number of good things, which we all agree are highly desirable as well as possible, but of which we cannot hope to achieve more than a few within our lifetime, or which we can hope to achieve only very imperfectly. It is the frustration of his ambition in his own field, which makes the specialist revolt against the existing order. We all find it difficult to bear to see things left undone which everybody must admit are both desirable and possible. (Hayek 1944: 55)

Here, Hayek sees Utopia as a futile objective of human action, the best the enemy of the good, just as he denounces Socialism as an inherently elusive idealism, which leads to evils greater than ever it could have hoped to remedy in the first place. It will not just deprive the individual of its freedom, but will also bind the whole of society to the state, which in a liberal perspective cannot always be trusted, as shown in the examples of Nazi and Communist totalitarian societies. This Utopia of making a better world by working together is certainly, from a liberal perspective, not the best solution to achieve some good and will eventually destroy all individual freedom. Moreover, such idealism is open to corruption—e.g. German motorways were praised as a technical achievement at the time, while in reality, Hitler had them built for military purposes (Hayek 1944: 56):

The movement for planning owes its present strength largely to the fact that, while planning is in the main still an ambition, it unites almost all the single-minded idealists, all the men and women who have devoted their lives to a single task. The hopes they are placing in planning, however, are not the result of a comprehensive view of society, but rather a very limited view (...) But it would make the very men who are most anxious to plan society the most dangerous if they were allowed to do so – and the most intolerant of the planning of others. (...) there could hardly be a more unbearable – more irrational – world than one in which the most eminent specialists in each field were allowed to proceed unchecked with the realisation of their ideals. (Hayek: 57–8)

Beyond the suspicion of experts and idealists, this argument dovetails neatly into the British parliamentary concept of the Members of Parliament as “all-round” amateur, who has to care for the whole of society. This concept was diametrically opposed to Hitler’s credo of one state, one *Volk*, one *Führer*, because this is, in Hayek’s view, the dangerous final consequence of planning leading on to Totalitarianism. Hayek’s converse argument would be that democracy needs untrammelled competition which allows for private profit, as the basis of political freedom, because private initiative, which is the basis of this drive for profit, is also the basis for a working democracy. Citizens have to participate freely in the running of the state in order to make it work (Hayek 1944: 109).

Keynesian Planning

“Planning” was seductively neutral, but for Hayek, it was clearly a socialist policy, which, he admits, at its roots was meant to improve the lives of ordinary people. John Maynard Keynes turned Planning into a viable economic theory and made it the dominant economic doctrine of the 1930s on into the mid-1970s, with major repercussions in economic policies right through to the financial crisis of 2008/2009. For Hayek, planning the economy leads to totalitarian politics which is at the end planning of life into the very nooks and crannies of day-to-day existence. This is the reason why he called his main book the *Road to Serfdom*. This road would eventually lead to the destruction of our civilization (Hayek: 4–5, 9, 211). The academic current of the time flowed, however, very much against him. Keynesianism and the realization of his ideas of economic planning had been implemented to what many thought spectacular effect under Roosevelt’s New Deal (Hayek 1944: 10).¹ The views of the two men on the economy are, in many respects, diametrically opposed. Where Keynes seeks full employment, Hayek says that “... to aim always at the maximum of employment achievable by monetary means is a policy which is certain in the end to defeat its own purpose” (Hayek 1944: 213–4). Where Keynes calls for an active and indeed dominant economic policy from the state, Hayek saw only the thin end of a dangerous totalitarian wedge in such a policy (Hayek 1944: 64, 126). However, economic planning was what Keynesians were implementing in the USA, i.e. dominant state action in the economy, not least in order to win the war, when it came (Keynes 1940). Keynes also held that a substantial proportion of economic activity must be initiated by the state if a common purpose is to be achieved, be that full employment or the defeat of Nazi Germany.

Where Keynes urges massive anti-cyclical state investment to avoid the worst malfunctions of the market economy, e.g. the Great Depression, Hayek advocated *laissez-faire* liberalism in order to preserve freedom as much as possible (Hayek 1944: 3, 12–3). His example of choice are the difficulties of the preservation of parliamentary democracy in times of a war economy, as in the following quotation:

It is important dearly to see the causes of this admitted ineffectiveness of parliaments when it comes to a detailed administration of the economic affairs of a nation. The fault is neither with the individual representatives nor with parliamentary institutions as such, but with the contradictions inherent in the task with which they are charged. They are not asked to act where they can agree, but to produce agreement on everything—the whole direction of the resources of the nation. For such a task the system of majority decision is, however, not suited. Majorities will be found where it is a choice between limited alternatives; (...) A democratic assembly voting and amending a comprehensive economic plan clause by clause, as it deliberates on an ordinary bill, makes nonsense. An economic plan, to deserve the name, must have a unitary conception. Even if parliament could, proceeding step by step, agree some scheme, it would certainly in the end satisfy nobody. A complex whole where all the parts must be most carefully adjusted to each other cannot be achieved through a compromise between conflicting views. To draw up an economic plan in this fashion is even less possible than, for example, successfully to plan a military campaign by democratic procedure. As in strategy it would become inevitable to delegate the task to the experts. (Hayek 1944: 67–8)

The danger, for Hayek, is obvious. Such experts are bound to develop into little dictators and could well end up as another Hitler or Stalin (Hayek 1944: 71, 74). Almost in a functionalist manner, Hayek sees the demise of democracy as sooner or later inevitable once economic planning is introduced (Hayek 1944: 117, 122):

Democratic government has worked successfully where, and so long as, the functions of government were, by a widely accepted creed, restricted to fields where agreement among a majority could be achieved by free discussion; and it is the great merit of the liberal creed that it reduced the range of subjects on which agreement was necessary to one on which it was likely to exist in a society of free men. It is now often said that democracy will not tolerate “capitalism”. If “capitalism” means here a competitive system based on free disposal over private property, it is far more important to realise that only within this system is democracy possible. When it becomes dominated by a collectivist creed, democracy will inevitably destroy itself. (Hayek 1944: 73)

Why is democracy so important? Hayek intriguingly asks almost provocatively; his answer is, because it guarantees internal peace and individual freedoms (Hayek 1944: 73). Planning (of the type Keynes was suggesting) cannot do that. That is why it is bound to fail, according to Hayek. It is the demands of economic planning which involves the totality of society that are diametrically opposed to the limitation of power in democracy. It is exactly this limitation of power, the inbuilt conflict of interests, checks and balances, and eventually the accountability of every minister before the parliament that preserve western liberal democracy as we know it (Hayek 1944: 74). Here, Hayek's message rings true. It is coherent and convincing.

Radicalization: Socialism Turns Communist

Socialism for Hayek is *misguided* idealism—embodied in the title of his second chapter “The Great Utopia” (Hayek 1944: Ch. 2):

(...) the belief that Socialism would bring freedom is genuine and sincere. But this would only heighten the tragedy if it should prove that what was promised to us as the Road to Freedom was in fact the High Road to Serfdom. (Hayek 1944: 27)

Socialism emphasizes the fundamental equality of individuals and argues that everyone should have equal opportunity to pursue their own happiness.

The particular liberalism, which Hayek describes as the ideal state of affairs, however, gives priority to those who take initiative for themselves. They do not need such postulates of equality, because they can make a living for themselves. Thus, for Hayek, the socialist postulate of equality is effective protection of the weak in society. Hayek does not acknowledge the inherent flaw in the market economy, namely that those who already dispose of sufficient resources—natural or material—will always have better prospects of enrichment, regardless of their personal merits and efforts.

Such perceived, often flagrant, injustice is one of the sources of Socialism. Just like Liberalism itself, it came into being as a countermovement,

in this case to Liberalism taken too far (Hayek 1944: 20, 24). The trade-union movements of the nineteenth century sprang up as a protest against unrestrained exploitation, poverty, and hardship in industrial heartlands, such as prevailed in Manchester or Essen in the Ruhr.

Classical liberal theory offered no answer to these grievances. Life, for thinkers such as Adam Smith, had always been a struggle. Life was *not* fair. There had never been any genuine equality of opportunity. Hayek does not stray far from this tenet of liberalism when he says that freedom from want, or a guaranteed minimum standard of living—a contemporary socialist demand—was not a reasonable policy objective (Hayek 1944: 26, 124).

Classical liberals—Hume, Smith, Burke, and Mill, as mentioned above—even went so far as to say that governments should not try to change a state of affairs in which there was poverty, suffering, and hunger: on the one hand because such efforts could not succeed and on the other hand, because the economy needed masses of poor workers, just like any other commodity under the supply-and-demand logic.

One must pose the critical question here as to what was the lesser evil. Is it worse to try and remedy the hardship of people and try for a better world, however idealist or utopian the aspiration? Or is it worse not to try at all and let the market forces which evidently did not provide a solution to the poverty of the time run their course? Hayek is in fact, a little more moderate than some of his liberal forefathers:

...security against severe physical privation, the certainty of a given minimum of sustenance for all ... There is no reason why in a society that has reached the general level of wealth which ours has attained, [this] kind of security should not be guaranteed to all without endangering general freedom. (Hayek 1944: 124, 125, 215)

However, in good liberal tradition, he laments the lack of appreciation for the productive forces in society. Those who take initiative, those who try to improve their lot, those who create enterprise, and those who make profit should be fostered, or rather not hindered by state legislation in their economic activities, which would be beneficial for the society as a whole (Hayek 1944: 21). Hayek closes the circle to his liberal forefathers when

he says that there has not yet been a workable plan to eradicate poverty (Hayek 1944: 101).

However, driven by the actual experience of poverty, this is where Socialism protests. It comes in a simple reversal of priorities, i.e. not that of men serving the economy, but that of the economy serving men. For Hayek this is the beginning of all evil, because effectively this turns the economic rationale on its head. The question is no longer what price one can achieve for a product, but how much the worker who produces it wants to be paid. A negative disposition inherent in human nature leads to the obvious conclusion that wages will rise exorbitantly and continuously (Hayek 1944: 127). Consequently, the personal greed of the workers would be driving this wage spiral. Organizations were put in place to enforce such interests, i.e. trade unions at the workplace and on the streets, and socialist parties in politics. For Hayek this is a vicious circle. Eventually, moderate socialists will be replaced by revolutionary communists or fascists (Hayek 1944: 22, 141). For him, their roots are the same:

Balilla and *Hitlerjugend*, *Dopolavoro* and *Kraft durch Freude*, political uniforms and military party formations, are all little more than imitations of older socialist institutions. (Hayek 1944: 118)

This inherent tendency of radicalization in Socialism would consume its own founding fathers, by a process comparable with that described by Edmund Burke in respect of the French Revolution. For Hayek this leads eventually to the dictatorship—not of the proletariat, as Karl Marx claimed—but to a dictatorship by the worst and most radical communists or, indeed, fascists.

Hayek went further. He believed that planning brought out the worst in men. Beyond classical arguments of the “invisible hand” type, according to which the economy is simply too complex to be planned and there is a hidden logic of profit which produces the most beneficial outcomes for the whole of society (Hayek 1944: 15, 210)—or, borrowing from Jeremy Bentham’s Utilitarianism, the greatest good for the greatest number—Hayek believes that planning must inexorably in the medium to long term lead to corruption and abuse of power (Hayek 1944: 56–60). Corruption will infect the small group of people who do the planning.

But even worse, for those who are the objects of planning, no plan could ever be truly just (Hayek 1944: 111). The Plan would require people to fulfil certain tasks—regardless of whether they want to do them or not. It would determine the number of vacancies in all trades, callings, professions—regardless of the natural inclinations and abilities of people. It would require people to relocate to places where they were needed, regardless of family bonds, let alone free choice of their workplace (Hayek 1944: 89, 107: 128–9). It would determine the wage, regardless of quality of work, diligence, or effort (Hayek 1944: 34). These are only a few examples, which Hayek uses to show that economic planning would take away all freedoms and eventually men’s ability to determine the course of their lives (Hayek 1944: 104). “Hence the familiar fact that the more the state ‘plans’ the more difficult planning becomes for the individual” (Hayek 1944: 79).

Thus, he admits that the market cannot solve everything, but claims that it offers by far the best solution, because liberalism is not just market liberalism, but also safeguards political and private freedoms and general liberty, which will be lost under such a communist dictatorship (Hayek 1944: 13–4, 124).

Power, Private Property and the Rule of Law

Clearly, this touches on two other key concepts of ideological struggle, i.e. power and asset-ownership. Power in the liberal capitalist system is exercised to a considerable extent through property. For Hayek, a transfer of ownership, for example under nationalization, which was a very popular policy proposition, particularly among a growing number of Labour voters from the 1930 to the time of writing of the *Road to Serfdom* and beyond up and until into the 1970s, has the most serious consequences:

(...) many liberal socialists are guided in their endeavours by the tragic illusion that by depriving private individuals of the power they possess in an individualist system, and by transferring this power to society, they can thereby extinguish power. What all those who argue in this manner overlooked is that by concentrating power so that it can be used in the service of a single plan, it is not merely transferred but infinitely heightened;

that by uniting in the hands of some single body power formerly exercised independently by many, an amount of power is created infinitely greater than any that existed before (...). (Hayek 1944: 148–9)

Such a concentration of power was dangerous in Hayek's eyes and so were those exercising it, because eventually planning must establish a hierarchy, a command structure of military stamp (Hayek 1944: 131). The economy run along military lines of order will lead to a Spartan society, including forced labour such as what Hayek saw in the *Arbeitsdienst* in Nazi Germany (Hayek 1944: 131–2).

In addition, it would propel the most ruthless characters right to the top. "Since it is the supreme leader who alone determines the ends, his instruments must have no moral convictions of their own" (Hayek 1944: 154). He is omnipotent and bound by no rules. Below such "leaders"—Hayek gives "... the Himmlers and the Heydrichs..." (Hayek 1944: 138, more generally Ch. 10, entitled "Why the worst get to the top") as examples—the system would be saturated by the most corrupt personalities, where favours and status count more than result.

Such arbitrariness also contradicts another fundamental credo of liberalism, the Rule of Law:

Indeed, the Rule of Law (...) should probably be regarded as the true opposite of the rule of status. It is the Rule of Law, in the sense of the rule of formal law, the absence of legal privileges of particular people designated by authority, which safeguard that equality before the law which is the opposite of arbitrary government. (Hayek 1944: 82, 150)

Beyond the loss of personal freedom as a product of the reliability of law, such arbitrary government must also unsettle the whole logic of the economy in that who-knows-whom becomes more important than genuine workplace skills. Obviously this must lead to poorer economic performance of the whole economy, which has to be compensated by further coercive measures of the type the Gestapo was using.

In sum, planning as the core policy of Socialism is, from Hayek's perspective, where the perversion of man's freedom starts. Hayek agrees here with Smith that government under a doctrine of planning is bound to be

oppressive of its subjects and tyrannical by of its very nature (Hayek 1944: 35, footnote 1, referring to a memorandum written by Adam Smith in 1755; see also Hayek 1944: 112–3, 122).

The Foundations of Totalitarianism

This leads to Totalitarianism—regardless of whether it is called fascism or communism, because the drive for planning will penetrate all aspects of society (Hayek 1944: 6, 27–30, 60, 90, 172). Hayek had little patience with the high ideals under the banner of which, in particular, communist ideals were sold, e.g. “(...) greater freedom in the pursuit of higher values (...) plain living and high thinking (...) relieve ourselves from the excessive care for material ends” (Hayek 1944: 92). Here Hayek is very much in line with Isaiah Berlin:

To threaten a man with prosecution unless he submits to a life in which he exercises no choices of his goals; to block before him every door but one, no matter how noble the prospect upon which it opens, or how benevolent the motives of those who arranged this, is to sin against the truth that he is a man, a being with a life of his own to live. (Berlin 1969: 127)

One might call Berlin’s quotation the unequivocal rejection of a utopian paradise. Hayek completely agreed with that. For both men, choice alone can provide freedom, which thus is the basis of a “good” life. For Hayek the connection between economic freedom and general liberty is direct. Economic freedom is political freedom and is, indeed, the basis of freedom in all its forms (Hayek 1944: 92–3). Consequently, Hayek considered the loss of economic freedom to be the beginning of the internal corruption of a people. Once unleashed, such corruption could hardly be stopped, not so much because of a universal consensus among the people, but because the state will find it necessary to control all aspects of life (Hayek 1944: 94).

Considering human social development, Hayek claimed that rules had steadily become less important to a point at which in modern society genuine individual freedom was achievable. Fewer taboos hindered personal development in liberal societies and formerly rigid constraints of manners

and “morals” had declined in importance. In modern societies, morals remained as nothing more than a wide framework in which everyone could move freely (Hayek 1944: 61–3).

Totalitarian systems cannot handle such personal freedom, because dissent or even novelty cast doubt upon the unitary cause at the centre of totalitarian societies (Hayek 1944: 166–7, 169, 211). These come in different shapes and forms and with different prophecies, e.g. “Arian superiority,” “infallibility of the proletarian vanguard,” “victory in World War II.” In opposition to Individualism as defined by Hayek, Collectivism gives preference to the group over the individual (Hayek 1944: 89, 95, 150). This was the great nightmare of liberals such as Isaiah Berlin. Berlin made a distinction between a positive and a negative concept of liberty. The negative one is fortified by the classical defensive right of non-interference from or by others. The positive version of liberty means that one can do what he is given the liberty to do. A harmless example is the liberty to social security, which nevertheless obliges other members of society to contribute towards a budget that finances that liberty to social security. In totalitarian societies, this can lead to coercion and deliberate interference in the private liberty of other human beings, which prevents the individual from obtaining a proper degree of liberty (Berlin 1969: 163). A prominent example would be the destruction of Jewish property in the Third Reich, to which the Nazi state had given permission.

In a totalitarian system, its members have to be single-mindedly convinced of one common purpose. The state will have to make sure that dissidents are rooted out. Outsiders—or those who can plausibly be treated as such—will have to be created as scapegoats and as the justification for repression, such as the Jews in Nazi Germany (Hayek 1944: 143–4). Coercion to shape even the conscience of people would be required, e.g. by propaganda (Hayek 1944: 157–8). The inversion of right and wrong would be the final corruption of a people:

Though we may sometimes be forced to choose between different evils, they remain evils. The principle that the end justifies the means is in individualist ethics regarded as the denial of all morals. In collectivist ethics it becomes necessarily the supreme rule; there is literally nothing which the consistent collectivist must not be prepared to do if it serves “the good of the whole”,

because the “good of the whole” is to him the only criterion of what ought to be done. ... There can be no limit to what its citizen must not be prepared to do, no act which his conscience must prevent him from committing, if it is necessary for an end which the community has set itself or which his superiors order him to achieve. (Hayek 1944: 151)

The SS and concentration camps in Nazi Germany and the KGB and Gulaks in the USSR were the inherently necessary executive organs of such ideological fallacy (Hayek 1944: 153–4; Coyle 1935: 558, as cited in Hayek 1944: 130). Collectivism calls for commonly accepted rules, goals, and a code of conduct, which are imposed by the collective, i.e. the state, and from which no one must stray (Hayek 1944: 130). Hayek is flatly opposed:

The essential point for us is that no such complete ethical code exists. The attempt to direct all economic activity according to a single plan would raise innumerable questions to which the answer could be provided only by a moral rule, but to which existing morals have no answer and where there exists no agreed view on what ought to be done. (...) Not only do we not possess such an all-inclusive scale of values: it would be impossible for any mind to comprehend the infinite variety of different needs of different people which compete for the available resources (...). (Hayek 1944: 61–2)

Thus, Hayek’s rejection of such totalitarian regimes as that introduced by the Nazis in Germany is forceful and uncompromising. Instead he called for a “...healthy contempt and dislike of power which only an old tradition of personal liberty creates” (Hayek 1944: 152). This he found in Britain at the time a remarkable tribute to what he saw as one of the greatest achievements in respect of the individual (Hayek 1944: 222–3).

Continuing his description of Totalitarianism, Hayek argued that the Nazis had proved that the evil would not stop at mere internal corruption. Totalitarian systems are bound to expand. They need the spoils of war to be doled out among the supporters. The primary example of the time was the evil which Hayek and his contemporaries saw exploding in Nazi Germany. This cancer would spread, because it could not stop at internal conquest, or frontiers, either.

The evolution of totalitarian theory came in the post-war period, when much the same charges were levelled against the USSR. This became the struggle of ideologies in the Cold War. It also underpins one of Hayek's initial arguments that Socialism would turn into aggressive Communism, which would then consume its own founders.

Totalitarianism Versus Socialism

However, that is also where Hayek fails in the accurate description of the Cold War period. While the communist block established command economies, the social democrats in Germany abandoned classical Marxist paradigms such as nationalization of key industries or extensive economic planning. The pragmatic change wrought by the German Social Democrats (SPD) at Bad Godesberg in 1959 marked the beginning of a general trend, and all other socialist parties followed suit in subsequent years, if not in name then in spirit: the French Socialist Party (PS) still has nationalization in its manifesto, but since the early—very difficult and instructive—years of the presidency of François Mitterrand such aspirations have decreased in importance to the extent that few now take them seriously. The British Labour party clung firmly to the principles of public ownership and planning until well into the 1970s—partly, perhaps, because there was no substantial communist party in Britain, which could fly this particular banner. By the time Tony Blair came to power in 1997, nationalization and economic planning—following the Thatcherite revolution—were no longer policy options. They had been tried by previous Labour governments and had failed singularly to solve the problems of “declinism” that had beset the British economy since the war, and Margaret Thatcher's ferocious assault on the trade unions had left them disheartened and debilitated. Thus, there can be no doubt as to the fundamental difference between communists and socialists in basic attitudes towards political values such as democracy and economic policy.

Of course, some of these developments occurred later than the time when Hayek was writing and certainly they gathered momentum in the post-war period. However, Hayek seeks, almost wilfully it sometimes seems, to trace a continuum between Fascism and Communism, both take

their origin in Socialism, according to his definition of Totalitarianism. He knew that there were in fact major differences. Here one of the weaknesses of totalitarianism, as defined above in this article, shows, namely that overarching theory is always in danger of oversimplifying complex situations. And although quite discerning analyses have demonstrated considerable affinities relating Fascism and Communism both under Totalitarianism (Hayek 1944: 42), this approach dangerously overlooks important differences. Hayek falls prey to this same tendency when he confuses Communism with Socialism, although he knew full well that the cleavage between the two movements goes back to the very roots of left-wing politics (Hayek 1944: 25, 141). The claim to social leadership of the working class is common to both of them. The way to get there is not. This division was executed notably between Kautsky and Lenin on the issue of the resort to violence. On the one hand, socialists remained loyal to their belief that the superiority of the ideas of the working class would win through in a democratic deliberation process (Laclau and Mouffe 1985)—as conveyed by the very name Social Democrats. On the other hand, Communists advocated the dictatorship of the proletariat, which entailed the use of violence against those who stood in their way, i.e. the ruling middle classes or bourgeoisie. Very much according to Hayek's worst fears, this fight was believed to be necessary to speed up the course of history and bring about the communist millennium.

In the last analysis, the question is whether power is a tool to achieve the betterment of men and their environment, or whether it is an end in itself. If it becomes an end in itself, as for Lenin or Stalin, the danger of corruption is great. As a consequence of the dangers inherent in Socialism/Communism, Hayek drew the conclusion that it was dangerous to follow this path and that no related ideas, e.g. planning, should be entertained. However, is the classical liberal alternative viable? A free-for-all market economy without planning of any kind by the state? The sole guiding principle of economic activity would be profit. Everyone would have the freedom to choose their field of activity, their line of work, their place of work and their family environment. The role of the state would be sharply reduced to that of a sort of political caretaker or night watchman, such as in the social contract of Hobbes or lesser extent Locke. It would handle the five classic state activities: external affairs, defence, public order

(policing), justice, and finance—but finance only as needed to fund the other vital services. And in every other field, the state would leave the citizens entirely to their own devices. Moreover, such a state would pose no threat to its neighbours. This is the world according to liberal theory, with Hayek as one of its strongest and most plausible advocates. This features, of course the liberal “(...) conviction that where effective competition can be created, it is a better way of guiding individual efforts than any other” (Hayek 1944: 37). Individual choice will prevail in all aspects of life. Competition precludes coercive interference with economic life (Hayek 1944: 38). Is it really that simple?

Integration in International Organization

No, it is not. Hayek did also perceive that, politically, not even Britain was an island of itself. Some freedoms have to be curtailed and some essential services cannot possibly be provided by individuals, whatever the market incentive:

Thus neither the provision of signposts on the roads, nor, in most circumstances, that of the roads themselves, can be paid for every individual user. Nor can certain harmful effects of deforestation, or of some methods of farming, or of the smoke and noise of factories, be confined to the owner of the property in question or to those who are willing to submit to the damage for an agreed compensation. In such instances we must find some substitute for the regulation by the price mechanism. (Hayek 1944: 40)

In addition, World War II, when Hayek was writing, showed inescapably the reality of worldwide relationships and worldwide consequences of action. In that sense, the war might well be seen as marking the definitive enthronement of a globalization logic from which the world had still held back after World War I—despite the League of Nations. World War II was the best proof that isolation—“splendid” or otherwise—could no longer be maintained in a world where ever stronger bonds were being forged between nations, and that not only was this no longer possible, but that self-interest might actually be a mainspring of world conflict:

(...) there is little hope of international order or lasting peace so long as every country is free to employ whatever measures it thinks desirable in its own immediate interest, however damaging they may be to others, needs little emphasis now. (Hayek 1944: 226)

The reasoning is perfectly simple. Without an international order and international institutions, the only remedy for conflict between states is war. This was the ultimate reason for the creation of an international forum such as the League of Nations after World War I. Despite the failure of the League, the successor organization, the United Nations Organisation (UNO), was set up by the victorious Allies after World War II. Both wars had led to monstrous economic hardship. Following the internationalization logic, ideas of super-national economic planning were advocated, notably by Jean Monnet in his Algiers Memorandum (Monnet 1943: 21–2). Hayek remained sceptical. Internationalization would obviously avoid problems of nationalism and extreme economic selfishness such as that practised under the autarky policy of Nazi Germany, but why should planning work on an international level when it was bound to fail—according to his rationale—at national level (Hayek 1944: 227, 238)? Even worse, imposing the will of a “super-national authority” (as used in Hayek 1944: 227) must entail coercion, because there could not be any natural loyalty of the type national institutions commanded and which made court rulings, for example, acceptable and binding. Foreshadowing the criticism of democratic deficit in the EU, today, Hayek argues that the British people would never submit to being outvoted by others in matters which concerned their own country. True as this may have been in 1944, Hayek wildly overreaches himself when he says that such a super-national regime has been successfully implemented only under the Nazi banner of a master race using force (Hayek 1944: 228). However, a few pages later he expresses this in a format which is less emotionally charged:

(...) while nations might abide by formal rules on which they have agreed, they will never submit to the direction which international economic planning involves – that while they may agree on the rules of the game, they will never agree on the order of preference in which the rank of their own needs and the rate at which they are allowed to advance is fixed by majority vote. (...) they would soon find out that what they have delegated is not

merely a technical task, but the most comprehensive power over their very lives. (Hayek 1944: 226)

This kind of reasoning points towards two post-war phenomena. Firstly, the very widespread reticence among British leaders and opinion-formers in the matter of European integration, i.e. supranationalism, or, conversely, their robust attachment to national sovereignty. Secondly, it is true that the European Commission generally has refrained from active interference in the economy, emphasizing much more heavily, with the firm support of the European Court of Justice, the promotion and enforcement of competition over a level playing field on which the same rules apply to every competitor in the market, regardless of nationality, within the Union.

Again, very much in the vein of British thinking of the time—and sharply in contrast with Monnet's ideas concerning European integration and with how it actually developed—Hayek suggests that political integration must precede economic integration in order to have the legitimacy to control it. One finds this reflected in British post-war policies of support for the Council of Europe or the Organisation for European Economic Cooperation (OEEC). Importantly, these organizations entirely avoided any encroachment on national sovereignty, which meant that any decision in them could be vetoed by a single country. They were the first attempts to achieve European integration after the war, but, in this respect, at any rate, they led nowhere: nations blocked each other in the intergovernmental decision-making processes, and only the supranational model of the European communities—European Coal and Steel Community (1952), European Economic Community and Euratom (1958)—showed that faster and generally more beneficial progress was possible under this new and in fact more ambitious approach.

International Federalism

In Britain, this supranational approach is often categorized as federalism. Considering his previous positions on sovereignty, surprisingly Hayek accepts federalism as,

(...) the only form of association of different people which will create an international order without putting an undue strain on their legitimate desire for independence. Federalism is, of course, nothing but the application to international affairs of democracy, the only method of peaceful change man has yet invented. But it is a democracy with definitely limited power. (Hayek 1944: 239)

Monnet wholeheartedly agreed. This was the avenue European integration took and although Britain came to be known as the “awkward partner” (George 1998), it eventually limped into the EU, though not without many misgivings, which persist to this day, as well exemplified in the Brexit referendum of June 26, 2016. Hayek’s greatest achievement may be that he recognized the political concept of federalism as the missing element in the original liberal theories of the nineteenth century (Hayek 1944: 241), because it can moderate between nations and thus prevent any recurrence of the atrocities of war which Europe was still suffering when he was writing *The Road to Serfdom*. His final words on federation resemble more and more what the EU has turned out to be. “Neither an omnipotent super-state, nor a loose association of ‘free nations’, but a community of nations of free men must be our goal” (Hayek 1944: 242). He agrees with Monnet’s concept that any international organization should be “(...) limited in scope, but strong in its executive powers” (Monnet: 21). And gradual enlargement from a core group in Western Europe is also what he suggests (Hayek 1944: 243). This is in fact exactly how the EU has developed.

Conclusion

Hayek’s conclusion, writing in 1943, is pessimistic, even depressing:

As is true with respect to other great evils, the measures by which war might be made altogether impossible for the future may well be worse than even war itself. If we can reduce the risk of friction likely to lead to war, this is probably all we can hope to achieve. (Hayek 1944: 244)

This kind of scepticism, unsurprising in the shadow of World War II, shows remarkably well what we have achieved today. And if the only achievement of the EU were that of peace for more than 70 years, that alone would be a unique step forward in the history of mankind. If we add the remarkable advances in economic integration, which Hayek believed well-nigh impossible, with the enormous material benefits trade expansion has brought, then we can see his final call for progress as the embodiment of the framework which the EU has now become:

(...) it is more important to clear away the obstacles with which human folly has encumbered our path and to release the creative energy of individuality than to devise further machinery for “guiding” and “directing” them – to create conditions favourable to progress rather than to “plan progress”. (Hayek 1944: 246)

The EU is also the best evidence that reality is more complex than academic interpretations. Politics in reality is flexible and seeks to solve concrete problems. It is a far cry from the opposing juxtapositions of central planning, on the one hand, and market-based competition, on the other hand, which Hayek outlines (Hayek 1944: 43). In the EU the two are combined, as in the Common Internal Market, which has untrammelled but workable competition as its basis, but at the same time operates regional, social, and structural funds, which allow a minimum of central steering of the economic development of the Community.

As regards the financial crisis of recent years, one important tenet of Hayek’s defence of liberalism is its ruthlessness, which he calls the “...the impersonal character of the process...” (Hayek 1944: 106). It has much in common with Adam Smith’s almost omnipotent arbitrariness of the “invisible hand,” which guides economic activities for the greater benefit of all:

(...) it is impossible to foretell who will be the lucky ones or whom disaster will strike, that rewards and penalties are not shared out according to somebody’s views about the merits or demerits of different people, but depend on their capacity and their luck ... we should not be able to predict which particular person will gain and which will lose (...). (Hayek 1944: 105)

This comes perilously close to a fatalistic submission of human fortunes to lightning strikes generated by wanton gods. Applied to our times, some big corporations have used society itself as their lightning rod, witness most notably their behaviour during the financial crisis 2008/2009. Companies which had already paid out handsome dividends to their shareholders then had to be bailed out with public money, which amounts to the internalization of profit and the externalization of such risks, as Hayek describes. And here one of the fundamental weaknesses of economic liberalism shows—that by its very nature it prejudices in favour of the big and strong economic agents. And once they have become so big that their collapse would endanger the whole economy, they have, because they cannot be allowed to go under, actually, in effect, achieved full protection from the bolts of lightning that can wipe out smaller enterprises. In terms of the key dichotomy competition/planning, such effects, opposite and entirely unwanted, invalidate Hayek's claim for the superiority of free competition, because such paradoxical outcomes are neither competitive nor free, but purely and simply a modern form of legalized profiteering, in effect the freedom won is the freedom of the strong to crush the weak. Here we come back to the original claim that human action cannot influence the economy. But Adam Smith's "invisible hand" or Hayek's "impersonal and anonymous mechanism" of the market are concepts the full and extreme implications of which must be unacceptable to any society with a claim to civility. Ordinary human decency cannot accept the gross injustice of personal suffering resulting from the financial crisis, on the one hand, and huge, entirely unearned, windfall profits on the other. Hence there may well be the introduction of some Keynesian elements as regards foresight, planning and responsibility. Choice as the big postulate of enlightenment and for that matter of liberalism is individual choice, however (Berlin: 169).² The choice of governments must be to decide how much regulation will be necessary to prevent another such crisis—the EU had been suggested as a suitable framework for such regulation. However, it is also the individual choice of each one of us how much profit we want to make with our money. Greed built into the capitalist system and mirrored by its agents seems to have been one of the underpinnings of this financial crisis. It has been shown as one of the less desirable elements of liberalism which might still have been acceptable in the eighteenth century, less so

by the end of World War II, one of the origins of which was precisely a financial crisis leading to the Great Depression. And today, a crisis of the dimensions we seem to have just avoided could bring down the real economy of the whole world. Such risk is clearly unacceptable, today. The revolutionary spirits of liberalism and socialism come together in the notion that we can and must change things, take responsibility for our actions, and, by however small a margin, make of our world a better—or at the very least a less grossly unfair—place.

Notes

1. See citation from F. D. Roosevelt, as cited in Hayek (1944: 10).
2. Isaiah Berlin, 'Two Concepts of Liberty', in: *Four Essays on Liberty*, p. 169.

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Elinor Ostrom or the Revolution of the Commons

Fanny Verrax

Elinor Ostrom (1933–2012) is a revolutionary figure in the landscape of contemporary economics for several reasons. First, she is the first and still only woman ever to receive the “Nobel” Prize in Economics (or “the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel” to be entirely correct) in 2009. Secondly, she has developed innovative theoretical models that are deeply rooted in fieldwork in connection with even wider sustainability issues. Yet, she and the extensive Bloomington School of Political Economy, of which she is beyond doubt the most prestigious figure, remain overall less influential than most contemporary high-ranking economists.¹ Why is that?

Ordinary sexism probably does play a role but is not sufficient to explain this gap. Three other arrays of reasons should be mentioned. First, Ostrom’s work is deeply interdisciplinary, and although she is undoubtedly an economist, her work is also largely connected to other academic disciplines, especially political sciences—and Academia often struggles to acknowledge works and authors that transgress disciplinary boundaries.

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Secondly, her main thesis is at complete odds with dominating mainstream economic models that her work aims to contest and overcome. Thirdly, authors who initiate a paradigm shift in their field are not necessarily encouraged nor acknowledged by their peers.

Ostrom's main thesis, if one had to summarize it in one sentence, is that communities can manage the resources they depend on successfully and sustainably, without requiring neither state control nor privatization. To understand just how revolutionary this thesis is, one has to understand the intellectual context in which Ostrom's work first developed, and what kind of theoretical models dominated the field before she entered it.

In this chapter, we start by giving an overview of the various economic models that existed before Ostrom's work (section "[Thinking Resources Governance Before Ostrom](#)"), the ones she contributed to challenge with many case studies and substantial fieldworks (section "[How Did Ostrom Prove Them Wrong? Some Empirical Results](#)"). We then identify and describe three theoretical insights that we owe to Ostrom (section "[Theoretical Models](#)"), i.e. a revisited definition of the commons; design principles for successful common-pool resources (CPR) management; and multi-level analysis of institutional change. The conclusion (section "[Conclusion: Limits and Criticism](#)") finally outlines some of the main criticisms that have emerged in recent years regarding Ostrom's work.

Thinking Resources Governance Before Ostrom

In economic history, several thinkers have addressed the resources issue. Usually a strong focus is put on assessing, anticipating, or trying to solve scarcity, e.g. Edmund Burke (Hoerber 2019, in this book). While thinkers from the Enlightenment period had strong faith in human progress and scientific and technical solutions, later economists were worried about resources depletion. One of the most famous proponents of the latter was perhaps Thomas Malthus (1766–1834), who observed that population growth was exponential whereas food supply increase was linear—which gave birth to the theory known as Malthusianism (Malthus [1992](#)).

Later on, Nicholas Georgescu-Roegen (1906–1994) brilliantly applied biology thermodynamic principles to the economy and stated that the amount of energy in a closed system inevitably tends to decrease, which can also be interpreted as a thesis on resources scarcity (see Weber 2019, in this book).

Ostrom's focus is slightly different. Her main interest is not resources in general but *common-pool resources* (CPR). A precise definition will be given in the next section, but the commons, such as forests, irrigation water, fisheries, put the emphasis on resources that are not owned privately, and are necessary to a community to thrive, with a risk of overexploitation and depletion.

She dedicates the first chapter of her seminal book *Governing the Commons: The Evolution of Institutions for Collective Action* (Ostrom 1990) to a brief analysis of three models that had a profound influence on how economists and policymakers tend to think about these common resources and how to manage them, i.e. the tragedy of the commons; the prisoner's dilemma game; the logic of collective action. Understanding these models and corresponding authors is indeed necessary in order to understand just to what extent Ostrom's work is truly innovative and where it is at odds with mainstream political economy.

Garrett Hardin and the Tragedy of the Commons

In 1968, the American ecologist Garret Hardin published a seminal and challenging paper in *Science* called *The Tragedy of the Commons* (Hardin 1968).² In this paper, Hardin offers a metaphor to explain the issue of commons governance: imagine a pasture “open to all,” that belongs to a certain number of herders. Each herder gets direct benefits from their own cattle, so that they have an interest in having more and more animals, and will be tempted to increase the number of their livestock. However, each herder also suffers from the deterioration of the pasture in case of overgrazing; that means that individual rationality for each herder (increasing the number of their livestock) is different, if not incompatible, from collective rationality, which would recommend to limit each numbers, so that the pasture does not deteriorate from overgrazing. This simple story is used by

Hardin in order to illustrate the phenomenon he calls “the tragedy of the commons” (Hardin 1968). It is worth mentioning, as did Ostrom (1990, 2), that this idea is not new in the history of economic thinking. Already Aristotle observed that “what is common to the greatest number has the least care bestowed upon” (Ostrom 1990, 2). As for Hobbes’ parable of “man in a state of nature,” he wrote that without any common power to rule humans, it is the war of all against all—*bellum omnium contra omnes* (Hobbes 2004), Ostrom considers that to be “a prototype of the tragedy of the commons” (Ostrom 1990, 2).

How is this a tragedy? Hardin explains that he uses the word in the sense given by the philosopher Alfred Whitehead: “the solemnity of the remorseless working of things” (Whitehead 1938, cited in Hardin 1968, 1244). One may also refer to the Greek notion of tragedy here: a doomed destiny that happens independently of human actions and decisions, with a sense of inevitability.³ In the context of Greek tragedies however, this happens for a reason, i.e. the Gods’ will. Calling this phenomenon a *tragedy* therefore tends to essentialize individual economic rationality, that is to turn it into a natural given, something that cannot evolve nor be addressed. Thus, Ostrom and colleagues decided to rename this phenomenon the “drama of the commons” (Ostrom et al. 2002), acknowledging the fact that tragedy, in the sense of doom, is not the only option. Governing the commons can entail comedy, community creativity, resistance, as well as tragedy.

Finally, it is important to understand that the “commons” is a notion that goes beyond the sole issue of resources management. The tragedy, or the drama of the commons, is not just about pasture management or waste governance. Hardin himself mentioned the case of pollution as being a valid instance of the tragedy of the commons.

In a reverse way, the tragedy of the commons reappears in problems of pollution. Here it is not a question of taking something out of the commons, but of putting something in—sewage, or chemical, radioactive, and heat wastes into water; noxious and dangerous fumes into the air, and distracting and unpleasant advertising signs into the line of sight. The calculations of utility are much the same as before. The rational man finds that his share of the cost of the wastes he discharges into the commons is less than the cost

of purifying his wastes before releasing them. Since this is true for everyone, we are locked into a system of “fouling our own nest,” so long as we behave only as independent, rational, free-enterprisers. (Hardin 1968, 1245)

Nowadays, diverse and critical issues such as greenhouse gas emissions and climate change, overpopulation, biodiversity loss, oceans’ acidification, desertification, and so on, would definitely qualify for this framework. This is why wording and model choices are paramount. Or as Ostrom puts it: “Much of the world is dependent on resources that are subject to the possibility of a tragedy of the commons” (Ostrom 1990, 3).

The Prisoner’s Dilemma Game

The prisoner’s dilemma⁴ is a seminal model that was coined in the 1950s, originally by the mathematicians Merrill Flood and Melvin Dresher (Dresher 1981), to explain why, even when it is in the best interest of rational individuals to cooperate, they may not do so. Imagine two fellow criminals—let us call them Bonnie and Clyde—that are arrested by the police and offered the following deal:

- If both remain silent, they will each serve 1 year in prison.
- If both speak and betray each other, they will each serve 2 years.
- Now, if Bonnie betrays Clyde, he will serve 3 years but she will be set free (it obviously works the other way around too).⁵

In this situation, even though the best collective output (for Bonnie and Clyde at least, although perhaps not for society) is to remain silent (2 years served in total, one by each), each person may be tempted to betray the other. Because they are in a situation of uncertainty, they do not know what the other will do. In addition, they have no way of being rewarded or punished no matter what they chose, apart from the prison sentence. This is why the prisoner’s dilemma is categorized, in game theory, as a non-cooperative game, i.e. players cannot communicate during the decision process.

The prisoner’s dilemma “deep attraction” has been explained to come from the fact that it “suggests that it is impossible for rational creatures

to cooperate” (Campbell 1985, 3, cited in Ostrom 1990, 5). However, real-life situations are not quite like powerless prisoners rotting in jail. People *can* communicate. And there *can* be economic, social, or cultural responses from the community following individuals’ cooperation choices. In the same way that the term “tragedy” was perhaps not the most relevant to describe situations in which there is actually no inevitable doom, the prisoner metaphor also tricks individuals and communities into thinking they have much less power than they actually do—even though, in an actual prisoner’s dilemma game, players do have limited options. Ostrom puts it this way:

As long as individuals are viewed as prisoners, policy prescriptions will address this metaphor. I would rather address the question of how to enhance the capabilities of those involved to change the constraining rules of the game to lead to outcomes other than remorseless tragedies. (Ostrom 1990, 7)

Reflecting upon the metaphorical use of economic models is therefore paramount in order to better address the issues they were supposed to represent in the first place. Thus, framing the issue of erosion or depletion of a resource not as a “tragedy of the commons” but as a “commons dilemma” is a way to empower individuals and communities to make decisions and calls for a resolution (Blomquist and Ostrom 1985).

Olson and the Logic of Collective Action

At the crossroad between economic theory and political sciences, Mancur Olson publishes the book *The Logic of Collective Action* in 1965, in which he argues that “rational, self-interested individuals will not act to achieve their common or group interests” (Olson 1965, 2, cited in Ostrom 1990, 6). The main metaphor used here, and which is also valid in the above two models, is the one of the free-rider:

Whenever one person cannot be excluded from the benefits that others provide, each person is motivated not to contribute to the joint effort, but to free-ride on the efforts of others. If all participants choose to free-ride, the collective benefit will not be produced. (Ostrom 1990, 6)

Olson's work is actually slightly more nuanced than that, as he distinguishes between three forms of groups (Olson 1965):

- i. the *privileged* groups: all or at least one member(s) of the group has a big enough interest in gaining the benefit to be willing to produce it anyway, even if the others do not contribute. Members who have such an interest are called *dominant*. A typical example here is the British Navy in the nineteenth century: Great Britain spent a lot of resources on its Navy in order to secure the world's oceans and make it a safe place for trade. Even though some smaller trading nations benefited from this public good (safe oceans) and can be considered as "free riders," Great Britain was still better off producing this good, as they had a dominant position in this situation.
- ii. the *intermediate* groups: only one or a few member(s) get(s) a benefit high enough to be willing to take charge of the production of the goods, but the production process requires coordination.
- iii. the *latent* groups: very large groups in which the action of one individual does not affect the others enough to have them react to it. Latent groups are also a place of anonymity: therefore peer pressure or community incentives hardly function.

Olson's thesis is mostly aimed at the third category of groups, *latent* groups, in which the goods will be produced anyway, thus encouraging free-riders. If most of these groups are indeed very large (thousands if not millions of people), it is worth mentioning that Olson's typology is not based on the actual size of the groups, but on the extent to which individual action affects collective output. This is why Olson concludes that small groups are more likely to produce public goods.

Given these models, policy recommendations usually focus on one of these two solutions: privatization, or state control through regulation or coercion. That makes sense if one believes that individuals are incapable of acting in their best interest when a community is involved, and that they'd rather chose to be powerless. By confronting these models, Ostrom draws the conclusion that if people within communities do not always act like free-riders, then privatization and state control may not be the only two options available.

How Did Ostrom Prove Them Wrong? Some Empirical Results

Ostrom relied upon studies from various fields, scholars and disciplines to build up a sort of compendium of success stories of communities successfully and sustainably managing common resources, that were summarized in her masterpiece *Governing the Commons* (Ostrom 1990). According to many scholars, “*Governing the Commons: The Evolution of Institutions for Collective Action*, in the opinion of many, is the most important book published in the past few decades on the social-science aspects of resource management” (Acheson 2011, 319). What makes it so interesting is that it is not purely descriptive, but also comes with a set of criteria or conditions of success. We will focus on two examples: common tenure management in an alpine village in Switzerland, and the common maintenance of irrigation systems in the Philippines taken from (Ostrom 1990).

Törbel, an Alpine Village in Switzerland

Alpine villages in Switzerland were studied notably by anthropologist and cultural ecologist Robert Netting. Relying on his work, Ostrom tells the tale of Törbel, a 600-inhabitant village in Switzerland that has had official common tenure since at least the fifteenth century. The boundaries of the communally owned lands were established as early as 1507. By 1517, a rule stipulated that no herder could send more cows to the alp than he could feed during the winter. Specific rules or boundaries may obviously have changed in the last five centuries, but not the governance format. Up until today, rules are decided by an association of villagers that meet once a year in order to discuss governance issues and appoint officials. One of their missions is for instance to mark trees that will serve as timber for construction and firewood, and then attribute them to households, who are then allowed to enter the forest and cut down the trees.

Netting concluded that communal tenure “promotes both general access to and optimum production from certain types of resources while enjoining on the entire community the conservation measures necessary

to protect these resources from destruction” (Netting 1976, 145). We are far from Hardin’s tragically overgrazed pasture!

This however will not work everywhere, and Netting identifies five criteria that make communal tenure the optimal choice, hence giving incentives to community members to perpetuate it:

- i. the value of production per unit of land is low
- ii. the frequency or dependability of use or yield is low
- iii. the possibility of improvement or intensification is low
- iv. a large territory is needed for effective use
- v. relatively large groups are required for capital investment activities.

In addition, Ostrom insists on another important success parameter: keeping it simple!

Thus, residents of Törbel and other Swiss villages who own communal land spend time governing themselves. Many of the rules they use, however, keep their monitoring and other transactions costs relatively low and reduce the potential for conflict. (Ostrom 1990, 65)

One way this is achieved is through recreational ways of allocating resources, like lotteries for timber, a procedure that is deemed fair by all inhabitants, as well as combining community workdays with festivities.

Zanjas in the Philippines

In the Ilocos region in the Philippines, irrigation for agricultural land is an important and tense issue. Generally, the key problem for a gravity system of irrigation is the mismatch of incentives for tail-enders and head-enders (farmers upstream and downstream a river for instance). So an ingenious contract system has been established, at least since the seventeenth century, in order to address this issue, within *zanjas* (irrigation systems).

Zanjas have been established both by landowning farmers who had an interest in constructing common irrigation, and by individuals eager to acquire land. The way it works is through landowners giving usage rights to tenants through a form of contract called *biang ti daga* or “sharing of the

land,” that gives usage right according to maintenance work done to the irrigation system. Each participant in the *zanjera* is issued a membership share, or *atar*. Each *atar*-holder is obligated to contribute one day’s work during each work season declared by the *zanjera*, as well as a share of the material required at construction time. In concrete terms, that means that for a given year (Ostrom uses the year 1980, following a study by Siy), *atar*-holders had to dedicate on average 53 days of unpaid work to maintain the irrigation system. And the turn-up rate was remarkably high, at 94% (Ostrom 1990, 82–87).

This seems like a real success in terms of local common resources management by a community. Ostrom rightfully mentions however in a footnote that this model would hardly be transposable to a fully monetarized economy, with hard currency being paid rather than workdays contributed:

I seriously doubt that the farmers would be willing to contribute this high a tax rate in monetized form, even if they were operating in a fully monetized economy. When a farmer contributes labor, he knows how the tax is being allocated, whether or not it is being used for the purpose for which it was levied. When a farmer contributes money, he may fear that it will be diverted to the pockets of bureaucrats or put to other uses beyond the purpose for which it was contributed. (Ostrom 1990, 228)

Moreover, what differentiates the *zanjeras* from the other commons governance institutions identified by Ostrom (typically the alpine village common tenure described above) is the system of the complex contract that outlines the rights, duties and obligations of *atar* holders. In a *zanjera*, the contract is at the heart of transactions. One may wonder how such a contract system may interfere with legal systems in different countries.

Experimental Methods

If Ostrom conducted and analysed many fieldwork results, she also relied heavily on experimental methods in order to build her theory. If this methodological choice is quite common among contemporary economists, it may not seem the most obvious one for a scholar who always

showed great enthusiasm towards real-life field studies. Paying attention to her own justification of this methodological choice allows us to understand the ideal hybridation of methods that Ostrom was calling for:

It may be surprising that I have relied so extensively on experimental research. I do so for several reasons. As theory becomes an even more important core of our discipline, experimental studies will join the ranks of basic empirical research methods for political scientists. As an avid field researcher for the past 35 years, I know the importance and difficulty of testing theory in field settings—particularly when variables function interactively. Large-scale field studies will continue to be an important source of empirical data, but frequently they are a very expensive and inefficient method for addressing how institutional incentives combine to affect individual behavior and outcomes (...). By adding experimental methods to the battery of field methods already used extensively, the political science of the twenty-first century will advance more rapidly in acquiring well-grounded theories of human behavior and of the effect of diverse institutional arrangements on behavior. Laboratory research will still need to be complemented by sound field studies to meet the criteria of external validity. (Ostrom and Ostrom 2014, 151–52)

Experimental methods can also be considered useful in the sense that, if they do not avoid the issue of cultural biases (and indeed, tested individuals in various sub-cultural groups may have quite different results), they do address the criticism of cultural particularism—*oh yes the Swiss Alpine village! but everybody knows Switzerland has a strong tradition of democracy and cooperation. That cannot be replicated in other countries...* No matter how many different cultural and political backgrounds are tested, one can always argue there are inherent variables to the field study that makes it not quite trustworthy. Experimental methods—testing individual behaviour in a lab, with controlled parameters—can then address this issue.

So what do experimental methods tell us about individual behaviour and CPR management? The most consensual finding is usually that the typical *homo economicus* is a self-interested, short-term maximizer (Ostrom and Ostrom 2014, 123). But as it turns out, this is not incompatible with cooperative behaviour, and Ostrom outlines several findings of experimental research that tell us so. We will focus here on the first consolidated

result: “High levels of initial cooperation are found in most types of social dilemmas, but the levels are consistently less than optimal” (Ostrom and Ostrom 2014, 128). To better understand this finding, one must know about the type of experiments that are conducted.

A typical example is the ultimatum game. It is a one-shot game (it means that the game will not be replicated, the participants cannot play and hope that others will learn from past behaviour for instance) in which one participant, participant A, is asked to apportion a certain amount of money, let's say 10\$, between herself and a participant B. B can then either accept A's choice, and they both get the money, or refuse, and neither receives the money. Now, one may expect that A, being a self-interested maximizer, would decide to keep the 9\$ for herself and give 1\$ to B, and B would accept because 1\$ is still better than nothing. But, most of the time, that is not what happens. What Ostrom means by “high but suboptimal levels of initial cooperation” is that most participants playing A propose to contribute more than just one unit, but still less than half—which would be the most optimal and fairest share. In addition, many participants playing B do refuse the share altogether if they perceive it as too unfair, often in a will to sanction what is perceived as A's lack of justice. Such results show that neither A nor B are acting like purely self-interested maximizers, but other parameters do interfere, notably a sense of justice.⁶

Ostrom herself with colleagues designed and conducted many experiments. In *Rules, Games, and Common-Pool Resources*, they use the analytic tools of game theory and institutional analysis as a way to explore endogenous institutional development. Specifically, they focus on three questions. First, and considering that they treat infinitely repeated CPR dilemmas, to what degree are the predictions about behaviour and outcomes derived from non-cooperative game theory supported by empirical evidence? Secondly, where behaviour and outcomes are substantially different from the predicted, are there behavioural regularities that can be drawn upon in the development of improved theories? And finally what types of institutional and physical variables affect the likelihood of successful resolution of CPR dilemmas?

Testing appropriation behaviour in the lab allows answer to the first question. Here, experimental results strongly support the hypothesis of suboptimal allocation (Ostrom et al. 1994, 120–21). Overall, empirical results suggest a combination of full and bounded rationality,⁷ depending

on several variables. This is a combination that theoretical models thus must take into account. How can we construe these sets of findings in consistent theoretical models for CPR governance?

Theoretical Models

Ostrom has been quite prolific in building theoretical models to describe CPR management situations, as well as to prescribe institutional changes towards more sustainable solutions. We have selected three theoretical models here that are among the most insightful—but many others would have been perfectly valid examples. We can only recommend to the reader to explore Ostrom's work to satisfy her curiosity, especially regarding some of her core findings, i.e. the institutional analysis and development (IAD) and polycentricity,⁸ developed with her husband Vincent Ostrom. The three theoretical models we are going to focus on in the next section are somehow preliminary steps that will allow the reader to better approach IAD should they wish to do so. We will consider a typology of goods that emphasize the specificity of common goods; a set of principles for sustainable and successful CPR management; and the multi-level analysis of institutional change.

Defining the Commons

Now that we have seen a couple of examples of common resources, it is time to try to define them more precisely. Is the air that we breathe a common resource? Or is arable land? What about a public library? Or even a national security system? In these cases, it may be difficult here to establish a contract system similar to the one in the Philippine *zanjeras* or a democratic and deliberative system like the one in Swiss alpine villages for all of these goods. So, what is the difference?

Building on previous discussions, notably by Olson, Ostrom suggests two critical criteria to define the *commons*: subtractability and exclusion (Ostrom et al. 1994)—see Table 1. Subtractability means that one person's use of the resource subtracts from the amount available to others.

Table 1 A typology of goods by the author, inspired by Ostrom's work

		Subtractability/jointness of use	
		Low	High
Exclusion/cost of excludability	Easy	Club goods e.g. journal subscriptions, Netflix, gym membership, etc.	Private goods e.g. salad, personal computer, apartment, etc.
	Difficult	Public goods e.g. sunset, weather forecast, fire protection, national security system, etc.	Common-pool resources e.g. forests, fisheries, water irrigation systems, knowledge, ^a etc.

^aCategorizing Knowledge as a commons, especially in the Internet era, has actually been the object of an entire book by Ostrom and colleagues (Hess and Ostrom 2007)

Most material goods are highly subtractable. If I am eating this salad, you cannot have it. The same applies to a house, a shirt or a phone. I can lend it to others, of course, but we cannot be a hundred using it at the same time. Low subtractability goods, in contrast, can be enjoyed by many without depriving anyone. We can be thousands admiring a sunset or swimming in the ocean. These commons have low subtractability.

The other parameter is exclusion, which means how easy or difficult it is to exclude others from enjoying that resource. In the case of a salad or a phone, it is quite easy, one just keeps it to oneself. In the case of sunsets or a starry night, it is much harder to prevent people from enjoying it. So if we combine these two parameters, we end up with four types of goods: club goods that have low subtractability and easy exclusion; private goods that present high subtractability and easy exclusion; public goods for which subtractability is low, but exclusion is difficult; and finally CPR that have both high subtractability and high cost of excludability (Table 1).

If this typology is very insightful, categorizing goods in one or the other category is not always that easy, and may vary depending on the institutional or cultural setting, as well as common understanding of what constitutes a resource. Indeed, this characterization of common goods

implies that the supply can be depleted, but that people are not restricted in their use of the good. Can we therefore consider fossil fuels or air quality as a common good? Most will argue that we can indeed, in the sense that if oil patches are private goods (typically owned by a company or a sovereign state), it is in fact the land that is private. The resource itself could be understood as a common resource for all humans, present and future, and in this sense current humans can be seen as wrongful appropriators of a common resource, even though the legal and economic system is organized in a way that oil is a private good.

Now that we have defined more accurately what *common* goods are, it is time to identify principles that are found in most, if not all, successful and sustainable CPR management systems.

Identifying Principles for Successful Common-Pool Resources Management

The analysis of multiple CPR management systems has led Ostrom to define eight design principles that work as success conditions for these communities. Combined with more recent discussions on the topic (Cox et al. 2010), the Table 2 summarizes these principles.

Discussing all eight principles in depth, with their corresponding supporting and counterarguments, would take us too far. We will consequently just briefly focus on some features and questions brought up by these principles.

Ostrom herself acknowledged that the first principle, “clearly defined boundaries” both for users and resources, was the most important, insofar as it conditioned the very possibility of a CPR:

Defining the boundaries of the CPR and specifying those authorized to use it can be thought of as a first step in organizing for collective action. So long as the boundaries of the resource and/or the specification of individuals who can use the resource remain uncertain, no one knows what is being managed or for whom. Without defining the boundaries of the CPR and closing it to “outsiders,” local appropriators face the risk that any benefits they produce by their efforts will be reaped by others who have not contributed to those efforts. At the least, those who invest in the CPR may not receive as high

Table 2 Eight design principles for sustainable common-pool resources management, based on Ostrom (1990) and Cox et al. (2010)

Design principle	Principle description
1A. Clearly defined user boundaries	Individuals or households who have rights to withdraw resource units from the CPR are clearly defined
1B. Clearly defined resource boundaries	The physical boundaries of the CPR are clearly defined
2A. Congruence between appropriation and provision rules, and local conditions	Appropriation rules are related to local social and ecological conditions
2B. Inputs proportional to benefits	The benefits obtained by users from a CPR are proportional to the amount of inputs required in the form of labour, material, or money, as determined by provision rules
3. Collective-choice arrangements	Individuals affected by the operational rules can participate in decision-making processes and modify the operational rules
4A. Monitoring users	Monitors are present and actively audit CPR conditions and appropriator behavior
4B. Monitoring resource	Condition of the resource is monitored by people who are accountable to the users
5. Graduated sanctions	Appropriators who violate operational rules are likely to be assessed graduated sanctions
6. Conflict-resolution mechanisms	Appropriators and their officials have rapid access to low-cost local arenas to resolve conflicts among appropriators or between appropriators and officials
7. Minimal recognition of rights to organize	The rights of appropriators to devise their own institutions are not challenged nor restricted by external governmental authorities
8. Nested enterprises (for larger CPR)	Appropriation, provision, monitoring, enforcement, conflict resolution, and governance activities are organized in multiple layers of nested enterprises

a return as they expected. At the worst, the actions of others could destroy the resource itself. (Ostrom 1990, 91)

If the focus on boundaries makes perfect sense (imagine if outsiders could have just benefited from the irrigation system in the *zanjeras*, without contributing at all—for how long would the other farmers have kept that irrigation system running by working 2 months for free each year?) several criticisms have emerged against this first principle. For instance, some have argued that in some cases, defining clearly social boundaries is neither possible nor desirable, in the case of fluctuating communities (Ruddle 1996). These discussions are important insofar as they keep Ostrom's model dynamic and well rooted in fieldwork, rather than truly disqualify it.

The other principles that are essential to emphasize are 4 and 5, monitoring and sanctioning: because the absence of external governmental control does not mean that there shall not be any monitoring nor control, quite the opposite!

Even in repeated settings where reputation is important and where individuals share the norm of keeping agreements, reputation and shared norms are insufficient by themselves to produce stable cooperative behavior over the long run. If they had been sufficient, appropriators could have avoided investing re-sources in monitoring and sanctioning activities. In all of the long-enduring cases, however, active investments in monitoring and sanctioning activities are quite apparent. (Ostrom 1990, 93–94)

These mechanisms generate a “quasi-voluntary compliance” as coined by political scientist Margaret Levi, who identifies two conditions for this to happen, i.e. confidence that rulers will keep their bargains, and confidence that the other constituents will keep theirs (Levi 1989).

When these mechanisms fail, this is where the sixth principle is needed: low-cost local conflict-resolution arenas: “Although the presence of conflict-resolution mechanisms does not guarantee that appropriators will be able to maintain enduring institutions, it is difficult to imagine how a complex system of rules could be maintained over time without such mechanisms” (Ostrom 1990, 101).

Principles 7 and 8 deal with the embeddedness of CPRs within larger communities and organizations, that shall not challenge their right to

create and maintain their own institutions (principle 7), but on the contrary benefit from these “multiple layers of nested enterprises” (Ostrom 1990, 101). In order to fully understand this principle, one may refer to the multi-level analysis of institutions that Ostrom developed in another book (Ostrom 2009).

Multi-level Analysis of Institutional Change

Nested arenas can exist in any layer of an enterprise, as well as between several different layers. What this means is that specific rules to one community are not isolated from other types of rules. Or as Ostrom puts it:

All rules are nested in another set of rules that define how the first set of rules can be changed. The nesting of rules within rules at several levels is similar to the nesting of computer languages at several levels. What can be done at a higher level will depend on the capabilities and limits of the rules at that level and at a deeper level. (Ostrom 2009, 58)

Ostrom suggests four levels of analysis, that represent four types of rules and actions (Table 3).

Three things are worth commenting.

First, each situation here is affected by its immediate lower level (and so indirectly by all lower levels), as well as by the biophysical world and the community.

Secondly, one has to be careful about a common misunderstanding. Lower levels are not necessarily about larger groups or territories. As shown in the examples, a vote at the European level can be at the collective-choice level, while creating a public district for a specific water basin will be considered to be at the constitutional level.

Thirdly, if the types of actions between collective choice situations, constitutional situations and meta-constitutional situations seem identical, it is important to understand they do not occur at the same level. For instance, a monitoring decision in the collective-choice situation can be to have volunteers watching a given forest to prevent illegal resources harvesting. At the constitutional level, the decision will be about creating specific monitoring task forces associated with forest protection. Finally

Table 3 Levels of analysis and outcomes (Adapted from Ostrom 2009, 59–61)

Situation	Actions' consequences	Types of actions	Examples of actions
Operational situations	Actions directly affect state variables in the world	Provision, Production, Distribution, Appropriation, Assignment, Consumption	Harvesters from a common-pool resource deciding how much, when, and with what technology to appropriate resource units
Collective-Choice situations	Actions affect rules that affect operational situations	Prescribing, Monitoring, Applying, Enforcing	Citizens in diversely structured European countries making electoral decisions in light of the information generated by their political systems
Constitutional situations	Actions affect rules that affect collective-choice situations	Prescribing, Monitoring, Applying, Enforcing	A group of groundwater producers meeting to discuss the formation of a public district in order to develop regulations on the amount of water withdrawn from the basin
Meta-constitutional situations	Actions affect rules that affect constitutional situations	Prescribing, Monitoring, Applying, Enforcing	Ostrom does not give examples of meta-constitutional arenas, but one can think for instance of a choice about who gets to be involved in constitutional situations decisions

at the meta-constitutional level, the decision could be about how the volunteers are chosen—for instance, deciding that they can have no personal or family interest in the specific forest they are monitoring to prevent corruption or nepotism.

But is all that not unnecessarily complexifying the analysis of simple situations? Do we really need all four levels in order to evaluate an operational situation, be it forest management or fisheries' quotas? Here is how Ostrom addresses this concern:

When a theorist chooses to analyze a situation at any particular level, the theorist must assume that the institutional rules at that level are temporarily fixed for the purpose of analysis. These rules form a part of the *structure* of the situation rather than the *solution* to the game created by that structure. When the purpose of analysis is to understand the origin of the rules at one level, knowing the structure of the situation at the next level is essential for that enterprise. The equilibria achieved at one level are thus supported by equilibria that have been achieved at deeper levels. (Ostrom 2009, 61)

Thus, since the analyst does not need to fully describe all the nests in order to analyse one particular level, this methodological choice “greatly simplifies analysis rather than complicating it” (Ostrom 2009, 61).

Multi-level institutional analysis has been used as a framework to tackle complex issues in various fields. One concrete illustration is development aid and the so-called “Samaritan’s Dilemma”—inspired by the New Testament’s parable of the “good Samaritan.” The Samaritan’s Dilemma is, at its core, a motivational issue. A “good Samaritan” who wants to help, and a “recipient” who needs help, both have the following choice. The Samaritan can decide to help or not to help, and the recipient can decide to put in low or high effort in order to receive the help. Early studies had shown that the Samaritan is always better off giving the help, and the recipient is better off putting in low effort (Buchanan 1977). Solutions to this situation, as offered by Ostrom and colleagues (Gibson et al. 2005), are for instance to condition the aid on meaningful participation by the recipient, or to create a framework of joint ownership. If these solutions are not directly emerging from a multi-level analysis of institutional change, they do acknowledge and take into account the multiple layers of power

structures, power asymmetry and information asymmetry in each specific context in order to design the best outcome for both the Samaritan and the recipient.

Conclusion: Limits and Criticism

Ostrom's work has been based on attempting to explore a "third way" for common resources management, as an alternative to private property and government control. Although deeply embedded in many field studies that confirmed her theory, her conclusions have also been challenged by scholars in recent years who came up with a few interesting counterarguments and countermodels.

A first piece of criticism holds that Ostrom has not properly distinguished between commons and partnership arrangements. In CPR management, as we have described them, outsiders cannot be excluded from entry (see the "cost of excludability" criterion in Table 1). In partnerships arrangements, they can. According to Block and Jankovic (2016), there is a confusion here, based on Ostrom's assumption that private property is possible only if the government protects and enforces it. But what about other types of property?

Araral (2014) argues that Ostrom's critique of Hardin is only valid for small-scale, locally-governed commons, but does not work anymore for large-scale or national commons—a critique that was precisely foreseen and addressed by Ostrom and colleagues (Costanza et al. 2000), who insist on designing differentiated rules for small-scale and large-scale systems. Ostrom's institutional design principles (see Table 2) have also been under scrutiny and several authors (Araral 2014; Cox et al. 2010) suggest that a rethinking of these design principles as well as of her critique of private property rights and markets is deeply needed.

In our opinion, these debates do not discard Ostrom's work but rather allow to improve her theory, highlighting situations in which CPR management and recommended institutional design principles may not quite work, and offering hypotheses to better understand these situations. In any case, keeping these debates alive and continuing to gather data from various contexts seems to be a task that both economists and political scientists

shall undertake, if we are to tackle issues such as resources depletion, pollution or climate change, and enforce sustainable resources management in the future.

Notes

1. Google Trends is a tool that allows to get an overview of the relative popularity of Google search queries. We have selected five famous contemporary economists, that were all awarded the “Nobel” Prize in Economics and used Google Trends’ results over the last five years as a proxy for their popularity. A quick search on February 21, 2019 gave the following ranking: (1) Paul Krugman, (2) Joseph Stiglitz, (3) Daniel Kahneman, and far behind (4) Jean Tirole and (5) Elinor Ostrom. Other tools gave similar results.
2. Just how influential was the paper? One way to answer that question is to look at the number of citations in academic papers: Hardin’s paper has been cited more than 38,000 times (Google Scholar, searched on February 23, 2019). For comparative purposes, if we look at other seminal books and papers in related fields, and using the same tool (Google Scholar, searched on March 21, 2019), Rachel Carson’s seminal book *Silent Spring* (1962) was cited 16,412 times, i.e. less than half than Hardin’s paper, and Ehrlich’s *The Population Bomb* (1978) 5361 times.
3. See Oedipus Rex as a paradigmatic example: it is a tragedy insofar as the actions Oedipus takes precisely in order to counter what has been predicted by the oracle (that he will kill his father and sleep with his mother) lead him to fulfil the prophecy. The underlying message of all Greek tragedies can also be understood as: humans’ intentions and actions are worthless compared to Gods’ design and fate.
4. The “Prison theme” was actually added by Canadian mathematician Albert Tucker.
5. Numerous presentations and variations around the Prisoner’s Dilemma exist in the literature. For the original presentation, see Dresher (1981). For a good and up-to-date synthesis, see Kuhn (2017).
6. A derivative version of the ultimatum game is the dictator game, in which B cannot punish A, no matter how she splits the initial endowment (B cannot refuse the deal even if A takes 90% for herself). But even in this version, most studies show that very few people would propose a completely unfair

deal, thus again suggesting that most people are less self-interested than the typical *homo economicus* (Forsythe et al. 1994).

7. Bounded rationality is a model that challenges the idea of full rationality (supported for instance by the rational choice theory), by acknowledging that decision-making is also affected by cognitive biases, time constraints, cultural representations, etc. At the crossroads between behavioural economics, psychology and philosophy, bounded rationality was particularly studied by Daniel Kahneman and Amos Tversky, for which they receive the Nobel Prize in Economic Science in 2002 (Kahneman 2003).
8. Coined by Karl Polanyi in the early 1950s, polycentricity is a concept that describes a social organization in which agents need no superior authority in order to self-organize and adapt, following rules in constant evolution, but not initiated by anyone in particular (Polanyi 1951). Ostrom's theory is deeply inspired by Polanyi's work and somehow gives it flesh by providing empirical results to an otherwise inspiring but rather speculative vision.

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The Ecological Economy of Georgescu-Roegen

Gabriel Weber and Ignazio Cabras

Introduction

In his article on Nicholas Georgescu-Roegen (born 1906), Joan Martinez-Alier (1997) points out that when meeting him in 1980 in Barcelona, he was stunned by Georgescu-Roegen's humbleness and vitality (We are also stunned by the humbleness and vitality of Martinez-Alier). Joan Martinez-Alier (1997) also mentioned, that Georgescu-Roegen liked chilled grappa and that Barcelona reminded him of pre-war Romania where he has was born in 1906. However, the disasters of the twentieth century gave him little choice but to migrate. After immigrating to the US he was one of the founders of ecological economics as an alternative school of economic thought. In comparison to environmental economics, which is mainstream economic analysis of the environment, it treats the economy

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as a subsystem of the ecosystem and has an emphasis upon preserving natural capital (van den Bergh 2001). “Ecological critics of economics have argued for over hundred years that economists should study the flow of energy and materials in the economy. The services nature offers to the human economy cannot be adequately valued in the accounting system of neoclassical environmental and resource economics” (Martinez-Alier 1997, p. 117). However as Martinez-Alier (1997) points out, ecological economics does not only criticize. The Romanian American economist Nicholas Georgescu-Roegen (1906–1994) provided ecological economics with a modern conceptual framework based on the material and energy flows of economic production and consumption. The concept of entropy (Georgescu-Roegen 1971) draws on thermodynamics. More specifically it applies the second law of thermodynamics, i.e. that usable “free energy” tends to disperse or become lost in the form of “bound energy.” This concept had a wide influence and was promoted by many—most notably by his student and foundational ecological economist Herman E. Daly (1992, 1995, 1999). Another student of Georgescu-Roegen, Kozo Mayumi (2002) extended his theories on entropy in his study of energy analysis. However, despite his influence as a key intellectual founder of ecological economics, his work is unappreciated by mainstream economics (Zagmani 2008). Herman Daly (1999, p. 1) asks “how long can neoclassical economics ignore the contributions of Georgescu-Roegen?”

This contribution is an attempt to position Georgescu-Roegen’s work into its deserved place within both economic history and mainstream economics thought. Considering the background of ongoing environmental and economic crises the contribution revisits his core ideas that go far beyond the entropy law. It also reflects Georgescu-Roegen’s ideas on the recently reinforced movement and academic debate on degrowth (Georgescu-Roegen 1979). It shows his life and his career in which he endeavored “to reformulate economic process as ‘bioeconomics,’ a new style of dialectical economic thought” (Mayumi 2001). The contribution aims to underline why Georgescu was a Great Economic Thinker who was ahead of his time.

Birth, Heritage and Its Baggage

Nicolae Georgescu was born in 1906 in the Romanian Black Sea port town Constanta, which by then had 25,000 inhabitants (Romanian, Tatar/Turkish, Greek, Bulgarian, Jewish, Roma). While it was defined as “poor Turkish fishing village” in 1878, the population had quadrupled by 1906 and the town emerged as important Black Sea Port. The mix of cultures, ethnic groups, and religions may have shaped Nicolae’s cosmopolitan spirit. His mother, an ethnic Romanian, was a sewing teacher at a girls’ school. She came from a poor family, her mother and three of her five siblings were illiterate. His father, was of Greek descent and Nicolae never knew his paternal grandparents. He was an army captain but was forced to retire after an altercation that arose when he caught a high-ranking officer stealing meat from his soldiers’ larders. After being released from the army, the father spent plenty of time teaching his young son reading, writing, and mathematics. When Nicolae was eight years old, he lost his father, who died at the age of 64.

In primary school, Nicolae was excellent in mathematics and a teacher encouraged him to go to the secondary military school. Later in military school, he applied for scholarships to help support his widowed mother and his younger brother. When Nicolae was ten years old (1916) his widowed mother fled with the family to the capital Bucharest. Allied diplomacy had brought Romania into the war, which proved disastrous for the Romanians. Shortly after they joined the war, a combined German, Austrian and Bulgarian offensive conquered two-thirds of their country in a rapid campaign which ended in December 1916. After several defensive victories in 1917, with Russia’s withdrawal from the war following the October Revolution, Romania, almost completely surrounded by the Central Powers, was also forced to drop out of the war. It signed the Treaty of Bucharest with the Central Powers in May 1918. On 10 November 1918, just one day before the German armistice and after all the other Central Powers had already capitulated, Romania re-entered the war. By then, about 220,000 Romanian soldiers had been killed, about 6% of total Entente military deaths.

During the two years of German/Central Powers occupation of Bucharest (1916–1918) Georgescu wanted to become a mathematics

teacher but he could barely keep up his studies in these times of hardship. Nicolae had traumatic boyhood experiences of the agonies of war. He was deeply shocked, when he learned that his mentor at school died in the war. His childish soul was tortured by the thought that, as in an old Romanian legend, one's life is the price for one's success. The idea that happiness in life has a high price never left him.

Education, Mentors and Rivals

After the war, young Nicolae returned to his home town and started attending secondary education in a military school. He later credited the education he received there for providing him with an extraordinary education that would serve him well later on his career, but he also blamed the discipline and monastic isolation for having stunted his social abilities.

He had a namesake at military school. Georgescu is a romanization of George and a very common Romanian name (he had this name because his grandfather first name was George). So he decided to make himself "unique." He decided to create an addendum to his second name, putting some letters of his first and last name in reverse order NicolaE GEORgescu = Roegen. Georgescu received his diploma in 1923. Thanks to a scholarship awarded to children from poor families, he was soon after accepted at the University of Bucharest for further studies in mathematics. There he met the woman who would later (1934) become his wife for the rest of his life, the mathematician Otilia Busioc. After his graduation cum laude in 1926, he took the examination to qualify as a secondary school teacher and then accepted a teaching post for another year in his former lyceum in Constanta.

At the university, Georgescu made a closer acquaintance with one of his professors, Traian Lalescu, a renowned mathematician of the day who had taken a special interest in applying mathematical methods to economic reality by means of statistics. Lalescu was concerned with the lack of adequate data needed to analyse Romania's economic problems, so he encouraged Georgescu to pursue this new line of research in further studies abroad. In 1927, Georgescu went to France to study at the Institute de Statistique, Sorbonne in Paris until 1930. In Paris he received his Ph.D.

in Statistics. His thesis had the title “Le problème de la recherche des composantes cycliques d’un phénomène” was published in the “Journal de la Société de Statistique de Paris”. In his doctoral work, he came to the conclusion that “economic phenomena could not be described by a mathematical system” (Arestis and Sawyer 2001, p. 181).

While studying in Paris, Georgescu learned of the work of Karl Pearson at the University College in London. Pearson was a leading English scholar of the time, with similar interests as Georgescu namely mathematics, statistics and philosophy of science. When he approached Pearson and the English university system, Georgescu was amazed with informality and openness he found. Studying with Pearson for the next two years and reading Pearson’s work on the philosophy of science. They co-pioneered research on the so-called “problem of moments,” one of the most difficult topics in statistics at the time, but neither of them were able to solve the problem.

While studying in London, Georgescu was contacted by a representative of the Rockefeller Foundation in the US for a research fellowship at Harvard. In 1934 he went to Harvard and met the famous economics professor Joseph Schumpeter, which completely changed the direction of Georgescu’s life and career. Schumpeter warmly welcomed Georgescu to Harvard, and soon introduced him to the now famous “circle” one of the most remarkable groups of economists ever working at the same institution, including Wassily Leontief, Oskar Lange, Fritz Machlup and Nicholas Kaldor, among others. Georgescu was now situated in a stimulating intellectual environment. Without never being formally enrolled in any economics classes, this was how he became an economist: “Schumpeter turned me into an economist... My only degree in economics is from Universitas Schumpeteriana” (Georgescu-Roegen 1992, p. 130). Through Schumpeter’s contact he met several other scientists’ of the day such as economists Harold Hotelling and Irving Fisher, and also Albert Einstein. The latter was similar to Georgescu convinced that thermodynamics: “is the only universal physical theory, which will never be overthrown” (Einstein 1970, p. 33).

During the stay, Georgescu’s relationship with Schumpeter developed and Schumpeter offered him a position with the economics faculty. As he wanted to serve his homeland Romania Georgescu declined, a step that

he would regret later (Bonaiuti 2011; Georgescu-Roegen 1992). In 1936 he left the USA and on his way home he paid a long visit to Friedrich von Hayek and John Licks in London. From 1937 to 1948, Georgescu lived in Romania, witnessing all the turmoils and excesses of World War II and the subsequent rise to power of the communists in the country. Romania had sided with the Germans after the Fall of France (1940). It joined the invasion in the Soviet Union and provided more troops for the war at the Eastern Front than all other allies of Germany combined. After the Soviet counteroffensive in Stalingrad (1942–1943) the tide of war turned against Germany and after a successful coup d'état of the king, Romania's turned to the Allied side in August 1944. Georgescu engaged in politics, joining the pro-monarchy National Peasants' Party. After the Soviet occupation, he as a leading member of the Peasants' Party was appointed general secretary of the Armistice Commission, responsible for negotiating the conditions for peace with the occupying power. However, as Romania had been allied with Nazi Germany most of the war, the Soviet representatives treated the commission as nothing but a vehicle for levying the largest possible amount of war reparations on the Romanian people. At the same time, political repression in the country intensified and Georgescu realized it was time to get away: "I had to flee Romania before I was thrown into a jail from which no one has ever come out alive" (Georgescu-Roegen 1992, p. 133).

By the aid of the Jewish community—he had earlier helped the Jews during the Romanian part of the Holocaust—Georgescu and his wife got hold of counterfeit identity cards that secured them the passage out of the country in the hold of a freight ship heading for Turkey. By the help of colleagues in Turkey, he contacted Schumpeter and Leontief at Harvard University about his flight and Leontief offered him a position at Harvard. In 1948 he was welcomed at Harvard, obtaining employment as a lecturer and research associate collaborating with Wassily Leontief on the Harvard Economic Research Project and other subjects. This was not a permanent employment and when offered a permanent position (1949) at Vanderbilt University in Nashville, Tennessee he accepted and worked there until his retirement in 1976. His decision to leave Harvard has been attributed to his search for stability as a political refugee (Randolph 1999) and to the

fact that Schumpeter (who died in 1950) had lost his influence at Harvard to secure him a permanent position (Bonaiuti 2011).

Key Works, Including Intended Audience, Register, Style and Reception

During his years at Vanderbilt University, Georgescu pursued an impressive academic career. He held numerous visiting appointments and research fellowships across the continents, and served as editor of a range of academic journals, including the *Econometrica*. In the early 1960s, Georgescu had Herman Daly as his student, who would later be a prominent ecological economist and a very faithful, persistent and influential proponent of the economics of Georgescu (Daly 1980, 1995, 2005; Daly and Farley 2011). In 1971 Georgescu published his magnum opus: *The Entropy Law and the Economic Process*. In the introduction he maps out the importance of the entropy law in physics and states: “The thought that the economic process, too, must be intimately connected with the Entropy Law is the origin of the inquiry that forms the subject of this book” (Georgescu-Roegen 1971, p. xiii). Later he humbly expresses gratitude to many people beginning with his father, who has taught him to read, write, and calculate and his mother who taught him to work hard. He also mentioned several school teachers and many mentors that now occupy a “place of honor in the history of science” such as Traian Lalescu, Octav Onicescu, Gheorghe Țițeica (in Bucharest), Émile Borel, Georges Darmois, and Maurice Frechet (in Paris) (Georgescu-Roegen 1971, p. xiii). Later he states: “But two of my teachers had the most decisive influence on my scientific orientation: Karl Pearson, the man of broad knowledge who single-handedly laid the foundations of the science of statistics, and Joseph A. Schumpeter, whose unique vision of the economic process combined in a harmonious manner quantitative with qualitative evolutionary analysis (Georgescu-Roegen 1971, p. xiii).

In his magnum opus Georgescu also criticizes mainstream economics and uses physics to explain several similarities to economics. “No science has been criticized by its own servants as openly and constantly as economics. The motives of dissatisfaction are many, but the most important pertains

to the fiction of *homo oeconomicus*. The complaint is that this fiction strips man's behavior of every cultural propensity, which is tantamount to saying that in his economic life man acts mechanically" (Georgescu-Roegen 1971, p. 2).

Furthermore, he argues that both neoclassical economics and Marxian economics do not take the environment into account: "In this representation, the economic process neither induces any qualitative change nor is affected by the qualitative change of the environment into which it is anchored. It is an isolated, self-contained and ahistorical process—a circular flow between production and consumption with no outlets and no inlets, as the elementary textbooks depicts it. Economists do speak occasionally of natural resources. [...] Karl Marx's diagrams of economic reproduction do not include even this colorless coordinate. So, if we may use a topical slogan for a trenchant description of the situation, both main streams of economic thought view the economic process as a 'no deposit, no return' affair in relation to nature. The intriguing case with which Neoclassical economists left natural resources out of their own representation of the economic process may not be unrelated to Marx's dogma that everything nature offers us is gratis." The presence of natural resource flows in Georgescu's production model differentiates from those of both Keynesian macroeconomics, neoclassical economics, classical economics, and some variants of Marxism. Furthermore, he criticized that neoclassical economics could explain only social conditions that prevailed in advanced capitalist economies, but not in other institutional settings such as in peasant-dominated economies like Romania. He was also critical of the increased use of abstract algebraic formalism grounded in no facts of social reality. Furthermore, he criticizes: "Like Marx, I believe that social conflict is not a mere creation of man without any root in material human conditions. But unlike Marx, I consider that precisely because the conflict has such a basis, it can be eliminated neither by man's decision to do so nor by the social evolution of mankind" (Georgescu-Roegen 1971, p. 306).

Later he explains the Entropy law in detail and shows what kind of revolution it meant for physics. "The revolution that interest us here began with the physicists' acknowledging the elementary fact that heat always moves by itself in one direction only, from the hotter to the colder body. [...] A new branch of physics, thermodynamics, then came into

being and a new law, the Entropy Law, took its place alongside – rather opposite to – the laws of Newtonian mechanics.” [...] The Entropy Law itself emerges as the most economic in nature of all natural laws. It is in the perspective of these developments in the primary science of matter that the fundamentally nonmechanistic nature of the economic process fully reveals itself. The fact that a natural law is involved in every aspect of man’s behavior is so common that we would not expect the study of the influence of the Entropy Law on man’s economic actions to present any unusual complications.

The physical theory of thermodynamics is based on two laws: The first law states that energy is neither created nor destroyed in any isolated system (a conservation principle). The second law of thermodynamics—also known as the entropy law—states that energy tends to be degraded to ever poorer qualities (a degradation principle). Georgescu argues that the relevance of thermodynamics to economics stems from the physical fact that man can neither create nor destroy matter or energy, only transform it. The usual economic terms of “production” and “consumption” are mere verbal conventions that tend to obscure that nothing is created and nothing is destroyed in the economic process—things are only being transformed. Georgescu-Roegen introduces the term “low entropy” for valuable natural resources, and the term “high entropy” for valueless waste and pollution. Georgescu explains that all the economic process does from a physical point of view is to irreversibly transform low entropy into high entropy, thereby providing a flow of natural resources for people to live on. The irreversibility of this economic process is the reason why natural resources are scarce: In many cases, it is possible to recycle material resources, but only by using up some energy resources plus an additional amount of material resources; and energy resources, in turn, cannot be recycled at all (according to the entropy law) (Georgescu-Roegen 1971, p. 277–282).

Georgescu points out that Earth is a closed system in thermodynamic sense of the term: Earth exchanges energy, but not matter (practically) with the rest of the universe. Hence, mainly two sources of “low entropy” are available to man, namely the stock of mineral resources in the crust of the Earth; and the flow of radiation, received from the Sun. Since the Sun will continue to shine for billions of years to come, the Earth’s mineral

stock is the scarcer one of these two main sources of low entropy. Whereas the stock of minerals may be extracted from the crust of the Earth at a rate of our own choosing (practically), the flow of solar radiation arrives at the surface of the Earth at a constant and fixed rate, beyond human control. This natural “asymmetry” between man’s access to the stock of minerals and the flow of solar energy accounts for the historical contrast between urban and rural life: The busy urban life, on the one hand, is associated with industry and the impatient extraction of minerals; the tranquil rural life, on the other hand, is associated with agriculture and the patient reception of fixed flow of solar energy. Georgescu points out that this “asymmetry” helps explaining the historical subjection of the countryside by the town since the dawn of civilization, and he criticizes Karl Marx for not taking this subjection properly into account in his theory of historical materialism (Georgescu-Roegen 1971, p. 313).

Georgescu explains that modern mechanized agriculture has developed historically as a result of the growing pressure of population on arable land; but the relief of this pressure by means of mechanization has only substituted a scarcer source of input for the more abundant input of solar radiation: Machinery, chemical fertilizers and pesticides all rely on mineral resources for their operation, rendering modern agriculture—and the industrialized food processing and distribution systems associated with it—almost as dependent on Earth’s mineral stock as the industrial sector has always been. Georgescu cautions that this situation is a major reason why the carrying capacity of Earth is decreasing (Georgescu-Roegen 1971, p. 303). In effect, overpopulation on Earth is largely a dynamic long-run phenomenon, being a by-product of ever more constraining mineral scarcities (Georgescu-Roegen 1971, p. 20f.).

Georgescu’s magnum opus reads very well. It is full of alternative ideas and that seem obvious but also very new and exciting. However, in the mainstream of economics it did not trigger any immediate debates. Georgescu had a short-lived cooperation with the Club of Rome, whose publication *The Limits to Growth* (Meadows et al. 1972), in comparison to his own work, caused a sensation. In the heated controversies that followed the report, Georgescu found himself largely on the same side as the club, and he became a member. As a result, he published the polemical article on Energy and Economic Myths, where Georgescu took issue

with the mainstream economists (Georgescu-Roegen 1975). Nevertheless, despite the early teamwork Georgescu criticized the club for not adopting a clear anti-growth stance, and its elitists and technocratic fashion of monitoring and managing global social activity by computer simulations.

Disciplinary Boundaries

Georgescu was influenced by school of logical positivism (Holton 1992) derived from Austrian physicist and philosopher Ernst Mach and much of his criticism on both Neoclassical and Marxian economics was derived from that. He had a Machian epistemology investigating problems by using valid analytical representations of the relations among facts. Georgescu argues that both neoclassical economics and Marxism—share the shortcomings of not taking into account the importance of natural resources in man's economy (Georgescu-Roegen 1971). Georgescu argues that neoclassical production theory is false when representing the economy as a mechanical, circular, and closed system, with no inlets (such as exhausted resources) and no outlets (such as waste/pollution) (Georgescu-Roegen 1975, 347). In addition, Georgescu finds that market mechanisms of supply and demand are systematically unable to take care of the inter-generation distribution problem properly, since future generations are not, and cannot be, present on today's market (dictatorship of the present over the future).

Neoclassical economists such as Solow (1974, p. 366f.) and New-Keynesian economists such as Stiglitz (1980, p. 61f.) argue that the board sustainability of man-made capital for natural capital is a true possibility. This position of weak sustainability (Turner 1993, pp. 9–13) was criticized by Georgescu. He argues that neoclassical economists generally fail to realize the important difference between material resources and energy resources in the economic process. As it is physically impossible to turn energy into matter it is likewise impossible to substitute man-made capital for energy resources. Furthermore, not all material resources are transformed into man-made capital; instead some material resources are manufactured directly into consumer goods with only limited durability (such as consumer goods). Finally all man-made capital depreciates, wears

out and needs replacement. All in all, the economic process is indeed a process with steadily increasing entropy.

Contrary to the neoclassical position, Georgescu argues that flow factors and fund factors (that is, natural resources and man-made capital) are basically complementary, as both are required in the economic process. Georgescu claims that the distribution of exhaustible mineral resources amongst present and future generations is a great problem that cannot be disregarded. Even though this criticism of neoclassical economics was later termed “strong sustainability” (Turner 1993, pp. 13–15), he did not use the term himself. On the contrary Georgescu regarded the notion of sustainable development as “snake oil” intended to deceive the general public (Gowdy and Mesner 1998, p. 153). He argued that there can be no such thing as “sustainable” rate of extraction as any rate will diminish the remaining stock itself (Bonaiuti 2011, p. 42).

Georgescu also criticized the concept of a steady-state economy developed by his former student Herman Daly (Georgescu-Roegen 1975, pp. 366–369; 1977, p. 270; 1989, p. 167f.; 1979, pp. 102–105). This concept signifies an economy made up of a constant stock of physical wealth (man-made capital) and a constant stock of people (population), both stocks to be maintained by a minimal flow of natural resources (or “throughput” as he terms it). Daly argues that this steady-state economy is both necessary and desirable in order to keep human environmental impact within biophysical limits (however defined), and to create more distributional fairness between present and future generations with regard to mineral resource use. Georgescu argues that Daly’s steady-state economy will provide no ecological salvation for mankind, especially not in the longer run. He points out that to ration mineral resources use as long in the future as possible, zero economic growth is more desirable than growth is, true; but negative growth (degrowth) is still better. Instead of Daly’s steady-state economics, Georgescu proposed his own so-called “minimal bioeconomic program” (Georgescu-Roegen 1976, pp. 33–34) featuring restrictions even more severe than those proposed by Daly. Also several other authors agree (e.g. Boulding 1981; Bonaiuti, Mauro 2008; Faber et al. 1996; Miernyk 1999; Spengler 1976; Capilla and Delgado 2014) that a steady-state economy does not by itself constitute a long-term solution to the “entropy problem” facing mankind.

Legacy

Georgescu was an intellectual founder of ecological economics and criticized that both neoclassical economics and Marxism had the shortcomings of not taking into account the importance of natural resources in man's economy. Georgescu was great due to his unique way of taking physics (Entropy) and biology (Bioeconomics) into the economic thought. The latter (short for "biological economics") was introduced by Georgescu to describe the view that man's economic struggle is a continuation of the biological struggle to survive (Georgescu-Roegen 1992, pp. 152–154; 1975, p. 369; Mayumi 2001, p. 1f.; Gowdy and Mesner 1998, p. 304). This biological struggle has prevailed since the dawn of man, and the nature of the struggle was not altered by the invention of money as a medium of exchange. Unlike the animals, man has developed exosomatic instruments, that is, tools and equipment. The production of these instruments is a social, not an individual undertaking. This situation has turned man's struggle to sustain life and survive into a social conflict.

The minimal bioeconomic program (Georgescu-Roegen 1976, pp. 33–34) offers eight concrete recommendations to move human society in the right direction:

1. the complete prohibition of weapons production, thereby releasing productive forces for more constructive purposes;
2. immediate aid to underdeveloped nations;
3. gradual decrease in population to a level that could be maintained only by organic agriculture;
4. avoidance, and strict regulation if necessary, of wasteful energy use;
5. abandon our attachment to "extravagant gadgetry";
6. "get rid of fashion";
7. make goods more durable and repairable; and
8. cure ourselves of workaholic habits by rebalancing the time spent on work and leisure, a shift that will become incumbent as the effects of the other changes make themselves felt.

Contrary to neoclassical production theory, Georgescu identifies nature as the exclusive primary source of all factors of production. Matter and

energy are neither created nor destroyed in the economy (first law of thermodynamics). What happens in the economy is that all matter and energy is transformed from states available for human purposes to states unavailable for human purposes (second law of thermodynamics). This transformation constitutes a unidirectional and irreversible process. Consequently, valuable natural resources (“low entropy”) are procured by the input end of the economy; the resources flow through the economy, being transformed and manufactures into goods along the way; and invaluable waste and pollution (“high entropy”) eventually accumulate by the output end. Mankind lives in, by and of nature, and we return our residues to nature. By so doing, the entropy of the combined nature-economy system steadily increases. The economic model includes natural resource flows, unlike Keynesian macroeconomics, neoclassical economics, classical economics, and some variants of Marxism.

Georgescu argues that the carrying capacity of Earth (Earth’s capacity to sustain human populations and consumption levels) will decrease sometime in the future as Earth’s finite stock of mineral resources is being extracted and put to use. A major collapse in the world economy is inevitable in the not-too-distant future due to population pressure and exhausted mineral resources (Georgescu-Roegen 1971).

Georgescu’s work was blemished somewhat by mistakes caused by his insufficient understanding of the physical science of thermodynamics. While working on his magnum opus on *The Entropy Law and the Economic Process*, Georgescu had the firm understanding that the entropy law applies equally well to both energy resources and material resources, and much of the reasoning in the opus rests on this understanding (Georgescu-Roegen, 1971). However, in thermodynamics proper, the entropy law does apply to energy, but not to material resources (Cardwell 1971; Schmitz 2007). Later, when Georgescu realized his mistake, his reaction passed through several stages of contemplation and refinement, ultimately leading to his formulation of a new physical law, namely the fourth law of thermodynamics. This fourth law states that complete recycling of matter is impossible.

Georgescu was deeply ashamed about the mistake he made. This combined with his uncompromising personality and bad temper made him a rather unpleasant acquaintance to deal with. His blunt and demanding

behavior tended to offend most people in academia and elsewhere, thereby undermining his influence and standing (Beard and Lozada 1999; Daly 1999; Iglesias 2009; Ropke 2004). Throughout the years at Vanderbilt, Georgescu remained a solitary man. On his retirement symposium, none of his colleagues at Vanderbilt attended but four Nobel Prize Laureates (Daly 1995) and the papers presented were later published as an anthology (Tang 1976).

After Georgescu's retirement in 1976, he continued to live in Nashville until his death in 1994. In this last 18 years of his life, he wrote several articles and papers (Georgescu-Roegen 1977, 1978, 1979, 1986, 1989, 1993) and corresponded extensively with friends. However, he also was disappointed that his work did not receive the recognition expected (Georgescu-Roegen 1992) and that he had failed in warning the general public about the world's looming mineral resource exhaustion he was very concerned about (Georgescu-Roegen 1989). By the end, his health deteriorated and his diabetes caused complications that he could not walk stairs. He isolated himself and died at the age of 88. His wife survived him by some four years.

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Conclusion

Alain Anquetil and Thomas Hoerber

The authors discussed in this book all share the characteristic of not limiting their interest in economics to simply the satisfaction of human physical needs or the maximization of the material well-being of a population. They consider the purpose of economic theories to be the proper functioning of human societies. All discuss the link between the economic and the political spheres. This link cannot be ignored, if we want to build a “just city,” that is, a human community that combines economic prosperity, the realization of moral and political values such as freedom, equality and justice, and the possibility for everyone to live according to their own free will. We can thus argue that the subject of study of this book is “political economy” in the sense that results from the simple association of the two

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words, meaning that politics and the economy contribute together to a place where people “live well as a community,” in the words of Aristotle (1998: 81).

However, since the book deals with great economic thinkers and the schools of economic thought they have founded or contributed to, it is right to ask: what has been the contribution of the economy to the functioning of the city, or even to its creation? If we accept, in the words of Adam Smith, that human beings have a propensity to exchange (a perspective that each of the authors presented here would adopt in their own way), we expect this contribution to be significant. We shall discuss this question to conclude our book.

Fundamental Liberty

Liberty seems to lie at the very heart of two observations which Plato and Aristotle made about human society. Plato assigns particular importance to the satisfaction of human needs. They are the forces which would lead human beings to organize themselves and live together. Socrates, who is here, as it were, the spokesman for Plato, presents this point of view in the *Republic*:

When one man takes on another for one need [task] and another for another need [task], and, since many things are needed, many men gather in one settlement as partners and helpers. To this common settlement we give the name city, don't we? (Plato 1968: 46)

In his *Politics*, Aristotle rejects Plato's perspective. In Aristotle's view, Plato reduces the role of the city to the mere satisfaction of needs through trade. Aristotle found this insufficient. He wondered whether a big human community, characterized by a division of labour aiming at satisfying the needs of all and applying laws that prevent citizens from harming each other in their economic exchanges, would constitute a city, i.e. a political community. Aristotle gives a negative answer:

Evidently, then, a city-state is not a sharing of a common location, and does not exist for the purpose of preventing mutual wrongdoing and exchanging goods. Rather, while these must be present if indeed there is to be a city-state, when all of them are present there is still not yet a city-state, but only when households and families live well as a community whose end is a complete and self-sufficient life. (Aristotle 1998: 81)

The cause for which people gather in the city is not material prosperity resulting from economic exchanges, but the objective of “living well” (1998: 80). It is also the exercise of virtue and the possibility for everyone to lead a moral life—a possibility that only the city offers. The economy alone cannot allow each member of the city to lead a moral life. It is a necessary condition, but not a sufficient one.

Two millennia later, and in opposition to Aristotle, Antoine de Montchrestien (1575–1621) placed the economy on the same level as the search for a happy life, which in Aristotle’s view could be achieved only through politics. He argued that it was not appropriate to separate the two fields—“one cannot separate the economy from politics without dismembering the main part from whole” (1889: 31), observed that domestic government was a model for political government, and coined the expression “political economy” (but which he used only in the title of his treatise).

Nearer to our own time, Michel Foucault (1926–1984), who took a particular interest in the political economy as it developed in Europe from the eighteenth century onwards, envisaged the possibility that an organized human community could be created by the mere fact that economic exchanges took place there with complete freedom, without the intervention of the state or any sovereignty. He takes as an example the Federal Republic of Germany, whose recent history (Foucault’s lecture was delivered in 1979) seemed to confirm his hypothesis. He argues that, in the Bonn Republic formed after the Second World War, the economy, left free to develop, is at the origin of law and sovereignty:

In fact, in contemporary Germany, the economy, economic development and economic growth, produces sovereignty; it produces political sovereignty through the institution and institutional game that, precisely, makes this economy work. The economy produces legitimacy for the state

that is its guarantor. In other words, the economy creates public law, and this is an absolutely important phenomenon, which is not entirely unique in history to be sure, but is nonetheless a quite singular phenomenon in our times. (Foucault 2004: 84)

The claim is a bold one. As Jean-Yves Grenier and André Orléan point out, it means that “economic freedom alone produces effects powerful enough to ensure social cohesion and the collective support of the actors” (2007: 1173). Economic freedom goes even further since it “produces agreement much better than politics, which always tends to divide citizens” (2007: 1173). To summarize the idea that a human society can be thought of in terms only of economic freedom, without the constraining intervention of sovereignty, Grenier and Orléan take from Foucault this striking formula: “the economy produces political signs” (2007: 1173).

What is the meaning of the statement: “the economy produces political signs?” In Foucault’s work, it is based on an analogy with the search for signs of divine grace, which Max Weber (2001) discussed in relation to the ethics of Protestantism. Despite the paradox of predestination (it is not rational to seek to deserve divine grace through one’s works if God has chosen in advance those destined for salvation), the wealth obtained through work can play the role of a divine sign. But what is wealth the sign of? asks Foucault. He replies: “Not, of course, of God’s election, [but] the daily sign of the adherence of individuals to the state” (2004: 85). In other words, the economy signifies in the sense that it manifests or represents something—a permanent agreement, in fact, of all the parties involved in the economy, an agreement that deals with economic freedom itself. Hence this statement, which includes the above formula:

The economy produces political signs that enable the structures, mechanisms, and justifications of power to function. The free market, the economically free market, binds and manifests political bonds. (Foucault 2004: 85)

It would be a mistake to think that the wording “the economy produces political signs” (Grenier and Orléan 2007: 1173) means that economic calculation or rationality has invaded all areas of life—culture, health,

education, politics, and even private life. It does not refer to what is often called, in our globalized world, “commodification,” (Grenier and Orléan 2007: 1181), i.e. treating everything as a tradable commodity in a supply and demand market. Quite the contrary: one could interpret the encroachment of economic logic on all areas of life—a logic embodied in the expression “homo economicus” (see Persky 1995) and often mentioned in this book—as a way of defending individual freedom. Indeed, if the state treats each individual using economic tools, for example by using utility calculations to treat a wide variety of social problems, necessarily it does not encroach on their private life (Grenier and Orléan 2007: 1181). If the state represents each individual as a homo economicus, this cannot mean that the individual as a person is threatened. The argument can be described by saying that this purely economic representation of the individual is consistent with the neutrality of the state in relation to any conception of the human good—a neutrality which, incidentally, is a fundamental requirement of liberalism (see Sher 1997).

Let us add that the assertion that “the economy produces political signs” seems to be refuted from the outset by this observation of Aristotle:

The life of money-making is one undertaken under compulsion, and wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else. (Aristotle 2009: 7)

The economy is not an end in itself. It is at the service of happiness, of the realization of the good of man. How could a mere intermediate tool generate a political or moral end—an end which, because of its very status as an end, is posited above the means? How could this economic means even influence the social and political structures of a human community? The idea that “the economy produces political signs” seems illogical against this background.

To answer Aristotle’s objection, however, it is possible to use the idea of “emergence” (see Alexander 1920), with which are associated those of “complex systems dynamics” and “self-organization processes” (see Krugman 1996). According to emergence, the properties of a system (“emergent properties”) can neither be explained nor predicted by the properties of the

elements that constitute it. This would lead to the following interpretation of the formula: political signs *emerge* from economic functioning.

It should be remembered that emergence phenomena have been highlighted in different forms in the previous chapters. Here are three striking examples: firstly, Adam Smith's invisible hand, of course, which, in Hayek, is embodied in the "spontaneous order," which is, in eloquent words borrowed from Adam Ferguson (1723–1816), "the result of human action but not of human design" (Hayek 1978: 5), secondly, Marx's idea that "the ideal is nothing else than the material world reflected by the human mind,"¹ and, lastly, in Schumpeter's view, the dynamic nature and evolutionary character of capitalism.

Robert Heilbroner expresses this question of emergence as a "cosmological problem," a problem relating to the structures of the world. In his words, this cosmological problem relates to "the social configurations of production and distribution [...] that ultimately emerge from the self-directed activities of individuals" (1984: 682). Heilbroner analyses Smith's and especially Marx's, Keynes' and Schumpeter's reactions to this problem. He was particularly interested in the process of emergence that links economics and political economy, more precisely the economic functioning which constitutes a large part of human activities, to the political superstructure. He notes, for example, that in Schumpeter's view, the same principle of efficiency is at work in a capitalist system as in a socialist system (1984: 685). From the existence of different political structures resulting potentially from the same economic base, Heilbroner concludes that economics underpins the political and social order: "political economy develops only political possibilities within its economic core" (1984: 685).

It goes without saying that the phenomena of emergence cannot satisfy those who reflect on the nature of a good life based on the common good. How can we imagine that a good life, whether conceived at the level of the individual or of society, can be "the result of human action but not of human design" (Hayek 1978: 5)? Hayek argued that capitalism was the only way to organize the economy which was way too complex to be understood by individual actors. Even central planning—a socialist dream in his view—was impossible because of the lack of means to compute all data even if it all could be accessed. In the age of globalization, big data

might change that. New computing power might change that. If these resources can still not sufficiently understand the economy so that we can plan it, perhaps it is not the mass of data, but human creativity inherent in economic action that makes the macroplanning of the economy impossible. That would mean that liberty in the economy is essential, as Hayek claimed, but that the economy is also a reflection of human nature—Hayek did not say that. This has not much to do with the complexity of the economy or the mass of data informing an economic decision, but would rather mean that human nature created the economy and finds fulfilment in it. Liberty is essential for this, but responsibility of the economic power which serves humans and society, as well. This is also the point at which economic theory becomes social theory and to a considerable extent the theory of political economy.

Constitutive Communication

A glance at Habermas's Theory of Communicative Action (1981) may assist in an attempt to establish a comprehensive social theory based on mutual reasoning and understanding. This could be called the metatheory to politics and economics, which we discussed before. The concept of the *Lebenswelt* is the first building block of Habermas's whole theory. It comprises three distinct worlds. First, the subjective world, which is defined as the individual's own personal world view. Secondly, the objective world, which is everything which can be proven to be rationally true or which physically exists. Thirdly, the inter-subjective world, which is a structure of uncontroversial prejudices given within a community. This is obviously a theory which stresses the relations of the subject with either other individuals or the world. Habermas sees the relations and coordination within society facilitated through communicative action. His next step is then the question of how to understand and explain communication. And the obvious choice is Hans-Georg Gadamer and his hermeneutics, which can be defined as the endeavour to enhance understanding of historical sources through considering the social and intellectual backgrounds of the author and the reader. It is a role-play which seeks to expose the hidden assumption which influenced the writing of the text (Habermas 1981,

1: Ch. 1). Rationalization of the western world is the next big theme. Max Weber is the best candidate. He tries to find the source and reason why our western culture is based on rationality. Intriguingly, he finds the answer in western religion. The step from a mystic community from picturesque but opaque pre-history with its spirits, magic, and charms, to the modern rational society was accomplished through the introduction of a rational spirituality, i.e. a strictly rational conception of deity, the afterlife of eternal bliss and the relation between the sinful world and paradise. It became comprehensible and was no longer the mystified realm of the shaman. Also, there had to be a (logical) sense to the workings of the world and an explanation for suffering in the world. Then came the protestant ethics of subservience and duty. It added the lever for the believer that if he worked hard for the benefits of society he would find God's favour. This, Weber claims, was the basis for the success of modern sciences and logic in western societies and finally brought them to prevail over the other cultures, in terms of productivity and rationality. Henceforth, social and individual action had to follow some pattern of logic. It had to be justifiable and therefore enhanced rationalization throughout society. The exclusively Judeo-Christian concept of man as the crown of creation also enabled him to subdue nature and override concerns about its conservation. The role Weber admits to the individual is a classical liberal view of selfishness and success orientation as the driving forces behind individual action. Habermas agrees with this historical analysis, but complains that it is very difficult to explain social interaction on the basis of Hayek's concept of the individual. Individual acts, according to Weber, are the result of personal reasoning to achieve an aim. Habermas rather goes for communicative action which, he claims, is necessary to facilitate and safeguard a community. A society exclusively based on selfishness must be extremely volatile and inherently unstable (Habermas 1981, 1: Ch. 2).

He thinks that modern societies draw their integrity and flexibility from the nature of communication itself. Communication is essentially a mutual agreement to speak and to somehow deal with the other's position. Insofar as the speakers have no pre-given aims before entering into a conversation, they agree to solve some problem by means of argument arriving at a mutual understanding. That is what he calls communicative action and what constitutes society. Now, ideal communication obviously does not

reflect all possible forms of real communication. Therefore, if the above preconditions are not fulfilled, he sees it as a different form of communication, i.e. strategic or instrumental, which are Weber's success-oriented communicative practices, again. These forms are not socially integrative, whereas Habermas's communicative action is. It does not necessarily take place between real individuals, but can better be qualified as an ongoing thought and communication process between all members of society taking part in social interaction. They try to solve the historical problems with which society is faced with the best ideas from all its members. It is a broken communication process, taking bits and pieces from wherever necessary to solve the problem. The ideal outlook is that the compromise assembled in this process will prevail. When it does, Habermas's concept of the *Lebenswelt* comes in. This means that society is built on the basis of implicit knowledge or prejudice developed in the above mentioned evolutionary manner. It is stabilized and kept alive through ongoing common practice, i.e. communication, which obeys the rules of logic, because mutually binding communicative understanding has to be sensible to all participants. Habermas draws the conclusion that if we assume that mankind survives through the mutual coordination of its members and that communication and understanding are necessary for this, then we have to accept the internal rationale of communicative action (Habermas 1981, 1: Ch. 3).

He bases this conclusion on Durkheim's theory of the replacement of the sacred with modern communicative consensus. This means that religious conventions and norms have been replaced by reasoned agreement between members of a community. The functions religious practice used to have for the proper working of society are still necessary and therefore need only to be stripped of their mythical character. The example given is modern law, which is taken from canon law and retains traces of its roots in the formal character of procedures, e.g. testimony under oath. In this step, Habermas sees development to a modern society where language is not only a means of communication, but also coordinates social practice by referring to continuously reshaped sets of socially acceptable behaviour. The socialization process acts at the same time as memory of past experience for society, insofar as past experience shapes positive behaviour, which is preserved in social norms and knowledge. The integrative power

of this secular religion comes from the reason-based freedom it vouchsafes the individual to agree or disagree. Durkheim laid great emphasis on explaining how society works. However, he argues that the human individual is defined by his ability to think about himself. This again is communicative practice for Habermas, because social life is determined through reasoned communication, for which the individual would have to make up sensible arguments beforehand. This, Durkheim suggests, is done through the different parts of the Freudian threefold personality (It, Ego, Alter-Ego) in contention with each other, i.e. self-reflection. Habermas draws the conclusion that the better this rational communication works, the nearer a lawful and democratic society is to its ideal, because it is exactly the characteristic of communicative consensus which is the core of both (Habermas 1981, 1: Ch. 5).

Durkheim argued that social integration happens through a basic consensus with which Habermas agrees. However, he thinks that Durkheim as well as classical integration theory confuse primitive with advanced societies. The main underlying proposition for Habermas's explanation of the integration process of individuals into society is that there are two forms of it. The first one is integration into the political system, therefore called system theory, which is embodied in social institutions like the state, law, church, etc. The means at the disposal of these institutions can be summed up as political and physical power. For Habermas system integration marks advanced societies. The second layer of integration takes place on a personal level between individuals. It forms their social world on the basis of mutually participating in it and forming individual interrelations. This integration works not through institutions, but through continuous social practice based on customs and social norms. This is what Habermas calls *Lebenswelt*. The borderline between System and *Lebenswelt* is found where the intrusion of the state into the private sphere or business world—by means of legal practice—ends. This second form of integration can be said to exist in every given society. Whereas in primitive societies integration was facilitated through a common consensus and little dissent from it, advanced societies have been losing this basic consensus and replacing it with an overarching political system. This system integrates the diverging subsystems where there is still more of a basic consensus left. The system is therefore no longer based on a traditional consensus, but on

rules which ensure participation of all social groupings and legitimacy of the governing process, which would explain the expansion of the legal system. Admittedly this is only another form of consensus (Habermas 1981, 1: Ch. 6).

The other comprehensive system in modern societies is the market. The means which drive market forces, in modern societies, is money. Economic activity facilitates continuous exchange between the different social groups on the basis of free agreement and lawful business practice. This would be the active link holding these groups together, whereas the state is rather more the passive enabling system. In contrast to pure market economists Habermas believes that the stabilizing powers of the state system are essential for maintaining unity, because business is essentially based on personal interest which is inherently volatile.

The third layer of social integration comes in Habermas's own concept of communicative action, which in turn establishes the *Lebenswelt*. The personal horizon which the latter embodies has to fulfil the function of establishing new norms which have previously been proven acceptable to all through communicative agreement. Once agreed they become more resistant to critique until they are no longer adequate or stand in the way of solutions for more contemporary problems. This memorization process is embodied in language, which then constantly updates social knowledge. Participants do not apprehend this social memory, because they are part of it and cannot step beyond their own language boundaries. In addition, because these norms are the social background of participants, it cannot be criticized as a whole, it can only collapse as a whole and be replaced by a new system. However, even if there is a major rupture which does away with an old *Lebenswelt* system, the newer version can only be a revision, because the individuals who create the new *Lebenswelt* are defined by the society they grew up in. Large sections can be changed and adapted, but normally only parts get updated and a core will always remain. Once again Habermas introduces this as the model on which primitive societies worked. His interpretation of Durkheim is that in advanced societies the *Lebenswelt* gets updated more quickly and also, to some extent, loses its binding character. The reason for this, in modern societies, would be the differentiation process. The old community concept is no longer the main or the only defining factor. The emancipation of the individual

goes along with the personal interpretation of one's own environment. This individual achievement diminishes the immediate importance of the *Lebenswelt*. Moreover, an overarching idea of a common culture beyond one's own community supports this trend and at the same time acts as a kind of moral justification of the political system developed in several states, notably western liberal democracies. The modern differentiation process would therefore support the concept that the community is still important, but the individual is at least *as* important. Habermas sees European industrialization as the epitome of this differentiation. This process led to democratization, which in turn led to a greater necessity for social coordination. His theory of communicative action explains exactly this process. Through this he acknowledges the importance of state and market as integrative systems and adds language as the third element to it. He posits "the ideal speech act" based on four assumptions: first, intelligibility, secondly, truth of content (defined before a social context), thirdly, sincerity of the speaker and, finally, justification for the utterance, which reflects the influence of social norms. Agreement on this basis can only be reached through a rational consensus or, put more simply, through the better argument. He believes in the persuasive power of logic and even though knowledge might be culturally relative, the procedural rules of logic are universal. The better argument wins. The theory is by intention a defence of human freedoms which is provided for by the contention that every agreement to be binding must be reached freely. The unifying factor for society is the existence of the language system itself, the social customs and norms memorized in it and the ongoing social interaction through it. Habermas sees communicative action as replacement for the old consensus in primitive societies, although consensus building might have always happened through language (Habermas 1981, 1: Ch. 8).

In a very Marxist tradition—that of the Frankfurt School along with Adorno and Horkheimer (Habermas 1981, 1: Ch. 4, see also Giddens 1985)—Habermas states that the invention of the social welfare state was a consequence of class struggle. With the introduction of representative democracy and therefore a switch of power to the masses, the welfare state became the criterion for the legitimacy of the state itself. Very early on, governments also realized that it was a means of enhancing not only their popularity, but, particularly in the immediate post-war years, of

demonstrating the need for the state as the provider of these services. Notably in post-war Europe, the welfare state was an administrative device to generate legitimacy by easing the dysfunctions of market economy, considered as absolutely indispensable in the light of the contest with communism. Habermas thinks that modern democracies are only able to control the still latent class conflict in the market system as long as there is an economic surplus which can be shared out due to conveniently set rules. As soon as this is not the case and vested interests either on the workers' or the capitalist side are in danger, the old conflict is revitalized. However, Habermas is optimistic that the modern state can steer market forces to this end. What he sees as rather more critical are over-individualistic or hedonistic tendencies which have disenfranchised parts of the population. These groups, he claims, cannot be reached by the traditional means of money (market) or power (state system). This has the potential to destabilize the *Lebenswelt*. This separatism, he sees as the greatest danger of over-individualization/hedonism, because proper communicative action is distorted, or does not take place at all. This in turn endangers the integrity of the whole system, because no communicative guidance—valid for all, because agreed upon by all—can occur. On the other hand, protest is what updates our *Lebenswelt* as long as there is communication. The *Lebenswelt* concept therefore explains how an admittedly ongoing conflict about social value is not destructive for society as a whole, but in fact generates continuous renewal (Habermas 1981, 2: Ch. 8).

This has become the model of post-modern society and the social memory idea in the *Lebenswelt* is a sensible explanation of how society can learn and develop. In this book, we have seen many examples of this, e.g. in the chapter on Elinor Ostrom. There is definitely a stress on language analysis, because that is what makes up the social memory and language is the means for updating it.

Conflict Theory

Helmut Dubiel's (1992) and Gerhard Göhler's (1992) essays on conflict in democratic societies and how much of a basic consensus is necessary are most important in respect to Chantal Mouffe's (1993) theory of

“antagonism” as the constituting element of liberal democracies: the hegemonization of political topics and the antagonism between political parties define their identity as well as the identity of society as a whole against some outside entity. Neither Mouffe nor Dubiel and Göhler refer to each other’s work, but all mention the same French philosophers as at least one of their reference points, namely Claude Lefort and Marcel Gauchet. From these two authors they take the idea that western societies do not integrate via a consensus building process, but via institutionalized conflict management. At first sight, this seems to be a clever idea, because it reduces to near-absurdity the liberal versus communitarian debate about the necessary degree of a social consensus. Dubiel supports the argument further by praising democratic conflict in opposition to totalitarian forced uniformity. His best argument is the psychoanalytical insight that only a conflict mastered together builds respect for each other and binds the former opponents together. Dubiel realizes though that there is a limit where conflict becomes destructive.

And this is where Göhler (1992) attacks the thesis that conflict provides the integrative forces in democratic societies. The extreme of conflict and therefore the highest form of integration would be civil war, is his counterargument. The real question, he argues, is under what conditions conflicts, which he concedes are a constitutive element of democratic societies, become integrative. The acceptance of procedural rules is necessary, he tells us. The very essence of liberal democracy—mostly reflected in the constitution or more abstractly in rules for “fair-play”—has to be accepted by all competing parties. This brings us back to the question as to how much consensus is necessary. It has been a major aim of politics in every western democracy to achieve identification between citizens and state institutions. Defensive democracy and the non-neutral state—in the German sense of the constitution of the Federal Republic—is a practical consequence of this, which features democratic and liberal values as the indisputable core consensus.

Democratic Compromise

Ernesto Laclau and Chantal Mouffe consider that in the process of political contest, which they call “hegemonization,” the definition of social values is achieved, but such values are also subverted through this process (Laclau and Mouffe 2001). This leaves society open for change and at the same time sufficiently “sutured” in time. However, they reject any idea of an undisputed core, i.e. class in Gramsci, or economic determinism in Marx, or logic in Habermas. This approach has the merit that it can accommodate fundamental contradictions, which can be found in post-modern societies, in one system. The content of the political process might be undefined and the aim unclear at the start, but there is an ongoing process which results in societal integration. Habermas’ *Lebenswelt* does not seem to hold this possibility of multiple different and—in Laclau and Mouffe’s view—often opposed logics working simultaneously towards the same target: the constitution and maintenance of a democratic society.

What can be considered dangerous in Mouffe’s concept is that it is intended as a revolution; and it would do away with traditional defensive rights of the individual. The replacement for them would be some rather idealistic society which respects the individual and also defines identity on the basis of his or her membership of this society. Personal service for society would spring from the Machiavellian desire to be a good citizen and the need to find one’s identity in society. I take it that this is not what is nowadays understood under freedoms and liberties. Laclau and Mouffe’s reference back to Marxist tradition is, then, the winning over of voters for communist ideas or for their historic mission by means of discussion. This is built—controversially—on the assertion that political practice constructs the interests it represents. At the same time, Chantal Mouffe shows a strong commitment to pluralist democracy:

(...) I would like to see the creation of a wide consensus around the principle of pluralist democracy. (...) The real task, in my view, is to foster allegiance to our democratic institutions, and the best way to do this is not by demonstrating that they would be chosen by rational agents “under the veil of ignorance” (Rawls) or in a “neutral dialogue” (Habermas), but by creating strong forms of identification with them. This should be done by developing and multiplying, in as many social relations as

possible, the discourses, the practices, the “language games” that produce democratic “subject positions.” The objective is to establish the hegemony of democratic values and practices (Mouffe 1993: 151).

Interestingly enough, her book as it stands is a very good example illustrating Habermas’s thesis that logic cuts everywhere, regardless of social or cultural background. Her very thesis that the integrative power of liberal democracy is based on conflict within society was also developed by Helmut Dubiel (1992). Her later qualification that there needs to be some consensus on the basis of which this conflict can be cast was also proposed by Manfred Göhler (1992). This leads us back to a necessary constitutional order allowing the proper pursuit of a good life.

The Good Life, Commonwealth, and Sustainability

It seems all the more imperative to design and build the way to pursue a good life now that what we have to contend with is a world globalized. However, what does a “good life” mean? Of course, this cannot be discussed in any detail here, but this remark by Hannah Arendt helps us to deepen our discussion. She reminds us that, according to Aristotle, a good life concerns the citizen, i.e. the only member of the city who has access to the public domain:

The ‘good life,’ as Aristotle called the life of the citizen, therefore was not merely better, more carefree or nobler than ordinary life, but of an altogether different quality. It was ‘good’ to the extent that by having mastered the necessities of sheer life, by being freed from labor and work, and by overcoming the innate urge of all living creatures for their own survival, it was no longer bound to the biological life process. (1998: 36–37)

In the modern world, a good life cannot have the same meaning. It now requires the inclusion of a fundamental notion, which did not exist at the time of the Greek city: society. Arendt provides a brief genealogy of the birth of the idea of society while criticizing its consequences for individuals. Because with society comes conformity, which means in particular that

each citizen is under constraint to follow set social norms. This effect is so significant that, for Arendt, describing individual conduct in society implies using the word “behavior” rather than “action:” “behavior has replaced action as the foremost mode of human relationship” (Arendt 1998: 41).

This simple change of terminology has a direct link with economics. Arendt argues that the influence of social norms means pressure for uniformity. But this standardization makes it possible to isolate common motivations for the behaviour of economic agents. According to Arendt, “one interest pervades society as a whole” (1998: 44), and it is thanks to this common interest that economics can exist. The idea of the invisible hand is associated with the natural harmony of interests. However, Arendt observes, “behind the ‘harmony of interests’ stands always the ‘communistic fiction’ of one interest, which may then be called welfare or commonwealth” (1998: 44).²

The commonwealth! Is this not the notion that concerns all the authors of this book? As regards seventeenth-century England, R. W. K. Hinton noted that the word commonwealth “denoted a body of people united by a common interest, in this case the whole body of the realm united for their own preservation and welfare” (Hinton 1956: 77). And he underlined the virtue of such a conception: “The commonwealth largely existed for the common wealth. It did not exist for the king’s wealth or a few individuals” (1956: 84).

However, the terms “commonwealth” and “common wealth” can obviously have different meanings. This is what Arendt suggests by using Hinton’s rhetorical figure. She underlines the fact that “commonwealth” and “common wealth” are open to varied interpretation. She comments on it with a touch of pessimism:

When this common wealth [...] was permitted to take over the public realm, private possessions—which are essentially much less permanent and much more vulnerable to the mortality of their owners than the common world, which always grows out of the past and is intended to last for future generations—began to undermine the durability of the world (1998: 68).

For our part, we hope that the texts presented in this book will have helped to nurture realistic hope for the durability of our world in all its

meanings, social, environmental, economic, and political. Ultimately, this was also why we started this project with classical liberal theories, and then added Marxism and Keynesianism, which have really themselves joined the ranks of the classics: we finished with more modern and less well-known theories, which hold more elements of sustainability. Economics, having reached this very timely topic, may have to bring forth a new school of thought. The development of what we shall call “sustainabilism” in future publications has been well prepared by the final chapters in this book and should produce interesting food for thought in the future.

Notes

1. The quotation is taken from the chapter above. See also this observation by Marx and Engels: “The production of ideas, of conceptions, of consciousness, is at first directly interwoven with the material activity and the material intercourse of men—the language of real life. Conceiving, thinking, the mental intercourse of men, appear at this stage as the direct efflux of their material behaviour” (1998: 42).
2. Arendt cites Gunnar Myrdal (1953), who coined the expression “communitistic fiction.”

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