

## **Ricardo Marshall-Keynes\_Independent Labourer**

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Keynes's presentation of his work in the history of thought asks us to believe that economics had been through a period of abstract impracticality, give or take some heretics, from which it was rescued by Keynes's own *General Theory*. Keynes could point to his contemporaries as proof of his diagnosis of the impracticality of 'classical' economics. However Keynes's approach, while serving a purpose, presents a bad history of thought that is difficult to take seriously. We are asked to believe that key figures in the history of thought, particularly Ricardo and Marshall were abstracted from the realities of their day, something that would require a considerable effort of explanation despite being repeated by some as conventional wisdom. The problem though is that while we might turn to a contextual explanation we are in danger of losing a history of thought altogether. We can overcome the context/theoretical divide by focusing on the independent labourer as a key theme that links thought with context and that provides a thread from Ricardo through Marshall to Keynes.

Polanyi's Great Transformation presented fictitious commodities, especially labour power, as the core explanation for changes in liberal society and by implication also changes in economic thought. We echo Polanyi's approach in looking to a core explanation but in emphasising the independent labourer rather than just labour power, we can present a positive vision of political economy. This allows a more meaningful history than simply the change from impracticality to practicality, a change that is also associated with some notion of a move from heartlessness to concern. We can make sense of important aspects of political economy without, as Polanyi does, like Keynes, resorting to the

characterisation of Ricardo, for example, as deficient in his abstraction. We can show that David Ricardo's long run (abstract) perspective was positive in its support for the ideal of the independent labourer but then in being able to explain the conditions of this long run view we are also able to follow its decline and fall. In doing this we can also show that the ideal of the independent labourer nevertheless remained as a key explanation of changes in economic thought up to and including Keynes's *General Theory*. So we can trace the emergence of Keynes's short run view and its underpinning of the architecture of his theoretical structure. When Keynes wrote about involuntary unemployment he contributed to a debate that had long preceded him, a debate that had at its heart both the moral condition of the independent labourer and how this impacted the viability of political order.

If the greatest work by which we recognise Egyptian civilisation were the pyramids then we could make a case that our civilisation should be recognized for the independent labourer. We may look to the wonders of technology, we may indeed consider the great follies and cruelties but we should remember that at the heart of it is a great human project. Going along with Adam Smith we could call this project the construction of the system of liberty. Even if we could concede something to this characterisation it does not tell us what this system means for the vast majority of people. There is a certain tension in the description 'independent labourer' that goes to the essence of the system of liberty, indeed of bourgeois society. When we speak of independence we speak of self-determination, we speak then of freedom from aristocracy, freedom from a status society. In talking of the labourer we say something of necessity, some element of discipline.

The independent labourer helps us make sense of the development of political economy. Here we focus on the work of J.M. Keynes but we put him in the frame of a history of economic thought that will throw some light on aspects of his thought. Keynes said, somewhere, that economics was a moral science but the sense of this has not been fully grasped. The history we look at will help us to grasp this. We examine the works of Ricardo, Marshall, and Keynes. Keynes commented on Ricardo as the epitome of the kind of abstraction he deplored, while Marshall by whom Keynes was tutored in economics, had seen himself as advancing on Ricardo's limited perspective. Marshall though still represented for Keynes the classical school that had not, despite such as Marshall, escaped Ricardo's perspective. What we have here then is an intellectual proximity by which we can examine continuity and change within a coherent story, one that involves three recognised greats of economics. Through these three we can account for the consolidation of political economy, then its development to deal with the social problems of the 1870s into the 20thC, then Keynes's turn to the macro level of analysis. For each of these three writers we can show that the independent labourer was crucial to the possibility

of an expressed moral life.

We can distinguish between the authors on the following grounds. In Ricardo we see the assertion of the independent labourer, Marshall coincided with the 'discovery of poverty' while Keynes developed the economics of unemployment. We move then from founding a system in which the person is free to determine their fate on to the recognition that for some their fate is determined despite their best efforts and then move on to a macroeconomic vision of how the conditions of independence can be achieved. In each case the issues being dealt with are at once political and economic. For Ricardo the system to be achieved is one that will bring to an end 'Old Corruption' whilst allowing the free expression, the independence, of working class demands. Subsequent to that, obstruction of working class independence, in poverty, was recognised as forming a potential for disorder to which a development of economic thought needed to respond. In the cases of Marshall and Keynes we see how that response developed. In each of our three main authors we see an approach to time periods that is distinct to them and is essential to their whole economics. Ricardo was deliberately long run, Marshall looked to take a pragmatic view of long run, short run etc. while Keynes took a clear short run position. These time periods correspond to the issues of corruption, poverty and unemployment. The time period was of considerable importance for the kind of theory that could be developed and allows an understanding of a coherent development of economic ideas in relation to social context. The authors we consider do not of course constitute a single author but together they do represent what may be seen as a coherent 'change of mind'. Ricardo looked to, indeed put his trust in, the independent labourer as the foundation of his vision of a democratically achieved political economy. Marshall's recognition of the limit of this project highlighted poverty, when circumstances, so the short run, formed character and undermined the long run ideal of independence. Keynes built on this to develop an analysis that started from unemployment, the inability to choose, to build a macro analysis. Both Marshall and Keynes advocated policy to restore the conditions of independence as the basis of moral choice. The issue presented here might appear methodological in terms of a move from a methodological individualist position to one that is collectivist. This is not a useful way of understanding substantive issues. Of course Keynes criticised the fallacy of composition but if we consider this merely as a methodological point we miss Keynes appreciation of the formation of character.

The changes considered here were accompanied by concrete changes in the form of the wage. These changes implied development of the administrative forms accompanying the market. The independent labourer came into being with abolition of the old poor law and hence the unification of the wage as a wholly enterprise wage. This marked the end of the period of status and the emergence of the working class as an interest amongst others in political economy. Here was a form that looked to the resources of the working class for their own welfare for which the key was thrift accompanied, for example, by trustee saving banks and friendly societies. Once the ability of the working class to exercise their independence was in question, as was suggested by the discovery of poverty, then the form of the wage also came into question. Political economy evolved first through advocacy of a unified wage then through acceptance of a wage divided between enterprise and state provision, and hence with a mixed mediation of need. The form of the wage is fundamental but it is the associated administrative forms that are obvious. As the wage divided, administration had to emerge for a new regime of needs, 'The real course of development has been first from status to contract, then from contract to a new kind of status determined by the law, -or, in other words, from unregulated to regulated contract.' (Toynbee, Arnold 1927, p.5) So, natural objectivity, in a self-regulated system, eventually proved inadequate. The subsequent implementation of a system ordered through division of the wage required expert administration, in the absence of natural limits, to supervise the recognition of needs. This project found its logical completion in Keynes's analysis for the macro level.

## **Classical**

The classical period was marked by the argument that the market, so the pursuit of interest, was an essential element of political order. Joseph Townsend's *A Dissertation on The Poor Laws* [1786] proposed an end to administrative control in favour of a natural order founded on appetites. Interference, administration, implied that there had to be a compulsion to work but, '... legal constraint is attended with too much trouble, violence, and noise; creates ill will, and never can be productive of good and acceptable service . . .' (Townsend, Joseph 1971, p. 23). There could only be one alternative, 'Hunger will tame the fiercest animals, it will teach decency and civility, obedience and subjection . . .' (ibid. p. 23) Order could be founded on natural principles, so, freed from administration, it would be achieved by the self-regulated

pursuit of interest. The theme was continued in *The Society for Bettering the Condition and Increasing the Comforts of the Poor* (SBCP) when, inspired by Adam Smith, it argued the benefits of government by interest,

‘We all know, in our own instances, how little is to be effected by compulsion; - that, where force begins, inclination ceases. Let us then give effect to that master-spring of action, that on which equally depends the prosperity of individuals and of empires - THE DESIRE IMPLANTED IN THE HUMAN BREAST OF BETTERING ITS CONDITION. Let it be our endeavour to give that principle its full effect among the lower classes of society.’ (*The First Report of The Society for Bettering the Condition and Increasing the Comforts of The Poor* London 1797, p. iii-iv)

When the poor law reforms eventually came about, Senior summed up their principle, ‘in proportion as *coercion* is given up, and the *interest* of the party is made the spring of action, temptations to vice will be excluded, and habits of labour and honesty will be gradually acquired.’ (Senior, Nassau 1841, p.xii) The market was a basic condition for the spread of moral behaviour, while that behaviour was at once the basis of the market’s proper operation. The work of Thomas Chalmers developed the implications of this vision. He stood on the work of Malthus but with an optimistic view of improvement. He shaped subsequent debate about the poor law and, posthumously, was the inspiration, in the late 1860s, for that stronghold of Victorian social policy, the *Charity Organisation Society* (COS). He argued against state interference, ‘Better than all the correctives of artificial jurisprudence are the correctives of the free and equitable system itself . . .’ (Chalmers 1821-6, vol. III p.342) Reliance on a free market would produce ‘tranquillity more solid than our land has ever yet enjoyed.’ (ibid. p.342) This government by interest had been obstructed where the old poor law cut the formative link between choice and consequence. Moral, political and economic issues were thoroughly intertwined. A free market implied people took responsibility for their lives so they learnt appropriate behaviour - to work, save, care for family and be sober. The limits to meeting needs were natural, so beyond the arguable discretion of authority, whereas under state interference there was a channel for the focus of demands and so occasion for a unified body of fractious dissent. (Chalmers 1821-6 vol. II. pp.39-40) The existence of a relief fund for dependency misleadingly suggested a munificent source for the cure of ills. The outcome was ‘legal jealousy’ and the bitterness that went with the ‘imagination of a rightful claim.’ (Chalmers 1821-6 vol. II p. 257, p 273-274) The poor would feel no

reciprocal gratitude for having got funds. Relations between rich and poor could only deteriorate. This was no basis for political order.

Remedy lay in abolition of the poor law. This would bring an end to the 'compound' wage and institute a unified wage. The form of the wage was essential since on it depended the relation of the labourer to political economy and hence to his own liberty. (Chalmers 1821-6 vol. III pp.203-206) The freedom envisaged for people to pursue their own interests was freedom under the (natural) laws of political economy, 'And better security afar, we affirm, for the quiescence of our working classes, that they should be conducted to it, at length, by their own experience, than that they should be constrained to it, at once, by the laws of authority.' (ibid. p.211) Understanding and living by the 'principles of economical science' would 'prove not a stimulant but a sedative to all sorts of turbulence and disorder . . .' (ibid. p. 386) The working classes would be delivered from the 'false imagination that their masters are their oppressors' (ibid. p.406) and could learn, freed from blaming government or other classes, that improvement came 'through the medium of their own sobriety, intelligence, and virtue.' (ibid. p. 386) Independence was the key.

As Senior described the situation before the Poor Law Amendment Act, 'the labourers of England were treated not as freemen but as slaves or domestic animals,' and here the wage was crucial since they received 'not strictly speaking wages regulated by the value of their labour, but rations proportional to their supposed wants.' (Senior, Nassau 1841 pp. 63-64) Far better should workers be allowed to act on their own responsibility. There would be new duties, but, without the poor law, workers could learn these, acquiring the necessary moral habits so that the 'high wages of one period' could 'meet the low wages or inactivity of another'. (ibid. p.67) Those proposing government by interest considered that people would learn by their own appetites, under abstract laws, the constraints by which society ordered itself, 'These are the laws, which connect certain effects with certain lines of human conduct . . . apportioning to one line a reward, and punishment to another; whereby each individual is influenced to the promotion of his own good, and the good of the community . . .' (Stevens, 1831, p. 2)

Ricardo's political economy rested on no other principle but this pursuit of interest. A

unified wage would expose the labourer to the full vent of political economy and so allow him to enter political order as an interest among others. A secure order depended on a viable relationship between the short run pursuit of interest, hence meeting needs through labour, and the long run accumulation of capital. Ricardo addressed this. A full exercise of interest by all would curb privilege and secure the general interest lying in accumulation. Continuing accumulation would ensure a buoyant demand for labour so that the use value content of wages could rise. (Ricardo, 1951, II, p.373)

Ricardo's theory of value offered a framework for analysing the interrelationship between the general and particular. The general interest lay in the production of wealth; particular interests lay in the money claims on wealth. The natural price was determined in production as the least labour necessary for production. The market price was the price established by supply and demand. Under a free competitive market the market price would gravitate to the natural price. Each interest must appear as a price from which claims on wealth are derived, so the gravitation of market prices to natural prices was also of partial interests to the general interest. In this relation between market and natural price we see a core political economic problem of a market society. Particular interests set out to maximise their claims on wealth, their money revenues, by maximising their remunerative prices: the general interest lay in maximising use values, actual production, and hence lay in prices gravitating to natural prices. Political power enabled privilege to hold sway over particular prices to the detriment of the general interest; on the other hand a free market would negate privilege. So the market was a political institution since the natural laws of political economy constituted a system capable of supplanting the visible hand of privilege. Political institutions were in turn factors of production in the sense that the operation of the laws of political economy depended on appropriate institutions. Ricardo made the analogy when he likened the defence of existing political institutions to arguments against steam engines on the grounds that we 'had flourished without them, and why not let well enough alone?' (Ricardo 1951, V. p.500)

Any project to secure a framework in which prices would be free to achieve the general interest was political. This was evident in the context that Ricardo confronted; established privilege, by control over both Houses of Parliament, manipulated prices to its own advantage. Ricardo's abstraction, his methodological stance, with its concentration on the long run, was necessary to the assertion of the general interest against short run influence

over market prices. Concession on the short run would be to the political force that determined what was expedient and ‘the really efficient power of government is . . . in the hands of the wealthy aristocracy.’ (ibid. p.497)

Overcoming this system required a free rein for all interests so that all would be subject to the abstract laws. Democratic reform could achieve this by establishing political arrangements in which no interest held control, the ‘House of Commons . . . should represent the people fully and efficiently, instead of representing only a small proportion of the people of England.’ (ibid. p.484) The franchise had to include all interests including those without property. Exclusion from property put the working class in a special position to guarantee the system as a whole. Owners of property benefited from interference with particular prices but those without property depended on the demand for labour and so on the vitality of the whole. The interest of the working class coincided with accumulation itself on which their wages depended; the working class would vote for laissez-faire. (Ricardo 1951, V p. 501-503) The franchise would underpin a free market against the manipulations of the powerful.

Ricardo’s abstraction gave accumulation a theoretical presence just when its precedence over powerful claims on wealth had to be asserted. All interests would operate freely to the same laws but of course this did raise the issue of the extent to which those without property could benefit. Ricardo was sensitive to this. He did not regard this as a system that would be realised in haste. Not only should extension of the franchise be gradual but also it had to be founded on conditions in which the working classes could appropriate the lessons of their own decisions. Gradual abolition of the poor laws, implementing a unified wage, would enable workers to develop an effective knowledge of political economy. The aim was that the ‘labouring classes [should] know how to regulate their own affairs, and understand and foresee the circumstances which are to procure them happiness.’ (Ricardo 1951, IX p.261) Then they could provide a secure basis for political order.

Ricardo was comfortable with his proposals. Malthus and Trower warned of the dire consequences from extension of the franchise and pointed to the disorder and troubles of their day. Ricardo remained calm, ‘outrages’ were understandable given the stagnation of trade but they did not constitute a threat; the people, he argued, ‘are both improved in morals and knowledge, and therefore . . . are less outrageous under these unavoidable reverses than they



formerly used to be.’ (Ricardo 1951, VII p.49) The knowledge he had in mind was an effective grasp of political economy developed through gradual unification of the wage, ‘I am in hopes too that as they increase in knowledge they will more clearly perceive that the destruction of property aggravates and never relieves their difficulties.’ (ibid. p.49 also Ricardo 1951, VIII p.129) Ricardo’s defence of the order he envisaged rested on his confidence that the appropriate relation between the subject and political economy could be achieved.

## **Marshall**

Marshall wanted it to appear that he only completed the repertoire of Ricardo’s analysis. Yet, despite his own claim, Marshall made a significant departure from Ricardo. Marshall argued that the distinction between normal values and market values broke down depending on the time period of analysis, ‘Nature knows no absolute partition of time periods in to long periods and short; . . .’ (ibid. p.vii.) Nevertheless, the distinction was vital to Ricardo for whom the short run was beyond science, subject to accidental, or privileged, influences. Ricardo depended on the short run being laid open to abstract laws so freeing the system from the immediate hand of privilege.

Marshall could have sympathised with such a vision but the significance of the short run had changed. The relationships short run/long run, subjective/objective and character/circumstance were all of a piece. For classical government by interest the ideal was the unified wage through which the short run was bound in the laws of political economy, through which the subjective came to knowledge of that political economy and through which appropriate character, responsible for circumstance, was learnt. All this depended on individuals meeting their responsibilities through labour. If thwarted by the market itself, the relationships were reversed, then the short run, circumstance, became the basis for a subjectivity that could threaten political economy.

Ricardo saw reform as allowing the formation of the independent labourer and that in turn the independent labourer would, through democracy, secure the conditions of accumulation, the production of wealth, against the privileged control, for money revenue, of particular interests. Character was an essential element of independence since decisions about old age, unemployment, sickness, care of family etc. were resolved down

to the labourer. For Ricardo the conditions adequate for moral choice required, necessarily, freedom from short run control by privilege; it is this rather than some misplaced excessive abstraction that lies behind his long run perspective. Toynbee {1884} in the 1870s warned that the significance of Ricardo's method had changed. Where once it was the backbone of the middle class it had become instead a provocation to disorder, 'Political Economy . . . became barren. And it was worse than barren. Instead of a healer of differences it became a sower of discord. Instead of an instrument of social union it became an instrument of social division.' (Toynbee, Arnold {1884} 1927 p.147) As Toynbee himself pointed out development of the working class was behind this change and the short run, needs, was crucial to this change. Poverty was key. Marshall also recognised the earlier economists' defence of free enterprise; while it seemed harsh to his own day it was rooted in a context where, ' . . . they saw clearly, what we of this generation have in great measure forgotten, the cruelty of the yoke of custom and rigid ordinance which it had displaced . . .' (PE p.10). It was the context, and its particular problems that formed the views of 'Ricardo and his followers' and that produced a 'narrowness' of view. An aspect of this narrowness was, in Marshall's perspective the treatment of self-interest as if its defining characteristic were indifference to the well-being of others. Marshall rejected this for he saw 'above all the emancipation from custom' (p.4) and so he emphasised 'deliberateness' (p5) including 'constant forethought' and 'restless enterprise' (p.4). This understanding of self-interest allowed him to consider character as central since, without custom and looking to a future, the agent must develop her own behaviour. Marshall's highlighting of character was in line with Thomas Chalmers whose ideas were crucial to the Chrarity Organisation Society of which Marshall was himself a member. The earlier conception of character arose with the idea that the worker freed from interference, freed from the 'well-meaning' poor laws would be able to determine his own circumstances. It was a central element for Ricardo's trust in the benefits of the extension of democracy across the working classes.

We can identify a political difference between Ricardo and Marshall in that the perceived threat to political economy moved from the aristocracy to the potential of an organised working class. However, we would miss the driving force of the development of political economy if we simply took it this as a one-dimensional political issue since at the heart of what both Ricardo and Marshall wished to achieve was the independent

labourer. Ricardo felt confident about the direction of the working classes once the status of independent labourer was properly recognised. The key issue was independence. Certainly, Ricardo's opponents thought this could not be achieved since they believed democracy would see workers using the vote to bolster the poor laws. For Ricardo the contrary view held; gradual abolition of the poor laws would produce the independent labourer who would vote for laissez-faire.

By Marshall's period the issues had changed. This is apparent from the start of Marshall's principles when he starts with a discussion of character. This was a theme running throughout Marshall's career, even predating his turn to political economy and indeed provoking it once he realized that political economy, as it stood, was an obstacle to moral improvement. (Groenewegen, P.D. 1995 p. 141) Moral and economic material went hand in hand, each being the basis of the other. Marshall was especially concerned with change but its actual path depended on short run conditions. Time had become central and what made it so was that the individual could be formed by circumstances. From the *Principles* {1890} we find, 'man's character has been moulded by his every-day work . . .' (Marshall, 1956, p.1). The significance becomes apparent as he complained that many lived in poverty and 'the conditions which surround extreme poverty, especially in densely crowded places, tend to deaden the higher faculties.' (ibid. p.2) Even outside the residuum many could not make 'the best of their mental faculties' due to overwork, lack of education or leisure. And so, 'The study of the causes of poverty is the study of the causes of the degradation of a large part of mankind.' (ibid. p.2) The modern view had to take in the fact that a man's character was 'a product of the circumstances under which he has lived.' (ibid. p.631) Evidently this required understanding of short run processes through which characters might be irrevocably formed, whatever orthodoxy's offer of longer-term adjustment. If circumstances could form character this opened the way for policy. Marshall indeed had even been interested in socialism, but eventually rejected that possibility as being inimical to the 'springs of vigour'; he wished to defend enterprise not bury it. (Pigou ed. 1931 p.334, PE p.593). What lay behind his interest persisted, some action was necessary and so he was interested in political economy because of his 'desire to know what was practicable in social reform by State and other agencies . . .' (Pigou ed. 1931 p.334). Marshall explained the need for an economics curriculum in his address, 'Economic Teaching at the Universities in Relation to Public Well-Being', he asked his

audience to consider 'What is the national interest in the supply of trained economists?' (*Charity Organisation Review vol. 13 NS Jan-Jun 1903 p.34*). The development of world economy had intensified 'social problems and the human aspects of economics generally, especially labour problems' (*ibid. p.35*). The 'present age' was one 'full of hope but also of anxiety.' While there were strong social and economic forces capable of bringing good they were 'uncertain in their operation'. Uncertainty arose from the 'rapid growth of the power and inclination of the working classes to use political and semi-political machinery for the regulation of industry.' This power could give great benefit with the right guidance, but it could equally cause great injury, 'if guided by unscrupulous and ambitious men.' (*ibid. p.37-38*)

To resolve this future of 'hope or anxiety' there had to be 'sympathetic students, who have studied working class problems in a scientific spirit'. When they are older and more mature 'they will be qualified to go to the root of the urgent social issues of their day, and to lay bare the ultimate as well as the immediate results of plausible proposals for social reform.' (*ibid. p.37-38*) The Universities were vital since with 'generous thoughts' and 'social training' they would 'help one social class to look at things from the point of view of another social class..' (*ibid. p.40*) Indeed, experience in America and in England had shown, 'that the young man who had studied both sides of labour questions in the frank and impartial atmosphere of a great University is often able to throw himself into the point of view of the working man.' (*ibid. p.40*) He added, '. . . this is of special importance now that power has passed into the hands of the working classes.' (*ibid. p.40*) The role of economics in this context was to sift working class aspirations into 'practicable' programmes. The practicable referred to immediate conditions and signalled the end to ordering the short run through the force of abstract and natural laws outside the reach of privilege.

The problem was neither interference nor moral turpitude but rather that circumstances made virtue appear pointless. Beatrice Webb described the 1870s as characterised by the 'discovery of poverty.' She did not refer merely to a material condition but rather a condition in which people had little control, such that the ideal relation between character and circumstance was reversed. Once the respectable working class felt threatened by this fate, feeling incapable of securing their interests through labour, then it suggested

responsibility should be politically extended to the social control of circumstance. Marshall was aware of the issues; when writing to *The Times* (*The Times* 15 Feb p.13) he noted, from his own observation, how at ‘Socialist lectures’ the demeanour of ‘bona fide working men’ changed at the mention of the cruelty of cutting off outdoor relief; then, ‘every face flashes and every eye gleams.’ (ibid. p.13) He warned against the assertion of principle,

‘The question whether we are to have order or tumult will be decided not by the well-to-do and not by the residuum, but by the honest working man. A policy which tends to enlist his sympathy with those who are no friends of order is either a great duty or a great blunder.’ (ibid. p.13)

Marshall’s advice to ease on principle was based on his belief that principle was politically flawed when it made no concession to the short run. The short run could not be abandoned to ‘hidebound’ socialism but nor should it be surrendered to abstract laws.

Once the moral basis of political economy was in doubt then political economy developed to encompass policy. The aim was not just material well-being; Marshall distinguished the standard of comfort from the standard of life. The former referred only to material satisfaction but the latter, Marshall’s real concern, included qualitative aspects of life crucial to moral well-being. Leisure was vital, ‘no class of manual workers, who are devoid of leisure, can have much self-respect and become citizens. Some time free from the fatigue of work that tires without educating, is a necessary condition of a high standard of life.’ (ibid. p.599) Leisure allowed education and would improve the standard of life even at the cost of comfort. Education implied that opportunity should be open to children. It should include more than just knowledge, the teacher must ‘impart character, faculties and activities; ...’ (ibid. p.597) This suggested other spending, ‘public money must flow freely to provide fresh air and space for wholesome play for the children in all working class quarters.’ (ibid. p.597)

With such a policy he also envisaged improvements in sanitation and the regulation of housing. Through these suggestions and his retreat from implementation of the poor law Marshall had opened the way to a compound wage involving administered elements.

Growth and continuing productivity gains were central to how the independent labourer's position could be secured, but how the benefits came about, and indeed whether they would, required careful study. Political economy had to investigate the basis for ethical improvement and determine what policies could secure this without obstructing growth. Marshall's contributions to economics arose from this problem. Stigler (in Whitaker, John. K ed. 1990) identified Marshall's contributions to be the emphasis on time, different periods, as well as external/internal economies, development of a theory of the firm, consumer surplus, and a start on a theory of human capital. Growth with better conditions for workers was key to the broader improvement. Economies of scale were essential for sustained growth with rising productivity that would allow rising wages. A theory of the firm, using a representative firm, was essential to investigating the development of economies of scale. Consumer surplus opened the possibility of the investigation of welfare and hence of taxation in the short run that did not unduly undermine incentive. Human capital can be seen to come from his concern with the foundation of moral improvement.

Marshall's methodology was formed in the service of this social agenda. The basis of the independent labourer had to be continuously reinvented. While for textbook economics the initial assumptions allow modelling, for Marshall these assumptions, and especially the independent labourer were the purpose of his work. As a result for Marshall the relation of short run and long run was organic. Improvement would contribute to productivity gains that contributed to improvement. This concern with the whole has led to criticism of his 'ambiguities' and the judgement that 'Marshall was so afraid of being unrealistic that he merely ends up being fuzzy and confusing - and confused.' (Samuelson 1967, p. 111, also p.109) In

terms of equilibrium modelling this criticism has weight but does not once the centrality of moral improvement is recognised. A concern with the actual development of the system's presuppositions inclined Marshall to consider the 'fuzzy' interactions of economic and moral conditions. The nature of industrial techniques, the actual possibilities for increasing returns were of decisive importance to establishing whether there was a sound basis for improvement in character. Character was itself a contribution to the improvement of industrial techniques. This virtuous circle was a secure basis for social order. How it came into being, how it could be encouraged and preserved were matters of great importance, greater than the gains in static precision from rigorous modelling. The evolution of the system as a whole was necessarily central; it constituted the highest aim for the development of economics. His remarks on equilibrium are indicative, 'Fragmentary statical hypotheses are used as temporary auxiliaries to dynamical - or rather biological - conceptions. .' (Marshall, 1956 p.xiii) Economics should be concerned with human beings who 'change and progress' so the central issue must be 'living force and movement'. (ibid. p. xiii) Despite conceding that treating problems of economics in terms of 'statical equilibrium . . . alone can give us definiteness and precision of thought' he warned that it was only an introduction to 'a more philosophical treatment of society as an organism...' (ibid. p.382) He could conceive 'no more calamitous notion than that abstract, or general, or "theoretical" economics was economics proper.' (Marshall 1925 p. 437 note 27) The equilibrium method applied to economic progress offered little, ' . . . pushed to its more remote and intricate logical consequences, it slips away from the conditions of real life.' (Marshall, 1956 p. 382) The contrast of the logical and real also implied a disengagement of the short run and long run that could undermine social reproduction.

## **Keynes**

Keynes's work developed not just in the context of maladjustment in the British economy but also the potential, confirmed in 1917, working class politics. Long run adjustment, the free condition of the independent labourer, was not plausible if political stability were undermined by the scale of adjustments required. In *The Tract* Keynes mocked the advice of

orthodox economists, when he famously declared that '*In the long run we are all dead.*' (Keynes, 1973-9, IV p.65) The orthodox case rested on an assumption of political stability secured because the pursuit of interest and accumulation were each the condition of the other. Keynes could not sustain that conception. The economic merits of the orthodox case were as nothing if political disorder came first. There could be no political resolution without change in the relationship of the working class to political economy. This required consideration of the short run.

Keynes addressed two phases, the first from WW I to 1930, the second from 1930 that culminated in *The General Theory* and his contribution to setting up the post-WW II international institutions. The need to address the position of the working class within political economy was common to both. In *Economic Consequences of the Peace* he warned of the 'hour of . . . confiscation'. The warning, particularly focused on orthodoxy, ran on through *The Tract*, 'the absolutists of contract' were the 'real parents of revolution' (Keynes, 1973-9, IV p.57) In 1925 he argued that 'questions about the economic framework of society will be far and away the most important of political issues.' (Keynes, 1973-9, IX p. 295) In *The End of Laissez-Faire* Keynes assessed the special contribution to social order of 'economists' who argued for the pursuit of self-interest as achieving the general interest (Keynes, 1973-9, IX p.274). His questioning of this principle went to the root of political order and required a development of economic thought, realised, under pressure of events, as *The General Theory*.

In the first phase, under the Gold Standard, the wage changes required for adjustment and the level of working class awareness made flexibility a difficult political issue. The practical meaning of a free sway of interests was that the burden of adjustment fell on wages and the greater this burden so the greater the pressure on existing working class organisations. (Keynes, 1973-9, XIX p.439-440) A process that had been regarded as one in which interests took account of their objective conditions came to be viewed by Keynes as one policy, chosen badly from amongst others. Wage flexibility was a long run policy, the pursuit of which was a 'grand thing in its way -unless, like the operation of systems at Monte Carlo, one has not the resources to last through the short run.' (Keynes, in Howson and Winch, 1977 p.57) Political disturbance made the actual timing of adjustment processes central and so required analysis of how adjustment occurred, if at all, as well as the effect of relying on such



a policy. The two issues were evidently connected. He pointed to wage reductions as potentially benefiting adjustment but went on to warn that if successful and so achieved across the world no competitive advantage would be gained, 'If, under the pressure of compelling reason, we are to launch all our efforts on a crusade of unpopular public duty, let it be for larger results than this.' (Keynes, 1973-9, XIII p.360) Under the Gold Standard the balancing of capital and current accounts was drawn out 'to the detriment of the working classes' and on the backs of a part of the working population 'who suffer the misery and deterioration of character that follows.' (Keynes, 1973-9, XX p.97)

Keynes's initial optimism that Britain's problems might actually be eased by the 1929 crash was dispelled once he realised the problem faced by the world economy. The issue was not so much the practicality of wage flexibility but rather that even if achieved no advantage would follow; wage reductions shifted spending from those with a low proportion of savings so would increase savings, aggravating the problem of demand and requiring 'further, further, and further cuts in wages. Thus, there might be no equilibrium point until the burden was so intolerable that there would be a social cataclysm.' (Keynes, 1973-9, XIII p.371) Keynes had to make a significant theoretical break. Keynes's *General Theory* was the culmination of a critical theme that had been turned against the consequences of orthodox economic theory. In *The General Theory* the short run was presented as being dangerously abandoned by economic orthodoxy.

Keynes's argument with orthodox theory was not with its internal logic. Orthodoxy lacked commonsense (Keynes, 1936, p.350); economics was discredited by self-imposed exile from the world. (ibid. p.33) Neglect was given authority by Ricardo's offer of a 'hypothetical world remote from experience'. (ibid. p.192) The result was a careless stance towards the short run, one that tended to discount the 'facts of experience' and so obstructed the policies that would deal with those facts. The system had been saved by an English tradition of pragmatism acceded to even by the economists. (ibid. p. 190, 192) Few economists applied theory consistently; Keynes identified only Robbins. Robbins had identified national insurance, the division of the wage, as the cause of persisting unemployment, a point that Keynes, accepting the dividend wage could not take seriously. (ibid. note p. 20, see also Keynes, 1973-9 XIV p.259) Policy advice inconsistent with theory destroyed the practical influence of economics even if it took account of immediate problems. (Keynes, 1936, p.iv) The influence of economics was negative, one that prevented the search for solutions. (ibid.

p. 348 –50) It set up an opposition between orthodoxy and revolution. (Keynes, 1973-9, XXI p.289, IX p.299, also Keynes, 1936, p. 381) If this were the only clash, ‘we shall not succeed indefinitely in avoiding a clash of human passions seeking an escape from the intolerable.’ (Keynes, 1973-9, XIII p.492) Pragmatism had put off disaster (ibid. p.492) but remained vulnerable to the assertion of the orthodoxy, as the 1931 crisis had demonstrated. Subsequently, when Keynes was asked to support the proposals of *The Next Five Years Group* he did so guardedly. They had failed to deal with issues theoretically. What was needed was a ‘new underlying economic theory and philosophy of the state’ so as to avoid ‘extremism during the next slump or two.’ (Keynes, 1973-9, XXI p.354-355) *The Next Five Years Group*, while suggesting what Keynes admitted were ‘excellent’ proposals, was, ultimately, not as practical as it imagined; it failed to offer the ‘fundamental diagnosis’ that had the ‘power to persuade people.’ Subjective factors had become important as the system itself became vulnerable to alternatives. Economic modelling, for Ricardo, could be of objective laws hence of permanent, even if abstract, features; against such a view Keynes reiterated to Harrod that ‘One has to be constantly on guard against treating the material as constant and homogeneous’. Nothing was sure, ‘It is as though the fall of the apple to the ground depended on the apple's motives . . .’ (Keynes, 1973-9, XIV p.300) The subjective, dismissed by Ricardo and grounded in the short-run, was essential to the *General Theory* both as economic science and response to the fact that, ‘people were unusually expectant of a more fundamental diagnosis. .’ (Keynes, 1936, p.383)

If the problem was not internal logic, it lay in the relation of theory to the real world. What had to be questioned were initial assumptions; the rational maximising individual was especially under question. Actual experience was of unemployment from which theoretical egress to some long run was no solace. Long run orthodoxy had simply assumed the difficulties away (Keynes, 1936, p. 34) It had done so by assuming a fixed output to be distributed through relative price, so that the wage bargain was simply concerned with the distribution of labour. The assumption then, slipped in unnoticed but nevertheless there, was that the real wage was determined by the money wage bargain. Formally, Keynes described this as the second postulate of the classical theory., ‘The utility of the wage when a given volume of labour is employed is equal to the marginal disutility of that amount of employment.’ (GT. p.5) <sup>1</sup> Orthodoxy worked through a free sway of interests, capable of determining their circumstances within the given output. The fact of unemployment

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<sup>1</sup>Or, ‘..the real wage of an employed person is that which is sufficient (in the estimation of the employed persons themselves) to induce the volume of labour employed to be forthcoming..’p.5)

contradicted this and to Keynes suggested the 2<sup>nd</sup> postulate did not hold. Long run thinking assumed individuals could bargain their way into work; short run thinking was necessary when the issue was 'labour as a whole' so that with the possibility of output changes, 'there may be *no* method available to labour as a whole whereby it can bring the wage-goods equivalent of the general level of money wages into conformity with the marginal disutility of the current volume of employment.' (p.13) Orthodox thought had performed a sleight of hand by extrapolating the individual to the aggregate case as if the assumption of unchanging output could be taken from one to the other. This was the basis of the 'supposedly "self-adjusting character of the economic system"' and hence the tendency for the 'Classical School . . . when there is rigidity to lay on this rigidity the blame of maladjustment. . .'

(Keynes, 1936, p.257) In *The General Theory*, having looked at wage flexibility in relation to the propensity to save, the marginal efficiency of capital and the interest rate, Keynes concluded that 'There is, therefore, no ground for the belief that a flexible wage policy is capable of maintaining a state of continuous full employment' (Keynes, 1936, p.267) and 'To suppose that a flexible wage policy is a right and proper adjustment of a system which in the whole is one of *laissez-faire* is the opposite of truth.' (Keynes, 1936, p.269) Keynes did not reject the long run perspective just to overthrow classical theory. Rather the short run required a theory of the aggregate, of employment as a whole that would complete classical theory, 'if our central controls succeed in establishing an aggregate volume of output corresponding to full employment as nearly as is practicable, the classical theory comes into its own again from this point onwards.' (Keynes, 1936, p.378) Wage theory as a theory of distribution of *given* resources could come back into its own. The aim was conservative, 'not to dispose of the "Manchester System", but to indicate the nature of the environment which the free play of economic forces requires if it is to realise the full potentialities of production.' (Keynes, 1936, p.379) Keynes looked to a system in which interest could again operate with purpose. In such conditions the basis of the independent labourer, and so of a properly expressed moral life would be secured

Keynes's vision was different from the classical. The key institutional change was in the form of the wage. At the *Economic Advisory Council* Keynes had to counter Robbins' request that their report should not bow to 'political expediency'. Robbins, then of the Austrian school, believed they should focus on National Insurance and its effect on the 'rigidity of wages'. We see here contrasting orientations to the working class. Keynes favoured an indirect approach to wages, for example through the price level, and so policies that could

reduce the average wage, or, 'submerge the rocks in a rising sea.' (Keynes, 1973-9, XIX p. 221) This would have secondary effects on differentials but in principle it took the structure of wages as given. Consistent with this Keynes started from an acceptance of a divided wage. Robbins, taking the long run view, regarded changes in the structure of wages as a matter of principle and so rejected what he considered the absurdity of any 'hypothetical disparity from a fictitious average' (quoted in Howson and Winch 1977 p.59). This long run downplayed the working class specific to that structure of wages, its expectations, institutions and the associated social policy, that involved division of the wage. On the other hand the short run was essential to a conservative perspective in relation to the existing needs of that working class. So, Keynes assumed a social policy that took account of working class needs. That the choice between these perspectives was political was recognised by Hayek; he could grant the short run scope of monetary policy, as had Ricardo, but this was certainly no reason to take up an active policy, '. . . the problem is not so much what we *can* do, but what we *ought* to do in the short run.' (Hayek 1941, p.409) Concentration on the short run he considered a 'grave menace to our civilization.' (ibid. p.409) He warned that 'the indirect and slower effects of the short run policy of the present shape the conditions, and limit the freedom, of the short run policy of tomorrow and the day after.' (ibid. p.409) Robbins and Hayek had in mind an enterprise wage as the ideal while Keynes accepted the necessity for a divided, or compound wage. Consistent with the long view Hayek regarded aggregates as illusory; Keynes took them to be essential for restoring conditions under which interest could operate to the best advantage of all. The restoration could not rely on natural laws, the economic problem 'should be a matter for specialists - like dentistry'; economists should be considered 'on a level with dentists'. (Keynes, 1973-9, IX p.332)

## **Conclusion**

Key concepts and associated methodology have developed to take account of the condition and disposition of the working class. The natural system of long run laws had been central to the new order of political economy against 'Old Corruption'. These laws became obstacles to order when the market itself appeared to be the obstacle to independence. Economic theory had to take account of a working class subjectivity with the potential to take responsibility for all social conditions. Since meeting needs was so important the key change in economic thought was from long run to short run; this went hand in hand with the changing form of the wage, from unified to compound, that required an administrative development. Despite an enhanced role for economists, this was no happy development; the perceived surrender to working class interests

eventually produced a reaction that set out to exclude political consideration from markets. Yet this only emphasises the broader context in which the consistency of economic thought is framed. The point is inadvertently completed by the leading inspiration of a return to an automatic system, Hayek, who, in offering an article against reflation, asked an editor not to publish, 'if the political situation is so serious that continuing unemployment would lead to political revolution' (Hayek, 1985, p.211) Here was a pragmatic crack in Hayek's dyke. The political case he made was the same as that from which flowed the theoretical developments, internal to economic thought, observed in this paper. Where Hayek, in this instance, stopped short at pragmatism others had taken up political considerations and through the conduit of time period reconsidered economic thought itself. Hayek and the developments examined here, demonstrate that economic analysis cannot ignore political context since, whether obvious or not, it must include some notion of a government by interest, in specific the independent labourer, that is formative of political order. Even if we agree with Hayek that coherent short run thought, such as we have looked at here, has been compromised by subsequent events this does not mean that long run thinking is thereby established. The ultimate 'correctness' of such thought must be established in terms of a wider context than economic analysis alone. Certainly the form of the wage has held out despite free market criticism of short run myopia.

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