

T.W. Hutchison

The
Politics
and
Philosophy
of
Economics

Marxians, Keynesians and Austrians



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T. W. HUTCHISON

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Foreword

About a hundred years ago ‘Political Economy’ became ‘Economics’. This happened at a phase (briefly described in chapter 2) when the interconnections and interdependencies of economics and politics were at an all-time low – though still, it could be argued, of fundamental importance. The role of government in the economy was minute compared with today, just beginning its long, vast expansion. The political and social framework of the economy (as well as the monetary framework) seemed *comparatively* stable, though, with hindsight, the initial moves in a long revolution are discernible. During this period it was natural for economists to focus their interests, in theory and policy, primarily on what has come to be called ‘microeconomics’, that is, on processes and policies small enough to be examined on the assumption that their effects on the political and social order would be negligible.

Today, with such an extended role for government the outlook is very different. The political and social order is far from ‘given’ or stable. ‘Macro’ policies and theories dominate economic analysis. The interconnections and interdependencies between economics and politics are much more important and complex. But the subject is still called ‘Economics’, and in textbooks and academic departments, it is still presented as separate from ‘Politics’. Nor, in these highly specialized times, can it be expected that people will emerge who can combine the treatment of economics with that of political theory and processes in the manner of such past masters as Hume, Smith, Mill and Sidgwick. Consequently, politics have come back into economics to a major extent, both normatively in respect of values and objectives, and positively regarding processes and institutions: but often inexplicitly or naively or crudely. Moreover, political issues are often vitally, if latently, involved in methodological debates, as we show in chapters 1, 7 and 9.

In this volume we examine some of the political, philosophical and epistemological presuppositions of three currently much discussed schools of thought, or types of economic theory, Marxian, Keynesian and Austrian. Other economists or schools figure more briefly in these pages, in particular Marshall and the pre-Keynesian (and pre-Marxian) Cambridge school, and Eucken and the Freiburg school. The last two chapters are concerned with general methodological or politico-philosophical issues, rather than with the ideas of particular economists or schools.

The table of contents indicates the mainly, but not strictly, chronological sequence of topics. Here, we would simply call attention to some of the themes which recur in different parts of the book.

One theme, which figures in chapters 1, 7 and 9, is concerned with the political significance of different methodological or epistemological doctrines: that is, with how an empirical, fallibilist epistemology is compatible with libertarian values in a way in which epistemological infallibilism is not. Such infallibilism, in the methodology of economics, has been based either – as with the Marxian school – on a nineteenth-century, dogmatic scientism, claiming the authority of certainty; or, as with Mises, and some of his Austrian followers, on a priorist claims to ‘apodictic certainty’ – though, as we observe in chapters 6 and 7, Austrians, ancient and modern, have been far from united on these methodological issues.

A second, normative and even, to some extent, political theme is that of the desirability of methodological distinctions, demarcations and discipline in economics (including, as far as possible, which is quite far, the normative-positive distinction) as against the rejection of distinctions and discipline and the proclamation and practice of ‘Anything Goes’. Chapter 3 on the Cambridge School may be regarded as a kind of cautionary tale on this subject, while chapter 9 argues the case in general terms.

A third, less political, subject is that of excessive claims to generality on behalf of macroeconomic and politico-economic theories and models, in particular, those of the Marxians and Keynesians (see chapters 1, 4 and 8). Such excessive epistemological aims and claims regarding the generality of economic theories sometimes seem to stem from a failure fully to recognize vital differences between the material of economics and that of the natural sciences, and hence to take account of the obsolescence which afflicts many economic theories and models in the course of historical and institutional change. Such obsolescence tends to be met by *ad hoc* shifts and

stratagems by those trying to cling to a kind of generality. In the nineteenth century, with a slower rate of change, this kind of obsolescence developed more gradually and there was more time for adaptation. But today an all-too-apparent phenomenon is the clinging to general theories rendered obsolete by historical-institutional change.

Finally, a recurring political theme deals with how political and historical changes shape and transform demands on economic policy, and place constraints on the acceptability of the answers which economists try to provide. In chapter 2 are traced the changes in demands on economic policy resulting from the successive extensions of the franchise in Britain in the nineteenth century. In chapter 5 it is shown how the sharply contrasting political and economic histories of Britain and Germany between 1914 and 1945 – in particular, regarding inflation and deflation, and the experience of central planning – shaped the expectations, fears and hopes of politicians and public, and placed differing constraints on the kind of policy ideas that were acceptable. It is, however, also shown that when, as in the German Federal Republic after World War II, the conjuncture of history, events and experience ‘conspires’ (as J. S. Mill put it) with the emergence of appropriate economic ideas, then these ideas are not slow in having the most powerful and beneficent results.

Birmingham, January 1981

T.W.H.

Acknowledgements

Six of these papers have appeared in print before. They have been more or less heavily revised for this volume. Three have not appeared before. Details are as follows.

'Friedrich Engels and Marxian Political Economy' appeared first as a review article of the two-volume *Life of Friedrich Engels* by W. O. Henderson (1977), in *The Journal of Political Economy*, 1978, vol. 86, no. 2, pt 1, pp. 303ff. A few quotations, together with a methodological conclusion, have been added, and an opening section has been removed.

'The Market Economy and the Franchise, or 1867 and All That' was published under a slightly different title as an Occasional Paper by the Institute of Economic Affairs in 1966. Some additions have been made and the final section has been removed and replaced by a briefer summary.

'The Philosophy and Politics of the Cambridge School' has been written in the summer of 1980 and, apart from a 600-word Comment on this subject in the first number of the *Journal of Economic Affairs* (Blackwell), has not appeared before.

'Keynes *versus* the Keynesians' was published (with comments by Professors Lord Kahn and E. A. G. Robinson) as a Hobart Paper by the IEA in 1977. A number of additions have been made arising out of the abundant subsequent literature on this subject. The original version was published in Italian in the journal *Bancaria*, nos 1, 2 and 3 of 1978, and as a separate booklet. The translation was provided by the Servizio Studi dell'Associazione Bancaria Italiana. A Spanish edition has also appeared, translated by F. Muñoz de Bustillo, with an introduction by José Antonio Aguirre (Espasa-Calpe S.A., Madrid, 1980).

'Walter Eucken and the German Social-Market Economy' was published under a slightly different title in the *Zeitschrift für die*

gesamte Staatswissenschaft (vol. 135, no. 3, Sept. 1979, pp. 426ff) as part of a Symposium on Currency and Economic Reform in West Germany after World War II.

The paper on Carl Menger was first given at a Symposium held at Vienna in 1971 to celebrate the centenary of the publication of his *Grundsätze der Volkswirtschaftslehre*. It was subsequently published in 1973 in a volume, *Carl Menger and the Austrian School of Economics*, edited by J. R. Hicks and W. Weber (Oxford University Press). Considerable alterations and additions have been made arising out of the recent markedly growing literature on this subject.

The continuation of the preceding paper, on Austrians since Menger, has not been published before. It was, in part, delivered as a paper at the History of Economic Thought Conference at the University of Bath in September 1979. I am most grateful for the comments and criticisms at that meeting.

'The Limitations of General Theories in Macroeconomics' was first given as a paper at a Seminar of the American Enterprise Institute in Washington in October 1979 and has been published as a pamphlet by the Institute (1980). I am most grateful to Professors Gottfried Haberler and William J. Fellner for valuable advice. An expanded version of this paper was given as two lectures at the American University in Cairo in March 1980, and I am very grateful for the stimulating discussion, and for the generous hospitality of the AUC; and in particular to Dean Lamont, Professor Sullivan, and Professor Michael Harvey-Phillips.

'On the Aims and Methods of Economic Theorizing' has not been published before. This paper is an attempt to restate my views on a subject to which, at various times over the years, I have tried to contribute. It draws briefly on the Preface to the 1960 edition of *The Significance and Basic Postulates of Economic Theory*, and also on a paper entitled 'The Natural and the Social Sciences and the Development and Underdevelopment of Economics', which was published (in German translation by Gretl Albert) in the volume *Theorie und Erfahrung, Beiträge zur Grundlagenproblematik der Sozialwissenschaften*, edited by H. Albert and K. H. Stapf, 1979.

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Contents

Foreword	vi
Acknowledgements	ix
1 Friedrich Engels and Marxian Political Economy	1
2 The Market Economy and the Franchise, or 1867 and All That	23
3 The Philosophy and Politics of the Cambridge School	46
4 Keynes <i>versus</i> the Keynesians	108
5 Walter Eucken and the German Social-Market Economy	155
6 Carl Menger on Philosophy and Method	176
7 Austrians on Philosophy and Method (since Menger)	203
8 The Limitations of General Theories in Macroeconomics	233
9 On the Aims and Methods of Economic Theorizing	266
Index	308

1

Friedrich Engels and Marxian Political Economy

I

Engels's writings on political economy date from two periods, early and late, with a large 20–30-year blank in the middle. The early period consists mainly of the 1840s, when Engels (b. 1820) was in his 20s. His severely bourgeois, industrialist, Pietist and monarchist father intended a career in the family textile business for his eldest son. Engels, deeply attached to his mother, rebelled vehemently against his father at an early age and against all his political, social and religious beliefs, protesting that 'he would not make even the pettiest concession to a fanatical and tyrannical old man' (Carlton, 1965, p. 33).

After a reluctant apprenticeship in the family firm in Barmen, and then in a firm in Bremen (1837–41), Engels departed to do his military service in Berlin (1841–42), finding time there to join up with the Young Hegelians centred on the university and to imbibe their heady, radical ideas about religion, philosophy and politics. But the decisive influence in his conversion to communism was that of Moses Hess, 'the Communist rabbi', whom he met in Cologne (1842) as one of the editors of the *Rheinische Zeitung* (another being the youthful Marx).

However, in 1842, Engels's own burgeoning political interests happened to coincide with his father's business plans. His father wanted him in the Manchester branch of his firm. Engels himself, under the influence of Hess, saw Manchester as the centre of the English industrial revolution, which would soon, inevitably, be followed by a political revolution. Manchester, therefore, was the place where the politicoeconomic action was, or was soon going

to be. In fact, it was in his first stay in Manchester (1842–44) that Engels wrote or gathered, the material for his seminal works, and that Marxian political economy may be said to have been conceived. After 20 months he broke away, and it was on his way home via Paris that the fateful meeting with Marx took place (August 1844) and the lifelong partnership was launched. Engels spent most of the rest of the decade as a roaming freelance journalist and revolutionary in Belgium, France, Germany and Switzerland.

By the end of 1849, however, with the revolutionary movement on the Continent in a state of collapse, Engels and the Marx family found themselves destitute refugees in England. Engels was a brilliant journalist and linguist and could probably have supported himself in much more congenial work. But to obtain financial security for himself and the Marx family, he returned for the next 20 years to the Manchester office of the family firm. He sacrificed the prime years of his life to support the rapidly growing Marx family and the writing of *Das Kapital*.

Eventually in 1869, reaching 50, Engels was able to sell out his share in the business and to retire as a wealthy man in considerable comfort, while continuing to support the Marx family with its largely bourgeois aspirations.¹ In fact, one of the few respects in which the family was not thoroughly and admirably bourgeois in its tastes and life-style (piano and drawing lessons for the daughters, balls, seaside holidays, cures at fashionable spas, etc.) was that the paterfamilias himself never accepted much financial responsibility for the support of his wife and numerous offspring (legitimate and illegitimate). At any rate, in addition to his vast and essential intellectual and financial contributions, Engels also rendered Marx another remarkable service by accepting paternity of Marx's illegitimate son Freddy Demuth (b. 1851), who, incidentally, was quite disgracefully treated by both Marx and (much more strangely) Engels. But Dr and Mrs Marx were thus enabled to 'keep up appearances', which meant so much to them. (No wonder a note of hysteria, exceptional even for Marx, is detectable in his references to Parson Malthus on population.)²

Active up to his death, much of Engels's energy after his retirement from business (1869–95) went into editing Marx's voluminous manuscripts. But in prefaces and articles, Engels managed to contribute, in this second, later period, several interesting insights qualifying or supplementing Marxist economic doctrines.

II

A review of Engels's economic writings must begin with his remarkable essay 'Outlines of a Critique of Political Economy', first published in 1844 (see Henderson, ed. 1967). Schumpeter dismisses this work as 'a distinctly weak performance' (1954, p. 386). By some standards this is so. The essay contains many crudities. But (1) it was written by a 23-year-old autodidact, without formal higher education, starting simply from his own voracious reading of Smith, Ricardo, McCulloch, Say, List, and others; (2) Engels's essay preceded all of Marx's economic writings and played a vital part in turning Marx's interests from philosophy to political economy; and (3) Engels announced here what were to become two or three of the most interesting and least invalid themes of Marxist political economy (recognized as such by Schumpeter).

Of the important ideas outlined by Engels there is, first, his emphasis on periodic crises. Engels sees economic activity in a constant state of oscillation and disequilibrium. There are forces on the side of bringing supply and demand into equilibrium, but, according to Engels, this is never attained and hardly even approached. Engels maintains that economists regard this equilibrating tendency as a 'law':

Economists regard this law as their chief glory. They cannot see enough of it and they study it in all possible and impossible applications. . . . Economists come along with this wonderful law of supply and demand and prove that 'one can never produce too much.' Practice replies with trade crises which reappear as regularly as the comets. . . . What are we to think of a law that can assert itself only through periodic slumps? (Henderson, ed., 1967, pp. 165-6)

Engels makes the prediction that these crises will get worse: 'Every new crisis must be more serious and more universal than the last. Every fresh slump must ruin more small capitalists and increase the workers who live only by their labour.' (Henderson, ed., 1967, p. 166)

Right or wrong, here is a central theme of Marxist political economy; and if Engels and Marx grossly exaggerated instability and disequilibrium, surely Smith, Ricardo and Mill erred somewhat in the opposite direction. Schumpeter himself stated regarding Marx's treatment of business fluctuations that 'the mere

perception of the existence of cyclical movements was a great achievement of the time' (1962, p. 40). This perception, as far as Marxian political economy is concerned, was largely due to the 23-year-old autodidact, Engels.

A second of Marx's major contributions, according to Schumpeter (1962, p. 34), was his prediction regarding business concentration: 'To predict the advent of big business was, considering the conditions of Marx's day, an achievement in itself.' This 'achievement' is to be found, well before Marx developed the theme, outlined in Engels's youthful essay:

It is well known that large manufacturers and merchants enjoy great advantages over their smaller rivals and that big landowners enjoy great advantages over smallholders who are cultivating only a single acre. The result is that under normal conditions, large capital and large landed property swallow small capital and small landed property. This leads to the concentration of property. When there are depressions in industry and agriculture this process of concentration is greatly accelerated. . . . The middle classes must increasingly disappear until the world is divided into millionaires and paupers and into large landowners and poor farm labourers. (Henderson, ed., 1967, p. 174)

Crude stuff perhaps, written before the development of the joint-stock company, but an important element in the formation of Marxist political economy. Henderson is well justified in concluding regarding these ideas of Engels: 'He was one of the first to discuss the trade cycle and the existence of a pool of unemployed workers and to offer explanations for these phenomena. He saw the significance of the growth of big business at the expense of small undertakings. These topics were later discussed more thoroughly by Karl Marx, but to deal with them all in 1845 was no mean achievement.' (p. 72)

Third, an emphasis on technological change and its implications has been held to be one of the most significant contributions of Marxist political economy, as contrasted with classical orthodoxy (or what Jevons was to call the Ricardo-Mill economics). The youthful Engels's ponderous sarcasm at the expense of the orthodoxy of his time was not entirely unjustified: 'Economists regard land, capital and labour as the conditions of wealth and that is all. Science is no concern of the economists. What does it matter to the economists that they have received the gifts of science through the work of men like Berthollet, Davy, Liebig, Watt and

Cartwright? And have not the advances in Science greatly increased production?' (Henderson, ed., 1967, p. 159)

Engels proceeds to counter Malthus:

The amount of land is limited. That is agreed. The labour force which can be used on this land increases as the population grows. Let us even assume that the increase in the yield of crops brought about by the expansion of the labour force does not always rise in proportion to the increased labour force. Even so there is another factor to be considered. This is the advance of scientific knowledge. And this of course is ignored by the economists. The progress of scientific knowledge is as unceasing and at least as rapid as the growth of population. . . . Population grows in proportion to the size of the last generation. Scientific knowledge advances in proportion to the knowledge bequeathed to it by the previous generation. And this progress, under the most ordinary conditions, is also in geometrical progression. What is impossible to science? (Henderson, ed., 1967, p. 173)

However, as the last sentence indicates, Engels by no means confined himself to a valid and valuable emphasis on scientific and technological progress as a factor in economic development; he went on to indulge, as we shall see, in the wildest Utopian fantasies about how technological change would abolish scarcity and so lay the essential foundations for communism.

But Engels's interest in the economic roles of science and technology led him to what might have been a fruitful point about factors and the cost of production. Engels insists that there is a third separate factor in addition to land and labour (including capital as stored-up labour): 'There is a third element that economists ignore. That is the mental element of thought and invention *which is different from the physical element of sheer labour*' (Henderson, ed., 1967, p. 159, italics added). This distinction of Engels is certainly fatal to the fundamental Marxian concept of homogeneous labour power as the sole human source of value. It even suggests the idea of innovation as a vital agent earning remuneration. Of course such dangerous thoughts would have undermined from the start the whole development of the Marxian system. No wonder, decades later, in his last years, Engels refused permission for an English translation of his youthful 'Outline' as 'not only full of mistakes but actual howlers' (Carlton, 1965, p. 219).

This brings us to the centrepiece of Marxist economic theory to which, to his credit, Engels did not contribute. This is the

Marxian ideological pseudotheory of value and exploitation – described as ‘incantations’ even by so enthusiastic a Marxian as Professor Joan Robinson (1966, p. 22). In fact, perpetrating another ‘howler’, Engels pointed to the obvious inadequacy of the labour-cost theory: ‘Imagine someone making an utterly useless article with great exertion and at great expense. And suppose that no one wants this article. Do production costs represent the “value” of such a commodity? “Of course not,” says the economist. “Who will want to buy it?” So we suddenly have both Say’s despised utility but (with the idea of buying) competition as well.’ (Henderson, ed., 1967, p. 156)

Engels then goes for a Marshallian ‘both blades of the scissors’ approach, including both the elements (cost and utility) so exclusively stressed on the one hand by Ricardo and on the other by Say: ‘The value of an article includes both the factors which contending economists have so rudely and so unsuccessfully attempted to separate’ (Henderson, ed., 1967, p. 157). But again, from the standpoint of what was subsequently to emerge as dogmatic Marxian orthodoxy, these were dangerous thoughts, or ‘howlers’.

III

The second of Engels’s sociopolitico/economic works dating from this early period in the 1940s is his well-known book *The Condition of the Working Class in England* (1845). Again, Schumpeter’s description of this work as ‘a creditable piece of factual research’ (1954, p. 386n) is uncharacteristically less than adequate. The leading German historical economist Bruno Hildebrand, though severely critical of Engels’s interpretations of English statistics, concluded a 70-page review with the verdict that Engels was ‘the most gifted and knowledgeable German writer on social problems’ (quoted Henderson 1976, p. 64). After every appropriate reservation, this is not bad for a 24-year-old autodidact.

It was housing conditions in Manchester, aggravated by a large Irish immigration, that received young Engels’s special attention. Here again, support is sought from the orthodox classicals. He cites Nassau Senior on housing, who recommended a considerable role for government with regard to housing, and according to whom the new industrial towns ‘have been erected by small speculators with an utter disregard to everything except immedi-

ate profit' (Henderson, ed., 1967, p. 51). (Under 'everything', Senior was presumably including what have come to be called 'externalities'.) It was in his survey of housing in Manchester that Engels developed what was to become Marx's most effective, empirically based method, or source. Henderson observes:

A comparison between Engels's book and certain sections of the first volume of *Das Kapital* – for example Marx's discussion of the working day – shows how much Marx owed to his friend's book. It was from Engels that Marx learned how to make effective use of evidence collected by parliamentary commissions, by the Registrar General, and by factory inspectors to gain a real insight into the workings of the industrial economy. (p. 73)

It is from the broader aspects of the economic and political development of England that Engels's book derives much of its interest today.³ When he first went to England, Engels at once found there what his preconceived ideas had told him he would find. These ideas were derived from Moses Hess, who had just published an article with the ominous title, 'On an Impending Catastrophe in England', in which he remarked:

England, where distress has reached frightful proportions, is heading for a catastrophe sooner than had been expected. And no one can foretell the consequences that this catastrophe will have not only for Great Britain but also for the Continent. . . . Industry has passed from the hands of the people to the machines of the capitalists. Commerce – formerly operated on a modest scale by many small merchants – is now concentrated more and more in the hands of capitalists and adventurers (i.e. swindlers). The land has fallen into the grasp of a few aristocratic families owing to the working of the laws of inheritance. In fact a few great families expand and control ever greater amounts of capital. . . . (Hess, 1842; as translated by Henderson, 1976, pp. 21, 39)

Certainly these seem exaggeratedly catastrophic forebodings, markedly proto-Marxist in tendency. A profound and perhaps much more accurate comment on the political setting of 'the industrial revolution' in England was supplied in a very interesting anonymous review article on Engels's work in the *Allgemeine Preussische Zeitung*, which Henderson has translated and appended among the documents (pp. 311ff). The Prussian reviewer, after remarking that 'the author appears to be a young man in a hurry', makes a fundamental point regarding the political conditions in

which industrial development was taking place in England. The reviewer rejects Engels's argument that it was industrialism as such that was responsible for the condition of the working class in England, so violently denounced by Engels (and Moses Hess) – it is the workers' lack of political power which is the vital element:

The industrial revolution has taken place within the framework of an aristocratic constitution. . .

. Why should industry plunge the workers into poverty and distress and turn them into a proletariat? Certainly not because industry, as such, brings distress in its wake. If that were true then industry would be an evil whereas in fact it benefits humanity. The unsatisfactory condition of the workers can be explained by the fact that when modern industry began to grow in England the impact of the new type of economy was felt by a society in which it was already inevitable that the workers should fall upon evil days. . .

A small group of wealthy persons have been able to gain control over all effective political power. It is most unfortunate that this autocratic power has not been checked in any way by the higher authority of the monarchy. In a country with such a constitution the worker is in an utterly helpless situation. (Henderson, 1976, pp. 312, 316, italics added)

Of course, as Adam Smith had observed, in labour markets there tended to be a strong element of monopsony, with trade unions prohibited. In fact, the reviewer goes on to observe how Engels:

shows how this situation conforms to the doctrines enunciated by the well-known economist Adam Smith. There is much that is new and interesting in Engels's discussion of the failure to establish a balance between the competition among the workers themselves and the competition (among the employers) to secure the services of workers. The first (competition among the workers) has always been stronger than the second (competition among employers for labour) and this has happened despite the continual expansion of industry and the ever increasing demand for labour. (p. 321)

It was only after the reform of 1867 (coincidentally, of course, the year of the publication of *Das Kapital*) that the political power of propertyless workers gradually began to develop, together with the removal, and in due course reversal, of the general imbalance in labour markets and the rise to power of trade unions. There was a wide difference, sometimes forgotten, between the political conditions and distribution of political power under which the